

Workshop A:

*Accounting Principles:
Issues and Challenges in Transposition of IPSAS into national and international Public
Sector Accounting*

Chair of Workshop: Thomas Mueller-Marques Berger
Member of the FEE Public Sector Committee

Speakers:

Derek Dunphy, Accounting Administrator, EC-DG Budget

Lionel Vareille, Deputy Head of the Accounting Standards Department, General Directorate
for State Modernisation, French Ministry of Economy, Finance and Industry

Jayantilal M. Karia, Chairman of the United Nations Inter-Agency Task Force on
Accounting Standards and Director of the Accounts Division, United Nations

John Stanford, Senior Technical Manager, IPSASB, IFAC

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MODERNISING ACCOUNTING IN THE PUBLIC SECTOR



Workshop A:

*Accounting Principles:
Issues and Challenges in Transposition of IPSAS into national and international
Public Sector Accounting*

Chair of Workshop: Thomas Mueller-Marques Berger
Member of the FEE Public Sector Committee

Issues for discussion:

- *Practical Challenges in Applying Specific IPSAS to Specific Public Sector
Environments*
 - *Heritage Assets*
 - *Pensions*
- *Service Concessions*

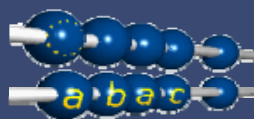
MODERNISING ACCOUNTING IN THE PUBLIC SECTOR



IPSAS IMPLEMENTATION IN THE EC

- Practical challenges

Derek Dunphy



28 October 2006

OVERVIEW

- Approach taken by EC
- Challenges involved
- Net assets
- Pensions

APPROACH TAKEN BY THE EC

- IPSAS used as basis (IAS/IFRS if necessary)
- EC transactions analysed
- 15 EC accounting rules developed
- Detailed accounting manual prepared
- 1 January 2005 rules in force

CHALLENGES INVOLVED

- IPSAS are general principles
- The Budget
- Starting from way back
- Not a perfect fit
- EC Specificities

CHALLENGE 1: IPSAS are general principles not detailed rules

- Anglo-Saxon approach
- Generally EC rules are very prescriptive
- Comply with the Financial Regulation
- Importance of the accounting manual

CHALLENGE 2: The Budget

- Budget is the basis for everything
- Established long before accrual accounting
- Budget rules very prescriptive
- Confusion with jargon – e.g. "commitments"
- Conflicting rules – e.g. provisions
- Have to maintain dual-accounting

CHALLENGE 3: Starting from way back

- Not the same as an IAS conversion
- Had to develop most rules from zero
- Limited existing knowledge within EC

CHALLENGE 4: Not a perfect fit

- We are different!
- Certain IPSAS not relevant
 - IPSAS 10 Hyperinflationary economies
 - IPSAS 16 Investment property
- Other areas not covered by IPSAS
 - Pension
 - IAS 39
- How relevant are IAS as a fallback solution?
 - Large volume of financial activities disclosures giving a misleading picture of their significance?

CHALLENGE 5: EC specificities

- Who to compare with?
- Cut-off/year-end accruals (€ 66.7 billion)
- Pre-financing (€ 29.4 billion)
- Consolidation – control concept different
- Amounts to be called from Member States €65 billion
- Political sensitivities – although negative net assets, the EC is not bankrupt nor does it need to request more money from MS

NET ASSETS

- What is Assets minus Liabilities in the EC?
- It is a negative €62 billion!
- How can this be best represented?
- Look at how the EC operates...
- Amounts to be called from Member States €65 billion
- A fair representation of the difference between cash & accruals

BALANCE SHEET		31/12/2005 (EUR millions)
NON CURRENT ASSETS:		31,415
Intangible fixed assets		27
Tangible Fixed Assets		4,141
Investments		1,874
Loans		2,397
Long-term pre-financing		22,732
Long-term receivables		244
CURRENT ASSETS		27,291
Stocks		126
Short-term investments		1,440
Short-term pre-financing		6,633
Short-term receivables		7,238
Cash & cash equivalents		11,854
TOTAL ASSETS		58,706
NON CURRENT LIABILITIES		(38,026)
Employee benefits		(33,156)
Provisions for risks and charges		(1,097)
Financial liabilities		(1,920)
Other long-term liabilities		(1,853)
CURRENT LIABILITIES		(82,825)
Provisions for risks and charges		(275)
Financial liabilities		(22)
Accounts Payable		(82,528)
TOTAL LIABILITIES		(120,851)
NET ASSETS		(62,145)
Reserves		2,808
Amounts to be called from Member States		(64,953)
Staff pensions (long-term)		(33,156)
Other amounts		(31,797)



PENSIONS

- Liability OK (IAS 19 actuarial valuation)
- No pension fund for staff, no employer contribution
- Staff contributions are an administrative revenue
- Guarantee from Member States to pay when due (Budget)
- Previously an asset was recognised

