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FINANCE COMMITTEE

Hundred and Thirteenth Session

Rome, 8 – 12 May 2006

HLCM Recommendations on Adoption of International Accounting Standards in the UN System

Introduction

1. The Finance Committee at its 109th session was informed of efforts in the UN system to adopt internationally accepted accounting standards (FC 109/18). The United Nations system-wide adoption of International Public Sector Accounting Standards (IPSAS) by 1 January 2010 has now been unanimously approved by the High Level Committee on Management (HLCM) and is expected to be approved by the General Assembly. The adoption of IPSAS will affect the accounting, financial reporting and associated information technology (IT) systems of all the UN entities and lead to changes in each organization's approach to budgeting, funding and management of resources. This document provides an overview of these implications for the Organization and gives a high-level project timetable for the implementation of IPSAS. This document requests the Finance Committee to give its approval to adopt IPSAS in accordance with the HLCM decision and to proceed with an implementation project at FAO, including the process of securing approvals by Governing Bodies. The Committee is further requested to indicate sources of funding of this project in 2006-07 and 2008-09.

Background

2. The financial statements of the United Nations system organisations are currently prepared in accordance with the United Nations System Accounting Standards (UNSAS). When UNSAS were first approved in 1993 they represented the beginning of an ongoing process to develop and maintain accounting standards. However they have not been able to keep pace with the rapid changes in financial reporting developments or the move towards common international standards. In particular the UNSAS standards are no longer considered adequately prescriptive to produce widely understood and readily comparable financial reporting across the entities in the UN system. As a consequence the HLCM set up a Task Force on Accounting Standards to investigate the possibility of the United Nations system adopting a set of external accounting standards. The Task Force on Accounting Standards, after extensive deliberations and discussions with other expert bodies, recommended the adoption of IPSAS and the HLCM unanimously

approved this recommendation in November 2005. The General Assembly is expected to endorse United Nations system-wide adoption of IPSAS by 1 January 2010 in its current session.

Benefits

3. IPSAS are an independent set of accounting standards under-pinned by a strong due process and supported by governments, international accounting bodies and international development organizations such as the World Bank. They represent best practice for governments and not-for-profit organizations. The OECD, European Commission and Nato have recently adopted IPSAS for their financial reporting.

4. Significant benefits will arise from IPSAS adoption. Reporting of assets, liabilities, revenue and expenses in accordance with independent financial standards will support improved financial management. The resulting more comprehensive information about costs will better support results based management. The Board of Auditors and the Panel of External Auditors of the UN support IPSAS adoption as it will improve the quality, comparability and credibility of the United Nations system financial reporting with consequential improvements anticipated with respect to accountability, transparency and governance.

Implications

5. The four-year implementation process envisaged by the UN recognizes the degree of change involved and is intended to provide sufficient time to work through the technical implications. IPSAS will be adopted for accounting periods from 1 January 2010 and certification by the External Auditor of financial statements prepared from that date will be based on compliance with IPSAS. The impacts of IPSAS adoption on the Organization fall into two broad categories: the impact on accounting, financial reporting and associated IT systems and the consequential impacts on budgeting. In addition, changes will be required to the Financial Rules and Regulations of the Organization.

IMPACT ON ACCOUNTING, FINANCIAL REPORTING AND ASSOCIATED IT SYSTEMS

6. IPSAS adoption will include the following impacts on accounting and financial reporting:

a) Liabilities for After Service Medical Coverage (ASMC) and the Termination Benefits Scheme will require to be fully recorded in the financial statements. Thus providing the facility for (i) full disclosure expected by Member governments and donors, and (ii) showing liabilities at their real value and correctly reflected in the General Fund.

b) Capital assets such as buildings, vehicles, furniture and equipment will be required to be recognised and depreciated in the financial statements. The current policy of fully expensing the costs of these items at the date of acquisition will be discontinued. Assets will increase as a result of recognizing capital assets. Depreciation expenses for capital assets will spread the acquisition cost of the asset over its useful working life rather than expensing the full cost in the year of acquisition.

c) Financial Statements must be prepared and audited on an annual basis instead of on a biennial basis (which may impact audit fees).

d) Expenses must be recognised on the basis of goods and services having been received (the delivery principle). The current policy of recognizing an expense when an internal purchase order has been raised will be discontinued.

e) IPSAS may require consolidation in the main financial statements of activities currently reported separately such as the Commissary and the Credit Union.

f) Provisions for delays in receipt of contributions would be made based on an assessment of collectibility. The current policy of 100% provisioning of contributions receivable will be discontinued.

