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PREPAREDNESS OF UNITED NATIONS SYSTEM ORGANIZATIONS FOR THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

Prepared by

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Joint Inspection Unit

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EXECUTIVE SUMMARY

Preparedness of United Nations system organizations for the International Public Sector Accounting Standards (IPSAS)
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The purpose of this report is to provide an overview of the transition to and implementation status of the International Public Sector Accounting Standards (IPSAS) in United Nations system organizations and to show how this process has been carried out by each organization, with a focus on identifying best practices and possible risks.

Following 25 years of attempts to harmonize financial reporting practices across United Nations system organizations and allow for better comparability of their financial statements, namely through the use of a specific set of United Nations accounting standards, in 2006 the General Assembly endorsed the recommendation of the CEB and approved the adoption by the United Nations of IPSAS. Other United Nations organizations soon followed, as the IPSAS standards were recognized as being the most appropriate for non-profit intergovernmental organizations.

The adoption of IPSAS is seen as a key reform element within the United Nations System and it continues to receive support from governing bodies and senior management. Since 2006 United Nations system organizations have made headway in aligning themselves with IPSAS requirements. Yet they have become increasingly aware that this undertaking would be more arduous and complex than initially foreseen. Of 22 organizations reviewed, one (WFP) has already been receiving unqualified (i.e. favourable) opinion from its external auditor on its financial statements for 2008 and 2009, presented as IPSAS compliant. (Its experience and best practices are presented in annex IV); eight - ICAO, IMO, ITU, PAHO, UNESCO, UNIDO, WIPO and WMO - have introduced IPSAS by the original target of 2010, and their external auditors will determine in the course of 2011 whether they are indeed compliant, two (IAEA and UPU) expect to implement IPSAS in 2011, nine (FAO, ILO, UNDP, UNFPA, UNHCR, UNICEF, UNOPS, UNRWA and WHO in 2012 and two (United Nations and UNWTO) in 2014.

The review demonstrates that the adoption of IPSAS is beginning to have a major impact on United Nations system organizations, extending well beyond accounting. The conversion to IPSAS should allow for enhanced management of resources and business processes and improve results-based management across the United Nations system. Depending on the organizations' initial readiness for IPSAS requirements, the transition to IPSAS has been a major undertaking for most organizations as it is impacting accounting, financial reporting and associated information technology systems and should lead to a new approach to planning, decision-making, budgeting and financial reporting. It is expected that the reporting of assets, liabilities, revenue and expenses in accordance with independent international standards will significantly improve the quality, comparability and credibility of United Nations System financial statements to Member States, donors and staff, enhancing accountability, transparency and governance.

Many organizations underestimated the concerted efforts and resources that would be required and failed to undertake initial preparedness and risk assessments. The review also found that successful transition to IPSAS hinges on strong senior management support and engagement, dedicated intra-departmental task forces and the adoption of a project management approach.

A system-wide project under the authority of the High Level Committee on Management (HLCM) has been critical to support the IPSAS projects of United Nations system organizations. The project, coordinated by a Task Force on Accounting Standards, encompassed the development of accounting guidance, training material, and experience sharing among IPSAS teams (as reflected by the Secretary-General's progress reports and Accounting Standards website, etc.) and involvement in the standard-setting work of the IPSAS Board (IPSASB).

In addition to outlining the benefits expected from the application of IPSAS, this report identifies and addresses a number of risks that executive heads should consider in order to ensure a successful transition to IPSAS.

The report recommends that executive heads ensure implementation of the following set of sixteen best practices as identified in this report in addition to the two recommendations made to their respective legislative bodies. The Inspector is aware that most of these recommended practices are being or have already been implemented by many organizations.

Set of 16 Best Practices for Implementing a Smooth Transition to IPSAS:

1: Set up an inter-departmental IPSAS project steering committee or equivalent body tasked with ensuring that senior management understand the goals and vision driving the transition to IPSAS. The committee should have a multi-year mandate and include staff specialized in the pre-design, design and implementation of ERP systems.

2: Conduct an in-depth analysis of gaps between existing business processes, procedures, financial reporting and functionalities developed under UNSAS and the requirement and impact of each IPSAS standard.

3: In the case of a major shift in the project environment, reassess the initial IPSAS adoption strategy and adjust this as necessary.

4: Apply proven project planning and implementation methodologies including clearly defined strategic objectives, deliverables, timelines, milestones and monitoring procedures.

5: Develop a strategy for producing IPSAS-compliant opening balances for the targeted implementation date (first day of the first year of compliance) as well as the closing balance for the previous day, based on the previous accounting standard (UNSAS), but easily translatable into IPSAS terms for the opening balance of the targeted year.

6: With a view to ensuring continued engagement of governing bodies in the change process, regularly update the governing bodies on progress made in the implementation of IPSAS and request that they adopt the relevant decisions, in particular with regard to amendments required to financial regulations and allocation of resources for the project.

7: Determine and budget for the additional human resources required in the administrative, budgetary and finance areas to ensure not only effective implementation of the transition to IPSAS but also adequate capacity to maintain future IPSAS compliance.

8: Ensure that financial resources are made available for training, where feasible, of in-house experts in accounting, business and change management or for the recruitment of external experts.

9: Thoroughly analyze existing (legacy) information systems for compatibility and synergy with IPSAS requirements and, as a major element of the initial gap analysis, appreciate the changes that an ERP system must undergo to support IPSAS.

10: Communicate awareness on the transition to IPSAS through all available means of communication, training and documentation. This can be achieved through personal contact, presentations, and testimonies from persons involved in successful cases outside the entity, retreats, practical exercises and other training materials comparing present and new accounting policies.

11: Ensure that existing and future staff, in particular managers and supply chain and finance staff, are fully familiarized with the new procedures and requirements through the use of specific documentation (manuals) and training.

12: Adopt risk assessment, management and mitigation strategies and practices for project implementation in accordance with the project's objectives.

13 Plan and prepare interim financial statements for review by external auditor(s) well ahead of the final implementation date to avoid unpleasant surprises.

14: Establish and maintain, as soon as feasible, a bilateral dialogue between the organization and its external auditor(s) on the transition to IPSAS to help ensure that both external and internal auditors gain in-depth understanding of the new system and its impact on control procedures, as the implementation of IPSAS would require migration to accrual-based accounting.

15: Perform continuous testing of internal controls during the preliminary implementation stage of an IPSAS project to ensure the accuracy of the data.

16: Ensure that an independent and comprehensive validation and verification of the system is performed towards the end of its completion.

Taking all those best practices into account, the first two of the recommendations set out below are addressed specifically to the legislative bodies of United Nations system organizations and the third to their Executive Heads: all are aimed at enhancing accountability, effectiveness and efficiency in the transition of each and every organization of the United Nations system to IPSAS implementation.

Recommendation 1

The legislatives bodies should request their respective executive heads to issue regular progress reports on the implementation status of IPSAS.

Recommendation 2

The legislative bodies should provide the support, staffing and funding required to ensure successful and effective transition to IPSAS.

Recommendation 3

The Executive Heads should ensure that the set of 16 best practices identified in the present JIU report is applied when implementing the IPSAS project.

CONTENTS

ANNEXES

ABBREVIATIONS

AC	Audit Committee
ACABQ	Advisory Committee on Administrative and Budgetary Questions
ACC	Administrative Coordination Committee
ASHI	After-service health insurance
BoA	United Nations Board of Auditors
CCAQ	Consultative Committee on Administrative Questions
CCAQ (FB)	Finance and budget sector of the Consultative Committee on Administrative Questions
CEB	United Nations Chief Executives Board for Coordination
CNC	Conseil National de la Comptabilité
EC	European Commission
ED	Exposure drafts
ERP	Enterprise Resource Planning
FASB	Financial Accounting Standards Board
FAO	Food and Agriculture Organization of the United Nations
FBN	Finance and Budget Network
FEE	Federation des Experts-Comptables Européens
FS	Financial statements
GAAP	Generally Accepted Accounting Principles
HLCM	High Level Committee on Management
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICAO	International Civil Aviation Organization
ICT	Information and communication technology
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ILO	International Labour Organization
IMIS	Integrated Management Information System
IMO	International Maritime Organization
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
ITU	International Telecommunication Union
NAO	British National Audit Office
NGO	Non-governmental organization
OECD	Organisation for Economic Co-operation and Development
PAHO	Pan American Health Organization
PoEA	Panel of External Auditors
PPE	Property, plant and equipment
SG	Secretary General
TF	Task Force on Accounting Standards
ULO	Un-liquidated obligation
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNGA	United Nations General Assembly
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children’s Fund

UNIDO	United Nations Industrial Development Organization
UNOPS	United Nations Office for Project Services
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNSAS	United Nations System Accounting Standards
UNWTO	United Nations World Tourism Organization
UPU	Universal Postal Union
WFP	World Food Programme
WHO	World Health Organization
WINGS	WFP Information Network and Global System
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization

I. INTRODUCTION

1. As part of its programme of work for 2008, the Joint Inspection Unit (JIU) undertook a review entitled “Implementation of the International Public Sector Accounting Standards (IPSAS) in United Nations system organizations”. The present review, which is directed at a broad audience, seeks to tackle a number of complex and interrelated issues and provide a comprehensive overview. Given the size and highly technical nature of the IPSAS project (the full texts of all IPSAS standards fill more than 1,000 pages) it was a major challenge to synthesize the review into a readable and as concise as possible a report. The information in this report is therefore provided in relatively short sections suitable for individual study as necessary. Readers are encouraged to use the table of contents to guide them to issues of their own special interest:

Chapter II is of particular interest for those who wish to understand the raison d’être of the reform;

Chapter III explains some specific differences between IPSAS and UNSAS and how IPSAS requirements and benefits will impact the organizations;

Chapter IV expounds on how each organization has tackled the same challenge in different environments; on the ingredients for success or failure; on the project team that supported the organizations at the interagency level; and on best practices, an area in which both executive heads and Member States have an important role to play;

Chapter V gives a snapshot of the big IPSAS picture; and

Annex IV focuses on the first and hitherto only success story of IPSAS compliance in the United Nations system.

A. Origin

2. Since 1980, and more so since 2004, United Nations system organizations have recognized the need for a concerted process for an orderly transition toward compliance with common and internationally recognized accounting standards. Reviewing this common process provides an exceptional opportunity for the JIU to fulfil its mandate of ensuring that optimum use is made of resources made available to the organizations, in particular through greater coordination between them.[1] This review commenced in 2008, with most research and drafting being undertaken in 2009.

3. Unsurprisingly, the urgency of undertaking this reform was first felt by experts in international accounting from across the United Nations system. The Inspector recalls the harsh assessment of the International Federation of Accountants (IFAC), which pointed out that “despite the importance of good quality financial reporting and accounting standards to improvements in governance, accountability and transparency, most of the United Nations system management reform reports have not linked financial reporting or accounting standards to these three reform aims” [2] (with the exception of the World Food Programme (WFP) Governance Project). In concrete terms, had IPSAS been applied in the last decades, there would have been no unpleasant surprises about the necessity and cost of the Capital Master Plan, the liabilities on after-service health insurance (ASHI), or about millions of unaccounted assets, especially in peacekeeping missions.

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[1] Article 5 of the JIU Statute

[2] International Federation of Accountants, Study 13: Governance in the Public Sector: A Governing Body Perspective, August 2001

B. Objectives

4. Given that all in principle decisions to adopt IPSAS had already been made in 2006 and 2007, this report will not dwell on their appropriateness but rather seek to propose ways and means to have these implemented in the most efficient manner. Consequently, the objectives of the report are to:

- understand why and how United Nations system organizations had decided to transit to IPSAS, with the main benefits, challenges and difficulties involved;
- highlight the provisions of IPSAS which would entail major common changes in accounting and management practices across the United Nations system; and
- Give insight into key IPSAS issues with a view to assisting the legislative bodies, executive heads and managers of United Nations system organizations to assess the implementation status of their IPSAS project and, if necessary, rethink their adoption strategy.

5. This report seeks to increase IPSAS awareness among delegates and officials of the various secretariats, who mostly do not have a professional background in accounting. The inspector feels it is essential to make this very technical accounting reform as understandable as any other management reform so that Member States and officials alike may appreciate the benefits to be expected from the adoption of IPSAS. A further objective is to help decision makers to fully take into account the most relevant success factors for attaining their common goal of producing IPSAS-compliant set of financial statements (FS) as soon as possible, in accordance with the decisions taken in 2004 and 2005 by the directors of accounting and finance of United Nations system organizations and subsequently by their legislative bodies in 2006 and 2007.

C. Methodology

6. The review covers IPSAS implementation in all participating organizations between 2006 and mid-2010[3]. In accordance with the internal standards and guidelines of the JIU and its internal working procedures, the methodology followed in preparing this report included a preliminary desk review, interviews and in-depth analysis. The JIU was given access to responses to the semi-annual questionnaires circulated by the Task Force on Accounting Standards (TF) of the United Nations Chief Executives Board for Coordination (CEB). In addition, a detailed questionnaire was sent by the JIU to all participating organizations. On the basis of the responses received, the Inspector conducted interviews with officials of participating organizations. He also sought the views of the CEB Secretariat and organizations which have already adopted IPSAS, including the Organisation for Economic Co-operation and Development (OECD), the European Commission (EC) and the World Bank. The views of the IPSAS Board, IFAC, the United Nations Board of Auditors (BoA) and the French Government were also sought.

7. Substantive comments from participating organizations on the draft report have been sought and taken into account in finalizing the report. In accordance with article 11.2 of the JIU Statute, this report has been finalized after consultation among the Inspectors so as to test its conclusions and recommendations against the collective wisdom of the Unit. To facilitate the handling of the report and the implementation of its recommendations and the monitoring thereof, annex V contains a table indicating whether the report is submitted to the organizations concerned for action or for information. The table identifies those recommendations relevant for each organization, specifying whether they require a decision by the

[3] Although the Pan American Health Organization (PAHO) considers itself to be the Regional Office of the World Health Organization (WHO) for the Americas, it is not a participating organization of the JIU. However, it appears among the 22 organizations participating (including financially) in the interagency project and the Task Force on Accounting Standards and was reviewed in the Secretary-General's progress reports on IPSAS.

organization’s legislative or governing body or can be acted upon by the organization’s executive head. The Inspector wishes to express his appreciation to all who assisted him in the preparation of this report, and particularly to those who participated in the interviews and shared their knowledge and expertise.

8. This report is dedicated to the memory of Jean François des Robert, whose lecture to the JIU inspired this project and who, despite being a recognized specialist in the implementation of IFRS and IPSAS in various countries of Africa, Asia and Central Europe, modestly accepted to work for this project as a JIU Research Officer from January 2008 until the final days of his life in April of that year.[4] He is deeply missed as an expert and as an exemplary human being. This project was then suspended for one year.

[4] His publications included *Normes IFRS et PME* (2004) and *Les Normes IPSAS et le Secteur Public* (2008), the latter published posthumously by Dunod, Paris. An English translation was planned.

II. TOWARDS IPSAS

A. Why financial reporting needs international accounting standards

9. Until they decided to migrate from UNSAS to IPSAS, most United Nations system organizations had few accountants and little understanding of the substantive role that accountants can play in improving the financial management of public services and ensuring greater value for money.

10. The objective of **financial statements** (FS) is to provide structured basic information on a private or public entity's performance and financial position (i.e. its health and wealth) both for internal and external users.[5]

11. In order to be useful, **FS have to be understood in an equal manner by all users** and should therefore apply common accounting principles, policies or rules developed by authoritative and independent specialists - hence the concept of accounting standards. With the development of international trade, finance and investments exchanges, the need for common tools to assess the value of commercial entities required international recognition of these standards.

12. Initially felt in the private sector, this need has been addressed primarily by accountants who had first met nationally and then internationally to establish and maintain standard-setting bodies such as the International Accounting Standards Committee (IASC)[6] and its successor, the London-based 15-member International Accounting Standards Board (IASB).[7] Its International Financial Reporting Standards (IFRS), derived from the **International Accounting Standards** (IAS), were made mandatory by the European Union for all listed companies in 2005 and they, or their national equivalents, are progressively becoming mandatory in other countries including India, South Africa, Turkey and the United States.

13. "The philosophy underlying international accounting standards is that they set a series of principles against which the decisions about the recording of particular transactions should be judged. The application and audit of such standards is based on the assumption that they will be applied by persons who have a thorough knowledge of accounting theory and practice and be audited by persons who have a similar background."[8]

B. The dilemma facing United Nations system organizations

14. It took 25 years for United Nations system organizations to progress from a situation where the absence of a common framework for accounting and financial reporting prevented comparison of financial statements between organizations towards the progressive adoption of the same internationally recognized accounting standards. The major steps in this evolution have been as follows:

1980 Creation of a working party on the harmonization of FS by the finance and budget sector of the Consultative Committee on Administrative Questions (CCAQ (FB)) and its agreement that the recommendations of the IASC should serve as useful guidelines.

1981: Adoption by the ACC of several principles of common sense, drawn from the "Generally Accepted Accounting Principles" (GAAP), which draw on standards, conventions, and rules that accountants follow in recording transactions and preparing FS. In particular, the principles relate to continuity ("going concern"),

[5] In addition to preparing general purpose financial statements, an entity may prepare financial statements for parties who can demand financial statements tailored to meet their specific information needs (e.g. governing bodies, the legislature and other parties who perform an oversight function). Such statements are referred to as "special purpose financial statements."

[6] Established in 1973

[7] Established in 1991 as an independent privately funded accounting standard setter.

[8] Fédération des Experts Comptables Européens (FEE): The adoption of accrual accounting and budgeting by Governments (July 2003), hereinafter referred to as "FEE 2003".

consistency, prudence, substance over form, disclosure of significant accounting policies, materiality, sincerity, periodicity and regularity. The same year the Consultative Committee on Administrative Questions (Finance and Budget) (CCAQ (FB)) made the disclosure of accounting policies mandatory for United Nations system organizations.

1980s There were two opposing schools of thought as to the difficulty (CCAQ (FB)) or the necessity (Panel of External Auditors) of developing a body of accounting standards which would apply specifically to United Nations system organizations.

1991: The Panel of External Auditors (PoEA) clearly described the challenge facing United Nations system organizations: "There are, of course, many reasons why standards developed specifically for application to the needs of businesses and commercial accounting cannot be read across for direct application in the very different circumstances of the United Nations organizations (…) More generally, the aims and objectives of United Nations organizations, the appropriate disclosure requirements, the interests and needs of the organizations preparing the financial statements and of the various users of the final accounts are in many respects significantly different from those appropriate to commercial bodies." [9] A Standards Committee was established the same year.

C. A first and elusive solution: the United Nations Accounting Standards (UNSAS)

15. Finally, in response to a request by the General Assembly to PoEA[10] dated 21 December 1990, the annex to the Secretary-General's 1993 report on accounting standards[11] was the first version of the United Nations System Accounting Standards (UNSAS). Although these standards have been subject to a series of revisions and continued to be applied by most United Nations system organizations at the time of the JIU review, their objectives have remained unchanged.

16. The use of UNSAS was a major step towards the adoption of common language and terminology among accountants of United Nations system organizations, but their objectives had only been partially met.

17. Whatever efforts might be deployed to revise UNSAS, three major flaws will remain, the price to be paid for their flexibility and adaptability to the various needs of United Nations system organizations:

a) UNSAS leave ample room for interpretation since the very text establishing them recognized the principle of freedom for the authority competent for financial matters, thus allowing the organizations to dispense with strict discipline;[12]

b) As a consequence, they are not truly "in force", "common" or, by extension, credible.

c) From an auditor's point of view, they may give rise to a conflict of interest since they have been promulgated by an authority representing the very organizations whose accounts are to be audited in accordance with their own standards.