- A guarantee is not an asset
- Do we recognise all future revenues then?
- Prudence
- Auditors opinion
- OECD example





Accounting for Governmental old age pensions commitments: a few questions to solve

**Lionel VAREILLE, Ministère de l'Économie, des
Finances et de l'Industrie, FRANCE**

Conférence CE/FEE, 28 septembre 2006


MINISTÈRE DE L'ÉCONOMIE
DES FINANCES ET DE L'INDUSTRIE

Summary

- 1. The IAS 19 model : employer schemes**
- 2. The situation of Pay-As-You-Go schemes**
- 3. The situation in France**

The IAS 19 model : employer or multi employer schemes

- **General principle : Recognition of a liability on the basis of bilateral (contractual) commitments**
 - **For the employee : the future pension is an income element**
 - **For the employer : commitment on defined benefits**
- **IAS 19 primarily applies to businesses ; can it be extended to non contractual situations ?**

Pensions schemes situations

	MODE OF FINANCING	
	Compulsory levies	Voluntary cotisations
Exchange transaction		Private insurance and similar schemes
Non exchange transaction	Social assistance	

The Pay-As-You-Go schemes

	MODE OF FINANCING			PRESENT SITUATION (FRANCE)
	Tax	Compulsory cotisation	Voluntary cotisation	
Exchange transaction			Private insurance	Liability
Exchange transaction but ...*	Civil servants			Commitments
		Social security		No liability No commitment
Non exchange transaction	Social assistance			Commitment

* Not possible to decide if the pension is of an equivalent amount to the cotisation : for pays-as-you-go schemes, the cotisations of a given period must finance the pensions of the period.

The situation in France (Central Government)

In the budget, creation of a special account (distinct from the general budget), in order to :

- assess the global balance of civil servants pension scheme,
- identify the budgetary flows related to the Central Government's « life » commitments,
- assess with a better view the cost of staff expenditures,
- facilitate the comparison with the Social security scheme.

The situation in France (Central Government)

In the financial statements, recognition of the pensions commitments in the notes :

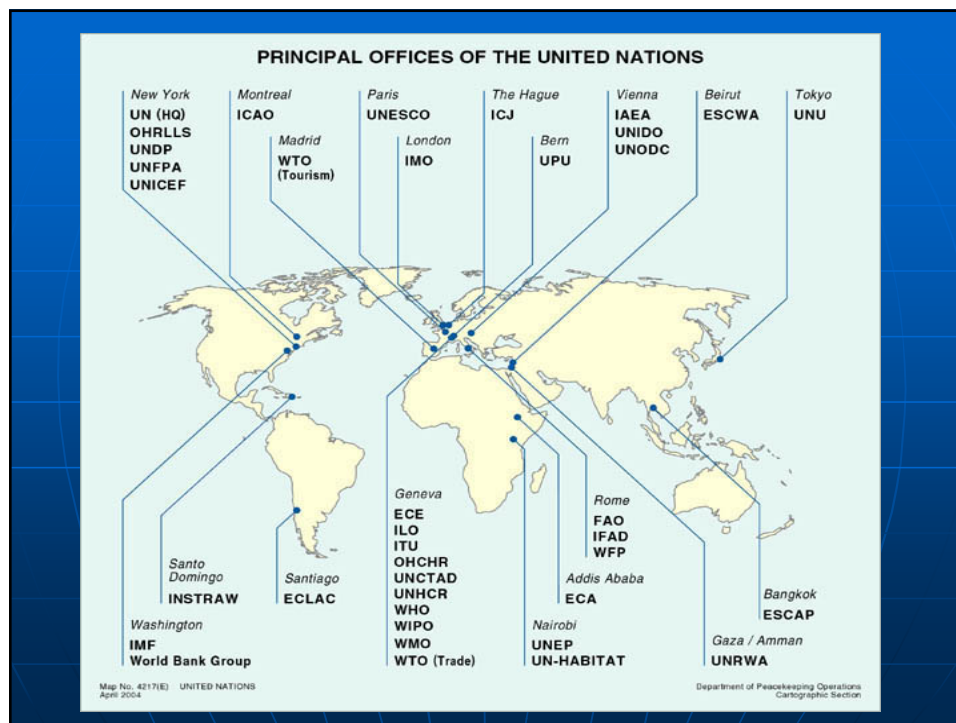
- using the IAS 19 measurement method (projected credits units),**
- for a global value that shows a strong sensitivity to the chosen discount rate.**

Question : should we account for « Social security » schemes in the same way ?

