



Financial Regulations of the Asian Forest Cooperation Organization

Effective on 26 November 2020

Amendments to the Financial Regulations

The Assembly of the Asian Forest Cooperation Organization, established the Financial Regulations in accordance with Article 8 Paragraph 4 of the Agreement on the Establishment of AFoCO by Decision 7-I-18R, and amended the Financial Regulations thereafter by Decision 37-IV-20R.

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Financial Regulations of the Asian Forest Cooperation Organization

Regulation 1. Definitions, Scope and Purpose

1.1 Definition

For the purpose of these Regulations:

- a) “Agreement” means the Agreement on the Establishment of the Asian Forest Cooperation Organization (“AFoCO”) that entered into force on 27 April 2018.
- b) “Party” means a country which signed the Agreement and has deposited an instrument of ratification, acceptance, or approval for which the Agreement has entered into force, or a country acceded to the Agreement.
- c) “Host Country” means the country where the headquarters of AFoCO is located.
- d) “Assembly” means the Assembly established under Article 8 of the Agreement.
- e) “Representative” means a senior forestry official nominated by a Party to represent the Party in the Assembly.
- f) “Secretariat” means the Secretariat established by Article 9 of the Agreement.
- g) “Executive Director” means the chief administrative officer of AFoCO.
- h) “Staff Member” means personnel of the Secretariat who serve under a letter of appointment and who have been appointed by the Executive Director.
- i) “Operational Expenditure” means the costs for the functioning of the Assembly, Secretariat and subsidiary bodies of AFoCO.
- j) “Appropriation” means budgetary expenditure authorizations approved by the Assembly for the financial year against expenditures which may be incurred for purposes specified by the Assembly.
- k) “Allotment” means a financial authorization issued by the Executive Director, pursuant to appropriations, to incur obligations for specific purposes from the Administrative Account, within specified limits and during a specified time.
- l) “Commitment” (or “Pre-encumbrance”) means an engagement involving an earmarking of funds against resources of AFoCO

- m) “Obligation” means amount of orders placed, contracts awarded, and other transactions for which goods have been received or services have been rendered during the current financial year and which will require payment during the same or a future year.
- n) “Earmarked Contribution” means a contribution designated by the contributors to a specific activity, project, or program.
- o) “Unearmarked Contribution” means a sum in the Special Account which its intended use has not been previously stated by the donor of the sum, and interest earned within the accounts.
- p) “Implementing Agency” means a body responsible for implementing and executing project activities approved by the Assembly.
- q) “Project Appraisal Panel” means a group of experts responsible for appraising a project proposal to facilitate the approval process of the Assembly.
- r) “Value for Money” means procurement taking into consideration of all life cycle costs, including fitness for purpose, experience and performance history of a supplier, flexibility, corporate social responsibility, environmental sustainability, maintenance and service, and other whole-of-life costs.
- s) “External Auditor” means an individual or firm duly authorized and licensed in the Host Country to engage in the practice of public accountancy.

1.2 Scope and Purpose

1.2.1 The Financial Regulations of AFoCO shall govern the financial activities of the Secretariat in accordance with Article 12 of the Agreement and under the supervision of the Assembly.

1.2.2 Subject to the guidance of the Assembly, the Executive Director may as necessary provide and enforce relevant policies or administrative instructions consistent with these Financial Regulations.

1.3 Authority and Responsibility

1.3.1 The Executive Director shall take full authorities for the implementation of these Financial Regulations and be directly accountable to the Assembly for the financial management of AFoCO.

1.3.2 The Executive Director, for the smooth functioning of AFoCO, shall delegate the authorities to the Vice Executive Director for the implementation of these Financial Regulations except for those reserved for him/herself. The authorities and responsibilities related to the implementation of Regulations 2.1, 2.2, 2.3, 8, 9, 10, and 11 are exclusively reserved for the Executive Director.

1.3.3 The Vice Executive Director may in turn delegate aspects of his/her authority to other Staff Members unless the Executive Director indicates otherwise.

1.4 Financial Year

The financial year is from 1 January to 31 December of each calendar year.

Regulation 2. Administrative Account

2.1 Structure of the Administrative Account

2.1.1 Operational Expenditure of AFoCO shall be brought into the Administrative Account and shall be met by mandatory contributions paid by the Parties and funds from other sources in accordance with Article 12 of the Agreement.