18. While the United Nations system was proceeding with repeated revisions of its own standards in a bid to modernize its accounting practices, accounting trends were evolving rapidly in civil society, especially at the turn of the century in the wake of several scandals (Enron, WorldCom, etc.) which turned public opinion in favour of strengthening accounting regulations and policies and their international convergence. It thus became increasingly clear that the only way to ensure consistent and comparable financial reporting and accounting processes across the United Nations system was to make sure that all financial disclosures

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[9] A/46/341, paras. 9 and 10
[10] In A/RES/45/235, para. 5
[11] A/48/530
[12] For example, para. 4 reads: "If these fundamental accounting assumptions are not followed, that fact should be disclosed together with the reasons."

complied with the same set of standards issued by an independent external authority with an international composition and adapted to the needs of non-profit entities.

D. A new solution to an old dilemma: the International Public Sector Accounting Standards (IPSAS)

19. Fortunately, following and complementing the success of the IFRS, an initiative to meet these needs was launched in 1996. The International Federation of Accountants (IFAC) [13] established the Public Sector Council (PSC), later renamed the **IPSAS Board** (IPSASB), in Toronto, with a view to developing International Public Sector Accounting Standards (IPSAS), underpinned by an independent and transparent due process[14] similar to that followed by IASB.[15] The aim was to develop high quality accounting standards to be used in the preparation of general purpose FS by public sector entities worldwide. Public sectors entities include national Governments, regional and local Governments and their component entities. Intergovernmental organizations were not included within the original scope of the standards. The IPSASB works with a very limited staff as an independent standard-setting body under the auspices of the IFAC. It achieves its objectives by:

- Issuing International Public Sector Accounting Standards (IPSASs) and other pronouncements[16];
- Promoting the acceptance and international convergence of accounting standards; and
- Publishing other guidance material on financial reporting in the public sector.

20. Basically, the IPSAS standards set out recognition, measurement, presentation and disclosure requirements relating to transactions and events to be synthesized in general purpose FS. The full texts of IPSAS standards employ some new terminology[17] and provide examples of the application of the standards to particular transactions in order to enhance understanding of their requirements. In order to help introduce the necessary changes required by a system-wide adoption of IPSAS, interpretations of the standards and guidelines have been discussed by the Task Force on Accounting Standards. By the end of 2007, the system-wide project team had developed a portfolio of IPSAS-compliant policies and guidelines that has been accepted by United Nations system organizations as providing a stable platform for facilitating harmonization of IPSAS-compliant financial reporting across the United Nations system. In 2008 and 2009, further system-wide guidance papers were accepted, approved or endorsed. But interpretation of accounting standards is a subject of continuous debate, even within the same organization, and evolves over the years. (In this regard, the WFP, as an early adopter, could not benefit from the guidance of others.).

21. Like IFRS, **IPSAS requires full compliance**. No FS can be claimed as being IPSAS-compliant if **any** of the IPSAS requirements has not been met **in full**. Nevertheless, in order to pave the way for progressive implementation of IPSAS, HLCM proposed, on the basis of the TF recommendation, (see para. 26 below), that until the completion of the transition UNSAS be applied in a flexible manner and accommodate accounting policies and practices already in line with IPSAS requirements.

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[13] IFAC is comprised of 159 members and associates in 124 countries and jurisdictions, representing over 2.5 million accountants.

[14] See www.ifac.org , "Preface to International Public Sector Accounting Standards, 2008, para. 30-35.

[15] It is worth noting that this initiative was supported not only by the World Bank and the International Monetary Fund, but also by the United Nations and the United Nations Development Programme (UNDP).

[16] See Annex I for the table of contents of the 2010 IFAC Handbook of International Public Sector Accounting Pronouncements

[17] For example, "income" becomes "revenue" and "expenditures", "expenses", with minor differences in meaning.

E. 2005-2007: The political decisions to adopt IPSAS

22. In order to focus attention on the need to revamp the United Nations accounting system a **Task Force on Accounting Standards** (TF) was established in 2002. This inter-agency group, consisting of accountants from United Nations system organizations, was set up by the then Director of the Accounts division of the United Nations (now Deputy Controller) who continues to chair it in addition to co-chairing the Finance and Budget Network (FBN) of the CEB.[18] The HLCM approved the establishment of a joint "project" on international accounting standards, as recommended by the TF. Once a qualified team leader and joint funding were identified, the project provided the organizations the opportunity to exchange ideas and experiences through questionnaires and comments on various deliverables (position papers, draft guidances, etc.), issued according to a tight schedule.

23. The first basic questions the TF members were asked by the CEB project team concerned **the best accounting standards for the United Nations system** and the criteria against which these should be assessed. Four options were proposed:

- Good national standards, such as those promulgated by Australia and New Zealand
- IFRS
- IPSAS
- Hierarchy of GAAPs, with one preferred external standard and several exemptions for situations specific to the United Nations.

24. Of the 28 organizations contacted, the 12 formal replies received (of which some were from the largest organizations), gave considerable weight to the criteria of "international character, strong due process and full accruals" (see paras. 29-37). Interestingly, organizations were almost equally divided between a "practical" school of thought favouring the IFRS - the set of international standards widely used by large private companies in many countries, known to most accountants and on which comprehensive information and training material existed - and those belonging to the "logic" school, who favoured the new set of IPSAS standards, which they deemed particularly well-suited to the specific needs of public sector entities. In the end, there was no clear majority for either approach (11 for IPSAS and 10 for IFRS).

25. To the question: "Do you agree with the paper's suggestion that full adoption of an external set of accounting standards may **not be possible for UN System organizations within the short to medium term?" as of June 2005, 10 out of 12 respondents did agree.** Consequently, considerable system-wide efforts were deployed to promote the view that a transition to international standards could be completed in the medium term. These efforts were a vital component of the TF drive, supported by HLCM, to hasten the transition from UNSAS to IPSAS. Logically, each organization should have conducted an in-depth analysis of its level of preparedness in 2005. This would have necessitated a good understanding of IPSAS requirements by all the organizations, which was hardly the case. Instead a system-wide preparedness study was conducted. Based on its results and on the successful experiences drawn from the OECD, EC and NATO, five years was selected as the (tight) standard timeframe for transition. Furthermore, three organizations were identified as likely to be able to adopt the international standards as early as 2008, while it was expected that the others would be ready for compliance in 2010. **Although technically the feasibility and lack of flexibility of this deadline should have been questioned, the organizations came under pressure in the summer of 2005 to adhere to it. On the other hand, it should be recognized that, at that initial stage, establishing a challenging deadline helped draw the attention of senior management and governing bodies to this transition and created a momentum to secure project resources and commitment to invest efforts in change management.**

26. This explains why only five months later, on 30 November 2005, **the HLCM unanimously approved the following recommendations:**

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[18] The TF members select their Chair with the endorsement of the FBN and HLCM.

(a) United Nations system organizations should adopt IPSAS
(b) United Nations system organizations should develop their implementation timetables, 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 TF, under the auspices of the FBN, 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 IPSASB. [19]

27. In light of relevant reports of the Secretary-General[20] and exchanges with Secretariat officials, the **ACABQ endorsed the recommendation** with a degree of enthusiasm most unusual for this body: "It is clear to the Advisory Committee that the Organization should move from UNSAS to IPSAS."[21] In parallel however it **cautiously and rightly warned against an unrealistic timeline**, stressing that implementation needed to be synchronized with the introduction of a new information technology system.

28. On 7 July 2006, the General Assembly followed ACABQ on both counts and decided to approve the adoption by the United Nations of IPSAS, though it refrained from imposing the target date proposed by the Secretary-General. In addition, in accordance with the recommendation of ACABQ, it approved the resources requested by the Secretary-General to begin the implementation process. [22] **In less than two years, all the organizations followed in the footsteps of the United Nations and commenced their transition to IPSAS, a most remarkable achievement.**

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[19] CEB/2005/HLCM/R.24, paras. 25 (a) to (e).
[20] A/60/846 and A/60/846/Add.3 and supplementary information transmitted to the ACABQ.
[21] A/60/870, para. 42
[22] A/RES/60/283, section IV

III. THE IMPACT OF IPSAS ON THE ORGANIZATIONS: KEY ISSUES

A. The major change to accrual-based accounting

1. Novelty

29. In 2000, ACABQ was able to attend one of the annual accruals symposiums held by the Organization for Economic Cooperation and Development (OECD) for finance experts from its Member States to discuss the introduction of **a new basis for accounting: "accrual", as opposed to "cash"[23].** Since then it has become accepted professional convention that accrual-based accounting is the best method to meet the needs of modern financial reporting and the most suited to provide a full picture of an entity's financial situation, giving insight into its actual assets, liabilities, revenues and expenses in a given year. Nowadays all international accounting standards require compliance with this method of recording transactions.

30. Under accrual-based accounting **transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid).** Consequently, transactions and events are recorded in the accounting records and recognized in the FS of the periods to which they relate. While very often transaction dates and payment dates differ, under the new method each of these events is recognized at its actual date and has to be accounted for in the FS of the financial period in question. Therefore, accounting treatment will differ. The elements recognized under accrual-based accounting are assets, liabilities, revenue and expenses (IPSAS 1).

2. Challenges

31. The use of accrual-based accounting in public management has an impact which extends well beyond financial matters as it affects regular work practices, from political decision-making to daily operations. Indeed, the adoption of this method amounts to no less than **a cultural revolution**. Some United Nations system organizations have long been using accrual-based accounting to record certain revenues or expenses, and are therefore better placed for IPSAS implementation. But for others such **change needs to be assimilated not only by their accountants, but also by delegates and managers** who need to consult existing FS, or have to contribute to generating new ones.

32. The change could be as frightening as for a singer or a television director to go from a recording studio to a live public show. In traditional cash-based accounting transactions are recorded on the basis of payments made; but by using the accrual method they are recorded when income becomes due and expenditure is incurred (rather than when cash is received or paid) and reported in the FS of the periods to which they relate. Transaction and payment dates often do not agree and their accounting treatment is therefore different under each method.

Example A: Purchase of service from a consultant

The signing of the contract will have no accounting impact. However, the date of delivery/provision of the service bought will become the only accounting reference, instead of the reservation of the budget funds. Receipt of the payment request will become the key event (unless a single date can be set for delivery and likewise for the purchase of property), with the liabilities charged to the financial period. This presupposes that compliance with intermediary payment conditions has been verified in full. It will no longer be a matter of liquidating a funds reservation, but of recording each event once it has actually occurred.[24]

[23] Or "modified cash", a notion used in the United Nations system, but never explained satisfactorily.
[24] 180 EX/33, Part I Rev

Example B
Shipment of goods

When an entity procures 900 tents for subsequent distribution to beneficiaries, under cash-based accounting the transaction will recognize expenditure at the time a payment for shipment is made to the supplier, whenever actual delivery of shipment took place (payment usually follows delivery of goods). Under accrual-based accounting the receipt of shipment will first be recorded in the inventory (assets) account as an increase in asset value representing addition of inventory by 900 tents stored in the entity's warehouse. Thereafter, at the time of distribution to beneficiaries, second or consequent transactions will record reduction in inventory (asset) value and increase in expenses to represent the value of tents distributed. Thus, distribution of 200 tents to beneficiaries will result in a reduction of inventory (assets) value by equivalent of 200 tents, leaving the balance of 700 tents, but the value of 200 tents will be expensed.

33. Under IPSAS, it is no longer possible to make even minor adjustments to accounting records since any event which impacts the reporting entity's wealth must be recognized at the time it occurs.

34. Under **traditional cash-based accounting methods** expenses and revenues need not be recorded in the period to which they relate; expenses and revenues, together with capital spending are booked in total in the year in which the capital purchase or disposal is made. In addition, cash-based accounts do not fully recognize assets and liabilities. By contrast, accrual-based accounting measures an entity's performance and financial position by recognizing economic events at the time when transactions occur (instead of when payments are made). As a result, FS prepared on an accrual basis should provide information about elements such as the resources controlled by the reporting entity, the cost of its operations (cost of providing goods and services), cash flow and other useful financial information about its performance and financial resilience.

35. Given that in many organizations budget information (monitoring of the execution of the adopted budget) will continue to be presented on a cash basis, the transition to IPSAS will lead to a marked dissociation between accounting and financial data (paras. 65-69).

3. Benefits

36. **Once the appropriate conditions are created, accrual-based accounting offers many benefits, which largely make up for the initial inconveniences:**

- Financial reports prepared on an accrual basis allow users to:
  - assess the accountability for all resources the reporting entity controls and the deployment of those resources;
  - assess the performance, financial position and cash flows of the entity; and
  - make decisions about providing resources to, or doing business with, the entity.[25]
- Accrual-based IPSAS accounts are more complete than cash-based ones and by definition remove the scope for manipulating payments and receipts in order to suit specific reporting and control objectives;
- The information available from accrual-based accounts can improve management and decision-making and help organizations make more efficient use of resources (with cash-based accounting, spending on what is used over many years is recorded only when the money is spent and

[25] IFAC Public Sector Committee, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities* (2003), para. 1.19, p. 7

no subsequent account is taken of whether the asset is still in use, has reached the end of its useful life, or has been sold[26])

- Accrual-based accounting provides the opportunity to introduce efficient cost accounting features and to change organizational behaviour through the use of incentives and penalties including comparisons of the costs of services provided by the private and public sectors; as well as
- The opportunity to establish effective performance measures that are not impacted by the vagaries of the timing of cash payments and receipts and which include information about fixed and current assets and liabilities;
- The costs of capital assets are spread over their useful life;
- Accrual-based accounting gives a more reliable picture of an entity's financial health.

37. In sum, the implementation of IPSAS means:

a. Improved internal control and transparency with respect to all assets and liabilities;
b. More comprehensive and consistent information about costs and income, which will better support governance, in particular Results-Based Management (RBM);
c. Integration of non-expendable equipment (NEE) into the accounting system, with better accuracy and completeness of NEE records;
d. Improved consistency and comparability of financial statements over time and across organizations;
e. Adoption of best accounting practices through the application of credible and independent international accounting standards.

B. Other issues relating to IPSAS implementation

1. Reputational risk

38. A fundamental question is whether the implementation target dates set by United Nations system organizations are realistically achievable and whether the organizations will be able to receive unqualified audit opinion on their first set of IPSAS-compliant FS.

Risk: The risk is that if their financial statements purport to be IPSAS compliant but this proves to be only partly the case, their external auditor will issue a qualified opinion on their disclosures.

39. **In financial terms**, some of the accounting changes required to implement IPSAS are expected to significantly reduce the equity value[27] (fund balance) of the organizations and may even result in **negative equity**, as was the case of those few Governments, with the exception of New Zealand, who have opted for accrual-based FS. For European Commission officials it was a startling revelation to discover that the Commission's first FS on a full accrual basis reported a total of accrued charges of €64 million against a total of accrued income of €2.5 million and €54 million due from Member States, instead of a positive €13.5 million, as reported previously. Such changes result from the recognition of full employee benefits liabilities, in particular after-service health insurance ASHI (paras. 60-64). It was estimated that as at 31 December 2007 United Nations liability for ASHI benefits covering all participants was $2,430 billion across all funding sources.[28] These **unexpectedly large liabilities in FS do not entail new charges**. They are simply a

[26] IFAC Public Sector Committee, *Resource Accounting: Framework of Accounting Standard Setting in the UK Central Government Sector* (2002).
[27] Equity or net asset value is the net value of an entity's assets after deduction of its liabilities. Most States which have begun using IPSAS have negative equity, with New Zealand one of the few exceptions.
[28] A/64/7/Add.4

full disclosure of existing liabilities which had not been previously recognized, i.e. quantified on the face of FS.

40. Some United Nations system organizations have already partly disclosed in their FS employee benefits payable in the future (though earned in previous accounting periods). Since there was no disclosure requirement under UNSAS, these liabilities were only reflected in notes to FS. Although technically it may appear that a reporting organization is insolvent, experience shows that **the recognition of these liabilities following the adoption of accrual-based accounting often subjects both Governments and organizations to negative equity**. On the other hand, as noted in the IFAC report "Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities", the recognition of liabilities:

- Compels (politically rather than legally) entities to acknowledge and plan for the payment of recognized liabilities;
- Provides information on the impact of existing liabilities on future resources;
- Allows allocation of responsibility for the management of liabilities; and
- Provides the necessary information for entities to assess whether they can sustain their activities.

2. Potential risks

41. **IPSAS adoption is a complex and comprehensive change management process.** While it offers numerous benefits over the medium and long term, it also entails short-term costs and challenges that need to be seriously addressed by the executive heads of all the organizations concerned.

42. The full potential of using accrual-based information can be realized only if managers are convinced of the value of **accrual-based data and are able to act on it so as to improve management processes.** Accrual-based accounting should not be an end in itself.

Risks: According to the FEE the main risks inherent to IPSAS are related more to **perceptions** than substance:

- "IPSAS are being, or could be, applied with no real understanding of the issues that are raised;
- the "gaps" in IPSAS are not being, or might not be, properly addressed;
- IPSAS are seen as static, whereas in practice they are continuously evolving." [29]

43. The IPSAS reform will impact operating procedures, reporting practices, and hence governance and relations with Member States. In addition to providing useful information for better management and decision-making, IPSAS will also expose managers to greater public scrutiny and therefore make them more accountable for the efficiency and effectiveness of their programmes.

3. Change management

44. Inevitably, the introduction of IPSAS will come at some price for every organization. As pointed out in a 2002 communication by the European Commission, "experience in the Member States shows that **reforming public accounting systems represents a major upheaval both in terms of the introduction of new practices and in human terms,** not to mention the financial resources required." [30]

[29] Ibid, para. 5.3
[30] COM 2002 755 final: Modernization of the Accounting System of the European Communities, Brussels, 17-12-2002

4. IPSAS is time and money consuming

45. The adoption of IPSAS compliant accounting methods **requires additional commitment of time and effort** from staff. During the transition phase, depending on their available resources, the organizations will have either to rely for an extended period of time on support from existing staff working in addition to their regular duties or recruit many additional staff. In this respect, the recommendation of UNESCO's external auditor applies for all IPSAS projects: "When estimating the time involved to effect changes required by an IPSAS, organizations should allow extra time to avoid the risk of under-estimating the time involved. Often the full extent of the implementation task only emerges once the task is in progress"[31]. Once compliance is achieved, new accounting areas will require permanent attention. For instance, while providing essential information on assets owned and their remaining useful lives, IPSAS 17 Property, Plant and Equipment (PPE), will require PPE items to be controlled, recognized, measured, depreciated and disclosed in notes to the FS, as opposed to the practice of immediately charging them to expenditures, as stipulated in UNSAS. This **permanent control over PPE** will require organizations to designate staff and establish systems to ensure a full accounting cycle for PPE.

Inventory[32]**accounts will be particularly time and labour-intensive:** compliance with IPSAS 12 will **require that the inventory be capitalized**[33] **and disclosed at appropriate value.** The inventory will be transferred to expenses when control on it is relinquished for the benefit of final recipients (such as NGOs or target populations). This new disclosure will allow for better control over inventories, but will also require additional efforts to count them (also physically), assess their value and determine when to expense them.

46. Preparing accurate opening balances for inventories was a major challenge for WFP. Preparations for inventory counting were started more than a year before the opening balance date of 1 January 2008, involving some 1,000 people in 700 WFP locations.

Risks:

- Shortage of administrative staff with the required technical expertise; and managerial tools which focus on fixed assets.
- Finance registers that are not updated on a real-time basis.
- Failure to conduct a thorough analysis of each asset, as required by IPSAS.