Adoption of International Public Sector Accounting Standards by the United Nations System

Mr Jayantilal M. Karia, Chairman, United Nations Inter-Agency Task Force on Accounting Standards, Director of Accounts Division, United Nations

September 2006



IPSAS Adoption Decision

- *The High Level Committee on Management unanimously approved the Task Force's recommendation that United Nations System organizations adopt IPSAS.*

November 2005

- *The General Assembly 'Decides to approve the adoption by the United Nations of International Public Sector Accounting Standards.'*

July 2006

International Public Sector Accounting Standards (IPSAS)

The recommendation means:

- *Full compliance* with IPSAS standards.
- Compliance with the relevant *IFRS* standard, when no IPSAS applies.
- *No United Nations System exemptions.*



Accelerated Free Fall

IPSAS Adoption is a Major Change

- Financial reporting change:
 - From *self-produced* standards (UNSAS) to *independent* standards (IPSAS)
 - From *modified* accruals to *full* accruals
 - From *biennial* reporting to *annual* audited reporting
 - Recognize: property, plant and equipment
 - Recognize: employee liabilities (negative equity)
 - Changed basis for expense recognition (from cash outlays and 'unliquidated obligations' to 'expense')

Major challenges

- Technical
 - Financial reporting
 - Information systems
 - Implications for budgeting and funding
- Communication
- People
- Project management:
 - Budget
 - Planning
 - Team resources

Why IPSAS Adoption ...

- To maintain and enhance the credibility, transparency and accountability of the financial processes and transactions of the United Nations.
Group of 77 and China
- Basic building block of productive organizational change and management reform. **CANZ**



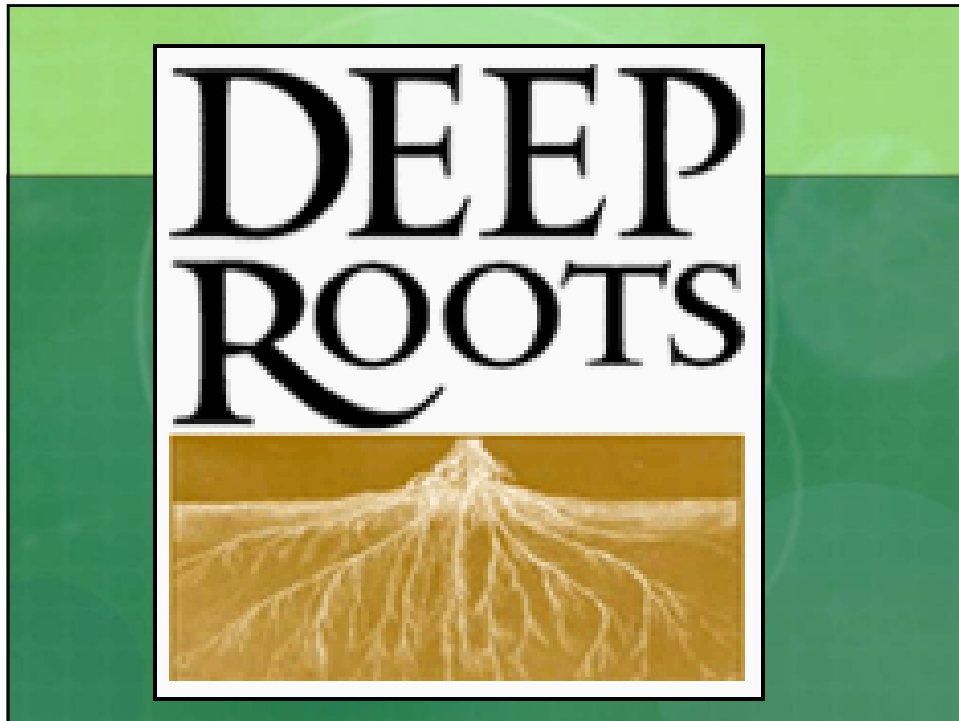
UNique Challenges

- Highly visible organizations:
 - Political scrutiny
 - No room for mistakes
- Funding sources:
 - Riskier than government funding
 - Qualified audit opinions not an option
- Stakeholders and auditors: Diverse
- Auditors: Diverse
- UN System: Decisions by consensus (no centralized control agency)

UNique Strengths

- System-wide group of professionals
- Shared commitment to good accounting
- Qualified accountants
- Standard setting experience (UNSAS)
- Familiarity with IAS/IFRS

This is an *evolution* rather than a revolution



Some implementation detail

Phased implementation:

- Pilot organizations (Early Adopters): 2008
- Fast Followers: 2010

Two levels: System wide project team to:

- Support organizations (efficiencies)
- Develop policies to ensure consistency

Individual organizations to:

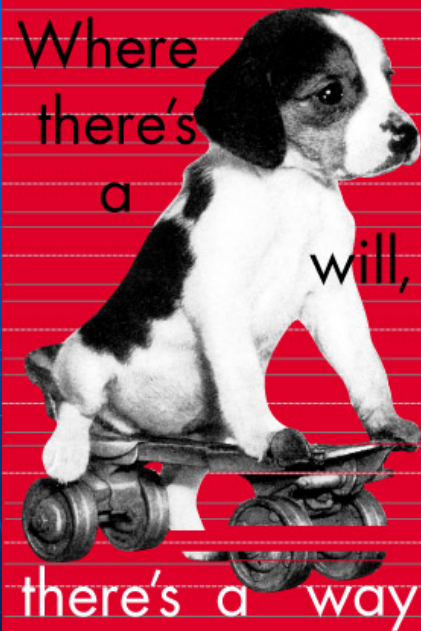
- Gain Governing Body approval, budget, appoint project team, make it happen!

Key Success Criteria

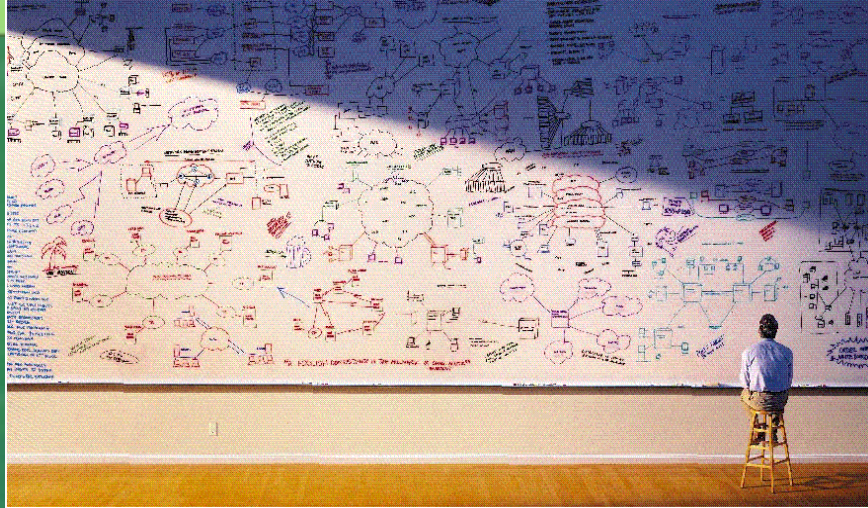
- Hassan Ouda (2004) 'Basic Requirements for Successful Implementation'
- IFAC Public Sector Committee (2003) 'Transition to the Accrual Basis: Guidance'
- FEE (2003) 'Adoption of Accrual Accounting and Budgeting'

See our website:

<https://fb.unsystemceb.org/reference/05>



7. Comments or questions?





International Public Sector Accounting
Standards Board (IPSASB)

Heritage Assets: An IPSASB Perspective

John Stanford
IPSASB Secretariat

IFAC IPSASB

Presentation Overview

- Background on the IPSASB Position
- Consultation Paper: “Accounting for Heritage Assets under the Accrual Basis of Accounting”
- Way Forward

August 2006

IPSASB UPDATE

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European Parliament
Rue Wiertz
1040 Bruxelles
28 September 2006

IFAC IPSASB

Background on IPSASB Position (1)

- **IPSAS 17 published in 2001**
- **No requirement to recognise and measure heritage assets**
- **Entities electing to recognise and measure required to make disclosures required by IPSAS 17**
- **Acknowledgement that further consideration of heritage assets necessary**

August 2006 IPSASB UPDATE 3

IFAC IPSASB

Background on IPSASB Position (2)

- **Consultation Paper issued in February 2006 with consultation period until 30 June 2006**
- **Incorporates Discussion Paper issued by UK Accounting Standards Board**
- **Submissions on IFAC website**
- **No changes to IPSAS 17 without further “due process”- further Consultation Paper or Exposure Draft**

August 2006 IPSASB UPDATE 4

European Parliament
Rue Wiertz
1040 Bruxelles
28 September 2006

IFAC IPSASB

Consultation Paper: Key Issues (1)

- **Definition:**
 - Should the centrality of objectives of reporting entity be a factor
- **Recognition of heritage assets**
 - Partial measurement
 - Cost benefit
 - Extent of departure from existing principles for property, plant and equipment
- **Measurement bases**
 - Cost, fair value, current value

August 2006

IPSASB UPDATE

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IFAC IPSASB

Consultation Paper: Key Issues (2)

- Relaxation of revaluation requirements if valuation model used
- Depreciation and Impairment
 - Explicit exemptions for heritage assets?
- New primary statement for heritage asset transactions
 - Dependent upon recognition decisions
- Audit issues
- Separate IPSAS or amendment to IPSAS 17

August 2006

IPSASB UPDATE

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European Parliament
Rue Wiertz
1040 Bruxelles
28 September 2006