2.1.2 For each financial year, the budget for the Administrative Account shall include:

- a) Estimated annual Operational Expenditure and income for two future years where the estimates for the second year will be preliminary indicative; and
- b) All other financial resources of AFoCO other than those of the Special Account and Trust Funds established and managed in accordance with Regulation 3.

2.1.3 The budget for the Administrative Account shall be divided into budget headings and sub-headings as appropriate, and shall be supported by relevant information, annexes and explanatory statements as the Executive Director may decide as deemed necessary.

2.1.4 All estimates of income and expenditure shall be presented in United States dollars.

2.1.5 The budget for the Administrative Account shall include one heading of the Operational Expenditure for “Provisions and Contingencies” to meet urgent and unforeseen expenditures of AFoCO. The Provisions and Contingencies shall be the amount pegged at 2% of the Operational Expenditure for each financial year.

2.1.6 The Administrative Account shall contain two reserves: a Working Capital Reserve and a Special Reserve for Severance Payment as described respectively in Regulations 2.6 and 2.7.

2.2 Preparation and Approval of the Budget for the Administrative Account

- 2.2.1 The Executive Director, before the end of financial year, shall prepare a draft budget for the Administrative Account in a manner prescribed in Regulation 2.1.
- 2.2.2. The draft budget shall then be sent to all Parties at least thirty (30) calendar days before the session of the Assembly at which the budget is to be approved.
- 2.2.3 The Assembly shall approve and adopt the proposed budget through an Assembly decision.

2.3 Resources of the Administrative Account

- 2.3.1 The budget for the Administrative Account shall be financed by mandatory contributions from the Parties, by projected interest income and any advances made from the Working Capital Reserves; and by voluntary contributions, gifts and donations received from other sources.
- 2.3.2 The Assembly shall determine for each financial year, the amount in United States dollars of each Party's mandatory contribution to the Administrative Account.
- 2.3.3 Mandatory contributions shall be provided by the Parties, in accordance with Article 12 of the Agreement, in the form of in-kind contributions and/or cash.
- 2.3.4 Representatives of the Assembly and the Executive Director shall seek adequate and assured finance from other sources to complement the remaining part of contributions to the Administrative Account.
- 2.3.5 The Executive Director shall, within seven (7) working days after the close of the last session of the Assembly in each financial year, advise each Party of the amount of its contribution to the Administrative Account for the following two (2) financial years.

2.4 Payment of Mandatory Contributions

- 2.4.1 Mandatory contributions shall be payable in United States dollar, Korean won, or other freely convertible currencies.
- 2.4.2 Mandatory contributions for use in the currency of the Host Country shall be payable in Korean won calculated at the spot rate of exchange prevailing at the time of payment.

- 2.4.3 Mandatory contributions in currencies other than United States dollar or Korean won shall be paid at their United States dollar-equivalent amounts calculated at the most favorable rate of exchange available to AFoCO on the date of payment.
- 2.4.4 Mandatory contributions shall be considered as due and payable on the first day of each financial year. Each Party shall either pay imposed mandatory contributions in cash or submit a plan of in-kind contributions with detailed list of items and their estimated values within three (3) months after such contribution becomes due.
- 2.4.5 If a Party has neither paid its full contribution to the Administrative Account in cash nor sent a plan of in-kind contributions within three (3) months after such contribution becomes due in accordance with Regulation 2.4.4, the Executive Director shall request the Party to make payment or submit a plan of in-kind contribution as quickly as possible. If that Party has still not completed its contribution nor sent a plan of in-kind contributions within three (3) months after such request, that Party shall be requested to state the reasons for its inability to make payment or arrange in-kind contributions.
- 2.4.6 If a Party remits excess mandatory contribution to AFoCO to the extent that the excess does not pertain to exchange gain, then only the amount due for the current year and any arrears should be recorded in the books. The excess amount shall appear in the account of the Party as a credit balance, unless otherwise agreed between the Party and AFoCO. Excess contributions may be adjusted against contributions pertaining to later years subject to confirmation from the Party.
- 2.4.7 In the event that an incoming mandatory contribution is less than the agreed amount and the difference does not arise from exchange gain or loss or bank charges, only the amount actually received by AFoCO shall be recorded and credited to the Administrative Account.
- 2.4.8 If an excess mandatory contribution is made in the form of in-kind contribution, only the amount due for the current year and any arrears shall be recorded in the books.
- 2.4.9 As of January 1 of the following financial year, the unpaid balance of mandatory contributions due shall be considered to be one year in arrears.
- 2.4.10 Newly joined Parties to the Agreement shall be required to pay their contributions from the year following that in which they became Parties.
- 2.4.11 A withdrawing Party from the Agreement shall complete payment of any previously assessed financial dues it owes AFoCO before the effective date of withdrawal. The Executive Director shall, within ten (10) working days after the date of the receipt of a written notification of withdrawal from the Party, advise the Party of the amount of its financial dues.

