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International Public Sector Accounting Standards

Note by the Secretariat

In compliance with decision IDB.32/Dec.5, presents a summary of the developments in the adoption of International Public Sector Accounting Standards (IPSAS) in the Organization and initiates the process of approval by the General Conference for the adoption of IPSAS.

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I. Introduction

1. Preliminary information on the International Public Sector Accounting Standards (IPSAS) and their implications was presented to the Committee and the Board in document IDB.32/7-PBC.22/7, paragraphs 18 to 22, and subsequently in document IDB.32/12. Based on the latter, the Board agreed, in principle, to the adoption of IPSAS by UNIDO, as part of a United Nations system-wide adoption of IPSAS by January 2010 (decision IDB.32/Dec.5). This important step has enabled the Organization to commence the initial impact analysis of the adoption.

2. As outlined in document IDB.32/12, the areas most affected include:

(a) Accounting and financial reporting, such as recognition of liabilities for employee benefits, capitalization of fixed assets and depreciation charges, recognition of expenses on the basis of the delivery principle and change in structure and content of financial reports;

(b) Financial management systems – In particular, recording of detailed information on capital assets and depreciation, inventories, employee benefits and a redefined expenditure recognition would need to be incorporated in the system;

(c) Budgeting, funding and management;

(d) Financial regulations and rules;

(e) Resource requirements for the implementation of IPSAS.

3. The present document informs the Board, through the Committee, of progress in the adoption of IPSAS by UNIDO. It updates the information contained in document IDB.32/12, primarily with reference to United Nations system-wide decisions and developments that have a direct bearing on the relevant UNIDO decisions. As the matter constitutes a policy decision, the document also initiates the process of approval for the adoption of IPSAS by the General Conference in 2007, in accordance with the UNIDO Constitution (Article 8, para. 3 (a)).

II. System-wide International Public Sector Accounting Standards (IPSAS) project and UNIDO's role

4. The coherent and consistent adoption and interpretation of IPSAS in the United Nations system is being sought by the joint development of accounting policies. To this end, system-wide support, coordination and leadership is provided through a central IPSAS technical team under the guidance of a Project Steering Committee and the Task Force on Accounting Standards. The members of both the Committee and Task Force consist of representatives from various organizations. UNIDO is a member of both bodies. IPSAS project team members are responsible for developing initial papers on IPSAS-compliant accounting policies and providing guidance. Through regular meetings and active participation of the representatives of the organizations by videoconference and written responses, the papers circulated by the central team are discussed and final acceptable policies recommended for approval of the Task Force.

5. With a view to fully utilizing expertise available in other organizations, providing an opportunity for organizations in the same geographical setting for face-to-face meetings and expediting the process, focus groups in New York, Geneva, Rome and Vienna have been allocated IPSAS topics for review and to identify issues that need to be addressed. Furthermore, they have been asked to present a policy proposal regarding these issues to the central team. IPSAS team members, where possible, participate in local focus group meetings in order to discuss topics at an early stage of development. Thus, with the early involvement of various organizations, a wide range of accounting issues, arguments for and against specific accounting policies and system-wide issues concerning different organizations are taken into consideration.

6. As a member of the Project Steering Committee, Task Force and the Vienna focus group, UNIDO's timelines in IPSAS-related activities are dependent upon the central IPSAS project teams' workplans. However, active participation in the review of the draft accounting policy and guidance papers related to IPSAS implementation provide the Organization with an opportunity for a better understanding of policy development and for contributing to the recommendations, taking into account UNIDO's specific needs. To date, UNIDO has provided comments on 10 IPSAS-compliant accounting policies and guidance papers developed, which are to be discussed and agreed to by the Task Force on Accounting Standards.

7. Standards which have a greater impact on the United Nations system have been prioritized. The IPSAS team expects that a full set of United Nations system accounting policies will be in place by mid-2007 to facilitate the adoption of IPSAS by some organizations as of 1 January 2008.

8. In accordance with Article 8, paragraph 3 (c), of the UNIDO Constitution and financial regulation 12.2, all amendments to the financial regulations require approval by the General Conference. Therefore, changes to the financial regulations arising as a consequence of the adoption of IPSAS will be presented through the Programme and Budget Committee and the Industrial Development Board for approval by the General Conference in 2009.

III. Budgeting practices

9. As the adoption of IPSAS would change the basis for financial reporting from modified accruals to full accruals, a major area of impact will be on the programme and budgets preparation and presentation. While the Standards do not mandate the conversion of the budget to accrual basis to facilitate the comparison of actual results with approved budgets, as required under *IPSAS 24 – Presentation of Budget Information in Financial Statements* (available on the Internet site www.ipsas.org), a number of United Nations system organizations show interest in moving the budget preparation basis to full accruals. This would require reflecting cash and non-cash expenses, capital expenditure and funding for accrued liabilities in the budgets. Retaining the current (cash basis) practice for the budget would involve restating yearly the actual amounts for comparison purposes. Aware of the wider implications, the central IPSAS adoption project team has formed a subproject to work on developing a common understanding, if possible, for a system-wide approach by the United Nations organizations.

