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**Accounting standards**

**International Public Sector Accounting Standards**

**Progress report by the Secretariat**

Informs the Committee of developments relevant to UNIDO with respect to International Public Sector Accounting Standards (IPSAS) that have occurred since document IDB.35/6, in accordance with decisions IDB.33/Dec.5 and GC.12/Dec.14.

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## **I. Introduction**

1. The General Conference, at its twelfth session (Vienna, 3-7 December 2007), approved the adoption of International Public Sector Accounting Standards (IPSAS) at UNIDO, effective 1 January 2010, as part of the United Nations system-wide adoption of these Standards (GC.12/Dec.14).
2. Document IDB.35/6 reported on developments relevant to UNIDO with respect to IPSAS. In compliance with decisions IDB.33/Dec.5 and GC.12/Dec.14, the objective of the present document is to provide an update on relevant developments in both the system-wide IPSAS project and progress made in IPSAS implementation at UNIDO.

## **II. System-wide IPSAS project and the role of UNIDO**

3. The UNIDO IPSAS Working Group in the Financial Services Branch continues to contribute significantly to IPSAS policy development by actively participating in the meetings of the United Nations system-wide Task Force on Accounting Standards and by providing its comments, in particular, on UNIDO-specific issues.
4. As reported in document IDB.35/6, the United Nations system-wide Task Force on Accounting Standards has been developing accounting policies and recommended practices since 2006. Guidance papers on the majority of IPSAS standards have been issued. During the fourth quarter of 2008, the IPSAS implementation project team at the United Nations had revised seven IPSAS guidance papers/notes that had been submitted to the Task Force meeting held in New York in June 2008 and subsequently drafted three new papers. A set of thirteen papers, consisting of the ten system-wide papers and three papers produced by individual organizations, were provided for review by focus groups in Geneva, Rome and Vienna by mid-January 2009. UNIDO, as a member of the Vienna Focus Group, has accordingly provided its comments on these papers. It is intended that these papers would be discussed at the next Task Force meeting scheduled to take place in Rome in May 2009.
5. In addition to the thirteen accounting papers for review, the Task Force meeting is expected to include discussions on IPSAS implementation activities such as development and roll-out of plans, identification of information system changes required, procedures to determine opening balances, and working with different groups that are internal and external to an organization. Sharing of experience of the Early Adopter organizations, such as the World Food Programme (WFP), with other United Nations system organizations would also constitute a key item for discussion at this Task Force meeting.
6. A system-wide approach to IPSAS training (consisting of awareness training as well as concepts and standards training) was initiated by the United Nations system-wide Project Steering Committee in August 2006. Each organization is responsible for their roll-out/delivery of IPSAS training, while the United Nations IPSAS project team is responsible for the specification of a training approach and development of IPSAS training packages. The expected benefits of such an approach include system-wide consistency in implementing IPSAS; reduction in

total training costs and higher quality of training products. Reduced capacity in the United Nations IPSAS team during the second half of 2008, however, had caused some delays in the process. The new targeted completion date for all courses is now mid-2009. UNIDO, in various meetings and forums, has emphasized the importance of maintaining this new target date for training products developed by the United Nations IPSAS team. The United Nations team has consequently dedicated a significant level of resources to this system-wide initiative. The quality of the resulting products, particularly their relevance to United Nations system organizations, is being treated as the highest priority.

7. IPSAS adoption progress continues at both the system-wide and individual organization level. According to the latest IPSAS Adoption Progress Report (February 2009) compiled by the central IPSAS project team at the United Nations from individual United Nations system organizations, the majority of organizations state that the 2010 target date is achievable. At the same time, organizations also indicate either that tangible risks exist, which could impact on that target date, or that a risk analysis has not yet been completed. Information is emerging, through both the United Nations Panel of External Auditors' review and an analysis of organizations' own reporting of progress, which indicates that a number of organizations may not achieve the 2010 date, even though they continue to report the 2010 target date as achievable (CEB/2009/HLCM/8).<sup>1</sup>

8. The IPSAS project team at the United Nations is currently reviewing a revised time frame for system-wide adoption of IPSAS, for presentation to the Chief Executives Board for Coordination (CEB). Establishment of a revised final date for IPSAS adoption for organizations that are unable to meet the 2010 deadline would help demonstrate that, despite some delay, the momentum of this reform in the United Nations system as a whole is being maintained. Progress made in IPSAS implementation at UNIDO is reported in the following section.

### **III. IPSAS implementation at UNIDO**

9. An IPSAS Implementation Task Force (IITF) was established in April 2008. The IITF executes and monitors the overall process of IPSAS adoption at UNIDO and ensures its timely implementation.

