IAEA
Atoms for Peace: The First Half Century
1957–2007

Board of Governors

GOV/2007/10
Date: 13 February 2007

Restricted Distribution
Original: English

For official use only

Programme and Budget Committee

Proposal to adopt International Public Sector Accounting Standards (IPSAS) by the Agency

Report by the Director General

Summary

- This document outlines the benefits and impact of the adoption of the International Public Sector Accounting Standards on the Agency's financial reporting, budgeting and funding policies, and information systems. It also presents preliminary implementation plans and resource requirements.

Recommended Action

- The Board of Governors is requested to approve the adoption of IPSAS in the Agency with effect from 1 January 2010.

Proposal to adopt International Public Sector Accounting Standards (IPSAS) by the Agency

Report by the Director General

A. Introduction

1. In accordance with Financial Regulation 11.01, the Agency is required to maintain accounting records and prepare annual accounts with due regard to the United Nations System Accounting Standards (UNSAS).

2. UNSAS have been in place since 1993[1], developed internally by accounting specialists of the United Nations (UN) system organizations. While UNSAS were developed on the basis of the International Accounting Standards (IASs)[2] they do not in their current form support financial reporting that conforms with modern international standards.

3. In view of this, there have been suggestions in recent years by the Panel of External Auditors of the United Nations, the Specialized Agencies and the IAEA to apply international accounting standards within the UN system.

4. To address the concerns regarding the continued relevance of UNSAS, the High Level Committee on Management (HLCM) of the United Nations System Chief Executives Board for Coordination (CEB) created a Task Force on Accounting Standards (Task Force) to determine whether the UN system should align itself with international accounting standards. The Task Force recommended the adoption of the International Public Sector Accounting Standards (IPSAS)[3] and HLCM accepted this recommendation in November 2005. IPSAS were deemed the most appropriate as they address the international and not-for-profit nature of the UN system organizations and are consistent with current financial reporting best practice and future financial reporting trends. The Agency's External Auditor welcomed the decision, characterizing IPSAS *"as the only suitable standard which is applicable to non-profit-making organizations."*[4]

---

[1] United Nations General Assembly Resolution 48/216 of 23 December 1993.

[2] International Accounting Standards (IASs) were issued by the International Accounting Standards Committee (IASC) from 1973 to 2000. The International Accounting Standards Board (IASB) replaced the IASC in 2001, and since then the IASB has amended or replaced some IASs with new International Financial Reporting Standards (IFRSs) and issued new IFRSs on topics for which there was no previous IAS. IAS/IFRS are designed to apply to profit-oriented entities.

[3] IPSAS have been developed by the International Public Sector Accounting Standards Board (IPSASB) since 1997. IPSAS set out the requirements for financial reporting by governments and other public sector entities.

[4] The Agency's Accounts for 2005 (GOV/2006/20), Part I. C.1.1.1. para 100.

5. In April 2006, the CEB, as part of the UN management reform, endorsed the recommendation of HLCM to adopt IPSAS throughout the UN system by 2010. In early 2006, the Agency's Secretariat informed the Board of Governors of the HLCM recommendation in the context of the document 'Planning for the 2008–2009 and 2010–2011 Programme and Budget Proposals'.[5] In July 2006, the General Assembly of the United Nations approved the adoption of IPSAS by the United Nations[6]. Governing bodies of several UN system organizations, including United Nations Industrial Development Organization (UNIDO), have since approved the adoption of IPSAS.

B. IPSAS

6. IPSAS are independently produced accounting standards, underpinned by a strong due process and supported by governments, professional accounting bodies and international organizations. The widely-acknowledged benefits of the adoption of IPSAS include:

(a) improved transparency and internal control with respect to all assets and liabilities, facilitating improved management and stewardship of resources;
(b) more comprehensive and consistent information about costs and income which better support result based management and improvement of governance;
(c) improved consistency and comparability of financial statements over time and between different organizations.

7. The fundamental difference between UNSAS and IPSAS is that while UNSAS are based on 'modified' accrual basis accounting, which is close to accounting on a cash basis, IPSAS require 'full' accrual basis accounting. The two methods differ in the timing of recognizing transactions. Under cash accounting, transactions are recorded only when cash or its equivalent is received or paid. Under the accrual basis, financial transactions and events are recognized when they occur and they are recorded in the accounting period to which they relate. To facilitate the understanding of the expected changes, a list of major accounting differences between UNSAS and IPSAS is included in Annex I. Annex II gives definition of special terms.

