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Activities and Administration of the TIR Executive Board:

Administration of the TIR Executive Board and the TIR secretariat:

Procedure for financing the operation of the TIR Executive Board and the TIR secretariat

Procedure for financing the operation of the TIR Executive Board and the TIR secretariat

Note by the secretariat

I. Background and mandate

1. At its previous session, the Committee was informed that, in line with the procedure for the collection and transfer of the amount per TIR Carnet to finance the operation of the TIR Executive Board (TIRExB) and the TIR secretariat (ECE/TRANS/WP.30/AC.2/89, para. 38 and Annex 2), on 12 January 2017, the external auditor of the International Road Transport Union (IRU) had produced an audit report reflecting the amount transferred by IRU and the total amount actually invoiced by IRU when distributing the TIR Carnets. According to the audit report, in 2016, there was a deficit (i.e. IRU has received less than it initially transferred) of SwF 293,554 (rounded), due to the lower number of TIR Carnets distributed in 2016 than had originally been forecasted.

2. The Committee, at its previous session, decided to consider the appropriate action in line with the applicable procedure at its current session. To facilitate discussions, the present document provides information and clarifications on the nature of the deficit and the ways to address it in accordance with the relevant provisions of the UNECE¹-IRU agreement. The applicable provisions, rules and regulations are reproduced in Annex. For ease of reference, all figures are presented in Swiss Francs (SwF), as this is the currency used by the IRU external auditor in the relevant audit report.

¹ United Nations Economic Commission for Europe

II. Summary description of the procedure and practice

3. The provisions of the TIR Convention, namely Annex 8, Article 13 and Explanatory Notes thereto, outline the basic principles of the financing mechanism, those being that:

(a) The TIR Executive Board and the TIR secretariat will be financed through an amount per TIR Carnet distributed, until such time as alternative sources of financing can be identified (such as, but not limited to, the regular United Nations budget);

(b) The amount per TIR Carnet shall be calculated on the basis of an annually prepared budget and cost plan as well as on the basis of a forecast of distribution of TIR Carnets provided by IRU; and

(c) The procedure for the transfer and for dealing - in effect - with various outcomes and situations is to be decided by AC.2.

4. The procedure, therefore, was decided upon and adopted by the Committee at its forty-third session in 2007, included in the report of said session and subsequently incorporated into every UNECE-IRU agreement concluded since, as Annex IV. The entirety of the procedure and relevant provisions of the TIR Convention is reproduced verbatim as Annex to the present document. For the purposes of this summary the following elements are of particular interest:

(a) The amount to be transferred every year is never the entire calculated budget amount. Each year, any unused funds are re-deployed for use in the next budget year. The remaining required amount is the amount that is then actually transferred by IRU.

(b) The amount per TIR Carnet is calculated for the amount to be transferred, not for the entire budget amount.

(c) The amount per TIR Carnet is calculated on the basis of how many TIR Carnets IRU expects to distribute in the next calendar year; that is to say that in September each year, IRU makes an estimate of the number of TIR Carnets that will be distributed to the associations the next year. What is important to note is that this forecast is a fairly inexact exercise by nature, as market demand cannot always be accurately predicted. For several years, IRU distributed a higher number of TIR Carnets than expected/forecasted. On some occasions (e.g. 2010, 2015 and 2016), the demand for TIR Carnets dropped, resulting in lower distribution volumes than expected. When this happens, the pre-calculated amount per TIR Carnet does not suffice to make up the total of the amount already transferred. For this reason, it appears in the IRU accounts that there is a deficit.

5. Therefore, the amount per TIR Carnet is a pre-calculation, based on expectations. The amount needed to cover the operational needs of TIRExB and the TIR secretariat is transferred in mid-November of the year before it is needed. This is necessary in order to allow enough time for the United Nations financial services to process the transfer and authorize use of the funds as of 1 January each year. IRU then recovers this amount by invoicing its associations for the agreed amount per TIR Carnet distributed throughout the calendar year.