2.4.12 The Executive Director shall prepare a draft financial policy for the administration of in-kind contributions to the Administrative Account and request the Assembly for its consideration and approval.

2.4.13 The Executive Director shall maintain and distribute to the Parties on a quarterly basis a table showing the status of all contributions from the Parties to the Administrative Account.

2.5 Administration of the Administrative Account

2.5.1 The approval by the Assembly of the budget for the Administrative Account shall constitute the authority of the Executive Director to receive payments, to meet obligations and to incur expenditure within the limits of the budget.

2.5.2 Commitments or obligations for the current financial year shall be incurred only after appropriate authorizations have been made in writing by the Executive Director.

2.5.3 Notwithstanding bank signatory functions assigned in accordance with Regulation 4.2, all commitments, obligations and expenditures require at least two approvals, in either conventional or electronic form. All commitments, obligations and expenditures must first be signed (“certified”) by a duly designated certifying officer. Following certification, duly designated approving officers must then sign to “approve” the establishment of commitments, obligations, and expenditures. An approving officer cannot exercise the certifying functions or the bank signatory functions.

2.5.4 No obligation including by contract, agreement or purchase order shall be entered into until the appropriate credits have been reserved in the account (“pre-encumbrance”). This shall be done through the recording of commitments where such obligations are recorded. Relevant payments or disbursements against duly recorded obligations shall be recorded as expenditure. The Executive Director may issue an administrative instruction specifying the conditions in which pre-encumbrance shall not be required.

2.5.5 An obligation must be based on a formal contract, agreement, purchase order or other form of undertaking, or on a liability recognized by AFoCO. All obligations must be supported by an appropriate obligating document.

2.5.6 The Executive Director is authorized to transfer any sum under a heading in the budget for the Administrative Account for any given financial year from one subheading to another subheading or subheadings under the same heading, provided that the total expenditure in this heading does not exceed its original appropriation. The Executive Director may also make transfers from one heading

of the budget for the Administrative Account to another, up to the limit of 10% of the amount corresponding to the annual appropriation of the receiving heading, when such transfers are necessary to ensure the proper functioning of the services.

2.5.7 Cash surplus, which is the balance of the appropriations remaining unobligated at the close of each financial year, shall be accounted for under the Working Capital Reserve established in accordance with Regulation 2.6 below.

2.5.8 The use of the funds allocated to the Provisions and Contingencies shall be authorized by the Executive Director following the general policy set by the Assembly. The Executive Director shall make a report on the details of the use of this Provisions and Contingencies at the next session of the Assembly.

2.6 Working Capital Reserve

2.6.1 The Working Capital Reserve shall be established within the Administrative Account to ensure continuity of operations in the event of short-term liquidity problems pending receipt of mandatory contributions to the Administrative Account.

2.6.2 The resources of the Working Capital Reserve shall be:

- a) any surplus of incomes over expenditures from the Administrative Account for the previous financial year as approved by the Assembly; and
- b) the mandatory contributions by the Parties to the Administrative Account that are received after the year in which they are due (“arrear payment”).

2.6.3 If and when necessary, the Executive Director is authorized to transfer an amount not exceeding USD300,000 annually from the Working Capital Reserve to the current account in the Administrative Account to meet the shortfall of funds to implement the approved budget for the Administrative Account. All other uses of the Working Capital Reserve require a decision of the Assembly. The Executive Director shall report to the Assembly when the balance of the Working Capital Reserve falls under USD3,000,000.

2.6.4 Advances made from the Working Capital Reserve to finance budgetary appropriations shall be reimbursed to the Working Capital Reserve as soon as and to the extent that income is available for that purpose.

2.7 Special Reserve for Severance Payment

The Secretariat shall establish a Special Reserve for Severance Payment to set aside funds to meet obligations towards the Staff Members and non-staff personnel of AFoCO arising in the

event that a Staff Member or non-staff personnel is separated from service. The reserve shall be entrusted to legitimately registered retirement pension trustees under the relevant laws and regulations of the Host Country.

