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Accounting Standards

International Public Sector Accounting Standards

Progress report by the Secretariat

In accordance with General Conference decision GC.12/Dec.14, the present document updates information presented in document GC.13/10 and informs the Committee of the adoption of the International Public Sector Accounting Standards (IPSAS) by UNIDO, effective January 2010, as planned.

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I. Introduction

1. In compliance with decision GC.12/Dec.14 of the General Conference, the objective of the present document is to confirm to the Committee that the International Public Sector Accounting Standards (IPSAS) was adopted by UNIDO, effective January 2010, as planned. The document highlights the tasks completed at UNIDO as well as the tasks ahead for preparation of the first IPSAS-compliant financial statements for 2010. Information is also provided on the continued work of the United Nations system-wide IPSAS project.

II. Adoption of IPSAS by UNIDO

2. UNIDO implemented IPSAS effective January 2010 and became ready for collecting data in accordance with IPSAS requirements. The new IPSAS compliant processes went into production on 11 January 2010, when the accounting books for the new biennium were opened. The first set of IPSAS-compliant financial statements will be produced for the year 2010.

3. A complete set of accounting policies for all Standards of relevance to UNIDO has been developed. These policies are supported by organization-wide detailed business workflows and processes. As UNIDO's budgeting methodology remains on a modified cash basis, a considerable amount of work was required to create a facility to simultaneously meet the requirements of budgetary/management reporting and financial reporting based on IPSAS (dual reporting). Extensive training was conducted on IPSAS Standards and principles and the new accounting processes in the system for staff both at Headquarters and field offices. A constructive dialogue was continuously maintained with the External Auditor and his views sought and received on key IPSAS-compliant policies. Essential initial amendments to the Financial Regulations of UNIDO were approved by the General Conference at its thirteenth session (decision GC.13/Dec.12 refers).

4. The adoption of IPSAS at UNIDO based on internationally recognized best practices will enhance the Organization's accountability and transparency through improved financial reporting. For the first time, property, plant and equipment (PPE), inventory and intangible assets will be recognized in the financial statements, resulting in enhanced financial management. Full recognition of the Organization's costs related to employee benefits — i.e., annual leave, after-service health insurance, end-of-service allowance and repatriation grants — will result in enhanced recognition of the Organization's liabilities. In the financial statements, recognition of expenses when they are incurred, i.e., goods or services delivered, rather than when cash is paid or committed, will lead to reporting of costs in the period when the activity occurred. This method is referred to as full accrual accounting. A summary of progress made and milestones achieved are presented below.

Financial regulations

5. An interim revision of the Financial Regulations of UNIDO took place in 2009 and was presented to the Committee at its twenty-fifth session and to the Board at its thirty-sixth session (IDB.36/11). The General Conference, at its

thirteenth session in December 2009, adopted the interim amendments to the Financial Regulations of UNIDO deemed necessary for IPSAS adoption (decision GC.13/Dec.12 refers).

Complete set of policies developed — publication of the IPSAS Manual

6. A firm foundation of IPSAS-compliant policies is key to IPSAS adoption. UNIDO has developed IPSAS-compliant policies for all IPSAS Standards of relevance to the Organization. An IPSAS Policy Manual, prepared by the Financial Services Branch and reviewed by the IPSAS Implementation Task Force (IITF), along with the Director-General's Bulletin dated 11 February 2010 (UNIDO/DGB(M).114) was published and electronically distributed to all UNIDO staff.

7. The IPSAS Policy Manual contains 19 policy notes, essentially covering 18 IPSAS Standards relevant to UNIDO and one International Accounting Standard (IAS 38) on intangible assets. Among the IPSAS Standards with the greatest impact on UNIDO are IPSAS 12 (Inventories), IPSAS 17 (PPE), IPSAS 23 (Revenue from non-exchange transactions) and IPSAS 25 (Employee benefits). Detailed policies and processes for UNIDO's IPSAS-compliance on these key Standards were developed by cross-organizational sub-working groups with general guidance from the IPSAS Working Group and IITF. This cross-organizational joint effort contributed significantly to the development of a stable platform of IPSAS-compliant policies, processes and workflows.

Financial statements presentation

8. IPSAS-compliant policies were developed on key financial statements-related Standards, such as IPSAS 1 (Presentation of financial statements) and IPSAS 2 (Cash flow statements) and published in the IPSAS Policy Manual. A firm and complete structure of model financial statements was established and presented in the annex to the IPSAS Policy Manual.