5. Cultural aspects

47. The adoption of IPSAS will result in a **cultural change, impacting key accounting treatments and the way some business transactions are carried out**. For instance, one major difference between UNSAS and IPSAS concerns the "delivery principle". Under UNSAS an expense is recognized at the point of issuing a purchase order, which initiates recording of unliquidated obligation (ULO)[34]. Thus, a ULO is recorded in advance of receiving goods or services. The existing practice (under UNSAS) of treating it as expenditure means that intentions are reported as implementation. By contrast, IPSAS allows recognition of expenses only when delivery has actually occurred. This major change will remove the necessity for reporting ULOs in

[31] 180 EX/33 Part I Rev.
[32] "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 sale or distribution in the ordinary course of operations; or (d) in the process of production for sale or distribution" (IPSAS 12).
[33] To capitalize is "to record expenditure as an asset rather than as an expense" (www.reallifeaccounting.com/dictionary.asp)
[34] ULO – Unliquidated Obligation is a type of accounting transaction under UNSAS, which recognizes future liability for goods or services ordered (either delivered or not). ULOs may or may not materialize during the financial period.

FS and result in a more accurate match of expenses and authorized budget in the period to which they relate. However, for the sake of reporting, ULOs will still be recorded in the budgetary and procurement systems and one practice to follow is to disclose them in the notes to the financial statements.

48. The adoption of **IPSAS will promote useful practices such as cost accounting and data sharing among departments or services that have** so far worked in isolation in order to provide accountants with complete, accurate and reliable information to produce FS according to the new standards. It may also usher in a common chart of accounts. Inventory receipts and distributions will need to be reflected in a timely manner in the general ledger in order to accurately disclose inventory balances.

6. Political aspects

49. Politically the most sensitive requirement is contained in IPSAS 6–Consolidated[35] and Separate Financial Statements, which stipulates that an entity shall present FS in which it consolidates all the entities it controls[36]. The application of this stipulation raises several key questions for an organization like the United Nations, including whether all United Nations funds and programmes should be considered as subsidiaries of the Organization and whether the concept of **consolidation** should be applied to joint initiatives and if so which organization should be designated as their parent entity. These are important, legal, financial and political considerations that need to be addressed and agreed upon, ideally during an early preparation phase, as recommended by the Board of Auditors (BoA).[37] On the basis of the recommendation of the Advisory Committee[38] a Secretary-General’s report addressed this issue and confirmed the complexity of IPSAS compliance for the United Nations[39]. The United Nations IPSAS implementation project team observed that IPSAS 6 is not prescriptive as to the identification of the “core” reporting entity, which can be an administrative arrangement without legal identity. Hence the United Nations and its related entities, including the Funds and Programmes, would not need to undertake a formal consolidation, thus allowing a pragmatic approach in such a grey area. The United Nations IPSAS implementation project team eventually agreed not to present consolidated data.

50. Two other politically sensitive issues relate to revenue recognition: the **treatment of delays in collection of outstanding contributions** and the **Recording of Voluntary Contributions.** With regard to the former, while under UNSAS an organization may make provision for such delays, IPSAS requires all assets (including receivables) to be carried at their fair value. Therefore, in cases where contributions are unlikely to be received, their value will have to be adjusted accordingly. This may generate a political debate on **whether some Member States may be excused from paying their assessed contributions because of arrears in payments and whether other Member States will have to cover the resulting shortfall**. IFAD had to solve a similar problem to comply with the IFRS. The TF issued a paper on the matter in December 2009. The BoA suggested in June 2008 that with the advent of IPSAS it may become necessary for the organizations to make **provision for non-recoverable or late-paying debtors.**

51. The transition to full accrual-based accounting means that United Nations system organizations will have to rapidly determine the criteria to be applied to legal commitments underpinning voluntary contributions. Implementation of IPSAS 23 means that the terms of the

[35] Consolidation is the process of presenting the financial statements of all entities that make up the reporting entity as if they were the financial statements of a single entity. It involves adding together all items on a line-by-line basis and eliminating any transactions or balances between members of the reporting entities. The entities need to conform to the standard policies and classifications when providing financial information for consolidation (IPSAS 6).
[36] Control is the power to govern the financial and operating policies of another entity so as to benefit from its entities.
[37] A/63/5 (Vol.I), chap. II para. 10(a) and 27.
[38] A/63/496, para. 7.
[39] A/64/355 paras. 12 and 45-47.

commitments will have to be studied carefully in order to identify the date and amount that will be posted in the FS. Donors’ commitments can vary considerably according to the project or the State concerned. It is therefore important to define the degree of formalization of the commitment: the status of the signatory and type of document (contract, pledge, budgetary document, etc.).

C. Some accounting changes with most impact

52. In a survey conducted by the TF (see annex II) respondents identified the standards which they perceived as having the most significant impact on their organizations. Three standards were named by all the organizations: IPSAS 1–Presentation of financial statements, (most indispensable); IPSAS 17–Property, Plant and Equipment; and IPSAS 24–Presentation of Budget Information in Financial Statements. Other important impacts were expected from the adoption of IPSAS 3–Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies; IPSAS 12–Inventories; IPSAS 18–Segment Reporting; IPSAS 19–Provisions, Contingent Liabilities and Contingent Assets; IPSAS 23–Revenue from Non-Exchange Transactions (Taxes and Transfers); IPSAS 25–Employee benefits; and IPSAS 31–Intangible Assets. Comments on issues of particular interest to United Nations system organizations are presented below.

1. Presentation of financial statements

53. **According to IPSAS 1–Presentation of Financial Statements, “financial statements shall be presented at least annually**” [40] because their “usefulness … is impaired if they are not made available to users within a reasonable period after the reporting date. An entity should be in a position to issue its financial statements within six months of the reporting date.”[41] This requirement will be challenging for all organizations and their external auditors since almost all financial reporting has so far been done on a biennial or multi-year basis.

2. Treatment of assets: Property, Plant and Equipment (PPE)

54. According to the basic principle of IPSAS 17 (revised), assets which are utilized over more than one financial period should be “capitalized” in the balance sheet. This standard allows entities to **initially recognize PPE items either at their historical cost[42] or their fair value[43]**, which is then charged to expenses over the period of use of each asset. The use of fair value is justified by the difficulty of reliably substantiating the acquisition cost of PPE items held by an entity for a long period of time, transferred between field offices, etc. Either method will have to be backed by supporting documentation, thus requiring significant effort, including work to identify and classify all PPE items using an appropriate valuation methodology. For subsequent measurement of PPE, IPSAS allows for a choice between the cost model and the revaluation model. The costs to be capitalized must be distinguished from those to be expensed: a difficult exercise in the case of a complex operation such as the Capital Master Plan for the United Nations Headquarters in New York. Regarding this case, the BoA recommended that the Accounts Division should consider capitalizing renovation work carried out on the United Nations Organization’s assets.

55. The **threshold level for PPE recognition** was a subject of heated debate among United Nations organizations, with some arguing for a higher threshold to reduce the administrative costs of capturing and maintaining data, and others advocating a lower one to ensure better control over PPE. The level

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[40] IPSAS 1, para. 66.
[41] Ibid., para. 69
[42] Historical cost: an asset value based on the actual purchase cost.
[43] Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction (IPSAS 9). It is approximated by the market value.

recommended by the TF is US$5,000. Currently, there is no requirement for the recognition of heritage assets[44].

56. Accrual-based accounting requires that PPE items be depreciated over their useful lives. A **depreciation charge** is made periodically against an individual PPE item to gradually decrease its value. The accounting treatment of depreciation under IPSAS will allow management to make informed decisions on matters such as construction and renovation works, sometimes years in advance. In practice, this will require the development of **an Enterprise Resource Planning (ERP)** system module capable of automatically carrying out calculations and making corresponding records in the accounting system.

57. Although in the context of the United Nations it is often difficult to determine the nature of **project assets and inventories**[45] it is important that they be recognized in the FS. While the IPSAS standards provide definitions of “asset” and “control”, the application of these definitions is complex and may lead to different interpretations. For instance, control over assets transferred from a funding entity to an implementing partner may depend on the subtle language of implementation agreements and/or the use of the assets.

58. The IPSASB has included **transitional provisions for the initial adoption of certain standards** in order to give new adopters additional time to fully meet the standards’ requirements. For instance, the transitional provisions of IPSAS 17 provide relief from the requirement to recognize all PPE in FS during the first five years of expected compliance. Since most organizations have numerous PPE items which are expected to fully depreciate by the end of the five-year transitional period, the invocation of the transitional provisions will relieve them from the requirement of ever having to recognize these items in their FS. WFP, for example, has invoked these provisions in 2008, recognizing only those tangible assets whose useful lives exceeded five years from its initial IPSAS adoption date.

59. By introducing integrated capitalized assets and inventory modules into financial accounting software, the organizations could improve existing management controls over the location and condition of their assets worldwide. They would also have the capability to disclose capitalized asset values in accordance with international standards. The social benefit of such capitalization for public-sector organizations and citizens, relative to its costs, has been questioned by some accountants, in particular on the grounds that “Governments [and intergovernmental organizations (IGOs)] do not exist for commercial reasons but to provide services, fundamentally social in nature and those other services that the commercial sector is not willing to venture into for economic reasons”[46].

Risk: In the first countries where accrual accounting was adopted (1991-1992), such as the United Kingdom and New Zealand, particular “concerns have been raised about the efficacy of capital charges, when rules are enforced by top-level management rather than through the integration and education of users of such information”.[47]

3. Employee benefits

60. The HLCM had acknowledged the magnitude of the implications of IPSAS adoption, especially the impact of a full recognition of liabilities for employee benefits, such as **after-service health insurance**

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[44] Heritage assets are assets bearing cultural, environmental, educational and historical significance (IPSAS 17) such as the Palais des Nations in Geneva or the ECA building in Addis Ababa.
[45] See definition above, footnote 43.
[46] The Ben Chu, former Deputy Accountant General of Malaysia, “Accrual accounting in the Public Sector”, *Association of Chartered Certified Accountants (ACCA) International Public Sector Bulletin, issue 11,* February 2008
[47] H. Mellet, Cardiff Business School (BS) and Neil Marriot, Winchester BS, “Resource accounting in the Public Sector: Problems of implementation”, ibid.

(ASHI), annual leave and the repatriation grant. Indeed, HLCM 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.**[48]

61. This issue was first raised by the ACABQ in 1997, long before IPSAS adoption decisions were envisaged. The Food and Agriculture Organization (FAO), a precursor, recognized ASHI since 2001. However, now with implementation of IPSAS under way, full ASHI liabilities will have to be recognized in the FS. Considering their magnitude, in spite of the serious margin of uncertainties affecting estimates which use different parameters[49], **it becomes increasingly important to identify present and future sources of funding.** At the 60th and 61st sessions of the General Assembly[50], the Secretary-General recommended that the United Nations **recognize full ASHI liabilities** in its FS and that a funding strategy aiming towards full funding within a 30-year time frame be put into place. While the General Assembly deferred a decision on the subject, several organizations, including FAO, UNDP, UNICEF, WFP, WHO and WMO, had already taken steps to secure – although never fully – the funds required to cover these liabilities.[51] Other organizations remained undecided about the most suitable funding arrangements, stressing the need for further harmonization of funding mechanisms and for clear commitment from Member States, as it is they which will ultimately have to determine the modalities for financing these costs. In this regard, Member States are advised to be consistent in their decisions across all the organizations of which they are members, especially if a common system-wide solution can be devised. For the present, **each organization will have to consider the following two options** when assessing the long-term impact of this liability with their inherent risks:

- In cases where a funding strategy has been agreed to, compliance with IPSAS requirements should ensure fund management in a fund which contains Member States' contributions over time and which earns investment income, facilitating future payments to the former employees; and

- Where there is no agreed funding strategy, this liability may be affected by the state of the economy and the management of public funds, not only by the Member State concerned, but by all the Member States of the organization, who would all have to pay significant amounts in the future to the organization's budget to cover actual obligations to former employees.

62. Where there is an agreed-to funding strategy, IPSAS will highlight the responsibility of Member States by disclosing the level of liabilities compared to the assets of the accumulated fund. In the absence of such a strategy, Member States' accountability will be lessened. There are uncertainties in both cases and the recent financial crisis demonstrates that there is no risk-free option. **An agreed-to funding strategy could be a safer choice if investments are well managed** as appears to be the case in another context with the UNJSPF.

63. Currently, most liabilities to employees are paid out on a "pay-as-you-go" basis, with any unfunded portions being met from resources available in the period during which payments are made. This means that subsequent accounting periods generally bear some costs incurred in earlier periods for liabilities that had not been previously recognized and accrued for.[52] The recent financial crisis demonstrated the need for long-term planning.

64. The funding of ASHI liabilities is made even more complex by the fact that many trust funds are of a short-term nature. After their closure they cannot provide any funding for after-service benefits to former

[48] CEB/2005/HLCM/R.24
[49] See A/65/5(vol.I), paras. 164-180
[50] A/60/450 and A/61/730.
[51] A/60/450, annex I.
[52] WFP/EB.A/2007/6-A/1

employees who, for example, have taken up employment with another organization. This means that future liabilities will have to be covered in their entirety by the receiving organization.

4. The budget issue

65. IPSAS 24 (Presentation of the budget information in financial statements) **prescribes mandatory presentation of budget amounts against accounting data**. Two main options are available when making the transition from UNSAS ("modified cash basis") to accrual-based accounting:

> (1) To fully apply the principle of accrual-based accounts to both the budget and general accounts (in which case the budgetary balance will correspond to the difference between budgetary entitlements and obligations established in the course of the financial year, irrespective of the amount that may be disbursed or collected);
>
> (2) To apply the accrual principle to the general accounts only, while budget implementation remains subject to the cash principle (in which case a "***dual***" system exists, whereby a reconciliation has to be made on a yearly basis, published in notes to FS and certified by the auditor). One of the main challenges of IPSAS adoption **is matching FS information to budgets,** a practice which may help to better assess the performance of the reporting organization. This will require an explicit yearly (or quarterly) reconciliation of budget and FS. For example, the International Agency for Atomic Energy (IAEA) was invited by its external auditor to link accounts and budget more closely.[53] The challenge is how to encourage programme managers to analyze accrual-based data and make good use of the findings.

66. By 2006, only two out of eight European countries who officially adopted accrual-based accounting had taken up that double challenge: the United Kingdom (which took 13 years to complete the transition) and Switzerland.

67. For the time being, **most IGOs which have already moved to accrual-based accounting** (including the EC) **find it difficult to introduce accrual-based budgeting, at least in the short term.** They will continue with cash-based budget presentation, arguing that accrual-based budgeting will not be easily accepted by their member States. Cash-based budget presentations, however, have to be made on the basis of an annual financial period; while most United Nations system organizations have biennial or even multi-annual budgets. Another argument used for that choice is that the implementation phase of IPSAS requires significant financial and human resources, affecting their ability to undertake another large-scale project. Additionally, accrual budgeting is more suitable for a stable environment such as that of the United Nations Secretariat, but to a lesser extent to rapidly changing conditions, as in Peacekeeping operations.

68. **Although accrual-based budgeting is not a requirement under IPSAS**, the practice is championed by several accounting authorities, including the FEE, which stated in 2006 that "It is important to note that **the benefits of accrual accounting can only be fully realized and embedded if budgets are also prepared on an accruals basis.** Without accrual-based budgets, financial managers will not be disposed to manage their key indicators on an accruals basis and thus are less likely to operate a fully accruals based finance function. They are also less likely to exploit the full potential of accrual-based financial information as an in-year financial management tool."[54]

69. Upgrading ERP systems to allow for simultaneous recording of each expense in the "accrual" and "cash" ledgers, as already done by some vendors, will facilitate the comparison between actual and original amounts. The preparation of comparative schedules will require a joint effort by staff from accounts and budget, who have so far worked apart and lack experience in this new area.

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[53] IAEA, The Agency's Accounts for 2007, GC(52)/11, para. 100

[54] Féderation des Experts Comptables Européens, "Accrual Accounting for more effective public policy" (February 2006)

5. Revenue recognition

70. Revenue recognition is another technically demanding area. IPSAS 23 **Revenue from non-exchange transactions**[55] (as opposed to revenue from sales or leasing) determines when revenue should be recognized and how it should be measured. The difficulty for United Nations system organizations, versus the private sector, arises mainly from the predominance (80-90 per cent) of such non-exchange transactions in the case of these organizations and the requirement to distinguish between the various types of such revenue transactions, which need to be recorded in different ways. While assessed contributions will be subject to similar treatment across the organizations, the **different types of voluntary funding agreements and pledges call for a specific treatment of the accounts**, to be determined only after careful review and interpretation of the funding agreements. [56] The thousands of trust funds agreed upon in the United Nations system raise a real issue in this regard[57].

6. Fund accounting

71. Funds represent a pool of resource set aside for the carrying on of specific activities or attaining certain objectives in accordance with legislative or other regulatory restrictions placed on the use of those resources. Most United Nations system organizations report using fund accounting under UNSAS: Accordingly, FS should provide breakdowns and disclosures by fund, specifying "the nature of each capital fund and reserve account, the authority for establishing it, its authorized level, its source of funding, and movements in its constituent funds should be separately disclosed." [58] "In presenting data in the columns, organizations should show clearly which funds are at the disposal of the member States of the reporting organization (e.g. regular budget, working capital funds, etc.), and which are not (e.g. funds received from donors to finance projects)[59]" However, these issues are not addressed under IPSAS, which are silent on fund accounting, another sign that IGOs needs were not in the minds of IPSAS drafters**.** A harmonized approach has been recommended by the TF, but at the time of the JIU review no common solution had been found due to different arrangements with donors and conflicting interpretations of the "Trust Fund" concept. Thereafter, it will be an issue of implementation for each organization to discuss and agree to with their external auditors.

7. Foreign exchange rates and timing of financial statements

72. According to IPSAS 4–The Effects of Changes in Foreign Exchange Rates, "a foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount **the spot exchange rate** between the functional currency and the foreign currency at the date of the transaction". This IPSAS provision was highlighted by the National Audit Office (NAO), the external auditors of WFP, to demonstrate that the existing system of setting the monthly United Nations operational rate of exchange (UNORE) was not sufficient for IPSAS requirements since the "spot exchange rate is the exchange rate for immediate delivery[60] ". According to the standards, "an average rate for a week or a month might be used for all transactions occurring during that period" as long as the exchange rates do not fluctuate significantly. However, this problem was resolved by the TF in 2009. It was decided that

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[55] When an entity receives value from another entity without directly giving approximately equal value in exchange (e.g. grants, donations, contributions).

[56] For instance, a donor may impose a condition on the transferred asset, requesting that resources be used within a two-year period and demanding that the unused portion be refunded.

[57] See JIU report 2010/7 "Policies and procedures for the administration of trust funds in the United Nations system organizations.

[58] UNSAS, Rev. VIII, (01-01-2007) para. 56.

[59] UNSAS, Rev. VIII, para. 9.

[60] IPSAS 4

organizations wishing to use the UNORE (United Nations official exchange rate) instead of the spot exchange rate would need to **demonstrate that this does not create any material discrepancy.** As a follow-up to that decision, procedures were put in place to minimize differences between UNORE and spot exchange rates, including mid-month adjustments when given thresholds are met. It was further decided that based on the spot rates a revised UNORE would be issued at the end of June and December to ensure that there were no rate differences at the balance sheet date.

