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COUNCIL  
89th session  
Agenda item 22

C 89/22  
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## PROPOSED AMENDMENTS TO THE FINANCIAL RULES AND REGULATIONS

### Note by the Secretary-General

#### SUMMARY

**Executive summary:** This document proposes an amendment to Financial Rule 111.1.3

**Action to be taken:** Paragraph 5

**Related documents:** C 88/18(b), C 88/18(b)/Add.1, and C 88/18(b)/Add.2

1 The financial statements for the year ended 31 December 2001 together with the report and opinion thereon of the External Auditor of the Organization, the Comptroller and Auditor General of India, were contained in documents C 88/18(b) and C 88/18(b)/Add.1. The Secretary-General wishes to draw the attention of the Council to paragraphs 20 and 21 of annex 1 of document C 88/18(b)/Add.1 which are quoted below:

“Financial Rule 111.1.3 states that the receipts shall be credited to the accounts of the calendar year in which the remittance is received indicating that the income accrued during the year but received during subsequent financial periods is not accountable during the current year. According to the said rule, the refund of £415,672.42 received from the Valuation office, United Kingdom during February 2002 is not accountable as receipt during the year 2001.

The Secretary-General agreed with this observation and accepted to amend the Financial Rule 111.1.3 to be in line with the UN Accounting Standards.”

2 The Secretary-General’s response to the report of the External Audit was contained in document C 88/18(b)/Add.2 and his response to the above quoted observation was given in paragraph 22 of the annex and is shown below:

“As advised in the Secretary-General’s reply to the External Auditor’s Management Letter, the refund due from the Valuation Office, United Kingdom, was fully disclosed to the IMO Council at its 21st extraordinary session in November 2001 and the Council, at that session, approved the utilisation of this miscellaneous income to meet the supplementary estimates approved by the Council. The refund was shown in the accounts for 2001 as accrued income in accordance with the United Nations Accounting Standards and in accordance with the Organization’s long-standing practice, in respect of all the funds of the Organization, namely the Regular Budget, Trust Funds and the Printing Fund. However, the Secretary-General has already agreed that the operative financial

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rule 111.1.3 is not consistent with the Organization's long-standing practice nor the United Nations Accounting Standards and that he will take steps to make the necessary amendments to the Organization's Financial Rules."

3 The Organization's long-standing practice has been that financial transactions are recorded in the accounts on an accrual basis. The accrual basis of accounting for revenue in each financial period means that income is recognized when it is due and not when it is received. Accrual of expenditure in each financial period means the costs are recognized when obligations arise or liabilities are incurred and not when payments are made. The United Nations Common Accounting Standards, which have been adopted by the United Nations and the Specialized Agencies of the common system, advise that the accrual basis of accounting should be adopted throughout the UN common system, harmonizing the presentation of financial statements.

4 Therefore, in accordance with the accrual accounting principle and the Organization's practice, it is proposed that Financial Rule 111.1.3 be amended as follows:

"Receipts shall be credited to the accounts of the calendar year in which the remittance is due."

#### **Action requested of the Council**

5 The Council is invited to:

- .1 take note of the information provided in this document;
- .2 approve the proposed amendment to Financial Rule 111.1.3 shown in paragraph 4.

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