9. Also included in the IPSAS Policy Manual is a complete list of PPE classes, their subgroups and useful lives and a chart highlighting the differences between the United Nations System Accounting Standards (UNSAS) and IPSAS.

IPSAS-compliant processes, dual reporting and modified chart of accounts

10. New accounting processes were designed, with due consideration to the requirements of dual reporting. Under IPSAS, a critical area that impacts the financial systems is the requirement to capture data for both operational and financial reporting requirements. Since UNIDO's budget methodology continues on a modified cash basis, in accordance with the approach followed by the majority of United Nations system-wide organizations, reports related to budget performance will remain on the current basis while the financial statements will be based on full accrual reporting. The financial system (Agresso 5.5.3) was modified to capture this duality in transactions by defining appropriate accounting processes, which satisfies both IPSAS and budgetary reporting requirements. Respective modifications to the existing chart of accounts were developed and implemented in Agresso general ledger.

Publication of new accounting process instructions

11. New accounting process instructions, giving the relevant chart of accounts and the flow of accounting entries for various processes, were issued in January 2010. These process instructions covered, inter alia, PPE, intangibles, inventory, revenue recognition and long-term employee benefits, which are processes that are essential for IPSAS adoption at UNIDO.

Continuous dialogue with the External Auditor

12. Early planning and continuous dialogue with the External Auditor is essential for ensuring an orderly transition to IPSAS. Having recognized this, UNIDO engaged with the External Auditor as a priority during 2008 and 2009 throughout the entire process of IPSAS implementation. This has proved to be extremely valuable. The External Auditor's views were sought and agreement received on recommendations and policy justification on interpretation of key IPSAS Standards for UNIDO, including: method of initial valuation of PPE; revenue recognition policies for non-exchange transactions; using source of funds as service segments as the basis for segment reporting; definition of related parties and key management personnel; continuing to follow the existing method of calculation and allocation of support costs income to operational budget; and method of valuation of the Buildings Management Service (BMS) inventory.

Establishment of Agresso hotline and IPSAS help desk

13. An Agresso hotline was established in 2009. An IPSAS help desk was set up in January 2010 supported by key staff of the cross-organizational IPSAS team to ensure continuous support to staff on IPSAS implementation issues.

Training

14. An effective training strategy was essential for a smooth and orderly transition to IPSAS. UNIDO's IPSAS training strategy had 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 5.5.3, which is critical to training on IPSAS-compliant processes. A comprehensive training strategy for UNIDO was jointly developed by the Financial Services Branch, Human Resources Management Branch and Information and Communications Management Services and approved by the IITF in 2009.

15. Training of Headquarters as well as field office staff, including UNIDO Representatives, on key IPSAS concepts and on Agresso process changes was completed in the period November 2009-January 2010. This training was based on the training material received from the United Nations IPSAS team and further developed by UNIDO. Six IPSAS seminars were conducted for all relevant staff in the substantive branches in January 2010 to raise IPSAS awareness and to demonstrate essential system changes in Agresso.

16. Training activities are still ongoing and any new requests are being met on a regular basis. Several workshops and training courses on Agresso system changes were held during February-March 2010. It is proposed that further training on

advanced IPSAS-compliant accounting concepts will be conducted for staff in June 2010.

17. All available IPSAS training material, both conceptual and system/process-related, was placed on the Intranet for easy access of staff. The IPSAS essential system e-learning material was developed and placed on the Intranet in January 2010 for easy access of staff, in particular in UNIDO field offices.

18. As of 31 December 2009, the IPSAS budget implementation rate stood at 94 per cent. A final report on utilization of the IPSAS budget will be provided to the Committee at its twenty-seventh session in 2011.

III. Tasks ahead

19. The first set of IPSAS-compliant financial statements will be produced for the year 2010 and work is in progress to ensure accurate capturing of data by constant monitoring of IPSAS-compliant processes and workflows. The immediate focus in 2010 is on computing IPSAS-compliant opening balances as at 1 January 2010, fine-tuning of formats for the year-end financial statements, notes and reports, and conducting test runs for preparation of UNIDO's first set of IPSAS-compliant financial statements.

Establishment of opening balances

20. Opening balances under IPSAS need to be established and audited as the reliability and accuracy of the amounts reported in the year-end financial statements depend on the accuracy of the opening balances.