III. Addressing the deficit in accordance with applicable rules

6. The Committee, when it adopted its procedure in 2007 and decided to include that procedure in the UNECE-IRU agreement, had foreseen the possibility that deficits could occur. It had also foreseen the possibility that the opposite could happen, i.e. that IRU could distribute more than expected and, thus, receive more money than expected. The rules on

these two possibilities are quite clear and specifically with regard to the case of a deficit, the rules adopted by the Committee stipulate:

“If there is a deficit (i.e. less was received than initially transferred), the Administrative Committee, at its spring session, and on the proposal of IRU, shall approve the appropriate action, which shall be either:

(a) a recalculation of the amount per TIR Carnet referred to in Annex 8, Article 13.1, or

(b) the deficit will be recorded in the IRU account and shall, on the basis of a proposal from IRU as endorsed by the Administrative Committee, be subsequently adjusted.”

7. Before 2015, in case of a deficit, option (a) has been approved by the Committee at its February session, i.e. a recalculation of the amount per TIR Carnet, to take account of the difference required to make up for the deficit. Further to the recalculation of the amount per TIR Carnet, IRU retroactively invoiced the price difference for the TIR Carnets distributed to the association between 1 January and the date of the decision to adjust the amount per TIR Carnet.

8. In February 2016, the Committee did not approve the recalculation of the amount per TIR Carnet to take into account the 2015 deficit (SwF 231,662). As a consequence, in October 2016 the Committee approved an amount per TIR Carnet at the level of SwF 0.88 for the year 2017: SwF 0.71 to cover the 2017 TIRExB budget and SwF 0.17 recover the deficit of 2015.

9. In February 2017, the Committee took note of a deficit in the year 2016 and of the IRU external auditor’s recommendation to use option (b) considering that the 2017 amount per TIR Carnet was already including the recovery of the 2015 deficit.

V. Details on the deficit

10. For 2016, IRU transferred the amount of SwF 1,370,146 (rounded) to finance the operation of TIRExB and the TIR secretariat.² IRU also forecasted, in September 2015, that it would distribute 1,550,000 TIR Carnets in 2016 (see ECE/TRANS/WP.30/AC.2/127, para.20 and Informal document WP.30/AC.2 No. 8 (2015)). On the basis of that forecast, the Committee approved the amount of SwF 0,88 per TIR Carnet.

11. The actual distribution of TIR carnets in 2016 was 1,223,400. Therefore, the total amount recovered by IRU in the course of 2016 is SwF 1,076,592 (SwF 0,88 x 1,223,400 TIR Carnets). Consequently, IRU recorded a deficit in 2016 of SwF 293,554.

12. Therefore, as reported in the PWC audit report for 2016, the total deficit recorded in the IRU accounts at the start of 2017 is SwF 525,216 (rounded), comprising both the 2015 and 2016 deficits. As mentioned above, the deficit of 2015 (SwF 231,662) is already being recovered by means of the 2017 amount per TIR Carnet. However, should IRU not distribute, in 2017, as many TIR Carnets as forecasted, this would not only result in a deficit for 2017 but also prevent the full recovery of the 2015 deficit.

² The prevailing US dollar-Swiss franc exchange rate on the day of the transfer of the advance amount.

VI. Considerations by the Committee

13. The Committee is invited to take note of the recorded deficit and approve the appropriate action in the light of the official recommendation by the IRU Presidential Executive, following its meeting in September 2017.

Annex

Full text of the applicable provisions and procedures

I. Provisions of the TIR Convention, 1975 on the financing of the operation of TIRExB and the TIR secretariat

A. Article 13

1. The operation of the TIR Executive Board and the TIR secretariat shall be financed, until such time as alternative sources of funding are obtained, through an amount per TIR Carnet distributed by the international organization as referred to in Article 6. This amount shall be approved by the Administrative Committee.

B. Explanatory Note to Article 13, paragraph 2

8.13.1-3 The amount referred to in paragraph 1 shall be based on (a) the budget and cost plan of the TIR Executive Board and TIR secretariat as approved by the Administrative Committee and (b) the forecast of the number of TIR Carnets to be distributed as established by the international organization.