IV. IPSAS PROJECTS IMPLEMENTATION IN THE UNITED NATIONS SYSTEM

73. Once adopted by all the Organizations of the United Nations system, the principle of transition to IPSAS resulted in a two-level strategy where projects would coexist and interact:

- At the individual organization level, each entity is responsible for establishing its own project team and for dedicating sufficient human and financial resources to ensure successful IPSAS implementation. Their concerted initial strategy foresaw two phases: some "early adopters" targeted compliance effective 2008 (with only one meeting this target), while other organizations aimed for 2010.

- At the United Nations system level, a common system-wide project team is tasked with developing accounting policies to promote and foster a consistent understanding of the IPSAS requirements across the system, and facilitate consideration of common implementation issues where there is scope for a system-wide approach that would generate efficiencies[61].

A. The system-wide (CEB) project

1. An inter-agency undertaking

74. Once the choice of IPSAS had been made it became necessary to translate each IPSAS requirement into guidelines and policy papers to be used by each organization for its own project and specific needs. Inter-agency cooperation was essential. Indeed, as stated by the former External Auditor of UNIDO, "It is of key importance that the Organization participates in the various meetings and contributes to the development of consistent interpretation and application of IPSAS requirements across the system.[62] "

75. As part of the jointly funded activities in the United Nations Budget, a first project, known as "the accounting standards project" was started in 2005 to determine the way forward for the United Nations system to align with appropriate accounting standards[63] . This project ended in November 2005 with the recommendation to adopt IPSAS. A new project was approved by HLCM for the period 2006-2009 with an annual budget of US$1.160.000 million per year[64] to support IPSAS implementation at the system-wide level and to ensure harmonized implementation and economies of scale. The project was extended until 2011, but reduced to $1.33 million for the biennium. It provides for one team leader and two professionals. The New York-based system-wide team, also severely reduced in number, reports to a Steering Committee, formed from two organizations from each of the main United Nations system centres (New York, Geneva, Vienna and Rome) meeting on a bi-monthly basis – accountable to the TF – composed of senior finance staff from United Nations system organizations and tasked with setting project priorities, defining deliverables, and reviewing IPSAS progress. The team developed broad accounting policies to support consistency and harmonization and facilitate consideration of common implementation issues where there is scope for a system-wide approach that would generate efficiencies and improve the quality of financial reporting. It has also developed a review process involving four regional focus groups comprising accounting professionals from United Nations system organizations. These "focus groups", established in New York, Geneva, Vienna and Rome, review the accounting policies and guidance papers prepared by the Team and provide recommendations and comments which the team analyses and then submits to the TF for review and approval. In 2010 inter-agency working groups were established to share knowledge and experience on specific IPSAS key requirements such as employee benefits, controlled entities, common services,

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[61] A/62/806

[62] UNIDO, Report of the External Auditor on the accounts of the United Nations Industrial Development Organization for the financial period 1 January 2006 to 31 December 2007, IDB.35/3, para. 13

[63] CEB/2005/HLCM/R.21

[64] See table in A/64/355

inventories and donated rights to use premises under joint arrangements[65], while the system-wide team was providing policy guidance and support. Finally, the team is also responsible for representing United Nations accounting issues to IPSASB, with the limited influence of a mere observer in a club.

76. While most of the organizations' accountants interviewed in 2009 found that **this inter-agency cooperation was very useful**, some expressed concerns about what they considered to be an excessive standardization drive even in instances where it was not proven that "one size fits all". It was further observed that the harmonization process had delayed the achievement of consensus on key IPSAS policies such as treatment of revenue, expenses and project assets. Taking these critical observations into account the TF decided in May 2010 to allow and manage the emerging accounting policies diversity among organizations, arising from differences in their regulatory frameworks, institutional arrangements, mandates, business processes etc.: a baseline of policies and practices would be established where necessary, and system-wide processes established for further monitoring and further harmonization.

2. Deliverables and services

77. In 2006, the Team produced its first set of IPSAS accounting policies and guidance for review by four regional focus groups. Since then, it has produced briefing notes, papers and guidelines detailing proposals for harmonizing IPSAS compliant accounting policies/guidance. By December 2009, the Team's papers and briefing notes and related minutes of meetings had resulted in **59 accounting policy papers and guidelines,** which were **reviewed** by the TF and subsequently approved by the FBN and the HLCM.[66]

78. The Team is also charged with maintaining and constantly updating the CEB accounting standards webpage and servicing the semi-annual meetings of the TF. The JIU team was invited to attend its May 2009 meeting in Rome and made a presentation on the preparation of the JIU review.

79. The Team engages with the organizations, tracking their progress toward IPSAS compliance by using a checklist questionnaire that is sent to them on a regular basis. It also communicates with the organizations' external auditors, providing them with copies of its papers and guidelines. In addition, it has established a formal process of communication with the Technical Group of the Panel of External Auditors to solicit its views on accounting policies and guidance[67] .

80. An important achievement of the Team was the **development of IPSAS training courses** for system-wide use. After a delay of several years, all 18 courses have now been completed. They comprise seven computer-based training (CBT) and eleven instructor-led training (ILT) courses, now available on Internet and CD-ROM. While each individual organization is responsible for developing its own IPSAS training plan and rolling out training according to that plan, these courses are open to participants from all the organizations.

81. The training products range from general IPSAS topics to the technically specialized. As outlined in the CEB IPSAS progress report, comments received on the courses have been very positive. These courses are expected to be run for several years, depending on each organization's training plans and implementation timeline.

82. **The work ahead** includes: resolution of any issues arising; formal evaluation of training materials; course maintenance (amendments in response to IPSAS developments); and translation of the courses into French and Spanish. The HLCM approved resources for 2010-2011 for the administration and

[65] For example the Vienna International Center, that Austria authorized some organizations of the UN system to use, free of charges other than maintenance, or the provisions found in the Status of Force (or Mission) Agreements (SOFAs, SOMAs) signed by the UN/Department of Peace Keeping Operations. The IPSAS did not provide for such situations.
[66] List available in the respective annexes I of the progress reports A/62/806 and A/64/355.
[67] A/62/806

communication of IPSAS adoption information, further development of accounting policies and guidance and involvement in the IPSASB, but made no provisions for further work on IPSAS training.

83. Despite its small size (one P5 team leader and three professionals in 2008, reduced to one P5 team leader, two full-time professionals and a part-time general service position for 2010-2011), there is a general consensus that the Team plays a significant role in facilitating the CEB IPSAS interagency work.

B. The organizations' projects: strategic issues and diversity

1. Governance and change management

84. According to the Federation of European Accountants[68], several **key conditions need to pre-exist in public sector entities** to ensure that the introduction of accrual-based accounting would not only be technically successful, but also improve the quality of financial management and increase the independence and transparency of the financial reporting process. These conditions should include:

- consultation and acceptance
- participation of accounting professionals and other stakeholders
- joint development of accounting standards
- support from external auditors
- comprehensive management training
- appropriate cultural approach
- robust audit process
- corruption-free environment
- awareness of the timeline required
- IT capacity
- willingness to use incentives and penalties
- accrual-based approach

Risks: The absence of any of these conditions poses a serious risk.

85. The Inspector believes that it is now difficult to know whether these conditions existed in United Nations system organizations between 2005 and 2007, when individual and collective decisions were being taken on the adoption of IPSAS as of 2010.

86. The notion of "acceptance" is of particular relevance in the case of this reform and means, in the present context, the willingness of civil servants to accept that reforms would change the role of those responsible for financial management, with significantly changing influence and responsibilities. Acceptance has to go beyond a relatively small group of technocrats**. Management must be convinced that such a decision, if seriously followed, will provide clear and concrete benefits to the Organization**, compensating for the difficulties and complexities involved in such a transition. Given the critical nature of the project, the full commitment of senior management and finance officials is essential, especially since such an undertaking requires a significant change in professional behaviour and is likely to encounter resistance.

87. Resistance is inherent to the **process of change**. As John P. Kotter, one of the world's leading experts on business leadership noted "whenever human communities are forced to adjust to shifting conditions, pain is ever present". [69] Based on his observation of common errors made in leading change, he defined an interesting eight-stage process, which can be summarized as follows:

[68] FEE, 2003, ibid.
[69] Leading change: Why transformation efforts fail. John P. Kotter. Harvard Business Review, 1994.

- Establishing a sense of urgency
- Creating a guiding coalition
- Developing a vision and strategy
- Communicating the change vision
- Empowering broad-based action
- Generating short-term wins
- Consolidating gains and producing more change
- Anchoring new approaches in culture

88. The first three stages fit particularly well within the context of the transition to IPSAS: **In order to set change in motion within an organization, a strong guiding coalition is needed.** The right composition of individuals, level of trust and a shared vision are key factors in the success of this team and in breaking through the forces that support the status quo. Furthermore, one strong leader alone cannot make change happen. This team must also possess significant credibility within the organization in order to be effective.

89. **It is imperative that all senior managers should understand the importance, scope and benefits to be expected from the transition to IPSAS.**

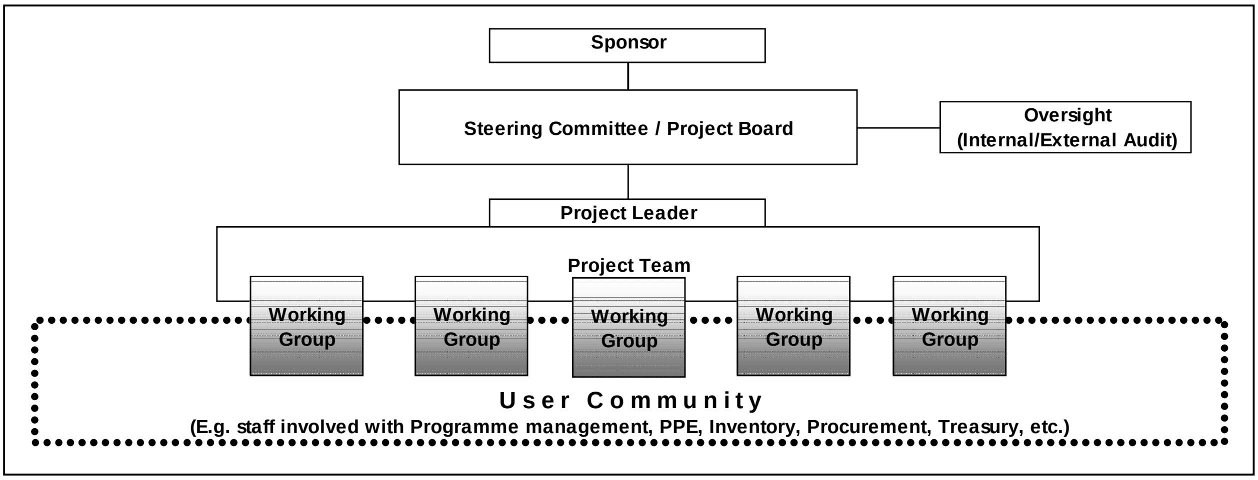
Best Practice 1

Successful IPSAS implementation requires the setting up an inter-departmental IPSAS project steering committee or equivalent body tasked with ensuring that senior management understand the goals and vision driving the transition to IPSAS. Such a committee should be entrusted with a multi-year mandate and include staff or consultants specialized in the pre-design, design and implementation of ERP systems.

90. Most organizations have adopted a standard project governance structure (see fig. 1 below) comprising a sponsor, in most cases (providing strategic and political leadership); a steering committee/project board (meeting at least monthly, advising on strategic and political issues and providing support at the “top level”); an internal and/or external oversight body (providing feedback to the steering committee); a project leader and a project team (carrying out implementation work).

91. The **project team** is generally supported by working groups, consisting of professionals from all the relevant functional areas, assigned with the task of providing technical expertise based on their organization’s specific business activities.

Figure 1: A Common Project Governance Structure



92. One good practice is **to create a full-time position of project leader**, reporting directly to senior management and given the authority needed to overcome the resistance that the imposition of a major reform of organizational practices and reporting culture will inevitably generate. The United Nations IPSAS project governance structure appears in a chart of the ACABQ report (A/63/496).

93. Some organizations, including ILO and WIPO, have not put in place a formal project implementation structure. Their implementation teams were informal groups reporting to the Comptroller or Director of Finance. The Inspector is doubtful that such support structures are efficient and concurs with those experts who consider that a powerful coalition at the top of each organization should support projects of such magnitude and communicate their vision and urgent nature.

94. Many organizations have a significant IT component in their project team given that IT systems need to be upgraded to support IPSAS (see Chapter III Section B 4). However, they have also kept their IPSAS implementation project separate from a significantly larger ERP element. Good practices consist in placing the two distinct projects under the same authority, e.g. a common project board; as done by United Nations Children’s Fund (UNICEF), or a common leader (WFP). ITU is implementing a joint IPSAS-ERP streamlining project. WHO is the only organization that has not undertaken a separate implementation project since IPSAS is an integral part of its ERP project, at the risk of neglecting some aspects of the transition to IPSAS.

2. Gap analysis and users

95. **It is critical to first assess the scope and magnitude of planned action.** The transition to international accounting standards requires a significant amount of review and analysis of organizational processes, together with the formulation of policies and procedure guidance. At some stage each implementing agency or organization has to draft its own policies, in line with its own business process and goals. In accordance with the ancient Greek proverb: “know thyself”, planning should be based on a clear vision of the goals assigned to the entity concerned and an in-depth knowledge of its existing activities, processes and accounting flows. A good practice is to define from the very beginning the content of reporting under IPSAS by **integrating operational and financial reporting and identifying current and potential users of future financial reports.** Internal users include senior managers, authorizing services and internal auditors. As of June 2010, 81 per cent of the organizations had reviewed the standards and identified the impact of each. The United Nations Organization was not in that number.

96. External users include members of the governing body, Governments, external auditors, political and financial analysts, rating agencies, the media and the public at large. Users should be provided with financial information about such matters as the resources controlled by the entity, the cost of its operations (cost of providing goods and services), enhanced cash flow information and other financial data useful for assessing the entity’s financial position and changes in it, and for determining **whether it is operating economically and efficiently.** Users may also use financial reports to assess the organization’s stewardship of resources and its compliance with legislation. In sum, the **quality of the information provided** in financial reports determines the usefulness of those reports to users. In this respect, accrual-based accounting requires entities to maintain complete records of assets and liabilities on their balance sheets and identify and record any off-balance sheet transactions.

Best practice 2

For a successful transition to IPSAS, it is critical to first undertake a gap analysis of business processes, procedures, financial reporting and functionalities developed under UNSAS and to subsequently conduct an in-depth analysis of the requirements and impact of each IPSAS standard.

3. A phased and planned strategy

97. The organizations should not claim to be IPSAS-compliant until they have put in place and tested all the policies and procedures governing the application of the standards. As part of the adoption strategy, every organization should have planned a feasible timeline to make the requisite policy and procedural changes, opting either for a "big-bang", a D-Day implementation date well planned in advance, or progressive implementation, by groups of standards. The collective response of the United Nations system was a "big bang phased approach"; with early adopters setting (1 January) 2008 for compliance and others (1 January) 2010. In fact however, some organizations' strategies were ill-defined and the length of the transition period depended on the specific environment and constraints. In some cases it was heavily influenced by the recommendations of consulting firms.

98. The experience of the countries that first migrated to IPSAS (New Zealand, Canada, United States and United Kingdom) shows that their transition took on average 10 years. The French transition, of the "big bang" type, took only five (2001-2006), thanks to a clear separation of responsibilities (authorizing and certifying services), benchmarking suggested by British, American and Canadian experts, and, above all, the assistance for three years of a specialized team of 15 experts.

99. Like OECD, during the same period (2000-2005) and with the same degree of success, the EC has experimented with a well-prepared accelerated process. It complied with the deadlines set out in its financial regulations for the preparation of FS compliant with international standards; conducting feasibility and financial studies in 2002; accounting studies in 2003; and in 2004 collecting all the necessary information for an opening balance on 1 January 2005. This shows that **a "big-bang strategy" is not only compatible with rigorous planning, but may also warrant it.**

100. The "big-bang" approach offers several clear advantages and can help organizations to become IPSAS compliant more quickly. However, it does entail more risks as, in view of the instant changeover, a series of simultaneous actions needs to be undertaken, a difficult situation for a small project team or a complex organization. The United Nations IPSAS implementation team has chosen to progressively incorporate IPSAS requirements to the extent allowed by the current information systems of the Organization, conscious that the year 2013 will be particularly difficult, with some offices accounting under UNSAS and others under IPSAS requirements. A solution is being sought with the Umoja team. However this casts a doubt on the feasibility of the 2014 compliance target. Whatever their strategic choice, and especially when adopting this approach, the **organizations are encouraged to undertake, in consultation with their external auditors, a set of "dry-run" accounts** covering a nine-month period prior to the presentation of their first annual IPSAS-compliant FS, in order to test their preparedness level for IPSAS. This will give them important feedback on the magnitude of amendments and improvements needed to obtain an unqualified audit opinion on their year-end IPSAS compliant FS. They should also regularly update their IPSAS adoption plans and budgets, in line with the BoA recommendation to UNHCR[70] and UNRWA[71] .

101. This raises another question, namely whether IPSAS-compliant processes can be **run in parallel** with traditional accounting methods. In the view of the Inspector, there is **a serious and probable risk** of current activities being sacrificed to ensure future compliance and staff are overburdened with IPSAS-related work on top of their usual duties. The quality of tasks accomplished on both counts could be negatively affected, preventing any valid comparison between current and subsequent financial periods.

102. Competition among management initiatives might represent other serious risks which should be taken into account by senior management and governing bodies. In 2009, UNDP, with the approval of its Executive Board, decided to defer its IPSAS implementation from 2010 to 2012. It also decided to change its implementation approach for all the IPSAS standards **from a phased to a "big bang" approach.** The key

[70] A/63/5/Add.5, chap. II, para. 52.
[71] A/63/5/Add.3, chap. II, para. 51.

consideration was the mitigation of risks arising from multiple competing organization-wide change initiatives, particularly the system-wide implementation of United Nations Contractual Reform and the new system of Administration of Justice, both mandated by the General Assembly and scheduled to take effect in July 2009. The rescheduling also ensured that UNDP invested adequate time and resources for the delivery of a comprehensive change management programme (e.g. extensive training and communication), and to allow sufficient time for country offices to prepare for the implications of the adoption of IPSAS, for example by achieving appropriate staffing levels and the required skill sets. This would avoid overburdening country offices during 2008 when they were expected to be engaged in several other large initiatives, such as implementation of results-based budgeting and strategic plans.

Best Practice 3

In the case of a major shift in the project's environment, it is important that organizations reassess their initial adoption strategy, adjusting it as necessary.

4. Project management

103. Sound management, ownership of the project, clear definition of responsibilities and assignment of tasks, high involvement of all parties concerned and synergies between sub-projects are key to a smooth transition to IPSAS. In the words of an EC official commenting on the successful EC experience, "the main issue is neither the standards, nor the accounting policies, it is project management".