10. Under the guidance of the IPSAS Working Group in the Financial Services Branch, a set of policies and process flows have been developed on key IPSAS standards with the greatest impact on UNIDO. The following major tasks have been taken up by the respective intra-organizational sub-groups since the last progress report providing necessary inputs for the development of the accounting policies, processes and systems.

11. One of the first standards to be taken up has been on property, plant and equipment (PPE), primarily as it is a time consuming process and involves the development of procedures enabling the recording of accurate data for the Headquarters, field and project assets. The disclosure of the valuation of these assets will be part of the financial statements in an IPSAS environment. A stable platform

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<sup>1</sup> Report to the seventeenth session of the United Nations system Chief Executives Board for Coordination, High-level Committee on Management, 24-25 February 2009.

of IPSAS-compliant policies for PPE at UNIDO Headquarters has been developed, including establishment of asset classes and their sub-groups and useful lives, which will result in accurate recording of fixed assets and their values in the financial statements, resulting in more transparent reporting and better management of the Organization's assets. The fixed asset database was modified in 2008 to record existing data on assets as well as new acquisitions in an IPSAS-compliant way. IPSAS-compliant workflow processes have been designed and sample tests are being conducted in the system to enhance the monitoring of the entire process of asset management, from acquisition to disposal.

12. The physical verification of regular budget Headquarters assets is almost complete, except for assets of Buildings Management Services (BMS), which has been constrained by the ongoing asbestos removal project at the Vienna International Centre, but was due for completion by the first quarter of 2009. Thereafter, full recording and reconciliation of data in the Financial Performance Control System (FPCS) will take place during 2009.

13. A similar exercise is under way for the field assets. A survey for the identification of PPE, contributions-in-kind and leases, has been undertaken for UNIDO Field Offices and Investment and Technology Promotion Offices (ITPOs) as part of the year-end financial closure exercise in 2008. The survey results have been analysed and records are being updated in the system. A workflow process on the management of Field Office PPE, which will provide accurate and updated information, is currently under development.

14. Due to the diversity of technical cooperation (TC) project equipment, the identification of the asset classes and their useful lives was a challenge but in cooperation with the substantive organizational units this has been achieved. The work on business process flows on management of technical cooperation assets will be completed in 2009. Implementing these process flows and accounting for existing TC project assets will however not be easy mainly because of lack of full description of existing TC assets, which makes it difficult to place it in an appropriate sub-group.

15. Taking into account the difficulties of collecting detailed IPSAS-compliant information on TC projects assets, it was agreed at the IITF meeting in February 2009 to use the five-year transitional provisions allowed for under IPSAS 17 PPE for UNIDO's technical cooperation assets.<sup>2</sup> Meanwhile, tighter control of asset receipt mechanisms will be put in place for new acquisitions and for assets over which UNIDO will still have control beyond the five-year transitional phase in order to be IPSAS-compliant. Furthermore, since asset acquisition is frequently carried out through the United Nations Development Programme (UNDP), a common approach will need to be developed.

16. UNIDO's adoption of transitional provisions with regard to TC assets will result in identification, valuation, recording and tracking project assets in an orderly IPSAS-compliant manner during the transition period, thus strengthening asset

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<sup>2</sup> Often, when adopting IPSAS for the first time, entities/organizations face considerable difficulties in compiling comprehensive information on the existence and valuation of assets. The intention of transitional provisions is to provide relief to entities/organizations in situations where the entity/organization is seeking to comply with the provisions of this Standard, in the context of first-time adoption of IPSAS.

management and providing accurate and more transparent information in financial reports. The Organization would then be in a position to account for the assets of new projects steadily in an IPSAS-compliant way. It should be noted that the United Nations system-wide guidance allows the use of transitional provisions for selected IPSAS standards for first-time adopters.

17. In the area of revenue recognition, all major groups of voluntary funding agreements have been reviewed and an analysis carried out of the conditions attached to non-exchange voluntary contributions of TC projects. IPSAS-compliant policies on accounting for voluntary contributions have been developed. The External Auditor's views have been sought on the interpretation of some conditionalities in UNIDO's voluntary funding agreements. Business process flows related to voluntary funding agreements have been developed and sample transactions are being tested in the system, to capture IPSAS-compliant points of recognition of revenue for future funding agreements. Next steps include conclusion of review of treatment of BMS income and analysis of host government contributions to field office expenses and the recognition of support cost revenue.