Regulation 3. Special Account and Trust Fund

3.1 Structure of the Special Account

The Special Account shall be voluntary contribution accounts which shall comprise of two sub-accounts:

- a) Earmarked Sub-Account: To facilitate Earmarked Contributions for the financing of activities, projects, and programs approved by the Assembly.
- b) Unearmarked Sub-Account: To facilitate Unearmarked Contributions for the financing of activities, projects and programs approved by the Assembly.

3.2 Resources of the Special Account

The resources of the special account shall include:

- a) voluntary contributions, gifts, donations made by the Parties or others;
- b) Interest income earned in the Special Account; and
- c) Other funds as approved by the Assembly.

3.3 Administration of the Special Account

3.3.1 Cash contributions to the Special Account shall be paid in freely convertible currencies. The resources of the Special Account, unless the Assembly decides otherwise, shall be maintained in United States dollars. The rate of exchange used to convert cash contributions or cash equivalents of other forms of contributions to the Special Account into United States dollars shall be the spot exchange rate, a rate of exchange prevailing at the time the contribution is received.

3.3.2 The receipt of funds for the financing of activities, projects or programs shall constitute authority for the Executive Director to meet obligations and to incur expenditure in accordance with the provisions of these Financial Regulations relating to the Special Account.

3.3.3 Pursuant to approval of project proposals by the Assembly, and under the delegation of authority by the Executive Director, disbursements from Special

Accounts shall be made upon the presentation of disbursement requests duly approved by the Executive Director in compliance with the present Financial Regulations and in accordance with respective project agreement.

- 3.3.4 Funds set aside for use by the Secretariat in monitoring, reviewing, or evaluating projects or programs shall not be released to the Implementing Agency.
- 3.3.5 Contingency funds shall only be released to the Implementing Agency upon receipt of a written, justified request by the Executive Director.
- 3.3.6 Refunds of surplus from completed activities, projects and programs financed by the Earmarked Sub-Account shall be, unless otherwise agreed by the donor, accounted under the Unearmarked Sub-Account and shall be used to finance other activities, projects or programs at the discretion of the Assembly.
- 3.3.7 If it deemed necessary in the interest of the Organization, subject to the conditions established by the Executive Director, interest incomes earned within the Special Accounts and accounted under the Unearmarked Sub-Account can be used to supplement the expenses for program support, if applicable, as defined in Regulation 3.4 below and to compensate unexpected losses of funds under the Special Account by the fluctuations of exchange rate incurred on the remittance of relevant budget from the Secretariat.
- 3.3.8 Where AFoCO is holding funds for a project or program on which the Assembly decides to terminate its sponsorship, disbursement by AFoCO shall cease, and any remaining funds shall be disposed of in such a manner agreed by the donor.
- 3.3.9 Project offices in charge of activities, projects or programs approved by the Assembly shall obtain their funds through remittances from the Secretariat. In the absences of a special authorization from the Executive Director, those remittances shall not exceed the amount required to bring cash balances up to the levels necessary to meet the recipient office's estimated cash requirements for up to the next six (6) months.

3.4 Program Support

- 3.4.1 The purpose of Program Support within the Special Account shall be to defray the expenses of administration of activities, projects or programs earmarked to the funds. Such administrative expenses shall comprise of bank charges, project-related communication costs, remuneration of project administration staff, operation of Project Appraisal Panel, consultancy services required for project management support and other expenses related to project administration.

3.4.2 The resources of the Program Support shall comprise a portion of the budget of activities, projects, or programs. The charge may be up to 12% of the basic budget - all budget components which are not a Program Support charge. These funds shall be deposited as Program Support in the Special Account.

3.4.3 The Executive Director shall ensure that the residual balance of the Program Support shall at any time be sufficient to meet commitments already made by AFoCO for the administration of activities, projects, and programs at that time.

3.5 Review

3.5.1 The Assembly, with the assistance of the Secretariat and at regular intervals, shall review the financing of the Special Account and the payment status report of each activities, projects, or programs funded from the Special Account. The Secretariat shall transmit the results of such review and any recommendation thereon to the Parties.

3.5.2 The Secretariat shall distribute an Inception/Progress/Completion Report for each activity, project and program to the donors on a regular basis.

3.6 Trust Fund

3.6.1 Trust funds shall mean funds held by AFoCO on behalf of any donor entities.

3.6.2 Separate Terms of Reference or a Trust Agreement may be agreed between the Secretariat and the donors in which guidelines for the disbursements and other matters related to the fund shall be specified.