IFAC IPSASB

Heritage Assets: Way Forward

- Entrenched and strong views
- Geographical divisions
- Global consensus difficult
- Differences between regulators, institutes, accounting institutions and preparers
- To be considered by IPSASB at November 2006 meeting

August 2006

IPSASB UPDATE

7



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1040 Bruxelles
28 September 2006



International Public Sector Accounting
Standards Board (IPSASB)
Service Concessions: Very Brief Update
& IPSASB Approach

John Stanford
IPSASB Secretariat

IFAC IPSASB

*Service Concessions/Public-Private
Partnerships (1)*

- IFRIC Interpretations D12-D14: March 2005
- Only accounting by “operators” addressed not “grantors”-often governments and agencies
- Concerns include:
 - Narrow scope
 - Emphasis on “control”
 - Use of different accounting models based on identity of payer/funder
 - Interpretation rather than Standard
- Significant implications for some existing national approaches

Joint EC/FEE Seminar
European Parliament
1040 Bruxelles
28 September 2006

IFAC IPSASB

Service Concessions/Public-Private Partnerships (2)

Recent IFRIC discussion suggests:

- Infrastructure used for whole of life in service concession agreement will be addressed
- Probable consolidation in one Interpretation
- Some modification of financial asset/intangible asset boundary and possible bifurcation
- Wholesale revamping of approach unlikely
- Standard extremely unlikely
- IPSASB project from grantor perspective in conjunction with national standard-setters and other bodies with lead staff from US GASB



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**Chief Executives Board
for Co-ordination**CEB/2005/HLCM/R.25
30 November 2005

HIGH-LEVEL COMMITTEE ON MANAGEMENT (HLCM)
Ad-hoc meeting (video conference) - 30 November 2005**Recommendation of the Task Force on Accounting Standards**

1. The video conference was convened in response to the HLCM request at its 10th Session (October 2005) that the Committee, after receiving a recommendation of its Task Force on Accounting Standards, as endorsed by the Finance and Budget Network, would make a decision on the adoption of external accounting standards by the organizations of the UN System.
2. The meeting was chaired by Ms. Thoraya Obaid, Executive Director of UNFPA. Annex I provides the list of participants.
3. The document of the HLCM Task Force on Accounting Standards (CEB/2005/HLCM/R.24 attached as Annex II), which had been endorsed by the FB Network at its meeting of 21 November 2005, was introduced by the Chairman of the Task Force (UN).
4. In its document, the Task Force had outlined the main benefits connected to the recommended adoption of International Public Sector Accounting Standards (IPSAS), and had underlined that such adoption would have major implications on the accounting, financial reporting and associated IT systems of the organizations; it would also have important implications for the budgeting, funding and management systems of organizations.
5. At the same time, IPSAS adoption would have a positive impact on the quality, comparability and credibility of United Nations System financial reporting, with consequential improvements with respect to accountability, transparency and governance. IPSAS would also better support results based management.
6. The Committee acknowledged the magnitude of the implications of IPSAS adoption, as outlined in document CEB/2005/HLCM/R.24 and, in particular, the impact of a full recognition of liabilities for employee benefit obligations, such as After Service Health Insurance (ASHI), annual leave, and the repatriation grant; indeed, it was noted that, although IPSAS would only require *recognition and reporting* of such liabilities, the issue of *funding* would have to be addressed with concurrent and similarly urgent attention.
7. The Committee noted that the adoption of IPSAS would be a major exercise that would require changes to financial regulations and rules and a significant investment in the management of their introduction in each organization including staff training, development of relevant guidelines, resolution of accounting issues and information systems development (e.g. modification of ERPs). The necessary investment would vary among organizations. Each organization would need to review the implications and project requirements and reflect these appropriately with respect to the need for additional funding.

8. The Committee also recognized that centralized support, coordination, leadership and senior management commitment would be crucial in order to resolve common problems and ensure consistent interpretation and application of IPSAS requirements across the system. The Committee expressed unanimous support for the continuation of the project resources necessary for inter-agency coordination and support.

9. The United Nations informed the Committee that they were in the process of establishing a Task Force for evaluating the issues on harmonization of ERP Systems in the UN Common System. This was in line with the recommendations made by JIU. Organizations interested in being represented in the Task Force were requested to provide nominees by e-mail.

10. Finally, the Committee thanked the members of the Task Force on Accounting Standards, its Chairman, and the Accounting Standards Specialist for having brought to a successful completion such a longstanding and difficult project.