21. With the closure of accounts for the biennium 2008-2009 completed, the focus of work has shifted to the establishment of IPSAS-compliant opening balances as at 1 January 2010. The closing balances as at 31 December 2009 under UNSAS have been loaded into a test system. IPSAS-related accounting entries for first time recognition of PPE, intangible assets and inventories have also been made in the test system.

22. Actuarial valuation of after-service health insurance (ASHI) liability, repatriation benefits and accrued annual leave as at 31 December 2009 has been received and work is under way for recording opening balances of long-term employee benefits in the test system. Further accounting entries for recording opening balances of accruals, etc., will be completed thereafter.

23. A review of unliquidated obligations (ULOs) to determine delivered-but-not-paid obligations as at 31 December 2009 was completed. This exercise will contribute to establishment of the opening balance of accruals. On completion of the establishment of IPSAS-compliant opening balances in the test system and after performing appropriate validation checks, these balances will be reproduced in the operational Agresso system.

Monitoring of IPSAS-compliant processes

24. The newly established IPSAS-compliant processes are under regular review at all times by cross-organizational teams established for this purpose. Full checks are being conducted of the entire process of asset requisition to capitalization to oversee the smooth functioning of the processes/systems in practice, post-IPSAS implementation in 2010. The entire inventory process stream is being monitored regularly, issues identified and corresponding adjustments made to the system and processes. Improvements are being made to the processes of capturing IPSAS-compliant data in all areas where necessary to facilitate operations.

Treatment of the Vienna International Centre (VIC) shared premises, common services

25. The issue of IPSAS-compliant accounting treatment for VIC shared premises was discussed with the VIC-based organizations, United Nations Secretariat (New York) and the consultant, appointed by the International Atomic Energy Agency (IAEA), in order to arrive at a common accounting practice. Two formal meetings were held on this subject with all parties involved. The final report was received afterwards from the consultant in April and shared with UNIDO's External Auditor.

26. A common accounting treatment for the common services operated by UNIDO, i.e., Buildings Management Services, Major Repairs and Replacement Fund and catering services, is under discussion with the VBOs and a consultant was appointed by UNIDO. An interim report was received and the final report is expected by end-June 2010.

Transitional provisions — work in progress

27. UNIDO has availed itself of transitional provisions allowed under IPSAS only for areas of particular complexity and after discussion with the External Auditor, such as technical cooperation (TC) assets, treatment of the VIC building and treatment of revenue recognition of pre-IPSAS projects. A full review of the identification and establishment of control mechanisms over TC assets is planned over the five-year transition period allowed under IPSAS 17 (PPE). Tighter control of asset receipt mechanisms will be progressively applied for new acquisitions as well as for identification and verification of existing TC assets.

28. Each VIC-based organization has decided to implement IPSAS at a different pace. UNIDO has availed itself of the five-year transitional provisions allowed under IPSAS 17 for first time recognition of the asset class "buildings" for the VIC building. As reported in the previous paragraph, VIC-based organizations, including the United Nations Secretariat, are currently in consultation to arrive at a common accounting practice for the VIC building.

29. While IPSAS-compliant recording is taking place of voluntary funding agreements as of 1 January 2010, due to the complexity of full analysis of UNIDO's many hundreds of ongoing projects related to many different funding agreements, UNIDO has decided to use the three-year transitional provisions allowed under IPSAS 23 (Revenue from non-exchange transactions). Work is in progress to develop a proper inventory of current agreements and related revenues that need to be recognized during the transition period.

Test runs — IPSAS-compliant financial statements

30. Two test runs in preparation of IPSAS-compliant financial statements have been planned for 2010. For this purpose, an appropriate format of financial statements has been developed and mapping of the chart of accounts to the financial statements has been completed. Work is currently under way to develop the format of Notes to the financial statements. A proposal is under discussion with the External Auditor for him to perform a compliance test of the financial statements prepared for the second test run. It is envisaged that this exercise would result in the identification and resolution of potential issues before the year-end and significantly improve the quality of the first IPSAS-compliant financial statements for 2010.

Review of financial regulations and rules

31. Further to the interim review of the UNIDO Financial Regulations (document IDB.36/11) completed in 2009 and approved by the General Conference at its thirteenth session in December 2009 (decision GC.13/Dec.12), a comprehensive review of the UNIDO Financial Regulations and Rules, taking into account full requirements of IPSAS Standards and principles, is currently in progress and is planned to be submitted to the policymaking organs in 2011.