C. Impact of IPSAS adoption on financial reporting and financial management systems

8. The impact of the adoption of IPSAS on the Agency's financial statements would include the following:

(a) The full recognition of liabilities for future employee benefits such as After Service Health Insurance (ASHI), compensation of annual leave and repatriation grants would result in (i) negative overall equity on the Agency's financial statements until these liabilities are funded, and (ii) increased expenses being reported for common staff costs for a given financial year;

---

[5] GOV/2006/21; Finance and Administrative Workshop (March 2006), Programme and Budget Committee (May 2006).

[6] A/RES/60/283.

(b) The recognition of capital assets such as buildings, vehicles, furniture and equipment, and the reporting of depreciation expenses would have the effect of (i) increasing net equity (partially offsetting the negative impact on equity originating from (a) above), and (ii) lowering operating expenses;

(c) The recognition of expenses on the basis of the ‘delivery principle’ could lead to lower expenses for a financial period compared to UNSAS accounting, where expenses include all open purchase orders and contracts irrespective of the delivery of goods and services;

(d) The timing of recognizing income of voluntary contributions could change;

(e) Financial statements and financial reports on voluntary contributions would change in format and content.

9. Some of these changes would require significant modifications to the existing financial management systems. In particular, the Agency’s Financial Information Management System (AFIMS) would have to be extended to record detailed information on capital assets and depreciation, inventories, employee benefits and delivery-based expense recognition, all required to support the preparation of financial statements in compliance with IPSAS.

D. Impact on budgeting, funding and Financial Regulations and Rules

10. The introduction of IPSAS will lead to changes in the Agency’s budgeting methodology and funding policy, and require amendments to the Financial Regulations and Rules.

(a) Budgeting methodology:

In tandem with accrual basis financial reporting under IPSAS, a change in budgeting methods from the current cash basis to accrual basis is highly desirable, because it would eliminate the complex reconciliation between the budget and financial statements required under IPSAS if the budgeting and the financial reporting are not on the same basis.

More importantly, accrual-based budgeting, which includes a ‘capital budgeting’ concept, would better support results-based management and enable the Secretariat and Member States to make better resource allocation decisions. This is because budgetary figures will reflect more accurately the cost of programmatic outputs and results. Accrual budgeting would also enable the Agency to address investment needs on a more systematic and timely basis.

Detailed questions related to the application of capital budgeting will be reviewed in 2007 through a UN IPSAS Support Project, which plans to develop an accrual-based budgeting model.

(b) Funding policy of future employee benefits

Like many other UN system organizations, the Agency currently funds the termination and post-retirement employee benefits on a ‘pay as you go’ basis. Under IPSAS, full recognition of the liabilities that have accrued in the past and future on-going accruals may result in an overall negative equity. With the resultant significant liability shown on its financial statements, the Agency would be under pressure to address the funding issue as early as possible. The Secretariat is participating in UN system wide consideration of this issue and will put forward a proposal on this subject.

(c) Financial Regulations and Rules

The Agency's Financial Regulations and Rules would need to be reviewed and amended to reflect the financial administration under IPSAS. A thorough review would be undertaken and the necessary amendments would follow established procedures.

E. Implementation strategy and time frame

11. One of the key conditions for the implementation of IPSAS is the capability of the Agency's financial systems to support IPSAS compliant financial accounting. AFIMS, in its current design and configuration, cannot handle new requirements such as accounting for fixed assets, depreciation, inventory and delivery-based expense recognition. Building the additional functionality on top of the current systems would be difficult and costly.

12. Throughout 2006, independently of considerations about IPSAS, the Secretariat undertook a comprehensive review under a project entitled 'Feasibility Study on Agency-wide Information System for Programme Support (AIPS)' of the Agency's information systems, with the aim of fully integrating the numerous support systems and applications. The need for integration of financial systems with other core support processes such as procurement and personnel on a common applications platform was clearly established as cost effective and desirable, and is a key requirement of future solutions.