Regulation 4. Banking

4.1 Bank

The Executive Director shall designate banks in which the funds of AFoCO shall be kept, shall establish all official bank accounts required for the transaction of AFoCO's business and shall designate officers to whom signatory authority is delegated for the operation of those accounts. The Executive Director shall also authorize all bank account closures. AFoCO's bank accounts shall be operated as follows:

- a) Bank accounts shall be designated "official accounts of AFoCO" and the relevant authority shall be notified that those accounts are exempted from all taxation, subject to the ratification of the Headquarters Agreement by the relevant authority.

- b) Banks shall be required to provide promptly monthly statement.
- c) Two signatures, or their electronic equivalent, shall be required on all payment or withdrawal instructions, including electronic modes of payment.
- d) All banks shall be required to recognize that the Executive Director is authorized to receive, upon request or as promptly as practicable, all information pertaining to the official bank accounts of AFoCO.

4.2 Bank Signatories

4.2.1 Designated bank signatories must:

- a) ensure that there are sufficient funds in the bank account when checks and other payment instructions are presented for payment;
- b) verify that all payment instructions are dated and drawn to the order of the named payee approved by an approving officer; and
- c) ensure that all banking instruments are properly safeguarded and ensure that when they are obsolete, they are destroyed.

4.2.2 Bank signatory authority and responsibility is assigned on a personal basis and cannot be delegated. Bank signatories cannot exercise the approving functions.

4.3 Exchange of Currencies

Staff Members responsible for the operation of AFoCO bank accounts shall proceed to exchange all payments received in currencies other than United States dollar or Korean won into United States dollar except when other currencies are necessary for the transaction of official business of AFoCO in the foreseeable future. Policies and procedures for the exchange of currencies shall be established in detail through appropriate administrative instructions.

4.4 Payments

- 4.4.1 All payments shall be made by wire transfer or by electronic funds transfer except to the extent that cash payments, or their equivalent, are authorized by the Executive Director. Disbursements shall be recorded in the accounts as at the date on which they are made, that is, when the check is issued, transfer is affected or cash is paid out. A payee's written receipt shall be obtained for all payments.

4.4.2 The Executive Director shall oversee the general administration of AFoCO credit cards, only for official use. The Executive Director shall be responsible for issuing cards, setting guidelines, policies and procedures on card distribution, and other matters regarding overall card administration and usage. Card holders shall comply with policies on card storage, management, and usage that have been decided by the Executive Director.

4.5 Bank Reconciliation

Every month all financial transactions, including bank charges and commissions, must be reconciled with the information submitted by banks in accordance with Regulation 4.1. This reconciliation must be performed or validated by a Staff Member playing no actual part in the receipt or payment of funds.

Regulation 5. Investment

5.1 Authority, Responsibility and Policy

5.1.1 Investment shall only be made in interest bearing bank deposits with no likelihood of investment losses.

5.1.2 The Executive Director may authorize investments of monies not needed for immediate requirements under the Administrative Account and the Working Capital Reserve in accordance with these Regulations. Funds in Special Accounts or Trust Funds shall be invested in accordance with directives governing such funds, or in the absence thereof, in similar manner to the Administrative Account.

5.1.3 At least once a year the Executive Director shall include in the financial report submitted to the Assembly a statement of the investments currently held.

5.1.4 All investment transactions, including the withdrawal of invested resources, require the authorization of two (2) bank signatories.

5.2 Income

Investment income derived from the Administrative Account or the Working Capital Reserve shall be credited to miscellaneous income of the Administrative Account. Income from investments pertaining to Special Accounts or Trust Funds shall be credited to the Special Account or Trust Fund concerned.

Regulation 6. Procurement and Property Management

6.1 General Principle

Procurement functions include all actions necessary for the acquisition, by purchase or lease of property, including products and real property, and for the acquisition of services. The following general principles shall be given due consideration:

- a) best Value for Money;
- b) effective and broad competition for the award of contracts;
- c) fairness, integrity and transparency of the procurement process;
- d) the best interest of AFoCO; and
- e) prudent procurement practices.

6.2 Procurement Process

6.2.1 AFoCO shall make appropriate use of competition to achieve the most Value for Money. For this purpose, the following rules shall be applied to the selection of a procurement method, depending on the value of the goods or services to be rendered and the nature of the requirement.

- a) When the estimated procurement value does not exceed USD20,000, no quote is required and direct procurement shall be applied.
- b) When the estimated procurement value exceeds USD20,000 but is not more than USD50,000, the procurement shall require quotes from at least three suppliers.
- c) When the estimated procurement value exceeds USD50,000, either limited tenders or open international competitive tenders shall be applied.