7. Changes will be required to be made to the IT systems in order that they can support the changed accounting requirements. In particular the requirement to recognise and depreciate capital assets and to recognize expenses on the delivery principle can be expected to require important IT developments.

IMPACTS ON BUDGETING

8. The adoption of IPSAS and the consequent changes to the basis of recognizing expenses (and potentially also income) will raise issues with respect to the current budgeting policy. This is because there is a requirement under IPSAS to provide a reconciliation between the actual expenses in financial reporting and the budget. The changed basis of expense recognition in the financial statements would need to be reflected in the budget to facilitate reconciliation of the results. The requirement under IPSAS to recognize and depreciate capital assets illustrates the point. Currently financial reporting and budgeting are on the same cash basis in that the acquisition cost of capital assets are expensed in the year of acquisition. However IPSAS will recognize the expense of a capital asset as depreciation (non-cash) and spread it over the useful life of the asset.

FINANCIAL RULES AND REGULATIONS

9. IPSAS adoption is expected to require changes to be made to the Financial Rules and Regulations of the Organization. One example would be to introduce the requirement for annual audited financial statements. The requirement for other changes will be identified when a more detailed analysis of the IPSAS requirements has been performed. Required changes to the Financial Rules and Regulations would require the approval of Conference in 2007 in order to proceed with implementation of IPSAS in 2089-09 and be in compliance by 1 January 2010.

Implementation of IPSAS

10. IPSAS implementation is a United Nations system-wide change for which support, coordination and leadership will continue to be provided by the UN Task Force on Accounting Standards under the auspices of the HLCM’s Finance and Budget Network. The Task Force has submitted a four year budget totalling $4.4 million to support IPSAS adoption across the UN System. The Organisation’s share of this budget would amount to a total of approximately $211,000 over four years ($52,000 per year). However each individual UN entity requires to work through the implications and project requirements and to incorporate their requirements with respect to additional funding in their budgets. The analysis of the implications for the Organization, while still high level, is sufficient to conclude that this is a project which requires to commence in the current biennium in order to adhere to a 1 January 2010 implementation deadline.

11. The Director General has agreed with the proposed adoption of IPSAS subject to (a) the identification of the costs of adoption and (b) the approval of the proposal by the Governing Bodies together with the financing of the expenses.

12. The table below gives a high level project plan and timetable to achieve IPSAS implementation in 2010.

Phase No.	Phase Description	Activities	Activities to be completed during years
1	Project Definition	Confirm objectives High level analysis of change requirements Identify Constraints (resources/financing) Identify Interfaces: UN Accounting Standards Project Produce list of Deliverables and Timetable	2006-07
2	Project Initiation and Planning	Overall Planning Project structure	2006-07
3	Business Requirements	Review of policies, rules and regulations for submission for approval by Governing Bodies in 2007. Identification of detailed accounting requirements (policies, financial statements, chart of accounts etc.). This will be reliant on output from UN Accounting Standards Project. Gap Analysis – systems, procedures	2006-07 with completion in 2008
4	IT Developments	Develop IT system requirements to support business requirements.	2008-09
5	Testing	Testing of system and procedural changes	2008-09
6	Conversion and Implementation	Opening balances to be established Changes to processes and procedures Amendments to Financial Rules and Regulations Training	2008-09
7	Go-Live	System changes and new policies and procedures operational	2010

13. The project activities to be completed in the current biennium will require to be funded from the existing budget allocation. An estimate of the costs to be sustained in 2006-07 is $410,000 and a possible funding source is the Capital Expenditure Facility. Should this source not be available the Committee is requested to indicate means of funding the essential implementation work to be carried out in 2006-07. It is further proposed that necessary resources be made available to complete this project in the 2008-09 biennium. A document will be presented to the September 2006 session of the Finance Committee to provide a more detailed project plan and updated estimates of the project costs.

Conclusion

14. The Committee is requested to approve that FAO adopt IPSAS in accordance with the HLCM decision (which applies to the entire UN System) and that FAO proceed with an implementation project and take forward the process of obtaining approvals by the Governing Bodies. The Committee at its September 2006 session will be provided with a more detailed project plan and updated estimates of project costs, with a view to making a recommendation to Council on the adoption of International Public Sector Accounting Standards (IPSAS) by the Organization, for approval by Conference in 2007.