United Nations Development Programme
Multi-Partner Trust Fund Office, `
Bureau Management Services

UNITED NATIONS DEVELOPMENT GROUP

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Overview on Annual Financial Reporting to the MPTF Office

Deadline: First draft of UN agency financial reporting required by 6 April; final error free version required by 30 April.

Key item: Each UN agency will need to complete a data quality financial reporting review prior to final reporting

Purpose

Under the standard Memorandum of Understanding (MOU) signed by each Participating Organisation for each Multi-Donor Trust Fund (MDTF) or Joint Programme (JP), UN agencies are required to report at least annually to MPTFO as the Fund Administrative Agent (AA) on fund utilisation and expenses. This information is consolidated to demonstrate the financial results and utilisation rates being achieved, provided to Steering Committees, donors, government counterparts and other stakeholders, and published on the MPTFO Gateway website.

Good quality financial reporting provides timely, credible information to stakeholders, which supports effective decision-making and resource mobilisation. Conversely, poor quality financial reporting increases the reputation risk for both individual UN agencies and for the UN system pooled financing instruments. This has the potential to create the perception that financial management of funds entrusted to the UN system for UN multi-agency programmatic purposes are not well managed, or do not perform well on development effectiveness criteria; this also impacts future resource mobilisation.

Financial information requirements

Under the standard MOU for each MDTF/JP, each Participating Organisation is required to report at least annually by 30 April each year. The deadline for reporting remains at 30 April. To ensure the highest quality information is provided, MPTFO recommends UN agencies to provide a first upload of their financial information by 6 April. The final error-free version is required to be completed by 30 April.

The content requirements for inter-agency financial reporting for MDTFs and JPs was established in 2008 by UNDG[1] and updated in 2012 by the Chief Executive Board CEB). The eight UN harmonised expense categories are presented below.

[1] "2008 Financial Reporting Specifications for Participating UN Organizations"

Each MPTFO project represents one unit in the fund architecture design of an MDTF/JP; it may represent an allocation, a programme or a project. Agencies are required to report current year expenses on all fund transfers received from the MPTF Office *for each MPTFO project ID* by categorizing the expenses into the CEB categories. For a detailed description of these categories, refer to Annex I.

2012 CEB Harmonized Expense Categories for UN system reporting

1. Staff and other personnel costs
2. Supplies, commodities and materials
3. Equipment, vehicles and furniture, including depreciation
4. Contractual services
5. Travel
6. Transfers and grants to counterparts
7. General operating and other direct costs
8. Indirect support costs

Key considerations in providing quality financial information

Based on experience gained in the last decade of inter-agency financial reporting for MDTFs and JPs, below are the top five issues that occur with considerable frequency and which impact the credibility and reliability of financial reporting by Participating Organisations. For annual reporting, we are requesting each UN agency to review their financial information against these criteria and make corrections where necessary prior to finalizing the financial reporting upload by 30 April. The top five issues are frequently commented on by donors reviewing utilization of their contributions, steering committees in making allocations and auditors in reviewing MDTF/JP financial results based on the UN agency information provided.

1. Incomplete or no expenses are reported – in this case no or low expenses have been reported against an ongoing MPTFO project, excluding new projects for which transfers were made just prior to year-end. Low utilisation rates negatively impact the perception of future needs for donor contributions to an MDTF/JP and Steering Committee allocations to a UN agency. This may occur due to incomplete or incorrect mapping of projects by agencies to an MPTFO project. All funding provided to each individual Participating Organisation are listed on the MPTF Office GATEWAY by project, including the delivery rate. Projects listed with 0% delivery rate (no expenses reported) can be viewed by going to the home page, clicking on the UN agency acronym on the drop down menu of the 5th tab called "Participating Organisations" and ticking the box for 'projects' under "Projects & Funds". Guides to facilitate navigation are available on the GATEWAY Learning page.

2. Over-expenses reported – expenses have been reported in excess of the amount transferred by the MPTF Office for an individual MPTFO project. Typically this occurs as a result of a) expenses attributable to another donor have been reported along with expenses for transfers made by MPTFO; or b) a UN agency has incorrectly mapped or tagged multiple projects in its ERP system to an MPTFO project. Over-expenses by UN agency are very visible in both the annual reports and on the MPTF Office GATEWAY and give a clear message to readers and decision makers that the information reported cannot be relied upon. Subject to programmatic requirements, it is preferable to have a one-to-one project mapping whereby one MPTFO project is direct mapped to one UN agency project. Projects with over-expenses that need correction can be located the same way as (1) above and reviewing projects with > 100% utilization.

