



**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.