13. Subject to the approval of Member States, the changes needed for IPSAS implementation and for systems integration pursuant to AIPS will take place concurrently over the next several years. While these two projects have different objectives and scope, there is a significant amount of overlap in the activities such as the analysis and design of business processes and procedures, systems configuration and user training. Therefore, the adoption of IPSAS would coincide with the development and extension of the current systems, or the acquisition of IPSAS-compliant new systems. While it will be a complex undertaking to implement these two projects at the same time, it will enable the Agency to benefit from the synergies of closely interrelated activities and avoid significant duplication of effort and additional cost.

14. In implementing IPSAS, the Secretariat would be able to draw guidance from UN system-wide support and collaboration. The IPSAS Support Project, comprised of a small team of technical experts, is facilitating the work of inter-agency collaboration mechanisms such as the IPSAS Steering Committee and the Task Force. Currently, its efforts are focused on the development of accounting policies and guidelines, helping all organizations to better understand overall implementation issues, and providing an opportunity to share efforts and contribute to policy development. To benefit from this support, the Agency is required to contribute its share (about 3%, $114 000) of the total cost ($3.7 million) for the transition period 2006–2009.

15. IPSAS cannot be selectively applied, and adoption will encompass implementation of all applicable standards. While several organizations in the UN system are aiming at adoption by the financial year beginning on 1 January 2008 (early adopters[7]), the Secretariat envisages implementing

[7] As of August 2006, the World Food Programme (WFP), the World Health Organization (WHO), the International Civil Aviation Organization (ICAO), the United Nations Development Programme (UNDP) and the United Nations Office for Project Support (UNOPS) are early adopters.

the necessary changes over a three-year transition period (2007–2009) to be able to comply with IPSAS from the financial year beginning on 1 January 2010. The broad timetable is as follows:

2006

- Make initial analysis of requirements, impact and scope of changes

2007

- Seek approval by the Board of Governors for IPSAS adoption
- Establish project team and develop detailed project plan
- Analyse key financial management and accounting issues, impact on financial systems, Financial Regulations and Rules, and develop accounting policies, procedures and guidelines
- Decide on the financial systems (upgrade AFIMS or new systems)
- Develop accrual basis budgeting model

2008

- Continue development of policies, procedures, guidelines, manuals and preparations for amendments to the Financial Regulations and Rules
- Seek approval by the Board of amendments to the Financial Regulations
- Complete consequential amendments to the Financial Rules
- Configure systems design and modification, start data preparation and staff training
- Begin preparation of Draft Programme and Budget 2010–2011 on accrual basis

2009

- Commence operation of new systems, testing and evaluation of new procedures
- Prepare pro forma financial statements

2010

- Fully implement new systems, policies and procedures
- Continue training and support, including guidance for end-users
- Address any accounting and financial policy issues that arise

F. Implementation resource requirements

16. The implementation of new accounting standards, reporting policies and procedures will require resources, especially human resources with the appropriate technical expertise. While existing capacity and expertise will be fully mobilized, a dedicated project management team needs to be established to coordinate progress, and technical expertise and operational capacity will need to be augmented during the transition to implement new requirements including change management and training of staff.

17. The estimated cost for additional staff, consultancy, training, contributions to the inter-agency support mechanism, and temporary assistance during the transition and post-implementation support

period (2007–2011) is estimated at €1.9 million[8], of which the amounts pertaining to the biennium 2008–2009 are €514 000 per year. Post-implementation support, estimated at €354 000 in 2010 and €265 000 in 2011, will be required to fully operationalize the implemented changes and to prepare the first IPSAS-compliant financial statements. Additionally, the upgrading of the financial and procurement systems, part of the first phase of the implementation of AIPS and essential for the implementation of IPSAS, would require €3.4 million in 2008 and €3 million in 2009 respectively.

G. Recommendations

18. It is recommended that the Board of Governors:

(a) Take note of the information provided in document GOV/2007/10, including the resources required as specified in paragraph 17 for implementing the adoption of the International Public Sector Accounting Standards (IPSAS) and related upgrading and integration of financial and procurement systems.

(b) Approve the adoption of IPSAS in the Agency with effect from 1 January 2010.