104. As of June 2010, 86 per cent of the organizations had a detailed timetable and project plan (81 per cent as of December 2009). Some organizations (e.g. UNICEF, UNDP, WFP, UNESCO and ICAO) have formal project management processes, often the fruit of lessons learned from managing previous projects and strategic initiatives. Others (e.g. the Food and Agriculture Organization of the United Nations (FAO), the International Agency for Atomic Energy (IAEA) and the United Nations Office for Project Services (UNOPS)) have adopted standardized project management tools such as "PRINCE2"[72]. The main features of the latter are:

- A focus on business justification;
- A defined organizational structure for the project management team;
- A product-based planning approach;
- An emphasis on dividing the project into manageable and controllable stages; and
- Flexibility to be applied at a level appropriate to the project.[73]

105. Many project teams have a significant IT component since IT systems need to be upgraded to support IPSAS. This is creating a real mutual dependence between projects, and for example, the difficulty in funding the ERP project of the United Nations has been a major reason for delays in the IPSAS project. There were others, and the BoA had to recommend finalizing the detailed timetable and project plan for IPSAS implementation.[74]

106. In addition to the adoption of accrual-based accounting principles, measures required to achieve conformity with IPSAS include the **development of a new integrated accounting system**. Such a system should provide the requisite tools for presenting accrual-based accounts, including information on accounting

[72] PRINCE2 (PRojects IN Controlled Environments) is a process-based method for effective project management - a standard used extensively by the United Kingdom Government and the private sector.
[73] See http://www.prince2.com/what-is-prince2.asp
[74] A/65/5 (Vol.1), para. 33.

methods, valuation rules and the accounting principles adopted. This should lead to improved quality of financial reporting and a more accurate picture of an organization's financial situation in terms of assets and liabilities, budget implementation and cash flow.

107. To this end **a full set of accounting policies** needs to be developed. According to the EC it is necessary to:

- Identify those responsible for developing and reviewing the policies prior to final approval;
- Establish time frames for development and approval;
- Identify the transactions and balances for which accounting policies will be required;
- Determine the level of guidance that will be required on the policies. (Minimal guidance is appropriate when employees are familiar with accrual-based accounting and the standards applied);
- Review the existing accounting policies to determine if they will be appropriate under the new basis of accounting;
- Apply IPSAS or other sources of authoritative guidance for specific accounting transactions and events;
- Obtain a complete list of accounting events both on and off the balance sheet;
- Produce a concrete opening balance and put in place internal control[75] procedures to guarantee the accuracy and completeness of the data;
- Manage internal control (policies and procedures conceived and put in place by management to guarantee the legality and regularity of transactions, notably by ensuring the safeguarding of assets and information, the quality of accounting records and the timely production of reliable financial and management information);
- Ensure interoperability. [76]

108. The inspector found that project teams worked best when they followed the following principles:

- Clear and agreed-to responsibilities within a multi-disciplinary team;
- Individuals are identified to represent each group of users;
- Teams hold regular meetings at all levels;
- Team approach emphasizes flexibility rather than rigidity

Risks:

- Underestimating the amount of resources needed for the project team;
- Confusing the respective roles of the project team and the steering committee;
- Having a purely formal steering committee;
- Dominance of one function within the steering committee[77] (or supervisory board).

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[75] Internal control in the context of accounting is broadly defined as the overall set of policies and procedures conceived and put in place by an organization's management to safeguard assets and information, the quality of accounting records and the timely production of reliable financial and management information.

[76] See Commission of the European Communities, Communication from the Commission, COM (2002)

[77] The Steering Committee comprises participants from Finance, Budget, HR, IT, Training, External Relations, field users, and Audit.

Best Practice 4

The implementation of IPSAS works best if it is treated as a full-fledged and distinct project. To facilitate implementation, proven project planning and implementation methodologies should be adopted, containing such elements as clearly defined strategic objectives, deliverables, timelines, milestones and monitoring procedures.

5. Enterprise Resource Planning

109. The development of new ERP systems is a prerequisite for the phased implementation of IPSAS by United Nations system organizations. At present, these systems are either fully ready and operational, or in the process of being rolled out to field offices. A **comprehensive gap analysis** should be accompanied by **a realistic estimate of the tasks associated with the required changes. As much as possible, the IPSAS and ERP projects should then combine their efforts and cooperate closely [78].**

110. **In the pioneering cases of the EC and WFP, even establishing the opening balances proved to be a daunting task.** Opening balances for IPSAS-compliance as of 1 January of year Y will be based on the account balances as of 31 December of year Y-1 restated[79] from UNSAS to IPSAS.

111. A telling example of the challenges to be faced in this regard is provided by the EC. All the information necessary for accrual-based accounting was uploaded into the EC central accounting system in January 2005. This included over 7,000 invoices or cost claims, 30,000 pre-financing entries, 92,000 assets and 3,100 guarantees. Each service[80] was asked to verify the accuracy of these uploads by 1 May 2005, and in July 2005 more than fifty Directors-General (DG) and Heads of Service were requested to formally validate their opening operational balances. After verifications and controls, each DG validated the figures but requested some corrections to ensure the quality of the data. The last validation was received in January 2006. In 2005 the bulk of work for the transition was to finalize the opening **accrual balances** as at 1 January 2005, which proved to be an arduous task for DG Budget and all services alike. Reviews and coherence checks were performed by DG Budget to ensure the quality of data.

Best Practice 5

In order to minimize potential transitional problems, it makes good sense to develop a strategy for producing the opening balances in IPSAS for the targeted implementation date (first day of the first year of compliance) as well as the closing balance for the previous day, based on the previous accounting standard (UNSAS), but easily translatable into IPSAS terms for the opening balance of the targeted year.

6. Keeping up with the governing body and its initial expectations

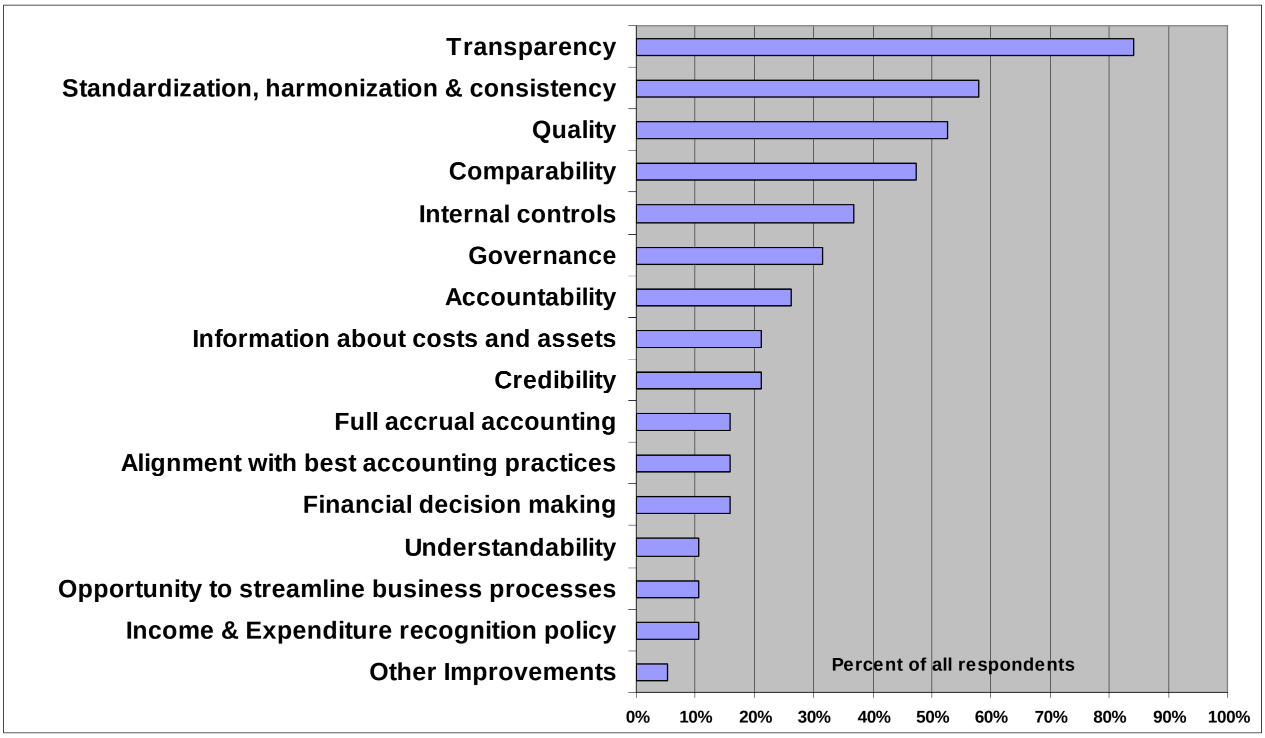
112. Member States have made the decision to adopt IPSAS on the basis of expected benefits for their respective organizations and allocated specific resources to this end. The governing bodies are therefore entitled to be kept informed on the planned and effective progress achieved during the transition phase; even if this means investing efforts in drafting reports which simplify some highly technical issues. In particular,

[78] See ACABQ report A/64/531, end of para. 12.
[79] The FS for the previous year have to be restated to express financial information according to IPSAS.
[80] A service is an administrative unit within the EC.

Managers should share their own expectations and compare them to achievements, in a results-based management spirit.

113. Replies from secretariats to the JIU questionnaire show that the main benefits that United Nations system organizations expected from the transition to IPSAS were: improved FS in terms of transparency (84.2 per cent of respondents), standardization, harmonization and consistency (57.9 per cent), quality (52.6 per cent); comparability (47.4 per cent), improved internal controls (36.8 per cent), as well as other benefits as illustrated in Figure 2.

Figure 2: Expected benefits from IPSAS compliance



Source: Replies to the JIU questionnaire

Best Practice 6
With a view to ensuring continued engagement of governing bodies in the change process and acquiring their commitment, regularly update the governing bodies on progress made in the implementation of IPSAS and request that they adopt the relevant decisions, in particular with regard to amendments required to financial regulations and allocation of resources for the project.

The following recommendations are expected to enhance accountability, effectiveness and efficiency:

Recommendation 1
The legislative bodies should request their respective executive heads to issue regular progress reports on the implementation status of IPSAS.

Recommendation 2

The legislative bodies should provide the appropriate support, staffing and funding required to ensure successful and effective transition to IPSAS.

7. Human resources

114. According to data from the January 2009 TF questionnaire, 52 per cent of the organizations had a full-time project leader, 33 per cent had a part-time project leader, whereas 14 per cent were yet to appoint either a full- or part-time project leader (a percentage reduced to 5 per cent in June 2010). As of June 2009, 68 per cent of respondents to the JIU questionnaire reported that they had the requisite human resources to work exclusively on IPSAS implementation. As of June 2010, only 88 per cent of the organizations expecting a 2010 compliance had appointed a project manager. IPSAS projects are usually supported by a small team (maximum four staff members) and a project leader assigned to work on a full-time basis. The other team members usually work on the project on a part-time basis, in addition to their existing tasks. It is essential that all the organizations analyze the changes required and **identify possible gaps within their existing human resources**. They need to decide whether the required expertise can be tapped from existing staff and/or whether external experts need to be recruited to handle the emerging tasks and challenges. For some teams, time to be dedicated to the IPSAS project had to be negotiated in advance (e.g. Universal Postal Union (UPU)). In 2009 and 2010, the lack of a properly staffed IPSAS team was one of the main reasons given by the organizations for their need to revise their implementation dates. The movement of IPSAS team members from one organization to another does not help with the general problem. As of June 2010, six organizations did not yet have a fully staffed IPSAS team.

115. Based on lessons learnt to date, **it is key to start the IPSAS undertaking with a basic gap analysis and skills inventory** in order to take stock of the existing expertise and experience of in-house accounting and finance professionals and determine **to what extent, and for how long, external expertise is needed** to complement in-house capacity.

Risk: A strategy that does not take into account the human resources requirements of IPSAS may result in the disengagement of staff when their regular duties conflict with those of the project.

Best practice 7

During the transition towards IPSAS, organizations should determine and subsequently budget for the additional human resources required in the administrative, budgetary and finance areas to ensure not only effective implementation of the transition to IPSAS but also adequate capacity for maintaining future IPSAS compliance. If needed, additional funding should be obtained from governing bodies or other sources while avoiding any conflict of interest.

Best practice 8

It is essential to take into account the cost of training staff for successful transition to IPSAS. Financial resources should be made available for training in-house experts in accounting, business and change management or for the recruitment of external experts

116. Most organizations stated in their replies to the JIU questionnaire that they had either “sufficient” or “partly sufficient” human resource capacity. However, given their tight timelines, they encountered **difficulties identifying IPSAS experts.** FAO, UNIDO, UNHCR and UNOPS all had insufficient staff to successfully implement IPSAS. In addition, the simultaneous demand for IPSAS experts (a new specific profile) by Governments, municipalities and organizations made their recruitment more difficult and costly. Although the success of the project depends on available expertise, the organizations can usually offer only short-term contracts due to budgetary constraints, thus making contractual conditions less attractive. Some organizations, including the United Nations, UNICEF and WFP, felt that including certified accountants in their project teams would be advantageous. Reacting to a concern about future human resources requirements, the United Nations representative at a TF meeting stressed the need to immediately start hiring certified/chartered accountants and also work out how to retain them, at least for the duration of the implementation stage. The Board of Auditors, in its rigorous analysis of the IPSAS-related issues at the United Nations had to recommend increasing the staffing of the project team[81]. Examples of good practices are provided by UNICEF and UNESCO. The former has developed an informal network of professionals in order to involve in-house experts in the project whereas the latter expects to achieve a high degree of **staff involvement** throughout the process. Its policy aims to ensure that full understanding of the UNESCO structure and operations is applied to the adoption process, and also facilitates the retention of IPSAS knowledge within the Organization. As such, the key role of the Project Management Team is performed internally. The consultants and international firm of accountants PricewaterhouseCoopers (PWC) provide support, primarily in the form of ongoing advice and assistance in managing the project and technical inputs, following the review of IPSAS documentation.

8. Financial resources

117. **Despite funding difficulties, almost all the organizations have been working within the budgets allocated for their IPSAS implementation projects, sometimes involving major difficulties for the staff concerned.** In order to fund the project, organizations have been using their regular budget, extra-budgetary funds, reserve funds, carry-over and budgetary surpluses from previous years. While some secretariats have been very accurate in their estimates, others underestimated the needs for the IPSAS project.

118. The analysis of available but not quite comparable data on IPSAS and ERP budgets shows that while larger organizations such as UNDP and FAO had substantial implementation budgets in absolute figures (given their size and their many field offices) the IPSAS+ERP budgets of smaller organizations such as WMO, the International Maritime Organization (IMO) and the Universal Postal Union (UPU) represented a significant portion of their overall annual budgets. At WHO, the IPSAS project was not considered to be specific. Furthermore, securing funding for the project proved particularly difficult for some smaller organizations, especially when fund allocations could only be provided from budgetary “carry-over” (e.g. ICAO) or through surpluses from previous years (second-best solutions in the case of restricted budgetary policy or non-aligned budget cycles). Since June 2010, all organizations have had an approved budget for their transition to IPSAS The BoA recommended to the Fifth Committee of the United Nations a close monitoring of costs to prevent their excessive and unnecessary escalation (12 May 2009).

9. ERP and its interactions with IPSAS implementation

119. An **Enterprise Resources Planning** (ERP) system integrates all data and processes into a unified IT system. This includes consolidation of several or all of the organization’s software applications, including finance, human resources, logistics, procurement, inventory, etc. For instance, when a purchase order is made, a procurement process is initiated, a supplier is selected, goods are ordered and received in the warehouse and an invoice is received and paid. Data on this activity flows through the different functional units of an entity. Each unit captures details relevant to its operations and eventually contributes to the preparation of the FS. The advantage of ERP is that users can retrieve relevant information in the same

[81] A/65/5(Vol.1), para. 33.

system at any time instead of having to search for it in many separate applications. This is why IPSAS standards requiring inputs from many functional areas within an entity are best served by an ERP system.

120. The transition to IPSAS requires a specific gap analysis of all existing (legacy) information systems, with a view to ascertaining whether they can support the production of accrual-based accounts (including inventory ledgers and client and supplier ledgers); interface with other systems; and provide effective security. As of June 2009, 91 per cent of the organizations had conducted evaluations of the changes required to their information systems.

121. Most organizations had to update their existing ERP systems or replace their legacy systems (e.g. the Integrated Management Information System (IMIS) used by the United Nations) to achieve an IPSAS-compliant environment. Changes in accounting procedures to achieve IPSAS compliance offer the opportunity to introduce new optimized processes by developing, adapting or replacing existing legacy systems. The reasons for introducing a new ERP system include the need to integrate various systems or the fact that most of the legacy systems are no longer capable of accommodating certain processes required under IPSAS, especially since their original objective was to mechanize manual activities rather than to modernize business processes. This explains why large, decentralized organizations such as WHO, FAO and the United Nations decided to link IPSAS implementation to ERP projects involving field and decentralized offices. As of June 2010, 90 per cent of the organizations had carried out assessments of their systems' changes.

Risks: Keeping these legacy systems and trying to upgrade them may require manual intervention which will increase the risk of inaccuracy and incompleteness of the data obtained partly manually and used for the preparation of FS.

On the other hand, linking IPSAS projects closely with major new ERP projects involving field and decentralized offices raises the risk of significant delays coupled with uncertain timelines, as their implementation is conditional on funding and project management of ERP projects.

122. Taking into account the specificities of each organization and the state of its IT architecture, a strategic short, medium and long-term cost benefit analysis should weigh the following alternative options**:**

(a) Continued use of the present system;

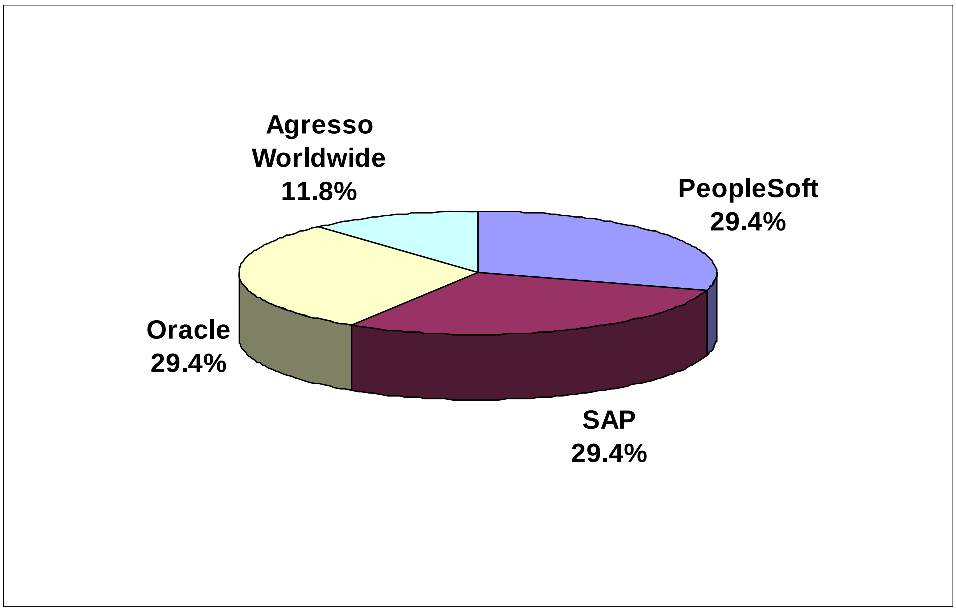
(b) Single commercial package approach (standard package or package accompanied by compatible modules;

(c) New integrated system with a core integrated package plus sectoral systems maintained or developed within the overall architecture.

The ideal situation would be to have all functionalities fully integrated so as to ensure data consistency at all times. Three commercial ERP packages have been widely adopted by large-scale organizations and companies. They are produced by PeopleSoft (recently acquired by Oracle), SAP and Oracle. Second-tier systems such as Exact Software, Agresso Worldwide and JD Edwards are some of the packages most widely used by mid-size entities. Because they were developed for IFRS compliance, most recent ERP systems can support IPSAS requirements, provided that the necessary setups are configured. **The choice of an ERP system is, however, primarily based on an entity's requirements, functionality and the value for money offered by the provider.** For a large-scale multifunctional system like the United Nations it may take significant time to develop an ERP system. **A basic problem is that these different ERP systems cannot interface with each other**.

123. ERP systems adopted by different United Nations system organizations (based on the available data) are presented in Figure 3.

