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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 TIRExB and the TIR secretariat (ECE/TRANS/WP.30/AC.2/89, para. 38 and Annex 2), on 14 January 2016, the external auditor of the International Road Transport Union (IRU) had produced an audit certificate reflecting the amount transferred by IRU and the total amount actually invoiced by IRU when distributing the TIR Carnets. According to the certificate, in 2015, there was a deficit (i.e. less was received than initially transferred) of SwF 231,662 (rounded), due to the lower number of TIR Carnets distributed in 2015 than had originally been forecasted.

2. In line with the applicable procedure and on the basis of a proposal of IRU, the Committee, at its previous session, was asked to approve a recalculation of the amount per TIR Carnet to be invoiced in 2016, as contained in Informal document WP.30/AC.2 (2016) No. 3, of SwF 1,03 (instead of SwF 0,88¹), which would then become effective retroactively from 1 January 2016. The secretariat explained that this recalculation aims to balance the amount invoiced in 2015 with the amount actually transferred for the operation

¹ The actual amount, approved by the Committee was US\$ 0,60 per TIR Carnet, expressed in Swiss francs following the transfer of the net amount according to the prevailing US dollar-Swiss franc exchange rate on the day of the transfer (see ECE/TRANS/WP.30/AC.2/121, para. 22).

of TIRExB and the TIR secretariat for 2015, and would not result in any other costs than those originally approved. Various delegations drew attention to the fact that the information provided on this important and sensitive issue in advance of the session was, in their view, insufficient and, therefore, it would not be possible to approve the recommended action at that session.

3. As a conclusion, the Committee recognized the importance of taking a decision on this matter and considered this information but was not in a position to approve a recalculation of the amount per TIR Carnet at that session. The Committee, therefore, requested that more information on the nature of the deficit and the ways to address it in accordance with the relevant provisions of the UNECE–IRU agreement currently in force be provided for decision at the current session. In line with this request, the secretariat has prepared the present document, which outlines the procedures followed, the reasons the deficit occurred and which rules are applicable for addressing it. Annex I reproduces the applicable provisions, rules and regulations and Annex II provides detailed information on the specific figures in the case in point.

II. Summary description of the procedure and practice

4. 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:

(i) 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);

(ii) 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

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

5. 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:

(i) 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.

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

(iii) 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 and 2015), 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.

6. Therefore, the amount per TIR Carnet is a pre-calculation, based on expectations, and the amount needed to cover the operational needs of the TIRExB and the TIR secretariat is transferred in mid-November of the previous year of the year for which 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.

7. As a final note, the amount received by UNECE is administered, controlled and audited by the competent United Nations financial services, in accordance with United Nations rules and procedures. UNECE reports on expenditures and status of accounts to the Committee every year. On the other hand, IRU is also externally and independently audited every year on the amount transferred to UNECE. The audit report and management letter are then transmitted to UNECE. The audit for 2015 indicated that fewer TIR Carnets than expected had been distributed. More specifically, in September 2014, IRU informed UNECE that it was expecting to distribute 1,900,000 TIR Carnets in 2015. By the end of 2015, however, IRU had, in fact, only distributed approximately 1,500,450 TIR Carnets.

III. Addressing the deficit in accordance with applicable rules

8. 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 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 and shall, on the basis of a proposal from IRU as endorsed by the Administrative Committee, be subsequently adjusted.”

9. In all previous cases of a deficit, option (a) has been approved, i.e. a re-calculation of the amount per TIR Carnet for the current year, to take account of the difference required to make up for the deficit of the previous year. This option is also the recommendation of the IRU external auditors.

10. Simply put, the amount per TIR Carnet approved by the Committee for the year 2016 was 0,87 USD. The auditors recommended using option (a) to recalculate that amount to cover also the additional 239,730 USD that was not received by IRU in 2015. This would have brought the amount per TIR Carnet to be invoiced for 2016 to approximately one dollar. However, this was not approved in February 2016 and, as at October 2016, it is too late to approve this solution with retro-active effect.

11. The UNECE–IRU agreement foresees only one other option, which is – essentially – to take note of the IRU deficit and deal with it on the basis of a new proposal by IRU. This, in practice, would entail that the Committee agrees that the 2015 deficit be taken into

account when calculating the amount per TIR Carnet for the year 2017. In this case, the deficit amount will be deducted from the 2017 transferred amount to UNECE.

V. Considerations by the Committee

12. The Committee is invited to consider and confirm the suggested recorded deficit and adjustment solution, also taking into account the official proposal by the IRU Presidential Executive.

Annex I

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

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.

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.

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).

Annex II

Further clarifications on the nature of the deficit

1. As mentioned above, the financing mechanism foresees an amount per TIR Carnet distributed. The Convention and all corresponding procedures remain silent on how IRU and the guarantee chain make arrangements internally for collecting the amount per Carnet. Simply put, IRU and its member associations are free to decide whether the amount per TIR Carnet that is destined for the financing of TIRExB and the TIR secretariat, is to be included in the distribution price or invoiced as a separate surcharge on associations. The mechanism for this is an internal matter of the guarantee chain. The current practice is the latter, i.e. that each association is invoiced for the amount per TIR Carnet it orders from IRU as a surcharge.

2. For example, if an association in country X orders, pays for and receives 500 TIR Carnets, it will also be invoiced for:

(amount per TIR Carnet for TIRExB as approved by AC.2)x500.

3. It does not matter if association X only issues (sells) half of them to operators. The association will still be invoiced for the whole order because the budget is comprised of an amount per TIR Carnet distributed by IRU to each association.

4. For 2015, IRU forecasted that it would distribute 1,900,000 TIR Carnets. On the basis of that forecast, the Committee approved the amount of 0,60 USD (60 cents) per TIR Carnet distributed, to be allocated towards the financing of the TIRExB and the TIR secretariat for the year 2015. On the basis of that calculation, the amount was transferred to UNECE in November 2014. If everything had gone according to plan, IRU would, in 2015, invoice its member associations for:

USD 0,60x1,900,000 TIR Carnets= 1,140,000 USD

5. Unfortunately, the calculations of IRU were off by almost 400,000 TIR Carnets. This means that, instead of distributing 1,900,000 TIR Carnets as expected, it actually only distributed 1,500,450 TIR Carnets. But IRU was only allowed to invoice 0,60 USD per Carnet, therefore:

USD 0,60x1,500,450 TIR Carnets= 900,270 USD

6. Therefore, IRU collected 239,730 USD less than what it expected. According to the applicable US Dollar/Swiss Franc exchange rate², this amounts to 231,662 Swiss Francs less collected by IRU than expected. Therefore the IRU external auditors came to the conclusion that “less was received than initially transferred” and, thus, recorded a deficit.

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