(c) Request the Director General to submit proposed amendments to the Financial Regulations to the Board for its approval in accordance with Regulation 13.02 and to report amendments to the Financial Rules which he will consequently be required to make in accordance with Rule 113.02.

---

[8] The resource requirements for IPSAS in the UN system vary widely: from $23 million estimated by the United Nations (A/60/846/Add.3, Annex II); $3.7 million by the World Food Programme (WFP/EB.A/2006/6-1/1); $607 000 by International Labour Organization (ILO) (GB.297/FPA/6); and $1.5–2.5 million by United Nations Educational, Scientific and Cultural Organization (UNESCO) (175EX/INF.7). These estimates do not include the amounts related to changing information systems. There are many variables that influence the resource requirements in each organization, such as capacity, operational complexities, number of field offices, and degree of preparedness in financial policies and information systems such as the operation of commercial Enterprise Resource Planning (ERP) systems.

Annex I

Major differences between United Nations System Accounting Standards (UNSAS) and International Public Sector Accounting Standards (IPSAS)

	UNSAS	IPSAS	Impact of IPSAS adoption
1	Reporting requirements take a “modified accruals” approach that is very close to cash accounting.	Requires accounting on a “full accrual” basis.	Examples of differences given below stem from this fundamental difference between UNSAS and IPSAS.
2	Costs of fixed assets are reported as expenses, in the Statement of Income and Expenses, when the assets are purchased.	Costs of fixed assets are capitalized and are included on the balance sheet when the assets are first acquired. The original cost of the assets is spread over their useful lives as the assets are used (depreciation expense).	- There will be a decrease in reported expenses and an increase in assets reported. - The initial recognition of the Agency’s existing fixed assets will have the impact of increasing the net equity. - Reconciliation is required between budget basis and financial reporting. May lead to changes in budgeting methodology. - Reporting to donors on voluntary contributions will change in format and content to account for operating expenses and capital expenses.
3	Accrued employee benefits in respect of repatriation grants, ASHI and annual leave are not recognized in the financial statements, but selectively disclosed in the notes to the financial statements.	Employee benefits are fully recognized as expenses as they accrue and cumulative liability is recognized in the financial statements.	- This would result in an increase in reported expenses and negative overall equity due to creation of the accrued liabilities, amounting to $93 million for ASHI alone as at 31 December 2005. - A funding mechanism needs to be put in place to meet the unfunded liabilities.
4	Reported expenses represent disbursements and unliquidated obligations.	Recognition of expenses on the basis of goods and services received (the delivery principle).	- Not all unliquidated obligations of a financial period would be recognized as expenses. This deferred recognition would reduce the reported expenses in initial periods. - Expense recognition of projects implemented by other entities need to be defined.
5	Costs of expendable property (stocks and supplies) are charged as expenses on purchase.	Only the costs of expendable property that have been consumed will be recorded in expenses. The value of inventories at the end of the financial period will be considered an asset.	- There would be a reduction in reported expenses during the initial years of IPSAS adoption. - There would be a requirement to conduct physical verification of inventories and to determine the basis for valuation.

	UNSAS	IPSAS	Impact of IPSAS adoption
6	Income recognition of accepted voluntary contributions on cash basis.	Accepted voluntary contributions to be recorded as income or as liability on the consideration of enforceability and conditionality.	Income could be recognized earlier (in cases where contributions are enforceable and free of conditions) or later (in cases where contributions are made with certain conditions) than under UNSAS.
7	For organizations with a financial period consisting of two calendar years, audit opinion is issued on the financial statements every biennium.	General purpose financial statements are to be issued annually, implicitly implying annual audited financial statements.	May increase the scope of annual audit for many UN organizations. The Agency will be little affected.
8	Expense recognition for financial reporting is consistent with budget appropriation basis.	Expense recognition in financial reporting is different from budget appropriation basis.	Reconciliation between budgeting and financial reporting is required. The budgeting methodology will be changed.

Annex II

Definitions of terms used in this 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 **Cost—**The amount of cash or cash equivalent paid or the fair value of the consideration given to acquire an asset at the time of its acquisition.

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

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

6 **Expenses—**Decrease[s] 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 a decrease in net assets/equity.

7 **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.

8 **Net assets/equity—**The residual interest in the assets of the entity after deducting all its liabilities.