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Accounting standards

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Item 5 of the provisional agenda

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) since document GC.12/11, in accordance with decisions IDB.33/Dec.5 and GC.12/Dec.14.

Contents

	<i>Paragraphs</i>	<i>Page</i>
I. Introduction	1-2	2
II. System-wide IPSAS project and the role of UNIDO	3-8	2
III. IPSAS implementation at UNIDO	9-21	3
IV. Conclusion	22	5
V. Action required of the Committee	23	6
Annex		
Definitions of terms used in the document		7

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I. Introduction

1. Document GC.12/11 informed the General Conference at its twelfth session of developments relevant to UNIDO with respect to International Public Sector Accounting Standards (IPSAS), in accordance with decision IDB.33/Dec.5, and provided a draft decision on the adoption of IPSAS for consideration. The Conference decided to adopt IPSAS at UNIDO, effective 1 January 2010, as part of the United Nations system-wide adoption of those Standards (decision GC.12/Dec.14).
2. 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 majority of decisions and guidance on the main IPSAS Standards were put in place by the IPSAS Project Steering Committee and the United Nations system-wide Task Force on Accounting Standards in 2007. A total of 30 recommendations were submitted by the Task Force in 2007 to the Finance and Budget Network and received approval. The UNIDO Working Group in the Financial Services Branch continues to contribute significantly to IPSAS policy development by actively participating in the Task Force meetings and by providing its comments, in particular on UNIDO-specific issues.
4. At its videoconference meeting from 26 to 27 February 2008, the Task Force reviewed seven new guidance papers and two briefing notes and decided on the following policy recommendations of particular significance to UNIDO. It was agreed to accept, in principle, the general guidance on resolving three difficult IPSAS issues (funding agreements revenue recognition, and expense recognition, and treatment of project assets), which were supported by comments from individual members of the IPSAS Board. However, additional organization-specific guidance would be provided by the central IPSAS team at New York as the need arises, for example, in the area of project assets and the issue of control.
5. Moving forward, further guidance would be required in particular areas (including employee benefits, project assets, measurement of fair value for the first-time recognition of property, plant and equipment, consolidation, segment reporting and fund accounting) to assist organizations to put the approved policies into operation and address new implementation issues that have been identified by the Early Adopters (WHO, WFP and ICAO). The United Nations system-wide project team will provide additional guidance and many of the issues are expected to be resolved by decisions of the Task Force at its next meeting in New York from 30 June to 1 July 2008 followed by a joint session with the Finance and Budget Network on 2 July 2008. For UNIDO, guidance on the treatment of Buildings Management Services (BMS) and Catering and Common Services at the Vienna International Centre in its financial statements is of particular relevance.
6. Key policy guidance on Employee Benefits (IPSAS 25) is necessary to resolve some issues including the treatment of United Nations Joint Staff Pension Fund

(UNJSPF) under IPSAS (accounting on a defined benefit or defined contribution basis); use of the “discount rate” to value employee benefit liabilities, given the restricted option that exists in IPSAS 25 with respect to rates determined by reference to either government bonds or corporate bonds; whether actuarial valuations must be done annually or an update is sufficient. These parameters will eventually determine the level of UNIDO’s liabilities on this account and the decision for its future funding.

7. A system-wide approach to IPSAS training, consisting of awareness training, concepts and standards training, was developed by the Project Steering Committee in August 2006. Each organization is responsible for their roll-out/delivery of IPSAS training, while the system-wide 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. Based on the responses received from an IPSAS training needs assessment survey developed in April 2007 by the central IPSAS team in New York, following a procurement process, a consulting firm was selected. Training packages will be made available to organizations progressively during the second half of 2008 and training products will be released in phases as they are developed and accepted. At the February 2008 Task Force meeting, some Early Adopter organizations as well as UNIDO were able to describe the benefits of training initiatives they had already undertaken.

8. Another key issue for the United Nations system organizations was to obtain increased engagement of their external auditors on IPSAS issues. At the system-wide level, positive discussions are taking place between the Chairman of the Task Force and the Chair of the United Nations Panel of External Auditors, who attended all recent Task Force meetings (in April and June 2007 and February 2008). However, the Panel of External Auditors encouraged organizations to discuss specific issues on a bilateral basis with their external auditors. Internal auditors are also becoming increasingly engaged on IPSAS issues and the Joint Inspection Unit (JIU) has commenced a review of the organizations’ IPSAS-readiness. The JIU Inspectors have visited a number of organizations, including UNIDO in March 2008 (paragraph 21 refers).

III. IPSAS implementation at UNIDO

9. An IPSAS Implementation Task Force was established in April 2008 to execute and monitor the overall process of IPSAS adoption at UNIDO and to ensure its timely implementation.

10. The input of the Working Group on reviewing IPSAS guidance papers and providing UNIDO-specific comments on IPSAS has helped the United Nations Task Force on Accounting Standards and the central IPSAS project team to develop and recommend appropriate accounting policies, recommended accounting practices and authoritative guidance. Within UNIDO, the major tasks followed during this time period are summarized in the paragraphs below.

11. An IPSAS pre-implementation training was conducted by consultants from Deloitte at UNIDO Headquarters from 14 to 18 January 2008. The target groups for

the pre-implementation training were Professional staff in the Financial Services Branch and a number of key staff in other branches of UNIDO who are involved in guiding the transition tasks, such as the identification and valuation of fixed assets (property, plant and equipment) for the first time. This training provided significant benefits to staff by familiarizing them with the principles and applications of IPSAS related to the change from United Nations System Accounting Standards (UNSAS) to IPSAS, well in advance of IPSAS adoption.