6.2.2 In exceptional cases, direct procurement may be approved for goods and services of which estimated value exceeds UDS20,000 under any of the following circumstances:

- a) There is no competitive marketplace for the requirement, such as where a monopoly exists, where prices are fixed by legislation or government regulation, in countries where there are restrictions to free markets and enterprises, on the spot market, or where the requirement involves a proprietary or unique product or service;
- b) For reason of extreme urgency, in so far as is strictly necessary where, brought about by events reasonably unforeseeable by AFoCO, the time limits for competitive procedures cannot be complied with. The circumstances invoked to

justify extreme urgency should not be attributable to poor planning and/or processing delays on the part of AFoCO Staff Members.

- c) Purchase or lease of real property or office space;
- d) There is a compelling reason to protect confidentiality of certain information which may not be disclosed to the public or to protect AFoCO safety or security interests; or
- e) The subject item needs to be procured to complete or continue services, to replace parts or components, or to expand facilities, which were already procured, for reasons of standardization, compatibility or need to avoid significant establishment or start-up costs, provided that no advantage can be reasonably obtained by further competition.

6.2.3 When direct procurement is exceptionally applied in accordance with Regulation 6.2.2 above, the Secretariat shall record in writing the justification and approval for direct procurement with supporting documentation.

6.2.4 The Executive Director may decide a departure from these rules if it is in the interest of AFoCO and such cases shall be reported to the Assembly.

6.2.5 The Executive Director shall establish bid and tender procedures and policy for the administration of competitive bid and tender process required in Regulation 6.2.1 subsection c).

6.3 Contracts and Payments

6.3.1 All procurement actions shall be governed by written documentation.

6.3.2 The requirement for written forms of procurement contracts, when applicable, shall not be interpreted to restrict the use of electronic means to meet respective contractual obligations. Before any electronic means is used by either party, the Executive Director shall ensure that the electronic means to be used meet recognized industry standards, in particular in terms of authentication, safety and confidentiality.

6.3.3 Except where normal commercial practice or the interests of AFoCO so require, no contract or other form of undertaking shall be made on behalf of AFoCO which requires a payment or payments on account in advance of the delivery of products or the performance of services. Whenever an advance payment is agreed to, the reasons therefore shall be recorded.

6.3.4 The Executive Director shall also require that, whenever it is possible and/or appropriate, sufficient guarantees be sought and obtained prior to any advance and progress payment being made.

6.4 Property Management

6.4.1 The Executive Director shall designate officers responsible for the management of AFoCO's property, and for all systems governing its receipt, recording, utilization, safekeeping, maintenance and disposal, including by sale.

6.4.2 A summary statement of non-expendable property of AFoCO shall be provided to the External Auditor not later than three (3) months following the end of the financial year.

6.4.3 Staff Members responsible for the management of the property of AFoCO shall perform periodic physical inventories of non-expendable equipment for the purposes of ensuring that the accounting records of fixed assets are accurate.

6.4.4 For the purposes of the annual financial statements on an accrual basis, the gain or loss from the de-recognition of fixed assets (equipment, buildings or intangible assets) shall be included in the surplus or deficit of the statement of financial performance.

6.4.5 The Executive Director shall establish detailed guidelines for the management of property of AFoCO as required under an applicable accounting standard.

Regulation 7. Accounting

7.1 Accounting Policies

7.1.1 The Executive Director shall be responsible for the proper working of all AFoCO accounting systems and designate the officer responsible for performing accounting functions.

7.1.2 Accounting records shall be maintained to support the preparation of financial reports on different accounting basis as required by the Assembly. The budget for the Administrative Account and related reporting in the financial report are prepared on a cash basis. The annual financial statements are prepared on an accrual basis in compliance with the International Public Sector Accounting Standards. Unless otherwise directed by the Executive Director or by the particular terms governing the operation of a Special Account or Trust Fund, all other financial reporting shall be prepared on an accrual basis.

7.2 Accounting Records

7.2.1 The Executive Director shall maintain and safeguard against damage, destruction, unauthorized access and removal of accounting records.

7.2.2 Appropriate separate accounts shall be maintained for all Administrative Account, Special Accounts, and Trust Funds.

7.2.3 The accounting records register all financial transactions of AFoCO. The structure of these records is defined by the chart of accounts, which is established and maintained by the Executive Director. The accounting records are used to establish financial reports.