32. IPSAS stipulates preparation of annual financial statements. A financial reporting policy on annual audits was agreed upon at the June 2007 United Nations system-wide Task Force meeting:

“Acknowledging that the frequency of audit is determined by the Governing Body, it is recommended that organizations have their annual financial statements audited each year, when they begin presenting IPSAS compliant annual financial statements (CEB/2004/HLCM/FB/7).”

33. In the light of the above and in reference to document IDB.36/11, the policymaking organs of UNIDO agreed that as an exception, an annual audit be carried out for the year 2010, the first year of IPSAS compliance, within the existing budget for audit fees. Subsequently, the External Auditor’s agreement to this recommendation was received. Accordingly, for subsequent years, the issue of institutionalizing annual audits or retaining the current regulations (financial regulations 10.7 and 11.10) will be assessed and presented, along with other IPSAS-related amendments as required, to the policymaking organs of UNIDO in 2011.

IV. System-wide IPSAS project

34. The United Nations Task Force on Accounting Standards, supported by the IPSAS project staff in the United Nations Secretariat, has continued to provide system-wide support for IPSAS implementation. As a member of the Task Force and the IPSAS Project Steering Committee, UNIDO contributes on a regular basis to IPSAS policy development and ensures that UNIDO-specific issues are addressed at meetings of the system-wide Task Force on Accounting Standards. The IPSAS system-wide policy platform strives at a high level of consistency across the United Nations system and provides a firm foundation for IPSAS implementation.

35. At the Task Force meetings in 2009, new guidance papers were reviewed and IPSAS-compliant policies, allowing for flexibility for individual organizations, if

justified, were identified, while maintaining general policy harmonization among United Nations system organizations. System-wide harmonization and management of accounting policy diversity was again discussed at the Task Force videoconference held on 12 May 2010.

36. The Task Force meetings in 2009 and 2010 highlighted the positive development of the panel of external auditors' increased level of interaction. The importance of individual organizations holding bilateral discussions with their External Auditor was emphasized — a practice which UNIDO has adhered to throughout its entire phase of IPSAS adoption.

37. A significant amount of time of the Task Force meetings was dedicated to discussion on current implementation issues, in particular, sharing of experiences among organizations and phased implementation strategies for those organizations that plan to adopt IPSAS post-2010.

38. The importance of training staff in IPSAS-compliant principles and processes was emphasized at the Task Force meetings. The system-wide IPSAS training material had been completed by the United Nations IPSAS team, in collaboration with an external consulting firm and made available to organizations in November 2009. Details of UNIDO's IPSAS training were described above.

39. United Nations System organizations continue to make progress on IPSAS adoption. One early adopter organization adopted IPSAS effective 2008.¹ Only eight organizations, amongst them UNIDO, have adopted IPSAS by the original target date of 2010. Of the remaining thirteen organizations, four reported that they plan to adopt IPSAS in 2011, eight in 2012 and one in 2014.² Delays in implementation of new enterprise resource planning (ERP) systems, slow progress in completion of communications and training plans as well as incomplete reviews of the impact of individual IPSAS Standards presented some of the major challenges for IPSAS adoption by some United Nations system organizations.

V. In conclusion

40. The adoption of IPSAS, based on internationally accepted best practices, constitutes a major change in UNIDO's financial accounting and reporting, resulting in enhanced transparency, accountability and comparability of its financial statements. Continued commitment and support by staff at all levels and constructive dialogue with the External Auditor will significantly contribute to the continued success in implementing IPSAS and to meeting the goal of receiving an unqualified audit opinion on UNIDO's first IPSAS-compliant financial statements for 2010.

VI. Action required of the Committee

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

¹ World Food Programme (WFP).

² CEB/2009/HLCM/8.

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.

Chart of accounts — Is a list of the accounts used by an organization. The list can be numeric, alphabetic, or alphanumeric. The structure and headings of accounts should assist in consistent posting of transactions. Each nominal ledger account is unique. The list is typically arranged in the order of the customary appearance of accounts in the financial statements, balance sheet accounts followed by profit and loss accounts.

Dual reporting — Represents modifications in the financial systems to capture data for both operational and financial reporting requirements, when there is a difference between the basis of budget preparation/reporting and reporting financial statements on accrual basis. The financial system and processes were accordingly modified to capture this duality in transactions.

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

Full accrual/Accrual basis — Means 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). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the period to which they relate. The elements recognized under full accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

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.

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.

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