12. Meanwhile, progress has been made on the development of asset management policies dealing with the identification, valuation, recording and verification of the Organization's fixed assets related to the first-time recognition of property, plant and equipment (PPE). This task has been identified as one of the most critical for IPSAS implementation at UNIDO. Based on the Accounting Policies and Recommended Accounting Practices as approved by the Task Force, a set of UNIDO-specific PPE policies have been developed. Among the key policies developed was the decision to recognize PPE at fair value as of the recognition date (1 January 2010) for each asset class for first-time recognition. The depreciation policy and capitalization threshold were set.

13. The existing Fixed Asset register and its entire list of assets have been reviewed. An IPSAS-compliant list of fixed assets (for UNIDO Headquarters and a preliminary list of technical cooperation and field office assets) with five assets classes and useful lives have been developed (Vehicles, Communications and IT Equipment, Furniture and Fixtures, Buildings, and a new asset class, Machinery). Further groups and sub-groups of assets and useful lives within each class have been added. Work is in progress to develop IPSAS-compliant recording of data in the Fixed Asset register. The physical verification of Headquarters assets commenced at the end of May 2008, for completion by November 2008. The next steps include developing further guidance with regard to technical cooperation assets, which represent the bulk of UNIDO's assets, in consultation with the substantive organizational units. The appropriate and cost-effective methodology for valuation on the basis of fair value needs to be finalized.

14. The standard on Intangible Assets requires first-time recognition of intangible assets. As UNIDO does not maintain any such record, the preliminary step is to identify the existence of the different types of intangible assets, followed by valuation of their cost. A survey questionnaire developed for the purpose is expected to provide this initial information leading to appropriate UNIDO-specific accounting policies. Possible intangible assets at UNIDO might include acquired or internally-developed computer software, databases and related management software developed and maintained by organizational units, such as COMFAR (UNIDO's software for feasibility studies), databases on the environment, business forums and partnerships; patents and copyrights and intellectual property rights.

15. Standards on Inventories, Revenue Recognition and Employee Benefits have also been taken up for review. Major issues related to Inventories include analysis of existing inventories in BMS, publications, the library and storage of stationery, in order to determine whether these should be capitalized or expensed. Further issues are the IPSAS-compliant valuation of inventory items; development of new policies on inventory management and the consequent need for change in inventory management systems.

16. In the area of revenue recognition, the main tasks foreseen are the review of funding agreements to analyse conditions attached to revenue from non-exchange transactions, such as voluntary contributions for technical cooperation projects and inter-agency funding; the point at which support cost revenue should be recognized; treatment of BMS income and analysis of host government contribution to field office expenses.

17. Employee benefits require the analysis of current entitlements of all categories of staff at headquarters and field offices, including the computation method and current process of recording the entitlements; development of UNIDO-specific guidance on accrued annual leave, repatriation grants, after-service health insurance (ASHI); development of valuation methodology to calculate accrued benefits; review of the current processes and systems, and recommendation of the necessary changes in business processes and practices.

18. The above-mentioned issues (paras. 15 to 17) will be taken up by the respective sub-groups providing necessary inputs for the development of the accounting policies, processes and systems.

19. The Information and Communication Management (ICM) Services considered in 2007 the impact of IPSAS adoption as part of the anticipated systems upgrade. In April 2008, the Director-General also reiterated the importance of using any information and communication technology systemic changes required to accommodate IPSAS, as an opportunity for improvement in terms of Business Process Re-engineering (BPR) to further streamline UNIDO's administrative processes. Work is in progress on the development of an IPSAS-compliant version of the Fixed Asset register to accommodate UNIDO's PPE in line with IPSAS requirements. Under IPSAS, a critical area that would impact the financial systems is the need to capture data for both operational and financial reporting requirements.

20. 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 April 2008, a comprehensive communication was sent to the External Auditor, on the progress made towards IPSAS implementation and its implications for UNIDO also seeking his views, if any.

21. Following the approval of the General Assembly (resolution 60/283 (chapter IV)) in July 2006 of the adoption by the United Nations of IPSAS, the Joint Inspection Unit (JIU) of the United Nations system has included in its work programme for 2008, a report entitled "Transition to IPSAS in the UN system organizations". The objective of this report is to assess the status of United Nations system organizations with regard to their preparedness for the implementation of IPSAS, identify impediments to its implementation and lessons learned. The team responsible for this report has conducted interviews with key staff at the Financial Services Branch of UNIDO and, though the report is pending, expressed satisfaction at the progress made in implementing IPSAS at UNIDO, thus far.

IV. Conclusion

22. Since the issuance of document GC.12/11, 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, contribute to the development of system-wide IPSAS policies and present regular progress reports to its policymaking organs.

V. Action required of the Committee

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

Annex

Definitions of terms used in the document

1. **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.
2. **Business Process Re-engineering (BPR)** – Business process re-engineering (BPR) is a management approach aimed at improving the efficiency and effectiveness of the processes that exist throughout the organizations. The use of information technology (IT) is a major enabler in increasing organizational efficiency.
3. **Depreciation** – Gradual conversion of the cost of a tangible capital asset or fixed asset into an operational expense over the asset's estimated useful life.
4. **Exchange transactions** – Are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services or use of assets) to another entity in exchange.
5. **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.
6. **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.
7. **Fixed Asset register** – Database at UNIDO where the details of fixed assets are recorded for control and accounting purposes.
8. **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.
9. **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.
10. **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.
11. **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.

12. **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.
 13. **Useful life** – The period of time over which an asset is expected to be used by the entity.
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