11. Having considered the above, the Committee unanimously approved the recommendations set out in paragraph 25 (a) through (e) of CEB/2005/HLCM/R.24, as follows:

- (a) United Nations System organizations adopt International Public Sector Accounting Standards (IPSAS).
- (b) United Nations System organizations develop their implementation timetables, taking into account the impact described above, with all organizations adopting IPSAS effective no later than reporting periods beginning on 1 January 2010, and 1 July 2010 for the United Nations Peacekeeping Operations.
- (c) Support, coordination and leadership for this system-wide change should continue to be provided through the Task Force on Accounting Standards, under the auspices of the Finance and Budget Network, together with continuation of project resources to ensure consistent interpretation and application of IPSAS requirements across the System.
- (d) The following sentence would be added to UNSAS at the end of paragraph 3: *'Where an organization departs from the practices set out below in order to apply an IPSAS standard or IPSAS standards the organization is deemed to comply with UNSAS.'*
- (e) Inter-agency funding and other support would continue to be provided to ensure effective United Nations System representation on the International Public Sector Accounting Standards Board.

ANNEX I – List of Participants

Chairperson: Ms. Thoraya Obaid

Organization	Name and Title
UN	Mr. Christopher Burnham Under-Secretary-General for Management Department of Management
	Mr. Jayantilal Karia Director Accounts Division, Department of Management
	Mr. Udorn Chantranuwatana Chief Finance Section, Financial Resources Management Section United Nations Office at Geneva
ILO	Ms. Keiko Kamioka Chief Treasury and Accounts Branch
FAO	Mr. Khalid Mehboob Assistant Director-General Administration and Finance
	Mr. Nicholas Nelson Director Finance Division
UNESCO	Mr. Getachew Engida Deputy ADG for Administration and Comptroller
	Mr. John Haigh Chief Financial Reporting and Account Section
WHO	Ms. Susan Holck Director, General Management
	Mr. Mark Warren Comptroller
ITU	Mr. Alasanne Ba Chief a.i., Accounts Division
IFAD	Mr. Richard Aiello Advisor to the Assistant President
	Ms. Josephine Pallett Accounting Officer
UNIDO	Mr. George Perrera Chief of Accounts Payments and Treasury Group, Financial Services Branch, Division of Administration
IAEA	Mr. David Waller Deputy Director-General and Head of Management
	Mr. Gary Eidet Director Budget and Finance
UNDP	Mr. Darshak Shah Comptroller Comptroller's Division, Office of Finance and Administration

Organization	Name and Title
UNHCR	Mr. Colin Mitchell Deputy Controller Division of Financial and Supply Management
UNICEF	Mr. Toshiyuki Niwa Deputy Executive Director
	Mr. Louis Bradley Deputy Director Accounting Services, Division of Financial & Administrative Management
UNFPA	Ms. Thoraya Obaid Executive Director
	Mr. Subhash K. Gupta Director Division for Management Services
WFP	Ms. Susan Malcorra Deputy Executive Director
	Ms. Gina Casar Chief Financial Officer Finance Division (ADF)
UNAIDS	Mr. Eddy Haarman Chief Finance and Administration
ITC	Mr. K.C. Tan Chief Financial Management Section, Division of Programme Support
UNODC	Mr. Kenneth Eriksson Chief Financial Resources Service, Department of Management
CTBTO	Mr. Thierry Dubourg Chief of Finance
	Mr. Bill Amoroso Senior Budget and Planning Officer
	Mr. Sylwin Gizowski Strategic Coordination-Planning Officer
CEB Secretariat	Mr. Qazi Shaukat Fareed Director
	Ms. Mary Jane Peters Secretary, High-Level Committee on Management
	Mr. Remo Lalli Inter-Agency Finance and Budget Advisor

ANNEX II

Chief Executives Board for Coordination

CEB/2005/HLCM/R.24
28 November 2005

Meeting of High Level Committee on Management

Task Force on Accounting Standards Recommendation to HLCM

(Videoconference, 21 November 2005)

Introduction

1. This paper is in response to the HLCM request at its October 2005 meeting that the Committee receive a Task Force on Accounting Standards recommendation on adoption of external accounting standards by the end of November 2005.

Recommendation to Adopt International Public Sector Accounting Standards (IPSAS)

2. The Task Force on Accounting Standards has met in order to determine its recommendation with respect to the adoption of external accounting standards. The Task Force's consideration of this issue has been informed by several reports, including an in-depth review of the relative merits of International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS), and information from organizations that have adopted international accounting standards. After careful consideration and discussion the Task Force recommends adoption of IPSAS by United Nations System organizations. (This recommendation and three consequential recommendations are set out in paragraph 25 below.)

3. IPSAS adoption is appropriate as it addresses the international and not-for-profit nature of United Nations System organizations and is consistent with current financial reporting best practice and future financial reporting trends. Other international organizations such as the European Commission, OECD and NATO have adopted IPSAS.

4. In making this recommendation the Task Force concluded that significant work will be required by each organization to fully implement and completely comply with IPSAS. The most significant implications of IPSAS adoption are summarized in paragraphs 7 - 17 below.

