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Accounting standards

International Public Sector Accounting Standards

Progress report by the Secretariat

In accordance with decisions IDB.33/5 and GC.12/14, informs the Conference of developments with respect to International Public Sector Accounting Standards (IPSAS) and their adoption at UNIDO, thereby updating document IDB.36/6.

Contents

	<i>Paragraphs</i>	<i>Page</i>
I. Executive summary	1-8	2
II. System-wide IPSAS project and the role of UNIDO	9-13	3
III. Tasks completed on IPSAS implementation at UNIDO	14-33	4
IV. Bilateral consultations with the External Auditor	34-37	9
V. Training strategy	38-39	9
VI. Action required of the General Conference	40	10
Annex		
Definitions of terms		11

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I. Executive summary

1. The General Conference at its twelfth session (3-7 December 2007), approved the adoption of International Public Sector Accounting Standards (IPSAS) at UNIDO, effective 1 January 2010, as part of the United Nations system-wide adoption of these Standards (GC.12/Dec.14).

2. Document IDB.36/6 reported on developments relevant to UNIDO with respect to IPSAS. In compliance with decision 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 as well as to provide assurances to the policymaking organs on UNIDO's IPSAS-readiness by 2010.

3. The adoption of IPSAS is part of the United Nations efforts to align the system with internationally recognized best practices through the application of credible, independent accounting standards on a full accrual basis. The adoption of IPSAS at UNIDO will also enhance the Organization's accountability and transparency through improved financial reporting, resulting in more efficient utilization of resources and enhanced financial management.

4. The detailed reporting requirements under IPSAS will require enhanced disclosure of assets, liabilities, contingents and commitments. This increased transparency will support better management of its assets and liabilities. As a part of IPSAS compliance, the integration of non-expendable equipment into the accounting system will take place resulting in improvements in the reporting of property, plant and equipment (PPE), intangible assets and inventory records accurately. For the first time, these three categories of assets will be recognized in the financial statements, with a basis for improved assurance over their recording and management. The IPSAS requirement for full recognition of employee benefit obligations such as annual leave, repatriation grants and after-service health insurance will support candid reporting and robust management of these employee-related costs. Similarly, IPSAS requirements related to expense recognition provide for recognizing all expenses when they are incurred or delivered, rather than when they are paid or committed. This will result in better management and control over all costs with accurate reporting in the financial period when the activity occurs.

5. Overall the implementation of IPSAS at UNIDO has been a challenging exercise. First, IPSAS compliant accounting policies had to be formulated. These policies needed to be supported by detailed business work flows and procedures, requiring coordinated efforts across multiple functions within the Organization. Since UNIDO's budgeting was to continue on cash basis, special attention was required to create a new process to meet the requirements of budgetary reporting and financial reporting (dual reporting). Additional information systems were needed to meet the detailed IPSAS information requirements. These requirements have created the need to train staff to cope with the changes in policies, processes and systems.

6. UNIDO has successfully overcome all these challenges and is ready for IPSAS implementation in 2010. Various branches of UNIDO are working together in a well-coordinated effort towards this goal. New modules for fixed assets and inventory have been procured, for which it was intended that they go into production in October 2009. New accounting policies have been formulated, and

detailed procedures are being established. A customized accounting process has been defined for meeting the requirements of dual reporting. Furthermore, UNIDO maintains a constructive dialogue with the External Auditor, seeking his opinion on important accounting policies and issues specific to UNIDO. In addition, specialists in their respective fields have been engaged as consultants to support UNIDO staff in their efforts to implement the process changes required. An extensive training plan has been prepared to train staff in various functions between October and December 2009. The main focus in 2010 will be on computing IPSAS-compliant opening balances as at 1 January 2010, documentation of system processes, fine-tuning of formats for the year-end financial statements, notes and reports, and conducting test runs.

7. It may be noted that since all first-time adopters of IPSAS may benefit from transitional provisions allowed under certain Standards, some IPSAS related work would also continue after adoption. UNIDO also being a first-time adopter of IPSAS, may therefore also profit from such transitional provisions under certain Standards. For example, transitional provisions allow first time adopters a period of five years to record PPE in their financial statements. UNIDO plans to avail itself of transitional provisions for technical cooperation (TC) PPE and assets falling under the class “buildings”. Thus, UNIDO expects some of the IPSAS-related work, especially pertaining to transitional provisions, to continue even after IPSAS implementation specifically in 2010.