18. While the processes mentioned in the previous paragraph will help to record future agreements, there is also the major task of analysing the existing ones. UNIDO currently has hundreds of ongoing projects. Since this is a time consuming and costly exercise, once again it has been agreed to use the flexibility provided under the standards. The IPSAS Implementation Task Force at its meeting in February 2009 decided to use the three-year transitional provisions allowed under IPSAS 23, Revenue from Non-Exchange Transactions. The three-year transitional provision would give UNIDO time to develop a proper inventory and a reliable model for measuring revenue from non-exchange transactions during the transition period.

19. IPSAS requires recognition and measurement of employment benefits encompassing all forms of consideration given by the Organization in exchange for services rendered by employees. In the area of employee benefits, a full analysis has been conducted of all entitlements of all categories of staff, including the computation method and current process of recording the entitlements. UNIDO-specific policies on employee benefits, including policies on accrued annual leave, repatriation grants and after-service health insurance (ASHI) have been developed. Review of the current processes/systems and recommendation of the necessary changes in business processes and practices is under way. In addition, in order to provide reliable estimates of liabilities of the Organization, it will be necessary to carry out an actuarial valuation for recognition of staff entitlements in compliance with the IPSAS Standard for Employee Benefits, during the last quarter of 2009.

20. IPSAS requires the identification, recognition and measurement of intangible assets to present a full and accurate assessment of all assets of the Organization. A survey on identification of intangible assets, along with their parameters of recognition and measurement criteria carried out at UNIDO Headquarters, Field Offices and ITPOs in 2008 indicated limited assets under this category. There is a possibility that intangible assets at UNIDO will mostly include computer software (acquired or internally developed); databases and related management software (such as COMFAR<sup>3</sup>) developed and maintained by organizational units. In most

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<sup>3</sup> Computer Model for Feasibility Analysis and Reporting.

cases, it is difficult to obtain reliable cost estimates for internally developed software. Absence of enforceable legal rights make it difficult to recognize all reported patents and copyrights and intellectual property rights. Nevertheless, policy on accounting for UNIDO's intangible assets, including identification and recognition has been developed. Business processes to capture data on intangible assets, provided that they meet both the recognition and measurement criteria, will be completed in 2009.

21. Following a review of existing inventories at UNIDO, it was decided to expense publications, the library and office supplies of stationery since their value did not prove to be material. BMS and catering inventories have sufficient high-value items to be capitalized. Development of new policies on inventory management and the consequent need for change in inventory management systems is due for completion in 2009.

22. Key issues related to the standard on Financial Instruments have been identified. Discussion is ongoing with the International Atomic Energy Agency (IAEA) on Vienna-based Organizations (VBOs) issues related to common services to develop harmonized policies and business processes in the area of Consolidated Financial Statements/Interests in Joint Ventures, following the finalization of policy guidance on this subject by the central IPSAS team at the United Nations. Valuation and treatment of the Vienna International Centre (VIC) in the presentation of the financial statements would also require joint review with the VBOs at the VIC. The processes and policies linked to specific accounting and reporting standards such as segment reporting, consolidation and provisions will be addressed along with financial statements presentation.

23. Under IPSAS, a critical area that would impact the financial systems is the need to capture data for both operational and financial reporting requirements. Since the budget will not be accrual-based, reports related to budget performance will remain cash-based, while the financial statements will be based on accruals. The financial system and processes are accordingly being modified to capture this duality in transactions.

24. Under the auspices of the Finance and Budget Network,<sup>4</sup> work is in progress for harmonization of the financial regulations and rules for the United Nations system organizations. The main aim of this harmonization initiative is to provide common, simpler and more flexible regulations and rules. Considering this initiative for the United Nations system, an initial interim review of UNIDO's financial regulations has taken place and only those regulations that would require to be amended for IPSAS compliance have been identified at this stage (document PBC.25/11-IDB.36/11 refers).

25. The External Auditor has been kept informed on a regular basis during his visits and his comments and guidance sought on issues related to IPSAS implementation at UNIDO. In October 2008, a communication was sent to the External Auditor seeking his views on specific issues related to the progress made towards IPSAS implementation and its implications for UNIDO. A briefing on developments on IPSAS implementation at UNIDO was presented to the External Auditor during his visit for the interim audit in February 2009.

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<sup>4</sup> United Nations system Chief Executives Board for Coordination, Finance and Budget Network.

#### **IV. Risk assessment**

26. A briefing on risk assessment affecting IPSAS adoption at UNIDO was presented by the Financial Services Branch to the IPSAS Implementation Task Force meeting in February 2009. At present, human resource constraints and system-related issues constitute two of the main risks affecting IPSAS implementation at UNIDO.