Figure 3: Choice of ERP across the United Nations system



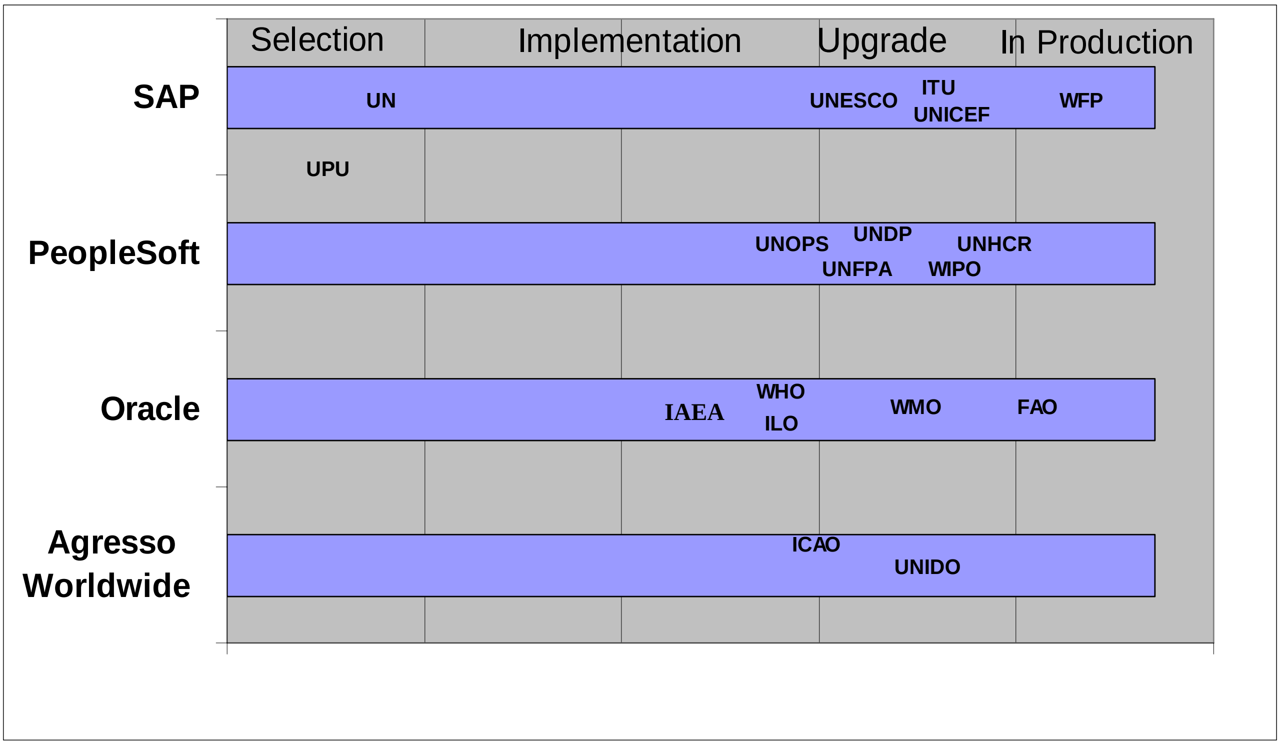
Source: Replies to the CEB adoption checklists and the JIU questionnaire

124. The deployment of ERP system in large entities calls for the commitment of staff and consultants specialized in the pre-design, design and implementation of ERP systems and may take several years to complete.

125. **ERP systems in each United Nations system organization are at different implementation stages** (see Figure 4 below). A majority of organizations with operational ERP systems are in the upgrading phase but may still need to adjust the latest version or add a module to become IPSAS compliant. Also, some organizations, repeating a major weakness of the IMIS at the United Nations, have not yet rolled out their ERP system to their offices outside headquarters. At the beginning of 2009, the United Nations selected and initiated a new ERP project called "Umoja". The first Umoja progress report[82] projected a pilot deployment during the fourth quarter of 2011 and a fully functional ERP system Organization-wide by the end of 2013, giving hope for an IPSAS-compliant FS for 2014. However, if some of the findings of the United Nations Office of Internal Oversight Services (OIOS) audit report dated 24 August 2010 on the Human Resources Management in the office of the ERP project director are reassuring, in particular on the organizational structure of the ERP and the experience and expertise of the staff hired, some serious breaches of HR, financial and procurement regulations posed a reputation risk for the ERP project, to which the IPSAS project is tightly linked.

[82] A/64/380

Figure 4: ERP Implementation Progress Level



Source: Replies to the CEB adoption check-lists and the JIU questionnaire

126. At the beginning of 2009, 76.2 per cent of organizations were in the process of assessing or had finished assessing the compliance of their ERP systems with IPSAS requirements. UNDP, the United Nations Population Fund (UNFPA) and UNOPS have a joint ERP platform; and UNFPA and UNOPS are dependent on the outcome of UNDP analysis.

127. By early 2009, following a thorough analysis of their legacy systems for their compatibility and synergy with IPSAS requirements, several organizations had upgraded their ERP systems while others had to purchase a new IPSAS-compliant ERP system. As of June 2009, 86 per cent of the organizations had completed studies to determine the required ERP systems upgrades and approved their implementation. The rest had to revise their IPSAS implementation target date, as **implementation can take place only in parallel with the upgrading of existing ERP systems.** However, UNHCR and WFP indicated that IPSAS could be implemented in time even in the case of belated upgrading of their ERP systems, explaining that their current ERP versions were able to support IPSAS with some manual operations and could be updated after IPSAS implementation (see WFP in annex IV).

128. Challenges with IPSAS implementation and related ERP capability were encountered by some organizations with field presence such as ILO. This organization, which by the time of the JIU review had completed the deployment of its ERP system, does not have adequate ERP infrastructure at field level and would need to process accounting data manually in order to comply with IPSAS. This is not an isolated case. The EC also faced difficulties in introducing new systems and providing training in geographically dispersed locations. It is therefore **crucial to factor in field requirements at an early stage of the project**.

129. Data cleansing is the process of cleaning the existing Legacy data, ensuring that the data that is being migrated to new ERP system is valid, correct and agrees with the required new format. Often, data cleansing continues in the project's final or post implementation stage. Organizations tend to underestimate the effort and time required to accomplish this process.

Best practice 9

Existing (legacy) systems must be thoroughly analyzed for compatibility and synergy with IPSAS requirements, fully taking into account field needs and capacities.

10. Awareness and communications

130. Awareness of the change process should be developed through communication and training. The objective of awareness training is to "communicate the upcoming changes and their impact on the Organization to all stakeholders, encourage staff to start thinking about the implications for their own areas of work, and build "buy in" for the change to IPSAS. Awareness training is seen as a key component of the overall change management process"[83]. **The magnitude of the IPSAS implementation projects implies expanding awareness to governing bodies and senior management.** Getting the right message across to the right people, in the right place, and at the right time is key to effective communication, which itself has three rules: communicate often, communicate openly and communicate to all. Thus, awareness training to these target groups is an even more important activity than that directed to the user community who will experience the new environment.

Best practice 10

In order to create a sense of collective ownership of the project, organizations should invest time and effort in ensuring that all stakeholders understand the vision behind the transition to IPSAS. This can be done in various forms: training, retreats, presentations to staff, information products and testimonies of people closely involved in successful cases elsewhere.

131. Thanks to awareness raising "senior managers and programme managers will have the tools to generate better information on the financial impact of decisions; they will be in a better position to explain financial results and be more accountable and motivated to take a longer view of plans and finances" Line managers should learn how to use the new system and achieve its expected benefits. They will also appreciate how "control" will change, from a focus on "time" (manipulated in order to meet the budget provisions), to a focus on resources used and the price paid. This move is akin to and fits well with the trend towards Results-Based Management (RBM).

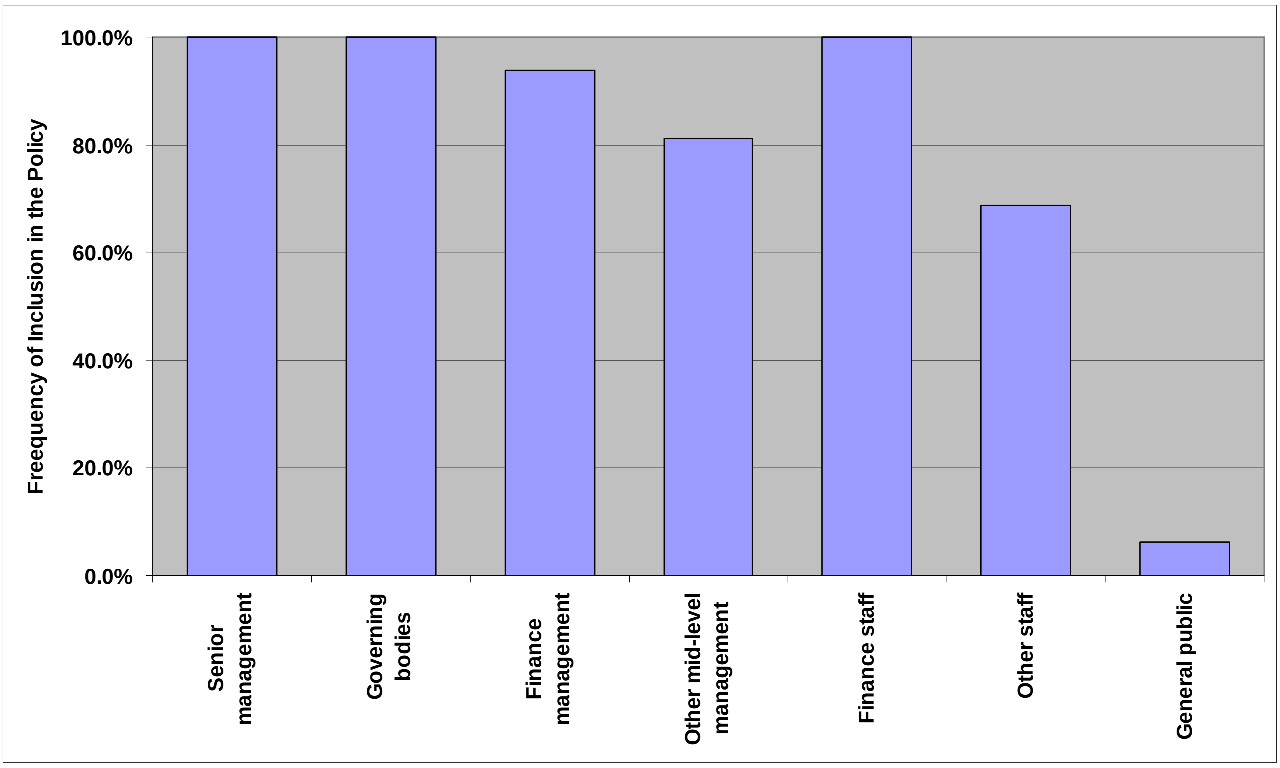
132. Organizational transitions are critical to an organization's change efforts, but without individual transitions, the likelihood of the organization's change effort being successful is severely diminished. Managers and individual employees play different roles in these transitions. The managers' role is to convince stakeholders (including employees) of the need for the changes. To achieve success in the final transition, every individual employee is important.[84] As of June 2010, 86 per cent of the organizations had prepared a communication plan, major progress since December 2009 (48 per cent) which probably comes too late.

133. Communication tools in international organizations include the use of Internet or Intranet websites, broadcasts, press releases, electronic newsletters, bulletin board messages, expert lectures to permanent missions and staff, special events, presentations, conferences, etc. As of June 2009, only 63.6 per cent of the organizations had IPSAS project communication plans, and, paradoxically, a higher percentage (68.2 per

[83] A/64/355, para. 68
[84] Mastering the transformation – New public management accrual accounting and budgeting, Deloitte, Netherlands 2004

cent) had de facto started awareness-raising activities. Target recipients of communication activities are presented in Figure 5 below:

Figure 5: Communication Plans by Targeted Audience



Source: replies to the JIU questionnaire

11. Training

134. According to a 2007 system-wide survey, 36,000 staff across the United Nations system required IPSAS-related training, of which 65 per cent needed awareness training, 25 per cent basic conceptual training, and 10 per cent specialist conceptual training.[85] In 2008 and 2009 the division of labour between the system-wide IPSAS project team and individual organizations regarding the development of training products was somewhat blurred and needed to be clarified. The second progress report of the Secretary General on the adoption of IPSAS by the United Nations clarified that the organizations were responsible for developing their IPSAS training plans and rolling out their training according to plan, adding that a system-wide approach to training had been developed to support organizations' IPSAS training. This approach consisted of three phases: training needs assessment; procurement of training courses; and deployment of training.[86]

135. Following a Request for Proposal issued in September 2007, a winning bidder was identified (International Business and Technical Consultants, Inc) and it was expected that a contract would be concluded shortly.[87] However, interviews conducted in 2009 by the JIU team confirmed that due to **lack of resources** the training materials would not be available before the end of 2009**. Despite this, the United Nations IPSAS team, with the support of the external service provider, was able to finalize the training**

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[85] A/64/355, para. 19
[86] Ibid, para. 19
[87] CEB/2008/HLCM/7

content, design and delivery. According to the CEB survey on the IPSAS adoption progress, covering the period up to the end of December 2009, 77 per cent of the 21 responding organizations had completed a training needs analysis and 59 per cent had completed their training plans. However, a higher percentage (52 per cent in June 2009, according to the JIU survey) had already started to provide training although only 32 per cent had completed their training plans by that time.

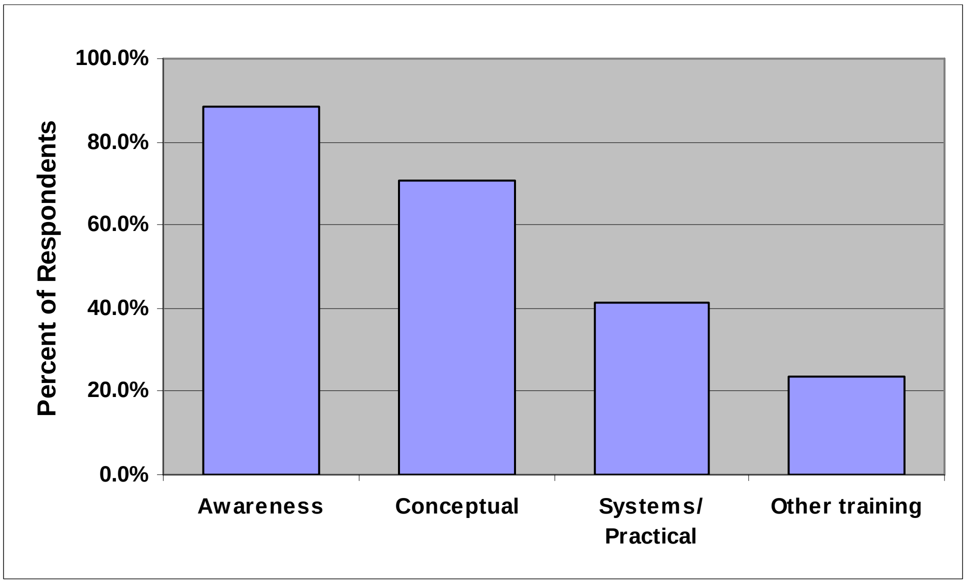
136. Among the issues affecting the roll-out of training were the need to conduct a formal evaluation of the training materials; course maintenance (amendments in response to IPSAS developments); and translations of the training products into French and Spanish. A preliminary assessment by UNDP was that the translation of courses would require significant resources and time. In the Inspector's opinion, this requires political will, as shown by WFP, which had successfully developed training material in English, French, Spanish and Arabic.

Best practice 11

Organizations should ensure that existing and future staff, in particular managers and finance and procurement personnel are fully familiarized with the new procedures and requirements through the use of specific communications tools, including manuals and training products in the appropriate languages.

137. The JIU survey of March 2009 showed that 88.2 per cent of the organizations had already provided awareness training without using CEB support team material. 70.6 per cent of training courses on offer were conceptual; 41.2 per cent were "hands on" (often with the assistance of the ERP provider); and another 23.5 per cent were unspecified IPSAS-related modules, including project management training. Replies from 17 organizations to the JIU questionnaire are presented in Figure 6 below.

Figure 6: IPSAS Training Started (March 2009)



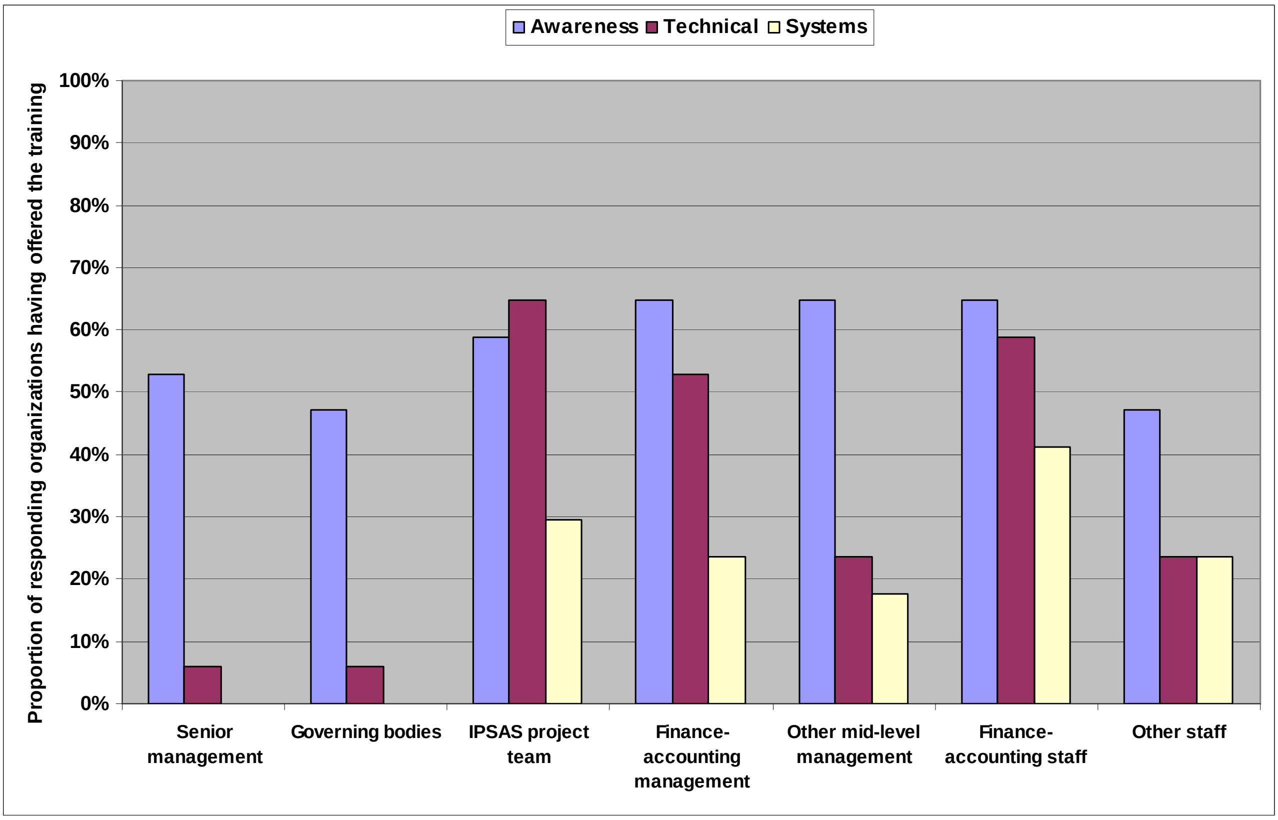
Source: replies to the JIU questionnaire

138. According to the organizations interviewed, training and communication must be synchronized with implementation.

Risk: Training delivered prior to the deployment of the relevant systems may demotivate staff.