8. UNIDO has completed most of its requirements for IPSAS-compliant policy development and process flows. By end of 2009, UNIDO will be ready to capture all the relevant data and information in IPSAS-compliant systems. This will allow the Organization to be IPSAS-compliant and prepare its financial statements for 2010 based on the new Standards.

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

9. The UNIDO IPSAS Working Group continues to contribute significantly to IPSAS policy development in the United Nations system by providing comments to the IPSAS guidance papers issued by the United Nations IPSAS team, ensuring regular representation at the meetings of the United Nations system-wide Task Force on Accounting Standards and ascertaining that UNIDO-specific issues are addressed at these policymaking forums. A total of fifty-five accounting papers have been reviewed by the IPSAS Working Group during the three-year period of policy and guidance development, from mid-2006 to mid-2009. The United Nations system-wide Task Force on Accounting Standards has developed a stable platform of accounting policies and recommended practices. The policy platform ensures a high level of consistency across the United Nations system for individual organizations and provides a firm foundation for IPSAS implementation.

10. At the Task Force meeting in Rome in May 2009, twenty guidance papers were reviewed and were either acknowledged as useful guidance or noted as discussion papers. A significant amount of time of the Task Force meeting was dedicated to discussions of IPSAS implementation issues. The Task Force meeting highlighted the importance of individual organizations holding bilateral discussions with their External Auditor throughout the different stages of IPSAS implementation. Presentations were given by the Technical Group of the Panel of Auditors,

Joint Inspection Unit and the National Audit Office, United Kingdom – the latter in their capacity as External Auditor to the World Food Programme (WFP). Discussions also took place on key tasks related to IPSAS implementation, such as guidance on consolidation of common or shared services in the financial statements, project management, development of a training strategy and preparation of an IPSAS manual. Sharing of experience and lessons learned from WFP, which was an early-adopter organization, as well as with other United Nations system organizations also constituted a key item for discussion at this Task Force meeting. This was followed up by a one day seminar with WFP in Vienna in July 2009.

11. At its January 2009 meeting the High-level Committee on Management (HLCM) encouraged organizations to review and adjust their IPSAS implementation dates if necessary.¹ As of 30 June 2009, ten organizations including UNIDO reported that their target date remains 2010, although two of those organizations have indicated that they plan to review that date before the end of 2009. Three organizations now plan to implement IPSAS by 2011, while seven organizations plan to implement by 2012. The United Nations has extended its date to 2014 and this impacts on one other organization, which has also amended its date to 2014.²

12. At the system-wide level, progress made towards IPSAS implementation by 2010 by some organizations has been constrained by several external and internal factors. These included delays in gaining approval for necessary funding; the need to align IPSAS timetables with the project timetables pertaining to the enterprise resource planning (ERP) process; a heightened awareness of the scale and complexity of the work involved in development of required procedures and system changes; problems in recruitment and retaining of project staff and competing reform initiatives limiting staff ability to engage in IPSAS implementation tasks.

13. Notwithstanding the tasks and challenges, UNIDO has forged ahead in an orderly manner and has prepared itself for IPSAS-readiness in 2010 as reported in the sections below.

III. Tasks completed on IPSAS implementation at UNIDO

14. Under the specific guidance of the IPSAS Working Group and general monitoring of the IPSAS Implementation Task Force (IITF), cross-organizational sub-working groups on specific Standards have been set up to develop detailed policies and processes to ensure that UNIDO is IPSAS-compliant by 2010. A stable platform of policies, process/workflows has been completed for key IPSAS Standards which will have the greatest impact on UNIDO.

15. As of 30 September 2009, the IPSAS budget implementation rate stood at sixty-six per cent. For reasons such as delays in completion of United Nations system-wide training modules, invoking of transitional provisions for technical cooperation assets, further testing, trial runs and system verification of IPSAS compliant financial statements, due at the end of 2010 and development of a comprehensive finance manual, the remaining balance of the budgeted funds will be primarily utilized for extending the contracts of the core IPSAS project team members during 2010. A final report on utilization of the IPSAS budget will be

¹ CEB/2009/3, page 7.

² CEB/2009/HLCM/30.

provided to the twenty-seventh session of the Programme and Budget Committee in 2011.

Property, plant and equipment (PPE)

16. Following the already established IPSAS-compliant policies on PPE, including establishment of asset classes and their sub-groups, useful lives and depreciation method, appropriate processes have been put in place to capture UNIDO's PPE. This will enable recording of fixed assets and their values for the first time in the financial statements, resulting in more transparent reporting and better management of the Organization's assets, which is one of the main objectives of IPSAS. IPSAS-compliant workflow processes have been designed and tested. The new fixed assets module that was scheduled to go into production in early October 2009, will allow the recording of assets in an IPSAS-compliant manner. Capitalization of PPE will commence from 1 January 2010 and consequently, will greatly enhance the monitoring of the entire process of asset management, from acquisition to disposal.

