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### Accounting standards

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### Accounting standards

## International Public Sector Accounting Standards

### Progress report by the Secretariat

Further to the adoption of the International Public Sector Accounting Standards (IPSAS) by UNIDO, effective January 2010, and in accordance with General Conference decision GC.12/Dec.14, the present document highlights the tasks completed at UNIDO in preparation for the first IPSAS-compliant financial statements for 2010, as well as tasks ahead. Information is also provided on the continued work of the United Nations system-wide IPSAS project.

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## **I. Introduction**

1. Further to the adoption of IPSAS by UNIDO, effective January 2010, and in compliance with decision GC.12/Dec.14, the present document highlights the tasks completed in preparation for the first set of IPSAS-compliant financial statements for 2010. The documents also inform on tasks ahead related to an orderly implementation of a limited number of transitional provisions allowed for under IPSAS as well as a comprehensive review of the financial rules following the adoption of IPSAS. Information is also provided on the continued work of the United Nations system-wide IPSAS project. Proposed amendments to the financial regulations are presented in a separate document (IDB.39/6-PBC.27/6).

## **II. Adoption of IPSAS by UNIDO — Tasks completed**

2. UNIDO has implemented IPSAS effective January 2010 and is in the process of preparing the first set of IPSAS-compliant financial statements for the year ending 31 December 2010. A summary of progress made and key milestones achieved are highlighted below.

### **Establishment of IPSAS-compliant opening balances and test runs**

3. Focus was given in 2010 to the establishment of IPSAS-compliant opening balances as at 1 January 2010, incorporating major adjustments to the United Nations system accounting standards (UNSAS) closing balances in the areas of property, plant and equipment, revenue recognition, employee benefit and consolidation of joint activities. This step represents a significant achievement as the reliability and accuracy of the amounts reported in the year-end financial statements depend on the accuracy of opening balances.

4. Two test runs, in preparation of IPSAS-compliant financial statements have been successfully completed in 2010, with a soft closure in June 2010, and a full-scale test run in collaboration with the External Auditor, for preparation of interim financial statements for the nine-month period ending 30 September 2010. A UNIDO-specific and IPSAS-compliant format of financial statements and notes to the financial statements has been developed. The External Auditor has performed a compliance test of the financial statements prepared for the interim financial statements for the period ending 30 September 2010. Feedback received from the External Auditor is being incorporated in the preparation of 2010 year-end financial statements. This exercise has resulted in the identification and resolution of potential issues before the year-end and is expected to contribute to significant improvement of the quality of the first IPSAS-compliant financial statements for 2010.

5. Work on capitalization of 2010 acquisitions of property, plant and equipment (PPE), as well as disposals and sales for Headquarters, Buildings Management and Catering Services have been completed. Work is under way on capitalization of 2010 acquisition of PPE in field offices. Physical verification of both PPE and inventory for 2010 has taken place. Work was also completed on final valuation of 2010 inventory and general ledger reconciliation with the inventory module, including accrual adjustments.

**IPSAS Policy Manual and IPSAS-compliant accounting process instructions**

6. A complete set of accounting policies, supported by organization-wide detailed business workflows and processes, for all Standards of relevance to UNIDO has been developed and remains under constant review. An IPSAS Policy Manual was first published in January 2010. A revised version of the Manual was published in February 2011,<sup>1</sup> incorporating minor policy adjustments in light of the experience gathered and advice received from the External Auditor on IPSAS implementation during 2010 — the first year of IPSAS implementation. IPSAS-compliant accounting process instructions were issued in January 2010 and are regularly reviewed and updated as necessary.

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

7. The issue of IPSAS-compliant accounting treatment for VIC shared premises has been discussed at length with the VIC-based organizations, United Nations Secretariat (New York) and a consultant, appointed by the International Atomic Energy Agency (IAEA). The final report was received from the consultant in April 2010 and was shared with the External Auditor of UNIDO. After a series of consultations, it was agreed to treat VIC common services as jointly controlled operations, in accordance with the provision in IPSAS. Since each VIC-based organization implements IPSAS at a different pace, consultations in relation to a common accounting treatment for the VIC-building are still ongoing.

**Training**

8. An effective training strategy, jointly developed by the Financial Services Branch (FIN), Human Resource Management Branch (HRM) and Information and Communication Management Services (ICM), contributed significantly to the adoption of IPSAS at UNIDO. The year 2010 saw extensive training conducted on IPSAS principles, as well as on the new accounting processes in the system for staff both at headquarters and field offices. Regular, up-to-date training remains a key priority in 2011 and refresher training courses and workshops on IPSAS-compliant processes are being regularly conducted. All available IPSAS training material, both on IPSAS concepts and principles, as well as on systems and processes has been placed on the Intranet and is readily available to all staff. The IPSAS essential e-learning material containing instructor-led training videos is also available on the Intranet for easy access of staff, in particular in UNIDO field offices. The IPSAS hotline and help desk continue to provide support to staff at large on IPSAS implementation issues.

**Continuous dialogue with the External Auditor**

9. Continuous and constructive dialogue with the External Auditor is crucial for ensuring a successful transition to IPSAS. Engagement with the External Auditor was established as a priority throughout the entire process of IPSAS implementation. The External Auditor's opinion has been sought and received for all major UNIDO IPSAS policies and key issues to ensure IPSAS compliance, and

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<sup>1</sup> Available on the UNIDO Extranet.

the constructive feedback has proved to be critical in preparation of the 2010 year-end final financial statements.