United Nations System Accounting Standards (UNSAS)

5. United Nations System Accounting Standards (UNSAS) have promoted consistent, good quality accounting across the System for many years, but can no longer be considered to meet the needs of modern financial reporting. IPSAS adoption is a logical next step, a step made possible by the existence of UNSAS and the commitment of United Nations System accountants to UNSAS development during the last twelve years. IPSAS adoption will support a common approach to financial reporting across the United Nations System and continue the efforts of the Task Force on Accounting Standards to achieve consistent, high quality financial reporting across the System.

6. Until such time as IPSAS are fully adopted by all United Nations System organizations, it will be necessary for UNSAS to continue. As the main focus will be implementation of IPSAS, the Task Force does not intend to make any further changes to UNSAS, unless new developments in the interim period require

such changes. The recommendation at 20(d) below allows organizations to progressively replace UNSAS requirements with the relevant IPSAS requirements and still be considered in compliance with UNSAS.

Implications of International Public Sector Accounting Standards Adoption

Benefits of IPSAS Adoption

7. The benefits of IPSAS adoption are significant. Reporting of assets, liabilities, revenue and expenses in accordance with independent international standards will support improved financial management. The resulting more comprehensive information about costs will better support results based management. IPSAS adoption will improve the quality, comparability and credibility of United Nations System financial reporting with consequential improvements anticipated with respect to accountability, transparency and governance.

8. To reap the full benefits of IPSAS adoption, the implementation process must recognize the magnitude of the change and include sufficient time to work through its potentially far-reaching implications.

Major Impact of IPSAS Adoption Extends Beyond Accounting

9. IPSAS adoption will have a major impact, which will extend well beyond accounting. The full impact of this decision on budgeting, funding and management should not be under-estimated and will require an appropriate level of dedicated resources. The impact of IPSAS adoption falls into two broad categories:

- a) impact on accounting, financial reporting and associated IT systems; and
- b) consequential impacts on budgeting, funding and management.

Impact of IPSAS Adoption on Accounting, Financial Reporting and Associated IT Systems

10. The impact of IPSAS adoption on United Nations System accounting includes:

- Full recognition of liabilities for employee benefit obligations such as After Service Health Insurance (ASHI), annual leave, and repatriation grants;
- Recognition and depreciation of capital assets such as buildings, vehicles, furniture and equipment¹;
- Valuation of inventories;
- Recognition of expenses on the basis of goods and services received (the delivery principle);
- Changed basis for recognition of revenue from contributions;
- Consolidation of activities not currently included in organizations' financial statements;
- Greater volatility in reported surpluses/deficits due to fair value accounting for investments; and
- Preparation of **audited annual** financial statements, instead of on a biennial basis. (For most organizations this will involve additional audit costs on an on-going basis.)

11. Information system changes will be necessary in order to align systems with the changed accounting basis and reporting requirements. Some organizations will need to upgrade or replace their existing system. Detailed information about employee benefits and capital assets will have to be captured. Depreciation policies appropriate to asset usage will need to be developed.

12. These accounting changes will have a significant impact on the financial reporting. Reported assets and liabilities are expected to increase substantially. Full recognition of an organization's ASHI liabilities and other employee benefits could result in negative overall equity (i.e. a negative overall fund balance) for many United Nations System organizations. The addition of depreciation expenses for capital assets will spread the acquisition costs of these assets over their useful lives, rather than expensing them in the year of

¹ Present practice is to immediately expense expenditures on such items, which are classified as 'non-expendable inventory.'

purchase, as currently required under UNSAS. Timely recognition of all employee benefit expenses is likely to result in an increase in reported expenses. It will be important to effectively communicate the need for this new financial information and its significance to both internal and external stakeholders.

Impact of IPSAS Adoption on Budgeting, Funding and Management

13. As stated above, IPSAS adoption will impact on budgeting, funding and management. A *brief* description of the impact of IPSAS adoption on budgeting, funding and management is provided below.

Budgeting

14. The discussion in paragraph 15 below does not purport to fully canvas the range of options with respect to the possible impact of preparing IPSAS compliant financial statements on budgeting. Further consideration is likely to identify additional concerns and possible permutations with respect to the budget-report inter-face.

15. IPSAS adoption changes the basis for financial reporting to full accruals. This raises the question of whether the budget basis should also change to full accruals. Although budgets and reports are usually prepared on the same basis, governments that have adopted full accruals have not viewed full accruals *budgeting* as a necessary consequence of full accruals reporting. Under full accruals, budgeted expenses would cover non-cash expenses such as depreciation, which spreads the acquisition cost of capital assets over their useful life, but *not* include the acquisition cost of capital items such as buildings, vehicles and equipment. However, budgeting should ensure that sufficient cash is available to meet capital expenditure requirements and the budget process should provide such assurance. Budgeting on a cash basis would provide this assurance. If budgeting and financial reporting are on different bases, a reconciliation between the two would be necessary. Alternatively, budgeting could include separate consideration of both budgeted (accrued) expenses and budgeted cash flows, including cash flows for acquisition of capital.