17. The physical verification of regular budget Headquarters assets has been completed in May 2009, along with full recording and reconciliation of data in the new fixed assets module. Similarly, a workflow process on management of Field Office PPE, including a set of detailed IPSAS-compliant instructions have been prepared to improve asset recording capacities from verification of asset receipt to write-offs and asset disposals.

18. Due to the complexity of work involved in the area of TC assets, in particular, the identification and establishing control over project assets, it was agreed at the IITF meeting in February 2009 to use the five-year transitional provisions allowed under IPSAS 17 (PPE) for recording UNIDO's technical cooperation assets in the financial statements.³ Meanwhile, tighter control of asset receipt mechanisms will be put in place for new acquisitions and for identification and verification of existing assets over which UNIDO will still have control beyond the five-year transitional phase in order to be IPSAS-compliant.

Financial reporting of interests in joint ventures

19. Under IPSAS 8 (Financial reporting of interests in joint ventures) UNIDO would be required to account for its share of any contractual rights, obligations, and entities over which it has joint control. For the first time, issues related to joint ventures will be clearly reflected in the financial reports, resulting in a comprehensive set of consolidated financial statements. Discussion is ongoing with the other Vienna-based organizations (VBOs) on issues related to common services to develop harmonized policies on consolidation. It has been agreed by the four VBOs to treat the Vienna International Centre (VIC) premises itself as a jointly controlled asset. As part of the transition to IPSAS, VBOs would need to obtain a valuation of the VIC premises. A letter, seeking assistance in the valuation exercise of the VIC building, has been transmitted to the Austrian authorities, as the Federal Government of the Republic of Austria has the ownership of the area constituting the Headquarters seat. UNIDO will avail itself of the five-year transitional provisions, allowed under IPSAS 17 for first-time recognition for the class "buildings", including the VIC building.

³ The intention of transitional provisions is to provide relief to entities/organizations which seek to comply with the provisions of IPSAS 17 as first-time adopters.

Intangible assets

20. IPSAS-compliant accounting policies on the identification, recognition and measurement of UNIDO's intangible assets have been completed. This first-time recognition of intangible assets in the financial statements will, in conjunction with already established policies on property, plant and equipment, finally provide for a full and accurate assessment of all assets of the Organization. Results of a survey on identification of intangible assets, along with their parameters of recognition and measurement criteria carried out at UNIDO Headquarters, field offices and ITPOs in 2008 indicated limited assets under this category. Intangible assets at UNIDO, if any, are expected to mostly consist of computer software. System requirements have been completed with asset groups (including their useful lives and reporting requirements set-up) which are scheduled to go into production in October 2009 along with the PPE system.

Inventories

21. UNIDO-specific accounting policies on identification, recognition and measurement of inventories have been developed in accordance with IPSAS 12 (Inventory). Only the Buildings Management Services (BMS) inventory has been determined to have sufficient high-value items to be recognized. A new inventory management system (Agresso 5.5.3 inventory module) has been procured. Inventory product codes and groups have been set up in the system. Workflows have been forecast and reporting requirements completed. Physical stocktaking has been completed. The new inventory management system is scheduled to go into production during October 2009. For the first time, inventory will be recognized in financial reports from 2010, providing a basis for improved assurance over inventory records and management. A set of IPSAS-compliant instructions have been prepared to guide BMS on physical stocktaking and valuation of inventories.

Revenue recognition

22. In relation to IPSAS 23 (Revenue from non-exchange transactions) IPSAS-compliant policies on accounting for voluntary contributions have been completed, which prescribes recording of revenue as it is earned, not only when cash is received thereby ensuring a more accurate recording of revenue. A full analysis of revenue recognition of all major groups of voluntary funding agreements and their conditionalities have been incorporated into UNIDO-specific business process flows. IPSAS-compliant points of recognition of revenue for future funding agreements have been established. Testing of sample transactions has been completed and the system is scheduled to go into production in October 2009.

23. While the processes mentioned above will enable IPSAS-compliant recording of revenue of future funding agreements, analysis of UNIDO's many hundreds of ongoing projects is a time consuming and costly exercise. Therefore, it has been agreed to use the flexibility allowed under the Standards. The IITF at its meeting in February 2009 decided to use the three-year transitional provisions allowed under IPSAS 23, which would give UNIDO sufficient time to develop a proper inventory of current projects and related revenues that need to be recognized during the transition period.