27. Installation of the relevant software product that is part of the FPCS, is currently ongoing and expected to be completed by May 2009. The timely and successful implementation of IPSAS is dependent on full implementation of the systems upgrade.

28. Dependency on the timelines of delivery of training packages by the central IPSAS project team at the United Nations also poses a risk. According to the current plan of the United Nations, it is expected that the development of training modules will be completed by June 2009. Once these modules are available UNIDO expects to utilize them in the second half of 2009.

29. UNIDO is engaged in various transactions with other United Nations system organizations, such as UNDP in relation to inter-office vouchers and the administration of Trust Funds for other United Nations agencies. Consequently, the progress of the other United Nations system agencies may require UNIDO to set up additional processes to capture transactions in an IPSAS-compliant way.

30. Notwithstanding these risks and challenges, UNIDO is preparing to be ready in its processes by end of 2009 to capture the data and information. This will allow the Organization to be IPSAS-compliant and prepare its financial statements for 2010 based on the new standards.

#### **V. IPSAS implementation: The way forward**

31. A work programme for 2007 and action points for 2008-2009 for IPSAS implementation tasks were outlined in mid-2007 at the initial stages of IPSAS implementation, in document IDB.33/5-PBC.23/5. UNIDO had taken advance action to prepare internally in several areas in anticipation of approval by the General Conference (GC.12/Dec.14). Since then, updates of the workplan have been placed on the IPSAS page on the UNIDO Intranet. Member States have also been kept regularly informed of progress made in IPSAS implementation at UNIDO through the IPSAS progress reports presented to the policymaking organs. The major activities for the revised IPSAS implementation plan for 2009-2010 are indicated in paragraph 32.

32. Testing new business processes in the financial system for IPSAS-readiness (ongoing – Property, Plant and Equipment, Revenue Recognition, Employee Benefits) will constitute a key task throughout 2009. Accounting for obligations and development of a training strategy have also been identified as top priority for 2009. The training of staff at Headquarters and in Field Offices is expected to be completed by the year-end. The main focus of tasks in 2010 will be on determining opening balances and documentation of business processes as well as preparation of presentation of financial statements, notes and reports.

## **VI. Conclusion**

33. Since the issuance of document IDB.35/6, UNIDO has made steady progress towards the adoption of IPSAS. The Organization will continue to take action on issues related to IPSAS adoption, monitor progress, identify emerging issues, and contribute to the development of system-wide IPSAS policies and present regular progress reports to its policymaking organs.

34. UNIDO is preparing for IPSAS-readiness and, with the finalization of the financial statements presentation and reporting, aims at achieving IPSAS-compliance during 2010. Further progress made towards IPSAS implementation at UNIDO will be reported in the upcoming session of the General Conference in December 2009.

## **VII. Action required of the Committee**

35. The Committee may wish to take note of the information contained in the present document.



## Annex

### Definitions of terms used in the document

**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.

**Depreciation** – The systematic allocation of the cost of an asset or other amount substituted for cost in the financial statements on the basis of goods and services received.

**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.

**Fair value** – The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**FPCS (Financial Performance Control System)** – is UNIDO's business system for the processing of the payment cycle and financial and management reporting for both technical cooperation projects and regular budget programmes. This is based on the enterprise resource planning software "Agresso".

**Fixed Asset register** – database at UNIDO where the details of fixed assets are recorded for control and accounting purposes.

**Intangible asset** – An intangible asset is:

- (a) An identifiable non-monetary asset without physical substance;
- (b) A resource controlled by an entity as a result of a past event (in the absence of legal rights it is difficult to demonstrate control);
- (c) A resource from which future economic benefits/service potential are expected to flow to the entity.

**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.

**Non-exchange transactions** – are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

**Property, plant and equipment (PPE)** – are tangible items that:

- (a) Are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes; and
- (b) Are expected to be used during more than one reporting period.

**Revenue** – is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

**Transitional provisions** set out requirements and allowances for first-time adoption of an IPSAS standard, which may include transitional periods that provide an entity with additional time to meet some or all of the requirements of the Standard.

**Transitional Provisions for IPSAS 17 and IPSAS 23**

A transition period is provided for in both IPSAS 17 (five years) and IPSAS 23 (three years) for first-time adoption of these Standards. Organizations that decide to use the transition period may defer implementation of the full requirements of these Standards over the respective transition periods. They must fully comply with all requirements of these Standards by the end of the transition period.

**Useful life** – The period of time over which an asset is expected to be used by the entity.