#### Financial regulations

10. Further to the essential initial amendments to the financial regulations approved by the General Conference at its thirteenth session (decision GC.13/Dec.12), a further review of the financial regulations, pertaining to the institutionalization of annual audits at UNIDO, has taken place and amendments were proposed to the policymaking organs (IDB.39/6-PBC.27/6).

#### IPSAS budget

11. As of 31 December 2010, the utilization of the approved IPSAS budget, as included in the programme and budgets for the biennium 2008-2009, is indicated in the table below. The final implementation rate of the IPSAS budget was 88.7 per cent. The savings were primarily due to midterm resignation of accounting and information technology consultants as well as to reduced travel requirements owing to extensive use of videoconference facilities.

#### Utilization of IPSAS budget, as of 31 December 2010

(In euros)

	<i>Approved budget</i>	<i>Actual cost</i>	<i>Balance</i>
Staff costs	155,900	145,479	10,421
Consultants	562,500	522,135	30,365
Official travel	40,700	14,143	26,557
Operating costs	37,900	18,337	14,263
Information and communications technology	398,000	350,293	47,707
<b>Total</b>	<b>1,195,000</b>	<b>1,060,387</b>	<b>134,613</b>

### III. Tasks ahead

#### Transitional provisions — work in progress

12. As reported in document IDB.38/5-PBC.26/5, UNIDO has availed itself of transitional provisions allowed under IPSAS only for areas of particular complexity and after consultation with the External Auditor, such as technical cooperation (TC) assets, treatment of the VIC building and of revenue recognition of pre-IPSAS projects.

13. UNIDO has taken the five-year transitional provisions allowed under IPSAS 17, Property, plant and equipment for technical cooperation assets, which represent the majority of UNIDO assets. While some preliminary investigation has been conducted on UNIDO TC assets, a comprehensive review of the control of TC assets as well as identification and verification thereof will commence in 2011 aiming at the development of an appropriate accounting treatment.

14. UNIDO has also availed itself of the five-year transitional provisions allowed under IPSAS 17 for first time recognition of the asset class “buildings”.

15. UNIDO has decided to use the three-year transitional provisions allowed under IPSAS 23, Revenue from non-exchange transactions, mainly due to the complexity of conducting a full analysis of the Organization's several hundred ongoing pre-IPSAS projects, which are related to many different funding agreements. While new projects (approved from 2010 onward) are treated according to IPSAS requirements, analysis of pre-2010 projects are being carried out when new information is available throughout 2010. It is expected that by the end of the transitional period, a majority of pre-2010 projects will be completed or analysed and the scale of old projects that still need further analysis will be much smaller.

#### **Review of financial rules**

16. The financial rules will be reviewed in coordination with the implementation timelines of the Programme for Change and Organizational Renewal (PCOR) in order to ensure the application of best practices offered by the enterprise resource planning (ERP) system.

### **IV. System-wide IPSAS project**

17. UNIDO is a member of both the United Nations Task Force on Accounting Standards and the IPSAS Project Steering Committee. Task Force meetings in 2010 highlighted the importance of individual organizations holding bilateral discussions with their External Auditor, encouraged sharing of experiences among organizations and recommended phased implementation strategies for those organizations that plan to adopt IPSAS post-2010. The importance of training staff in IPSAS-compliant principles and processes was also emphasized at these meetings.

18. As mandated by the United Nations High-level Committee on Management (HLCM) during its first meeting in 2010, an external review of the system-wide project has been conducted defining strategic orientation for the remaining part of the current biennium, for 2012 to 2013 and thereafter. A special session of the Finance and Budget Network discussed the outcomes of the external review and endorsed the continuation of the system-wide team until 2013 and presumably until 2015, for the consideration of HLCM.

19. UNIDO remains at the forefront of IPSAS adoption among the United Nations system organizations. With the exception of one early adopter organization that adopted IPSAS effective 2008,<sup>2</sup> only eight organizations, amongst them UNIDO, have adopted IPSAS by the original target date of 2010. Of the remaining 13 organizations, two reported that they plan to adopt IPSAS in 2011, eight in 2012, one in 2013 and two in 2014. Organizations cited delays in implementation of new ERP systems, slow progress in completion of communications and training plans as well as incomplete reviews of the impact of individual IPSAS Standards, as major challenges for IPSAS adoption.

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<sup>2</sup> World Food Programme (WFP).

## **V. In conclusion**

20. The adoption of IPSAS, based on internationally accepted best practices, will result in enhancement of the Organization's accountability and transparency to all stakeholders through improved financial reporting. Full priority is given to the preparation of the first IPSAS-compliant financial statements for the financial year ending 31 December 2010 and meeting the goal of receiving an unqualified audit opinion on the financial statements for 2010.

## **VI. Action required of the Committee**

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

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## Annex

### Definitions of terms

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

Full accrual/Accrual basis — A basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). 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.

General ledger reconciliation — A general ledger is used to record the monetary functions of an organization. It is vital that entries in the general ledger are reconciled to ensure accuracy and ethical reporting practices. General ledgers provide information that is later transferred to the income statement and the balance sheet. Performing a general ledger reconciliation entails matching information from a source document with the entry in the general ledger.

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.