2. The procedure to implement the financing of the operation of the TIR Executive Board and the TIR secretariat shall be approved by the Administrative Committee.

C. Explanatory Note to Article 13, paragraph 2

8.13.2 Following consultations with the international organization as referred to in Article 6, the procedure referred to in paragraph 2 shall be reflected in the agreement between UNECE, as mandated by and acting on behalf of the Contracting Parties, and the international organization as referred to in Article 6. The agreement shall be approved by the Administrative Committee.

II. Procedure adopted by the Administrative Committee (ECE/TRANS/WP.30/AC.2/89, para. 38 and Annex 2) and included as Annex IV of the UNECE-IRU agreement

The financing of the operation of the TIRExB and the TIR secretariat includes the following steps and procedures as well as related timeline:

- (1) The UNECE secretariat prepares a budget proposal for the operation of the TIRExB and the TIR secretariat based on activity based budgeting principles (August);
- (2) The TIRExB establishes the budget proposal (September);
- (3) The UNECE secretariat prepares a document comprising the budget proposal established by the TIRExB for approval by the TIR Administrative Committee (September);
- (4) The UNECE secretariat informs the IRU of the budget proposal and the net amount to be transferred and requests the IRU to provide an operational forecast of the number of TIR Carnets it expects to distribute in the forthcoming year (September);
- (5) The IRU provides the Administrative Committee with its forecast of the number of TIR Carnets it expects to distribute in the forthcoming year and its internal

calculation concerning the amount per TIR Carnet as referred to in Annex 8, Article 13.1 (September-October);

(6) AC.2 approves the budget and the net amount to be transferred by the IRU, and takes note of the forecast established by the IRU. AC.2 also approves the amount per TIR Carnet as referred to in Annex 8, Article 13.1, calculated by the secretariat on the basis of the forecast provided by the IRU (September-October);

(7) The IRU transfers the net amount approved by the Administrative Committee to the UNECE named bank account (mid-November);

(8) The IRU maintains a separate account detailing the number of TIR Carnets distributed and the related amounts referred to in Annex 8, Article 13.1 received;

(9) The IRU auditor produces an audit certificate providing an opinion of the above-mentioned account for the year in question showing the amount transferred and the total amount actually invoiced (15 January);

(10) The difference between the two amounts will need to be adjusted a posteriori;

(11) On the basis of the above-mentioned audit certificate, if there is an excess (i.e. more was received than initially transferred), the Administrative Committee, at its spring session, will be informed and the IRU shall transfer the excess to the UNECE named bank account [before 15 March]. This amount will be reflected in the UNECE TIR account to be taken into account for the next budget year;

(12) On the basis of the above-mentioned audit certificate, if there is a deficit (i.e. less was received than initially transferred), the Administrative Committee, at its spring session, and on the proposal of the IRU, shall approve the appropriate action, which shall be either:

(a) a recalculation of the amount per TIR Carnet referred to in Annex 8, Article 13.1, or

(b) the deficit will be recorded in the IRU account referred to above and shall, on the basis of a proposal from the IRU as endorsed by the Administrative Committee, be subsequently adjusted.

(13) These arrangements shall be subject to the accounting controls and audits as foreseen in Annex 3 of the UNECE/IRU Agreement;

(14) UNECE shall provide full transparency concerning the TIR funds accumulated;

(15) The above described procedures are considered to comply with general audit and accounting standards and the requirements for transparency and accountability by Contracting Parties.

III. Other relevant provisions of the UNECE-IRU agreement

UNECE/IRU Agreement, Annex III, para.6:

For each and every calendar year, the IRU shall request an independent external auditor (appointed by the IRU General Assembly) to audit the accounts kept for the invoicing and advance transfer of the money required for the operation of the programme. After the selection, the external auditor shall request from the UNECE secretariat a copy of the "guidelines and terms of reference for external audit" (Annex 5).