139. Figure 7 below shows distribution by type of training offered to the various beneficiaries as of March 2009, relative to the total number of responding organizations. **It is essential that senior management receive awareness-training early in the project life to help ensure that they fully support implementation**. The delegates governing bodies concerned should be encouraged to take part in such training. However, as of Spring 2009, **in nearly half of the organizations, senior management and the governing bodies had not yet received awareness training,** which puts in doubt their ability to lead important and necessary reforms.

Figure 7: Training Beneficiaries and Type of Training Offered



Source: replies to the JIU questionnaire

12. Risk assessment

140. The organizations were also requested to share the conclusions of risk assessments they have undertaken, if any, considering that an exercise of this type is an important factor in successful project implementation. According to their responses to the TF implementation checklist of January 2009, **more than one third (38.1 per cent) had not undertaken any risk assessment for their IPSAS project.** This category included:

- Small organizations (UPU, UNFPA);
- Organizations whose IPSAS projects were partly or fully integrated into their ERP projects (WHO, WIPO); and
- Organizations which were lagging far behind in their project implementation (United Nations, UNWTO).

141. Where risk assessments were conducted they were not always supported by a formal risk assessment methodology such as COSO 2[88]. The Inspector wishes to highlight that **risk assessment is a prerequisite for risk management and key to ensuring that project objectives are met**, as confirmed by the BOA to UNDP[89] and UNFPA[90]. A positive example in this regard is WIPO, which had undertaken an assessment to determine the requirements to meet the 2010 implementation date and what could possibly cause delays.

142. The information collected by the JIU team confirms the risk factors mentioned in the second progress report of the Secretary-General on the adoption of IPSAS by the United Nations[91]. The report added another relevant factor: “an improved appreciation of the scale and complexity of the work involved after completing a diagnosis of required procedures and system changes”. The **main reasons for deferred implementation of IPSAS are the following:**

- Missing modules or incompatibility of ERP in respect of IPSAS requirements (70 per cent of respondents to the survey). For instance, the obsolete United Nations Secretariat “homemade” Integrated Management and Information System (IMIS), developed in the late 1980s and expanded in the mid-1990s, required a complex revamping leading to a Request For Proposal and a contract award in mid-2009 to replace it as part of the overall management project “Umoja”; The United Nations IPSAS Implementation Project Team worked closely with the Umoja Project Functional Team Leaders to ensure that the information system requirements for IPSAS were incorporated in the ERP software selection process (see the above-mentioned report, para. 51 and forthcoming progress reports)
- Lack or shortage of full-time human resources specialists with the necessary technical expertise (30 per cent of respondents). Retaining people with institutional knowledge was listed as a related challenge;
- Budgetary constraints, revisions or funding cuts (20 per cent of respondents).
- Other competing reform initiatives, sometimes at a system-wide level, turning focus away from IPSAS (15 per cent of respondents). For instance, UNICEF had identified 12 ongoing major organizational initiatives for 2009-2011 besides IPSAS; UNHCR was in the process of implementing a new RBM system, which had an implementation priority over IPSAS, limiting the availability of staff to work on IPSAS; and at ICAO two other simultaneous initiatives were the introduction of a new ERP system and the implementation of Results Based Budgeting (RBB).
- Delays in finalizing TF guidance or system-wide policies decisions (10 per cent of respondents); and
- Several other factors such as dependence of field offices and subsidiary entities on IPSAS compliance at headquarters; uncertainty over opening balances and initial recognition of property; delay in the preparation of training materials; uncertainties over re-configuration of business processes; and security issues (5 per cent of respondents).

Risk: The absence of an adequate risk mitigation strategy.

143. UNESCO and WMO offer examples of best practices in this regard. UNESCO published an internal control policy framework which captures in a single document the revised framework for the financial policies, procedures and processes. The framework provides the basis for developing specific rules, policies

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[88] Name used successively for a model of framework for the management of internal controls (COSO 1992), then a model of risk management (COSO 2, 2004), from the **C**ommittee **O**f **S**ponsoring **O**rganizations of the National Commission on Fraudulent Financial Reporting (Treadway Commission) after the Sarbanes-Oxley Act of 2002.

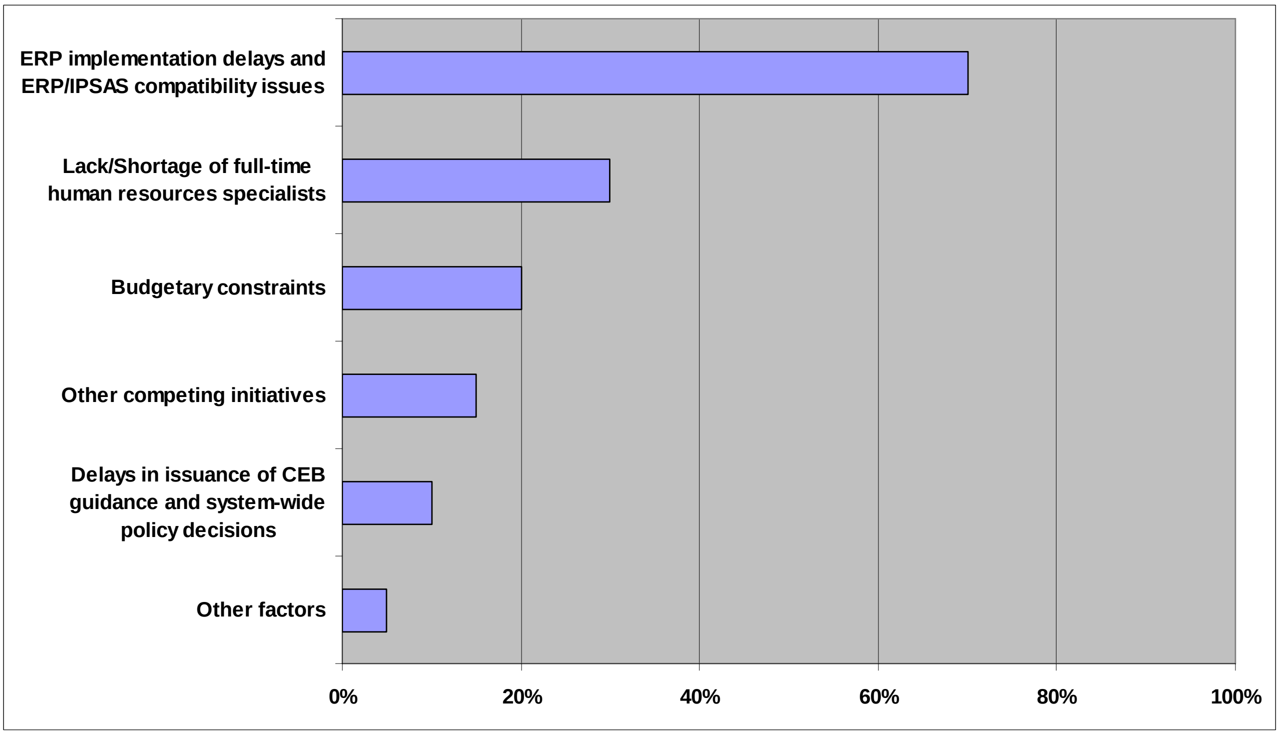
[89] A/63/5/Add.1 (Supp.), para. 191

[90] A/63/5/Add.7 (Supp.), para. 47

[91] A/64/355, para. 27

and processes to comply with IPSAS requirements and gives a common understanding of internal control issues to all staff. WMO published a comprehensive table of risk assessment relating to its IPSAS project.

Figure 8: Risk factors as perceived by organization



Source: replies to the CEB adoption checklists

Best practice 12

Risk assessment, management and mitigation strategies and practices for project implementation should be adopted by all organizations transitioning to IPSAS, in accordance with the project's objectives.

13. Oversight

144. The transition to IPSAS and the presentation of accrual-based FS will have a significant impact on oversight tasks.

145. To ascertain IPSAS compliance, auditors**,** internal and external**,** will need to determine whether appropriate internal controls and corresponding testing procedures were put in place by management, as well as how effective these are.

146. Both external and internal auditors will also have to invest, to gain and/or refresh (depending on their experience and professional certifications) accrual accounting and IPSAS-specific knowledge, as well as adapt their audit practices to the new control environment and changes in management practices, to align

their practices to the new environment. For instance, the new cut-off procedures[92] make the closing of operations more complex, thereby increasing the scope and detail level of audit procedures.

A: External Auditors

147. The Inspector agrees with the view of the organizations that e**xternal auditors** have an important role in reviewing and commenting on accounting policy developments, especially during a transition from one accounting standard to another. After the claimed IPSAS compliant financial period, **external auditors will have to independently decide whether to give a qualified or unqualified opinion on overall IPSAS compliance.** Their decision would conclude a technical and human relationship which should have accompanied the transition to IPSAS over the years. On the basis that no one has absolute knowledge in an area as new as the application of IPSAS to IGOs, the only viable way forward is a readiness from both sides to learn together from the standards, but also from the interpretations translating these into accounting policies (in particular the work of the TF) and also from the concrete reality of an organization. The WFP-NAO relationship, as described in annex IV, is an example of this process.

148. Interestingly, at the Rome meeting of the TF, the BoA identified the following potentially critical issues for thorough consideration by the organizations:

- Fund and trust fund presentation in FS;
- Control over project assets;
- Rate of exchange: average monthly rate (of the United Nations) versus spot rate;
- Adequacy of capitalization threshold;
- Treatment of inter-fund balances;
- Liquidation of unliquidated obligations (ULOs);
- Treatment of revenue from non-exchange transactions;
- Treatment of cash flow statement;
- Discount rates for ASHI liabilities;
- Consolidations;
- Sample (interim) FS
- Impracticality of external auditors issuing an opinion (initial or interim) to an organization before FS are completed;
- Annual financial statements without an audit;
- Gradual implementation (provided that individual standards are followed from the beginning of year).

149. Several organizations (ICAO, IMO, UNIDO, WFP, WIPO, WHO, WMO) prepared their interim (mock) FS to be reviewed by their external auditors prior to the presentation of their first IPSAS-compliant FS. For instance, WFP had its accounts reviewed twice at an interim stage. However, as was rightly underlined by the BOA, formal audit opinions cannot be provided for interim FS. Yet the Inspector believes that **it is imperative that organizations identify and resolve in a timely manner any outstanding issues that may lead to a qualified audit opinion**.

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[92] Audit procedures used for determining whether a transaction took place prior to or after the end of an accounting period, and therefore ensuring that transactions are recorded in the accounting records and recognized in the financial statements of the periods to which they relate**.**

Best practice 13

Plan and prepare interim financial statements for review by external auditor(s) well ahead of the final implementation date to avoid unpleasant surprises.

150. Further**,** there will likely be inconsistencies in the audit opinions given by the ten Supreme Audit Institutions engaged in auditing the accounts of United Nations system organizations[93], as they have varying degrees of experience in auditing IPSAS-based accounts. A few have been involved in such audits to date: the Swiss Federal Audit Office (Swiss public entities use IPSAS as their accounting standards); the National Audit Office (NAO) of United Kingdom (IPSAS are used in the United Kingdom government accounts and NAO audited the IPSAS-based accounts of WFP); the French Cour des Comptes also benefits from its fresh experience of certifying the French Government's accounts guided by an IPSAS-type approach.

151. Hence, guidance is of utmost importance. The NAO has developed tools to help external auditors to audit compliance with IPSAS. It has also published an "IPSAS compliance guide" designed to assist client organizations understand the prerequisite for an unqualified audit opinion; it includes a step-by-step checklist to help practitioners ensure that accounts have been prepared in accordance with IPSAS requirements. The guidance sets out the circumstances required and the evidence needed by external auditors from management; and gives illustrations of the audit issues and problems that can arise and which need to be avoided. In the case of United Nations system organizations, the guidance approved by CEB is, of course, the yardstick. However, there is still a need for a framework to guide the interactions of the organizations with their external auditors. The framework adopted by the TF should be discussed by the PoEA. The Inspector refrained from making any recommendations to this body, which would have been unusual for the JIU, but he hopes that the framework would make the performance of best practices 13 and 14 easier.

Best practice 14

Establish and maintain, as soon as feasible, a bilateral dialogue between the organization and its external auditor(s) on the transition to IPSAS to help ensure that both external and internal auditors gain in-depth understanding of the new system and its impact on control procedures as the implementation of IPSAS would require migration to accrual-based accounting.

B: Internal Auditors

152. Increased engagement on IPSAS issues by internal auditors is a factor in ensuring that adequate procedures were designed to allow for an objective view of the financial position and performance of the organizations**.** Unfortunately, the International Organization of Supreme Audit Institutions (INTOSAI) Guidelines for Internal Control Standards for the Public Sector, as updated in 2004 and approved by INTOSAI, can only be of limited value for practical use.

153. During the review, the Inspector observed that the degree of internal auditors' engagement in the change process varied considerably across organizations, depending on the openness and commitment and the project team's policy. In some organizations, the internal auditors were not involved at all or given an observer role only, while in others, they participated actively and followed progress made, discussed the project's difficulties and exchanged views on risk areas with project team members. When they met with the Inspector, internal auditors were involved as follows:

[93] Canada, China, France, Germany, India, Pakistan, the Philippines, South Africa, Switzerland and the United Kingdom.

- Preparing for reviews of IPSAS implementation projects (e.g. UNDP, UNICEF and WFP);
- acting as observers in the IPSAS project Steering Committee (ICAO, UNDP, UPU, WMO, UNESCO);
- Participating in informal consultations and giving advice on changes to be brought to the Financial Regulations or Rules (ILO, ITU, UNFPA, WIPO, WMO, UNOPS);
- Conducting a review of the project processes and gaps (FAO, UNRWA) and engaging in discussions with external auditors (UNFPA);
- Validating the change management process, conducting a review of accounting policies, coordinating with BoA and approving training plans (UNRWA);
- Conducting a risk assessment for the project (WMO);
- Considering reviews of PPE items and inventory in field locations (UNHCR);
- Without any involvement (United Nations, UNIDO) in the work of the IPSAS team, the external auditor playing the major oversight role.
- Recommending in an audit that the IPSAS project team be strengthened, with a change management coordinator and a project management coordinator, thus reducing reliance on consultants and providing stability for major managerial functions.

154. A subgroup of internal auditors presented a detailed paper on the role of internal audit in adoption of IPSAS to the UN-RIAS meeting of September 2008 in Washington[94]. The paper defined core internal audit roles in IPSAS conversion to give assurance that risks related to IPSAS conversion are correctly evaluated and managed through verifying the results of the gap analysis at an early stage; and doing assurance work through a series of reviews of the IPSAS project at various phases such as project initiation, milestones, and deliverables where internal auditors can provide value-added advice to management in the transition to IPSAS. For them those roles might include guidance on governance and risk management; project deliverables and agreed upon dates; opening balance sheet, systems upgrade and project close-out, all of which cover most of the IPSAS project components. The paper also proposed potential internal audit roles in the transition phase while at the same time noting that “the advisory role of internal audit and the timing of the various reviews can themselves pose risks for internal audit objectivity”. Consequently, in order to safeguard their independence and objectivity, internal auditors were advised not to get involved in decision-making on IPSAS conversion or implementation, by, for instance “undertaking the gap analysis or dictating accounting policies”.

155. The topic of IPSAS was again addressed in 2009 by the UN-RIAS on the firm basis of recent experience and lessons learned. Later, the UN-RIAS subgroup on IPSAS insisted on the **responsibility of management** (of the organizations and in particular of the IPSAS and ERP projects), which is accountable for the continuous testing of new internal controls installed during the preliminary implementation stage. Again, internal auditors from 14 organizations are rightly warning against taking on the responsibilities of management in this regard.

Best practice 15

During the preliminary IPSAS implementation phase business process owners should regularly test internal controls so as to ensure the accuracy of data.

[94] “UNSAS to IPSAS conversion – adoption of IPSAS by the UN: what should be the role of Internal Audit Service?”

Best practice 16

Ensure that an independent and comprehensive validation and verification of the system is performed towards the end of its completion.

C. A key indicator: expected compliance date by organization

156. **According to IPSAS entities** Organizations can only be considered as fully compliant with IPSAS once they receive from their external auditors an unqualified opinion on their FS. For this reason, the BOA, when auditing the FS of the United Nations for the biennium 2006-2007, recommended that the Organization continually review its milestones towards IPSAS implementation. The adoption progress report of February 2010 showed that only eight organizations were on track to become IPSAS-compliant in 2010. In light of written replies to the JIU questionnaire and interviews he conducted during his first missions, the Inspector expressed serious doubts, which were subsequently confirmed, about the system-wide target of 2010 compliance.

157. In 2009 76 per cent of responding organizations stated that their governing bodies were aware of the implications of the implementation when they voted to adopt IPSAS in 2006 and 2007. At that time, following the TF and CEB recommendations, most organizations targeted the financial period ending on 31 December 2010 as compliance deadline, while a few "early adopters" aimed for 2008.

158. **Initially, the TF** provided only a brief and generic description of the common benefits and implications of IPSAS, stating that the "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"[95]. However, none of the organizations was at the same starting point in 2006 and the document used by most secretariats and issued with their own respective logos to mobilize their governing body did not – and probably could not - give an idea of either the degree of preparedness of each organization for IPSAS or the magnitude and duration of the changes required from many to achieve compliance.

159. The Inspector can confirm that implementation levels differed significantly among organizations due to their different size and circumstances, as well as the compatibility of their ERP systems in 2005-2006 with IPSAS requirements.

160. **The decisions of the TF, HLCM, CEB and the Secretary-General of 2005 and 2006 [96] can be criticized in that they pressed all organizations to opt for the same year of compliance,** regardless of their actual readiness level. Instead, sufficient time should have been allocated to carry out a feasibility study first. Indeed, many more papers were necessary to inform governing bodies of the prerequisites for a successful transition to IPSAS.