7.2.4 The accounting records shall consist of:

a) Administrative Account showing:

- i. original appropriations;
- ii. appropriations as modified by transfers;
- iii. expenditures, including disbursements and expense accruals;
- iv. balances of allotment and appropriations.

b) General ledger accounts showing all cash at banks, investments, receivables and other assets, payables and other liabilities.

c) Working Capital Reserve and Special Reserve for Severance Payment.

d) All Special Accounts and Trust Funds.

7.2.5 The accounting records shall be supported by financial and property records and other documents which are to be retained in appropriate files and for such periods as may be agreed with the External Auditor, after which, on the authority of the Executive Director, they may be destroyed.

7.3 Currency of Accounting Records

7.3.1 The reporting currency of AFoCO is United States dollars. Accordingly, financial statements which are maintained in local currency shall be converted into United States dollars.

7.3.2 Transactions and balances which are denominated or expressed in United States dollars shall be shown in the United States dollar account at the actual United States dollar amount received or paid.

7.3.3 All other income and expenditure in local currency should be converted into United States dollars using the United Nations Operational Rate of Exchange prevailing at the time of receipt or payment.

7.3.4 Monetary assets and liabilities should be converted into United States dollars based on the United Nations Operational Rate of Exchange prevailing as at the year-end, i.e. 31 December.

7.3.5 All resulting exchange differences arising from conversion of currency following Regulations 7.3.3 and 7.3.4 should be recognized as a separate component of net asset or equity.

7.4 Writing off Losses of Cash, Receivable and Property

7.4.1 The Executive Director may, after full investigation, authorize the writing off of losses of cash, stores and other assets, provided that an audit report by an External Auditor of all such amounts written off is submitted to the Assembly with the annual financial statements.

7.4.2 The investigation shall in each case fix the responsibility, if any, attached to any Staff Member of AFoCO for the loss or losses. Such Staff Member shall be required to reimburse AFoCO either partially or in full. The final determination as to all surcharges to be made against such Staff Member as the result of losses will be made by the Executive Director.

7.5 Financial Reporting

7.5.1 Annual financial statements covering each financial year, as at December 31, shall be submitted to the External Auditor not later than March 31 following the end of the financial year to which they relate. Additional financial statements may be prepared as and when the Executive Director deems it necessary.

7.5.2 The annual financial statements submitted to the External Auditor and the Assembly for all accounts shall include:

- a) a statement of financial position;
- b) a statement of financial performance;
- c) a statement of changes in net assets;
- d) a statement of cash flow;
- e) a statement of comparison of budget and actual amounts; and

f) notes, comprising a summary of significant accounting policies and other explanatory notes.

7.5.3 The Executive Director shall submit to the Regular Session of the Assembly the annual financial report of the immediately preceding financial year. That report shall be prepared by the Executive Director including the following information:

- a) a statement of budget and actual income and expense of the Administrative Account reported on the same accounting basis as the adopted budget;
- b) the income and expense of all other funds and accounts;
- c) the status of appropriations, including:
 - i. the original budget appropriations;
 - ii. the appropriation as modified by any transfers made;
 - iii. the amounts charged against those appropriations;
- d) audited annual financial statements with the report of the External Auditor prepared in accordance with Regulations 7.5.2 and 9.3;
- e) a report on investments;
- f) a statement on the status of contributions of the Parties;
- g) any other information deemed appropriate to indicate the current financial position of AFoCO.

7.5.4 The annual financial statements and the financial report of AFoCO shall be presented in United States dollars.

Regulation 8. Internal Oversight

8.1 Purpose

The Executive Director may establish, if necessary, an internal oversight mechanism which covers internal audit, evaluation, investigation and other management support to strengthen the functioning of AFoCO. The internal oversight mechanism shall exercise operational independence in the conduct of its duties under the authority of the Executive Director and the President of the Assembly, and shall be responsible for:

- a) providing assurance that activities, projects and programs are delivered effectively, that information on strategic management is reliable and timely, and that continuous improvements are fostered in methods and procedures so as to enhance the quality of AFoCO's operations; and

- b) identifying major control risks for AFoCO and proposing remedial action to minimize such risks.

8.2 Role and Function

8.2.1 Within the internal oversight mechanism, independent internal audits shall be conducted in accordance with these Regulations and in conformity with international standards for the professional practice of internal auditing.