3. Excessive indirect costs reported – indirect costs are reported in excess of the approved amount. UNDG established a common indirect cost rate of 7% for MDTFs/JPs irrespective of the methodology agencies employed for UN agency specific charging of indirect costs. Where agencies use the "earn-as-you-go" method, indirect costs are more often accurate. Where agencies use the "off-the-top method" this creates annual reporting where indirect costs are excessive. This reflects negatively since as per the legal agreement with the donors and as stated in the MOU the indirect cost rate is capped at 7%. Agencies need to ensure only 7% indirect costs of annual expenses are actually incurred and reported each year. For three Funds that were established prior to the standard rate (Iraq Trust Fund, CFIA and the Peace Building Fund) transfers made for projects approved before 2008 may vary from the standard 7%. For these Funds, the agreed indirect cost rate is reflected in the ProDoc signed by the Participating Organisation. For Common Humanitarian Funds, were an organization acts as a Managing Agent (which is a separate role from a Participating Organisation) the indirect cost varies by Fund. Please contact us if you unsure of the correct rate to use for a CHF Managing Agent role.

4. Final refunds are not made and Projects are not financially closed for many years. Projects need to be continually reported on until there is a zero balance and the correct indirect costs are reported. Where project balances are not refunded or projects are not closed timely, this substantially increases the workload and cost for all agencies and the AA servicing these projects. It prevents refunds from being reprogrammed into new projects managed by the UN system and reflects negatively among donors that are accountable to their constituents on the effective use of tax dollars, thereby impacting resource mobilisation. MPFTO will continue to request final reports for all projects operationally closed within the last 12 months and prior by 30 June each year, and notify agencies of all projects that are overdue for closure and/or refunds based on the information reported to MPTFO by each UN agency. In the future new tools will be added to UNEX 2.0 and Gateway for Participating Organisations' and interested parties to view their portfolio of projects and any issues outstanding that are preventing closure.

5. European Commission (EC) funded projects – over-expenses reported against budget lines or missing reporting resulting in ineligible expenses for Participating Organisations. The EC uses the information reported by agencies to determine whether expenses are eligible and whether conditions have been met to proceed with an additional contribution. *It is imperative that an agency's UN HQ colleagues responsible for reporting have communicated to their Country Office counterparts how your organization has mapped your General Ledger Chart of Accounts to the CEB categories* to enable the implementing office to monitor budget to actual expenses at the CEB category level. The EC requires budget adjustments to be made at the individual budget line item level, typically represented by the CEB reporting categories, *prior* to expenses being incurred. Where a UN agency reports expenses in excess of a UNDG line item in the budget this can a) prevent a contribution from being released to the MDTF/JP and therefore agencies, thereby interrupting the programme; or b) require agencies to finance the excess from another budget source based on the EC pre-financing requirements.

Where to find help

For technical queries related to the MPTFO financial reporting IT system please contact Farnaz Shemirani, Operations Associate – MPTFO (farnaz.shemirani@undp.org). For policy queries on financial reporting on MDTFs/JPs administered by MPTFO please contact Aamir Maqsood Khan – Finance Specialist, MPTFO (aamir.maqsood@undp.org) or Louise Moretta – Chief of Finance, MPTFO (louise.moretta@undp.org)

ANNEX 1 CEB budget category descriptions

Detailed descriptions of the CEB Harmonized Expense Categories from the Finance and Budge Network are listed below:

- <u>Staff and other personnel costs:</u> Includes all related staff and temporary staff costs including base salary, post adjustment and all staff entitlements.

- <u>Supplies, commodities, materials:</u> Includes all direct and indirect costs (e.g. freight, transport, delivery, distribution) associated with procurement of supplies, commodities and materials. Office supplies should be reported as "General Operating".

- <u>Equipment, vehicles and furniture including depreciation</u>: For those reporting assets on UNSAS or modified UNSAS basis (i.e. expense up front) this would relate to all costs to put asset into service. For those who do donor reports according to IPSAS this would equal depreciation for period.

- <u>Contractual services</u>: Services contracted by an organization which follow the normal procurement processes. In IPSAS terminology this would be similar to exchange transactions. This could include contracts given to NGOs if they are more similar to procurement of services than a grant transfer.

- <u>Travel</u>: Includes staff and non-staff travel paid for by the organization directly related to a project.

- <u>Transfers and grants to counterparts:</u> Includes transfers to national counterparts and any other transfers given to an implementing partner (e.g. NGO) which is not similar to a commercial service contract as per above. In IPSAS terms this would be more similar to non-exchange transactions.

- <u>General operating and other direct costs:</u> Includes all general operating costs for running an office. Examples include telecommunication, rents, finance charges and other costs, which cannot be mapped to other expense categories.

- <u>Indirect support costs</u>: (No definition provided)