24. Under non-exchange transactions, work has also been completed on policies on the recognition of UNIDO's support cost income, and its allocation to

operational budget. This policy will enable UNIDO to continue with the established methodology of computation and allocation of UNIDO's support cost income to the operational budget. This will have minimal impact on the income of the operational budget.

25. Accounting policies on UNIDO's treatment of IPSAS 9 (Revenue from exchange transactions) have also been completed. The primary issue in accounting for revenue is determining the point of recognition. Examples of UNIDO's exchange transactions include sale of UNIDO publications and CDs, sales of software related to the UNIDO computer model for feasibility analysis and reporting (COMFAR) and interest income, which constitute a substantial portion of UNIDO's total exchange revenue.

Employee benefits

26. IPSAS requires recognition and measurement of employment benefits encompassing all forms of consideration given by the Organization in exchange for services rendered by employees. For the first time, obligations to pay employee benefits are reported as liabilities at the point in which services are rendered. By fully reporting expenses associated with liabilities as they incur, IPSAS provides more complete information on the liabilities of the Organization and therefore provides for better management of its employee-related costs and better assessment of its financial position. Full analysis has been conducted of all entitlements of all categories of staff, including the computation method and current process of recording the entitlements. Following the completion of UNIDO-specific policies on employee benefits a comprehensive review of the current processes/systems has taken place. Testing has been completed on specifications to capture accruals and the systems modified accordingly. To provide reliable estimates of liabilities of the Organization, it is required to conduct an annual actuarial valuation for recognition of staff entitlements in compliance with the IPSAS Standard for employee benefits. UNIDO will join the common exercise organized by the United Nations Secretariat on the first comprehensive actuarial valuation, which is scheduled to be undertaken in late 2009.

Financial statements presentation

27. IPSAS-compliant policies have been developed on key financial statements-related Standards, such as IPSAS 1 (Presentation of financial statements) and IPSAS 2 (Cash flow statements). A firm and complete structure of model financial statements has been established. IPSAS-compliant financial statements will be prepared taking into account other Standards having an impact on accounting and reporting. A set of full accrual-based financial statements will support UNIDO in gaining greater transparency in its management of assets and liabilities and provide for full cost of services afforded by the Organization.

28. Under IPSAS, a critical area that would impact the financial systems is the requirement to capture data for both operational and financial reporting requirements. Since the budget will not be accrual-based, reports related to budget performance will remain on the current basis, while the financial statements will be based on full accrual. The financial system (Agresso 5.5.3) is being modified accordingly to capture this duality in transactions by defining appropriate accounting processes, which combines IPSAS entries with budgeting requirements.

Segment reporting

29. Accounting policies and disclosure requirements for segment reporting have been developed in accordance with IPSAS 18, which establishes principles for reporting financial information by segments to help users of the financial statements to better understand UNIDO's past performance and to identify the resources allocated to support the major activities of the Organization. UNIDO's segments have been determined based on the source of funding. The financial statements presented under IPSAS 1 (Presentation of financial statements) will be broken down into the following identified segments: (a) Regular budget activities, (b) Technical cooperation activities, and (c) Other activities and special services. Information on each segment's revenues, expenses, assets and liabilities will be disclosed in the notes to the accounts.

Related party disclosures

30. IPSAS 20 (Related party transactions) requires disclosure in the financial statements of related party relationships and associated transactions where a relationship of control or significant influence exists. In accordance with the main objective of this IPSAS Standard, which is to improve the transparency and accountability of financial reporting, UNIDO-specific policies, including detailed disclosure requirements have been developed, UNIDO's related parties and key management personnel identified.

Leases and financial instruments

31. Policies specific to UNIDO requirements on IPSAS 13 (Leases) have also been completed. The Standard prescribes the accounting treatment to apply to UNIDO as a lessee in relation to finance and operating leases. Currently, UNIDO does not lease out any property. However, the Organization is a lessee in the case of the VIC premises. Most of UNIDO's other leases are in the field offices. To comply with the disclosure requirements, field offices are required to provide details of their leased assets as part of year-end instructions.

32. In line with IPSAS requirements, policies and UNIDO disclosures on IPSAS 15 (Financial instruments) have been completed, which provides for better management of risks arising from the use of financial instruments. UNIDO's few financial instruments have been identified, classified and initial measurement determined. Detailed specifications on subsequent measurement in the statement of financial position have also been drawn up.