8.2.2 Internal auditors shall review, evaluate and report on the use of financial resources and on the effectiveness, adequacy and application of internal control systems, procedures and other relevant internal controls. Internal controls shall include the following elements:

- a) compliance of financial transactions with the decision of the Assembly, approved work plan and budget and other legislative mandates, and the Financial Regulations and Staff Regulations of AFoCO;
- b) economy, efficiency and effectiveness of financial, physical and human resources management and utilization, including by examination of the structure of AFoCO and its responsiveness to the requirements of programs and legislative mandates.

8.2.3 The Executive Director shall:

- a) ensure that the internal auditor has the operational independence, objectivity and authority to conduct internal audits, evaluations, and investigations;
- b) ensure that the internal auditor has access to all records and personnel relevant to the purposes listed in Regulation 8.2.2 above;
- c) instruct Staff Members to provide such information or assistance to the internal auditor as are reasonably required to conduct the audit;
- d) ensure that procedures are in place to provide direct confidential access of Staff Members to the internal oversight mechanism, including for suggesting improvements for work delivery or for reporting perceived cases of misconduct;
- e) ensure that Staff Members enjoy protection against repercussions, due process for all actors concerned, and fairness during any investigation; and
- f) ensure procedures for a prompt, effective follow-through on recommendations in, or derived from, reports of the internal auditor.

8.3 Reporting

8.3.1 The Internal Auditor shall report functionally to the Assembly and administratively to the Executive Director. Reports on each separate audit, evaluation, and investigation shall be submitted. For each report, the relevant Staff Member shall be afforded adequate opportunity to consider and comment upon the observations and draft recommendations.

8.3.2 The Executive Director shall report to the Assembly as necessary on internal audit recommendations and actions taken. Matters that, in the judgment of the internal auditor, present a material risk to AFoCO, shall be immediately forwarded to the President of the Assembly, accompanied by relevant documentation, including any correspondence with the Executive Director.

Regulation 9. External Audit

9.1 Appointment of the External Auditor

9.1.1 The accounts and financial management of all funds governed by these Financial Regulations shall be subject to an annual audit, and the arrangements for such audit shall take into account the international nature of AFoCO and ensure an open and competitive process for the selection of the External Auditor in accordance with Regulation 6.

9.1.2 The appointment of an External Auditor shall be for a maximum period of three (3) years with a possibility of renewal of three (3) more years.

9.2 Audit Standards, Scope and Operations

9.2.1 The audit shall be conducted in conformity with the International Public Sector Accounting Standards and subject to any special directions of the Assembly.

9.2.2 The External Auditor must be completely impartial and independent from all aspects of management or financial interests in AFoCO. The External Auditor shall not, during the period covered by the audit nor during the undertaking of the audit, be employed by, serve as director for, or have any financial or close business relationships with any senior participant in the management of AFoCO. The External Auditor shall disclose any relationship that might possibly compromise his or her independence.

9.2.3 The External Auditor may make observations with respect to the efficiency of the financial procedures, the accounting system, and the internal financial controls and, in general, the administration and management of AFoCO. The External

Auditor shall express an opinion and sign an opinion on the financial statements of AFoCO.

9.2.4 The Executive Director shall provide the External Auditor with information on:

- a) total value of property, plant and equipment and intangible assets for which records are kept;
- b) losses of cash, and other assets written off; and
- c) such other information as the external auditors may require.

9.3 Reporting

9.3.1 The External Auditor shall issue a report on the audit of the financial statements for each financial year, which shall include such information as the External Auditor deems necessary with regard to matters referred to in Regulation 9.2.3.

9.3.2 The reports of the External Auditor on the annual financial statements shall be transmitted to the Assembly together with the audited annual financial statements for its review and subsequent approval.

Regulation 10. Limitation of Financial Liability and Indemnity

10.1 Limitation of Liability

The liability of Parties shall be limited to the payment of its dues.

10.2 Liability for Financial Undertaking of the Secretariat

Notwithstanding the Regulation 10.1, the Secretariat shall be liable only for its own financial undertakings and not for those of any Party. The Executive Director may propose procedures for assurance of such undertakings for approval by the Assembly.

10.3 Assurance against Claims

The Secretariat shall indemnify all Parties, to the extent permitted by the national laws and regulations of the Host Country, against any claims arising from the normal exercise of functions of the Secretariat.

Regulation 11. Final Provisions

11.1 Amendments

These Financial Regulations may be supplemented or amended upon proposal by the Executive Director and subsequent approval by the Assembly.

11.2 Effective Date

The Financial Regulations shall be effective on 1 January following the year in which the Assembly approves.
