HCCH
HAGUE CONFERENCE ON PRIVATE INTERNATIONAL LAW
CONFÉRENCE DE LA HAYE DE DROIT INTERNATIONAL PRIVÉ

STANDING COMMITTEE MEETING

Friday 9 December 2016, 2.00 p.m.

Permanent Bureau

Draft Agenda

1. Welcome

2. Update on audit for Financial Year 2015-2016 (FY 61)

The audit for FY 61 is ongoing. The report will be "transmitted to Member States as soon as it becomes available" (Art. 15(3) of the 2016 Financial Regulations). For the first time, a combined set of financial statements will be produced including reporting for both the Regular Budget and Voluntary Contributions.

Additionally, as part of each audit an accounting report on the Pension Reserve Fund (PRF) and pension liability is included in the financial statements. This work was previously done by PricewaterhouseCoopers (PWC) and then taken over by the International Service for Remunerations and Pensions (ISRP). However due to differences in accounting standards used for the audit (i.e., Dutch Reporting Guidelines (RJ standards) for PWC and International Public Sector Accounting Standards (IPSAS) for the ISRP), the ISRP is no longer able to provide this work for the audit. As a result, in order to complete the audit of FY 61 the Permanent Bureau, following consultation with the Chair of the Standing Committee, engaged Confident BV for the necessary accounting report of the PRF. This unforeseen expense to complete the audit will cost approximately € 7,500. This issue also relates to Items 4.a and 4.b of the agenda.

3. Update on the PRF
   a. Investment of funds from the sale of building at Scheveningseweg 6 in accordance with the current Strategic Asset Allocation (SAA)

Recommendation to invest funds related to the sale of the building at Scheveningseweg 6 in accordance with the SAA currently in force. Any remaining proceeds will be held temporarily as cash in the PRF until a new SAA is approved by the CDR.

The date of completion for the sale of the building is scheduled for 21 December 2016.

   b. New SAA to be approved by the Council of Diplomatic Representatives (CDR) in May 2017

The SAA currently in force expires at the end of 2016. Therefore, a new actuarial study is required and being conducted by the ISRP in order to determine the appropriate targets for the new SAA. When the recommendations for a new SAA are available they will be shared with Member States. The aim would be to have the new SAA approved by CDR at its next meeting in May 2017. It is suggested that until then, the current SAA remain in force.

4. Review of accounting standards used

a. Current practice

The general financial administration of the Organisation's accounts and the annual audit are carried out in accordance with RJ standards. On the other hand, the ISRP works in principal using IPSAS for their assessments and monitoring of the PRF. Additionally, the current SAA (in force since 2012) also generally uses IPSAS.

In order to have the full annual financial statements (operational budget and PRF) audited according to one standard (i.e., RJ standards applied by PWC), until now the accounting of the PRF (administered by the ISRP in accordance with IPSAS) has always been "converted" into (in practice: re-done in) RJ standards so as to enable auditing by PWC (per Item 2 of the agenda). While this approach allows for the complete financial statements to be audited using one set of accounting standards, it regularly raises the spectre of additional costs and results in differences between actuarial assumptions, the target real return and projected lifecycle of the PRF defined by the SAA, and the pension liability determined from accounting of the PRF.

The Permanent Bureau has highlighted the importance of reviewing the accounting standards on several occasions in the past, but given recent developments during the ongoing audit, the review of accounting standards and a discussion on the audit process (for the PRF) has become urgent.

b. IPSAS vs. RJ standards

It will be necessary to consider the main differences between the two standards as applicable to the Organisation, as well as the implications in terms of pension liability, audits, implementation, resources, costs, etc. Another point for discussion would be whether to shift the Organisations accounting and auditing to IPSAS entirely, or whether to maintain the current practice for the operational budget of the Organisation and use IPSAS for the PRF. The Permanent Bureau has discussed this latter option with PWC and is awaiting a formal response (an update will be provided at the meeting).

c. Selection of auditor

The Permanent Bureau, the Chair of the Standing Committee and several Member State representatives met with two audit firms on 24 June 2016 to assess their suitability to become the Organisation's auditor for the next term. The Permanent Bureau has received offers from these firms for their services based on the current audit model. However, as a discussion on accounting standards could impact this audit model, the firms will need to consider their ability to potentially work with IPSAS and thus also possibly revise the offers they submitted.

5. Next steps

a. Possible proposal and recommendation to Council of Diplomatic Representatives for accounting standards and audit process

b. Next meeting of the Standing Committee on 9 February 2017 to discuss first draft of the Budget for 2017-2018 (FY 63)