Harmonization of financial regulations and rules

33. Under the auspices of the Finance and Budget Network, work is in progress for harmonization of the financial regulations and rules for the United Nations system organizations. The main aim of this harmonization initiative is to provide common, simpler and more flexible regulations and rules. Considering this initiative for the United Nations system, an initial interim review of UNIDO's financial regulations has taken place and only those regulations that would require to be amended for IPSAS compliance have been identified at this stage (document IDB.36/11 and decision IDB.36/Dec.9 refer).

IV. Bilateral consultations with the External Auditor

34. Early planning and continuous dialogue with the External Auditor is essential for ensuring an orderly transition to IPSAS. Having recognized this, UNIDO established consultations with the External Auditor as a priority during 2008 and 2009. The External Auditor has been kept informed regarding the status of IPSAS implementation on a regular basis. It was recognized that one of the most challenging aspects of IPSAS implementation is the conversion of general policies and principles into concrete organization-specific policies and processes applicable to UNIDO's business model. Accordingly, UNIDO has referred various policy-related issues to the External Auditor for guidance.

35. Since 2008, feedback from the External Auditor was obtained on interpretation of two of the most significant IPSAS Standards; IPSAS 17 (Property, plant and equipment) and IPSAS 23 (Revenue from non-exchange transactions), such as voluntary contributions that contributed to the development of UNIDO-specific policies in these areas.

36. The Secretariat is currently in communication with the External Auditor seeking his feedback on the justification of UNIDO-specific policies on a set of key IPSAS Standards and principles with the greatest impact on UNIDO operations, such as IPSAS 18 (Segment reporting), IPSAS 20 (Related party disclosures), and treatment of support cost income. The External Auditor will also be consulted on the inventory valuation policy.

37. UNIDO's practice of seeking a continuous dialogue with the External Auditor contributes significantly towards achieving the main objective of the Organization, which is to provide for improved accountability and ensure reliable and transparent financial reporting.

V. Training strategy

38. An effective training strategy is vital to a smooth and methodical transition to IPSAS. UNIDO's IPSAS training strategy has three major components: (a) Awareness training, which provides an overview/introduction to IPSAS, (b) Conceptual training, which comprises key IPSAS concepts and standards with the most impact on UNIDO, and (c) Systems training/Agresso 553, which is critical to training on IPSAS-compliant processes. While the United Nations IPSAS team is working with external consultants to develop training material for awareness and conceptual training, individual organizations are responsible for their roll-out of IPSAS training, as the courses are delivered and development of their own systems training. In January 2008, in anticipation of the urgent training needs of UNIDO Headquarters, key staff in organizational units of the Programme Support and General Management Division, received IPSAS pre-implementation training delivered by Deloitte consultants.

39. The expected benefits of a common system-wide approach include system-wide consistency in implementing IPSAS; achieving economies in total costs of training and higher quality of training products. The first two courses on awareness and basics of accrual have been received and released by UNIDO. Further training modules will be released as they become available.

40. As part of UNIDO's training strategy, while the awareness and conceptual training will require finance expertise, an external consultant has been hired for delivery of an integrated systems training with IPSAS processes for UNIDO Headquarters and field offices utilizing e-learning capabilities. Extensive trainings on IPSAS requirements and the new customized processes, with proposed intensive training for advanced users at Headquarters as well as in the UNIDO Regional Offices, is planned over the next three months. Further, it is envisaged that continuous and advanced training on IPSAS to key staff is undertaken during 2010.

VI. Action required of the General Conference

41. The Conference may wish to take note of the information contained in the present document.

Annex

Definitions of terms

Assets – Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

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

Employee benefits – Are all forms of consideration given by an entity in exchange for service rendered by employees.

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.

Equity instrument – Is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

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.

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.

Financial instrument – Is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

Finance lease – Is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset.

Fixed asset register – Database at UNIDO where the details of fixed assets are recorded for control and accounting purposes.

Intangible asset – An intangible asset is:

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

Inventories – Are assets:

- (a) In the form of materials or supplies to be consumed in the production process;
- (b) In the form of materials or supplies to be consumed or distributed in the rendering of services;
- (c) Held for distribution in the ordinary course of operations; or
- (d) In the process of production for sale or distribution.

Joint venture - Is a binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control.

Key management personnel – Are:

- (a) All directors or members of the governing board of the entity; and
- (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity.

Liabilities – Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

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

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

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

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

Related parties – Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related party transaction – Is a transfer of resources or obligations between related parties regardless of whether a price is charged.

Segment – A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

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

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

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