10. Some of the key issues to be addressed through the budgeting subproject include:

- Specification of budget estimates (operating expenses and capital expenditure);
- Budgeting for cash requirements for operating expenses, capital expenditure and specific funding requirements, such as for end-of-service employee liabilities;
- Carry-over of approved budgets to future years to provide for expenses on commitments from previous years;
- Level of analysis to be provided in the budgets;
- Budget documentation coverage and changes to financial regulations and rules.

To facilitate better understanding of the implications on budgets the major differences in budgeting under UNSAS and IPSAS are listed in annex I. The financial terms used in the present document are described in annex II.

11. At present UNIDO would prefer to make a one-time move to the accrual budget basis. However, to make an informed decision, the forthcoming recommendations from the project and subproject should be taken into account. Hence the changes to the financial regulations, which require the approval of the General Conference, are not suggested at this stage as they may need to be changed further or adjusted again after the system-wide discussions on the subject are completed.

12. However, UNIDO's timeline for preparation of programme and budget proposals for 2010-2011 under IPSAS requires an assessment of the next steps by the fourth quarter of 2008. Therefore, the proposals emanating from the subproject, for United Nations system organizations will be regularly presented to the policymaking organs for guidance in the course of 2007 and 2008. The consequent revision of the financial regulations affecting the budget preparation will be presented to the General Conference in 2009 for approval, along with the proposed programme and budgets, 2010-2011.

13. The concept of full accrual accounting under IPSAS would require UNIDO to address funding requirements for liabilities earlier than the current practice. This applies in particular to budgetary provisions for employee benefit obligations, such as After Service Health Insurance (ASHI), repatriation grants and accrued annual leave. At present, these obligations are not brought to account but reported in the notes to the financial statements. As most United Nations system organizations would be required to deal with this issue of unfunded liabilities upon adoption of IPSAS, a system-wide solution is being sought by the United Nations, as the lead organization on the subject. For UNIDO, the unfunded liabilities amount to approximately €93.9 million as of December 2005. The level of resource requirements from Member States would depend on the funding arrangements to be approved by the policymaking organs for existing liabilities and ongoing obligations. Therefore, Member States will be kept fully informed on the progress made on the budgeting practices for United Nations organizations in order to make timely and informed decisions to prepare UNIDO's programme and budget

proposals for 2010-2011 in a form that is consistent and acceptable to Member States.

IV. Work programme 2007

14. A working group in the Financial Services Branch has begun to address various issues related to the adoption of IPSAS covering, inter alia, a review of individual standards to ascertain their impact on UNIDO's operations; the development of a workplan for the period 2007-2009; identifying changes to the financial regulations and rules and providing comments to the IPSAS project team in New York on accounting policies and guidance for the consistent application of IPSAS within the United Nations system organizations. Document IDB.32/12 contained a provisional action plan to the end of 2007, which has been updated as follows:

(a) Conduct an initial impact analysis of IPSAS;

(b) Ascertain the implications for the financial regulations and rules;

(c) Ascertain the impact on the financial system;

The working group has commenced activities under (a), (b) and (c) above. During this process, input from affected organizational units will be sought. The expected completion date of these activities is July 2007.

(d) Consider alternate budgeting practices;

This task will be carried out in cooperation with the IPSAS adoption project team in New York.

(e) Identify resources required and prepare a project budget covering costs related to: Project team, personnel and training, coordination and systems to be included for consideration in the Director-General's proposal for the programme and budgets, 2008-2009;

This task has been completed and included in the Director-General's proposals for the programme and budgets, 2008-2009 submitted for consideration by the Committee (PBC.23/7-IDB.33/7).

(f) Prepare necessary amendments to the financial regulations for approval;

As explained in the present document, this task will be addressed when a framework on budgeting practices has been developed for the United Nations system organizations.

(g) Prepare a detailed implementation plan for 2008-2009 (*see below*);

(h) Disseminate information to key stakeholders of the Organization;

This is an ongoing activity and will be followed with regular updates to keep Member States informed, as well as to receive further guidance as necessary.

(i) Bilateral discussions with the External Auditor on the IPSAS-compliant accounting policies and guidance;

While discussions with the Technical Panel of the United Nations Board of Auditors are continuing at a central level in New York, UNIDO has already commenced *discussions with its External Auditor seeking views and comments on the draft accounting policies and guidance issued to date.*

(j) Review and provide comments, in coordination with the Vienna Focus Group, on accounting policies and guidance papers developed by the IPSAS adoption project team in New York;

It is expected that this activity will be completed by mid-2007.