Funding – Including Funding of ASHI Liabilities

16. The changes to reported expenses under IPSAS adoption will highlight present deficiencies in covering staff benefit related obligations with equivalent funding and raise the question of increased funding to cover such obligations as they arise, rather than as payments come due. In particular, full recognition of After Service Health Insurance (ASHI) liabilities, as required under IPSAS adoption, will highlight the extent of these liabilities and the gap between actual and necessary funding. It is hoped that this increase in transparency will support faster progress towards funding of ASHI liabilities.

Management

17. The increased transparency with respect to capital assets and employee benefits as a result of IPSAS adoption is likely to result in increased attention to better management of these items. IPSAS accounting requirements are also likely to raise issues with respect to management of revenue, expenses and cash. The concept of ‘control’ under IPSAS, which is relevant both to asset recognition and relationships between organizations, is likely to impact on the management of joint or shared projects and programs and subsidiary organizations.

IPSAS Adoption Implementation

Individual Organization and System-Wide Investment Required

18. IPSAS adoption is a major change that will require changes to Financial Regulations and Rules and a significant investment in project management, staff training, development of relevant guidance, resolution of accounting issues and information system development. The necessary investment will vary between organizations. Those organizations, such as the Funds and Programs, that have a large number of widely distributed Country Offices with varying capacities, are likely to encounter greater challenges in managing

this change. Each organization will need to fully work through the implications and project requirements and incorporate their requirements with respect to additional funding into their budgets.

19. There is insufficient information to provide a reliable estimate of the overall cost of IPSAS adoption across the United Nations System. The European Commission estimates that its adoption of IPSAS, which included implementation of a new ERP system, cost close to €30 million.

20. Centralized support, coordination, leadership and senior management commitment will be needed in order to efficiently resolve common problems and ensure consistent interpretation and application of IPSAS requirements across the System. Continuation of the important work carried out by the Task Force on Accounting Standards, under the guidance of the Finance and Budget Network, together with adequate project resources are critical to a successful outcome. This need for centralized support is expected to continue beyond implementation.

21. An important consideration in preferring IPSAS standards over IFRS standards was the expectation that the United Nations System would be able to have an effective voice on the International Public Sector Accounting Standards Board (IPSASB) and thereby ensure that the Board will adequately address United Nations System accounting issues. Effective representation requires resources. Support for the United Nations and UNDP present observer status on the Board should continue and the possibility of an increase to the status of United Nations System representation be investigated.

Governing Body Approval Required

22. Most organizations will require comprehensive presentations of the above-described implications of IPSAS adoption to their respective governing bodies in order to seek approval for, *inter alia*, consequential changes to Financial Regulations and Rules and additional resources required for implementation.

Implementation Timeframe – 2010

23. The Task Force reviewed the implications of IPSAS adoption at length and heard from other international organizations that have adopted IPSAS. The Task Force concluded that, in order to implement IPSAS, each organization will have to undertake a number of significant steps urgently. It was also recognized that the actual implementation will require several years. The recommendation below is for IPSAS adoption effective 2010. This implementation timeframe is demanding. Several organizations expressed concerns as to their ability to meet this timetable. They support the 2010 recommendation, but cannot fully commit their organizations without gaining a better understanding of their individual implementation requirements.

Finance and Budget Network

24. This report, in draft form, was submitted to the Finance and Budget Network for its consideration and endorsement prior to HLCM consideration. The Finance and Budget Network met on 21 November and stated their full support for recommendations (a) through (d) below. Network members' comments at that meeting have been incorporated into this report, including the addition of recommendation (e) below.

Task Force Recommendations

25. The Task Force on Accounting Standards recommends that:
- a) United Nations System organizations adopt International Public Sector Accounting Standards (IPSAS).
 - b) United Nations System organizations develop their implementation timetables, taking into account the impacts described above, with all organizations adopting IPSAS effective no later than reporting periods beginning on or after 1 January 2010.
 - c) Support, coordination and leadership for this system-wide change continue to be provided through the Task Force on Accounting Standards, under the auspices of the Finance and Budget

Network, together with continuation of project resources to ensure consistent interpretation and application of IPSAS requirements across the System.

- d) HLCM approve the addition of the following sentence to UNSAS, to be inserted at the end of paragraph 3:

‘Where an organization departs from the practices set out below in order to apply an IPSAS standard or IPSAS standards the organization is deemed to comply with UNSAS.’

- e) HLCM continue to provide on-going funding and other support necessary to ensure effective United Nations System representation on the International Public Sector Accounting Standards Board.