(k) Commence the identification and verification of the Organization's fixed assets.

V. Action plan for 2008-2009

15. The major activities of the IPSAS implementation plan for 2008 and 2009 are indicated below along with an estimated completion date. In addition to these activities the Secretariat will continuously communicate on the progress to internal and external stakeholders.

2008

(a) Completion of fixed assets related activities – June 2008;

(b) Accounting for obligations, support costs, employee liabilities – September 2008;

(c) Accounting and reporting to donors – September 2008;

(d) Changes to the financial system – September 2008;

(e) Testing new business processes in the financial system – December 2008;

(f) Revision of financial regulations – December 2008;

(g) Year-end test run for 2008 – December 2008.

2009

(a) Programme and budgets preparation, 2010-2011 – March 2009;

(b) Further testing, corrections and fine tuning – June 2009;

(c) Documentation of procedures and business processes – June 2009;

(d) Revisions to financial rules and finance manual – September 2009;

(e) Training of staff at Headquarters and in Field Offices – December 2009;

(f) 2009 year-end test run and determining opening balances – December 2009.

VI. Project resources

16. As indicated in the proposed programme and budgets, 2008-2009 (PBC.23/7-IDB.33/7), the resources required for the IPSAS implementation activities in 2008-2009 described above, are approximately €1.15 million. It is of utmost importance that the Organization is provided with the necessary resources in order to meet the

strict deadlines set for the adoption of IPSAS. While the Financial Services Branch will provide the core team and play the leading role in managing the changes, the implementation plan envisages outside expertise to assist the project team, consisting of representatives from the various branches concerned, such as Human Resource Management, Operational Support Services, Information and Communication Management.

VII. Action required of the Committee

17. The Committee may wish to recommend to the Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the information provided in document IDB.33/5-PBC.23/5;

"(b) Recommends to the General Conference the adoption of the International Public Sector Accounting Standards by UNIDO, as part of the United Nations system-wide adoption of those Standards by 1 January 2010;

"(c) Requests that the policymaking organs be kept informed of developments relevant to UNIDO with respect to International Public Sector Accounting Standards."

Annex I

Major differences in budgeting under the United Nations System Accounting Standards (UNSAS) and the International Public Sector Accounting Standards (IPSAS)

	UNSAS	*IPSAS*	
	Current (cash basis)	*Cash basis*	*Accrual basis*
Capital expenditure	Not recognized as capital assets – reflected as operating expenditure.	Recognized as capital assets – need to show separately.	Recognized as capital assets – need to show separately.
Capital expenditure budget	Not required.	It may be necessary to show separate capital expenditure budget.	It may be necessary to show separate capital expenditure budget.
Depreciation	Not applicable.	Not necessary to show.	Need to show as a non-cash item.
End-of-service employee obligations	Current expenditure is budgeted for on a pay-as-you-go basis. No provision for past (ASHI only) and future liabilities is made.	Provision for current and future funding needs to be made.	Accruals for end-of-service liabilities need to be shown – cash/funding needs may differ from accrued amount.
Comparability with financial statements	Limited comparisons and explanation of significant variances.	Comparisons are required, including explanation on significant variances – as financial statements will be on accrual basis, comparisons would be complicated, requiring reconciliation statements.	Comparisons are required, including explanation on significant variances – comparisons would be much easier as budgets and financial statements are on the same basis.
Unliquidated obligations	Charge against the current budget's appropriations.	Charge against the future budget period. As a result need for carry-over of unspent but committed appropriations.	Charge against the future budget period. As a result, need for carry-over of unspent but committed appropriations.
Budget period vs. financial period	Budget period and financial period both comprise two calendar years.	Financial period is one year, budget period could remain two years.	Financial period is one year, budget period could remains two years.
External audit	Budgets are not subject to external audit.	Budgeted amounts used in comparison with actual amounts in the statements may be subject to audit.	Budgeted amounts used in comparison with actual amounts in the statements may be subject to audit.

Annex II

Definitions of terms used in the document

1. **Accrual basis** – A basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid).

2. **Assets** – Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

3. **Budgetary basis** – The accrual, cash or other basis of accounting adopted in the budget that has been approved by the legislative body.

4. **Capital expenditure** – Funds used to acquire or upgrade physical assets such as property, plant and equipment.

5. **Delivery principle** – The principle in which the expenses are recognized in the financial statements on the basis of goods and services received.

6. **Depreciation** – The systematic allocation of the cost of an asset or other amount substituted for cost in the financial statements, over its useful life.

7. **Expenses** – Decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decrease in net asset/equity.

8. **Liabilities** – Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

9. **Operating expenses** – Expenses incurred in carrying out the regular activities of an organization.