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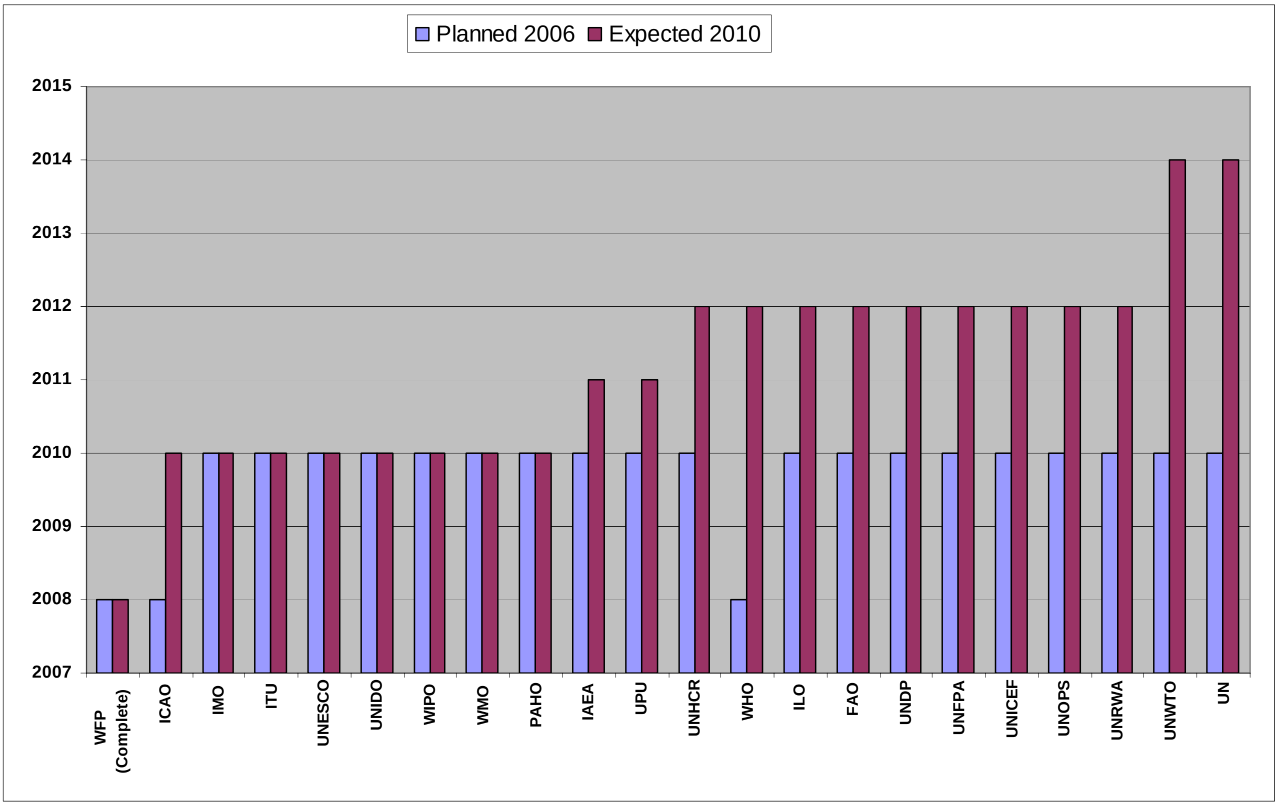
[95] November 2005: recommendation 25 to the HLCM, para. 4

[96] See Chap. II.5 above, 2005-2007: The political decisions to adopt IPSAS

Figure 9: Planned and Expected Year of Full IPSAS Implementation as of February 2010, based on information provided by the organizations.[97]



Sources: Secretary-General's progress reports on IPSAS implementation

161. Of the three planned "early adopters", only WFP fully implemented IPSAS for the year ending 31 December 2008 as planned, thanks to favourable initial conditions and concerted efforts (see annex IV for details); WHO, which had adopted several individual IPSAS standards since 2008, closely linked with the deployment of its ERP system, is now expecting to become compliant in 2012, after its ERP system is rolled out to the rest of the Organization. ICAO, whose procurement has been accrual-based since January 2008, when the first phase of its ERP roll-out was completed and the delivery principle adopted, expects IPSAS compliance as of 2010.

162. Of the 19 other organizations reviewed, 7 are expected to be IPSAS-compliant on 1 January 2010 as planned: IMO, ITU, PAHO, UNESCO, UNIDO, WIPO and WMO. Of the remaining 12, 2 are now expecting to adopt IPSAS in 2011 (IAEA and UPU), 8 in 2012 (FAO, ILO, UNDP, UNFPA, UNHCR, UNICEF, UNOPS, UNRWA) and 2 in 2014 (United Nations and UNWTO).[98] This should not come as a surprise, given the unexpected complexity and scale of preparations and changes required by the transition to full IPSAS compliance, and, in the case of many organizations, the simultaneous adoption of other challenging management initiatives. This shows that jolting organizations into adopting IPSAS as early as four years after the political decision of the General Assembly – as was advocated in 2005 by the proponents of the 2010 target, was neither technically feasible nor realistic. All the more so for those organizations that lagged far behind in accrual-based accounting, had inadequate ERP systems and a shortage of trained staff. According to a key actor interviewed by the Inspector in 2008, "migration in 2010 is but a slogan".

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[97] CEB/2010/HLCM/7
[98] CEB/2010/HLCM/26

163. Delays in their milestones obliged some organizations to revise the timeframe for the project in 2009 or 2010, a revision fully encouraged by the HLCM. The United Nations, for instance, has rescheduled adoption to 2014, to allow it more time to synchronize implementation with the introduction of a new ERP system, stating that “the single most important issue with respect to the adoption of IPSAS is the information systems requirements for successful IPSAS adoption and the synchronization of implementation plans for IPSAS adoption and the ERP project”[99]. As of June 2009, 62 per cent of the organizations, having foreseen implementation delays, had decided to adopt a progressive approach (implementing standard by standard). In some cases the decision to postpone the deadline was also influenced by the availability of resources.

[99] A/62/806

V. IPSAS AND THE FINANCIAL AND ECONOMIC CRISIS

164. The global financial and economic crisis has been affecting the project in several ways:

- It has made funding for IPSAS transition**,** which is already modest and sometimes too modest to be fully effective, even harder to obtain and more contingent on the understanding and goodwill of senior management and the legislative bodies, especially in the context of a simultaneous adoption of several competing management initiatives and increasing demands of Member States, ever reluctant to approve additional expenditure and human resources;

- It has shown how important it is to have better information on the financial strength of the organizations and the related risks they faced. **The credit crisis has increased the need for accountability in the public sector** and transparency in its financial transactions.

- It has created **controversies among accountants regarding the pro-cyclical impact of international financial reporting standards and how fair value**[100] **should be measured in times of crisis**. This is embedded in particular in IAS 39 and IPSAS 15 on financial instruments, disclosure and presentation. The former has been criticized for contributing to greater balance sheet volatility due to its requirement that a wide variety of assets be measured at fair value.

165. Spurred into action by political pressure in the wake of the Lehman Brothers collapse, then by the G20 meetings, accountants have taken the issue very seriously. IFAC organized several seminars at its Global Council Meeting to discuss the causes of the financial crisis and what the accountancy profession, regulators and Governments could do to prevent future crises. The IASB and the FASB agreed to work jointly and expeditiously towards common standards that deal with off-balance sheet activity and accounting for financial instruments. Furthermore, they agreed to issue proposals to replace their respective financial instruments standards with a common standard "in a matter of months, not years"[101]. Both clarified that firms were not obliged to use market prices in distressed conditions. For its part, the IPSASB has recently developed additional IPSAS standards (28, 29 and 30) based on the models of IAS 32, 39 and 7 and dealing with the same issues of presentation, recognition and measurement and disclosure.

166. Like any other accounting standards, the IPSAS standards are subject to continued improvements and modifications, entailing corresponding changes in the accounting policies of United Nations system organizations. In April 2009, the G20 called upon FASB and IASB to "make significant progress towards a single set of high-quality global accounting standards" by the end of the year"[102]. The Inspector welcomes the efforts made by the IASB and the FASB for the convergence of the IFRS and GAAPs in the private sector, promoting "accounting standards convergence", one of the accounting profession's ideals.

167. This, however, invites the question of how a single set of accounting standards conceived for the service of the private profit-making sector could possibly meet the specific needs of public sector entities and non-profit organizations where most of the transactions are not based on exchange but on asymmetric transactions for both revenues and expenses. The question needs to be followed closely by the United Nations observers (United Nations Secretariat and UNDP) on the IPSASB, as this body officially supports the **convergence of IPSAS and IFRS.** Since the IPSASB is not accountable before any governing body within the United Nations system and because the "United Nations" observers have no delegated authority to speak for the system, should they simply accept, endorse, promote or remain silent in view of the will for such a convergence? An informed debate among the United Nations stakeholders should take place and make

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[100] Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. (IPSAS terminology)
[101] Joint FASB-IASB press release,(24 March 2009)
[102] For details, see *Risk*, May 20-2009

the issue and stakes understandable and understood by all actors. Let us recall that the very reason why IPSAS were chosen is that they were better suited than IFRS to the specific nature of public entities. The IPSAS standards have already embraced most of the features of the IFRS standards, conceived for the private companies. The Inspector shares the view of the International Director of the French Conseil National de la Comptabilité (National Council for Accounting) that “it is regrettable that mainly due to time constraints most IPSAS standards were copied from IFRS and were only partially compatible with the realities of the public sector”. As long as there are “non-exchange transactions”, the “Accounting of Princes” will have to remain distinct from the “Accounting of Merchants”.

168. **The guiding principle in the future development and implementation of IPSAS should be accountability,** which IFAC defines concisely and correctly as “an obligation to answer for a responsibility conferred”[103]. An important task similar to that performed by the International Financial Reporting Interpretations Committee (IFRIC) in the area of IFRS could be executed by a special committee charged by IFAC with assisting public sector entities, in particular international organizations, in harmonizing and interpreting the IPSAS standards, especially in the first years of implementation process as they venture into uncharted territories. Such a committee would continue the work accomplished by the TF, but its scope could be much broader, with representatives from States, cities and non-profit organizations, in accordance with the principles of due process.

[103] International Federation of Accountants, Study 13 Governance in the Public Sector: A Governing Body Perspective (August 2001)

VI. CONCLUSION

169. The transition of all United Nations system organizations to IPSAS is certainly one of the most ambitious management initiatives ever undertaken at the system-wide level. It is an initiative that cannot be dispensed with if the organizations are to move towards informed management. This report has endeavoured to highlight the obstacles, constraints and risks in the transition from UNSAS to IPSAS, be they the time required to select the best or to upgrade the existing ERP systems, poor dialogue with legislative bodies, lack of vision and sense of collective ownership of the change process or lack of commitment of senior management.

170. Few, if any of the organizations realized back in 2005 the magnitude of changes required. There are many reasons why, out of 22 organizations, only one achieved acknowledged compliance by the initial deadline and eight others plan to attain this in 2010. Based on the review, the Inspector must conclude that a majority of organizations misjudged the monumental changes required at many different levels and that some were slow to recognize that only by making this effort a corporate priority would they be able to follow this through. Nor did the initial commitment to achieve IPSAS compliance by 2010 reflect the fact that each organization had a completely different starting point, which made the move towards IPSAS a major undertaking for some organizations. Early pioneers such as OECD, the EC and WFP have demonstrated that with sufficient will and determination the enormous task could be achieved. However, lessons need to be learned from their experiences so as to help other organizations to achieve IPSAS compliance within the coming years.

171. Following a momentum lasting several years during which a series of important political decisions were taken, it is now clear that it would take more time for some organizations to attain the goal of producing unqualified IPSAS compliant FS.[104] **Disillusion and discouragement are now the major risks to be prevented**, all the more so since the beneficial effects of the transition will become apparent only once the transition is completed and managers will need time to grasp the new requirements. **The review identified a number of best practices (listed in the Executive Summary) based on the experiences** of the United Nations organizations or other early implementers outside the United Nations system. The inspector believes that applying them will help ensure that the transition towards IPSAS is done in a strategic, comprehensive and timely manner. Taking them all into account, the Inspector considers that the following recommendation should enhance effectiveness, efficiency and accountability in the transition of each and every organization of the United Nations system to IPSAS implementation.

Recommendation 3

The Executive Heads should ensure that the set of 16 best practices identified in the present JIU report is applied when implementing the IPSAS project.

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[104] See for example the Progress Report on the Adoption of IPSAS at UNDP, UNFPA and UNOPS: Briefing to the Executive Board (1 June 2009), available at www.undp.org/about/ipsas/doc/Progress_report_presentation_june09.ppt

Annex I
List of IPSAS
(2010 IFAC Handbook of International Public Sector Accounting Pronouncements)
Scope of the Handbook

This handbook brings together for continuing reference background information about the International Federation of Accountants (IFAC) and the currently effective pronouncements for the public sector issued by IFAC as of January 15, 2010.

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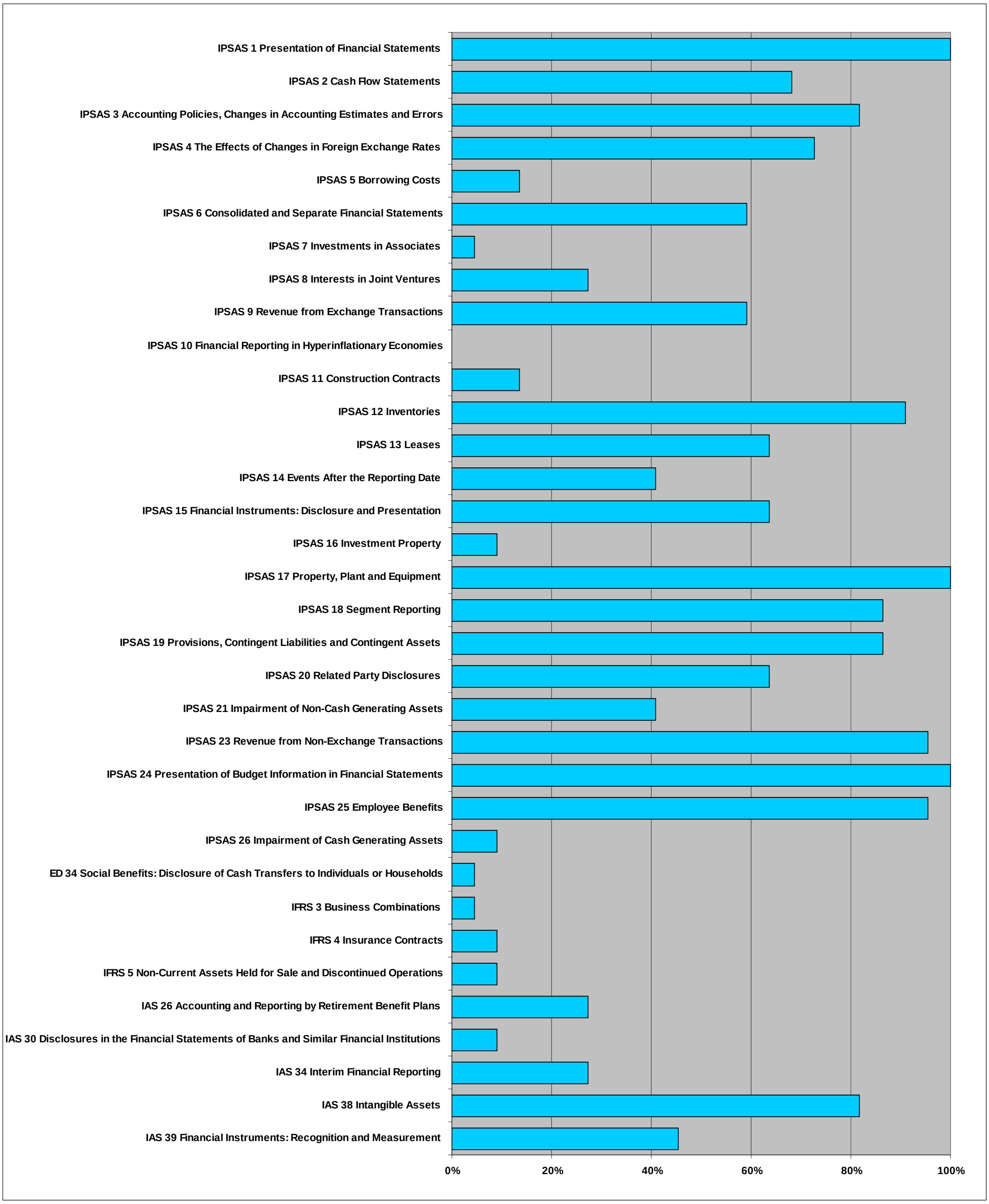
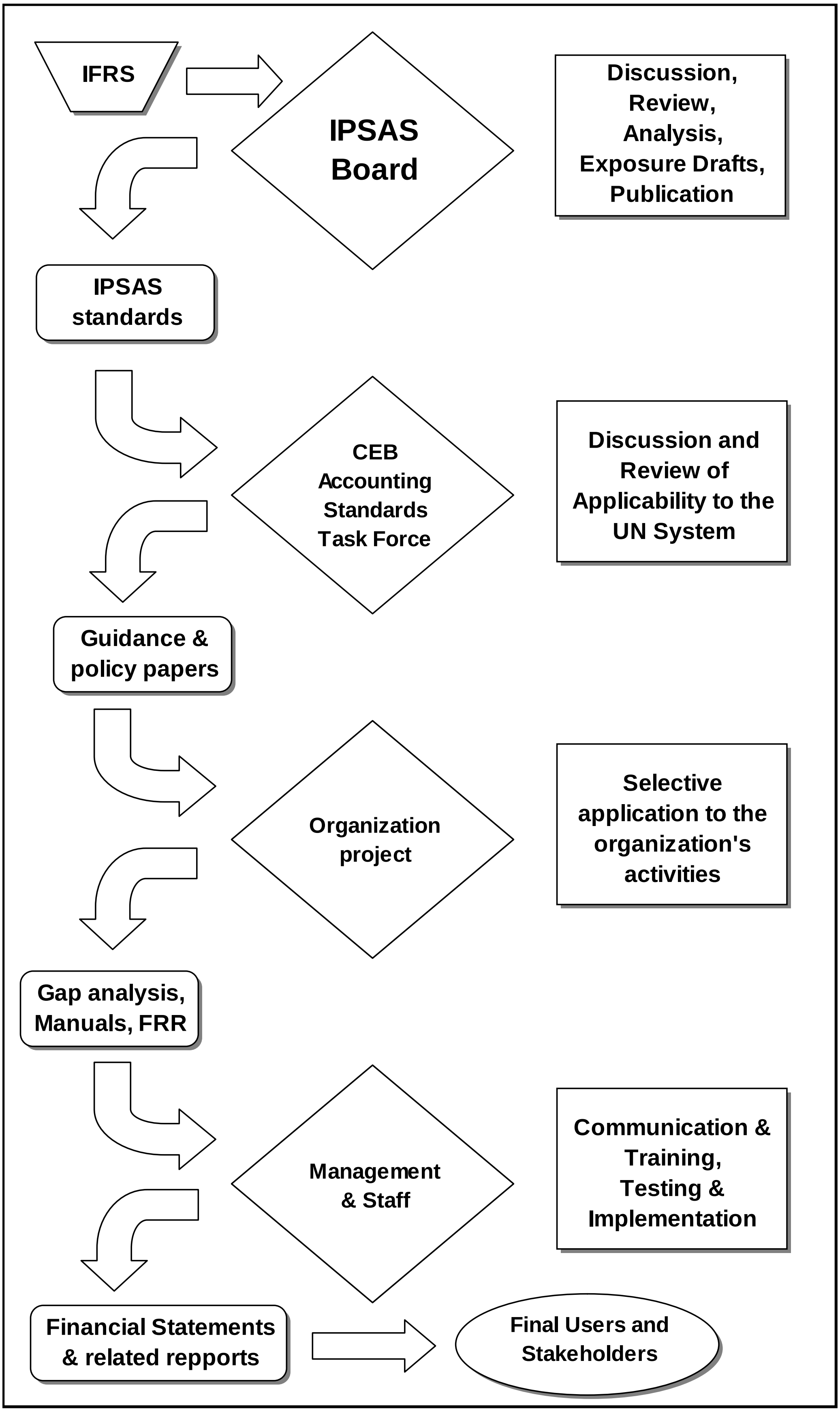
Annex II

Perceived importance of each IPSAS in per cent as identified by participating organizations



Annex III

Process Flow for transition to IPSAS Implementation



Annex IV

A SUCCESS STORY: THE WFP PROCESS

1. This is only one of over twenty detailed accounts of IPSAS projects in the JIU participating organizations. It is the first, and for the moment (2010), the only success story, from which the Inspector believes there is much to draw. The WFP is far from the only agency where good practices have been found, but in April 2009 the WFP succeeded in having its financial statements for 2008, presented as IPSAS compliant, certified by its external auditor, less than three years after its Board decided (in June 2006) to comply with IPSAS, a success repeated for the next financial period and worthy of detailed description. This section is mostly based on official texts from the WFP Executive Director, (including the six progress reports on the project), the accounts published and the reports and statements by the External Auditor. For the sake of brevity, few references have been given in the present text; the others are available on request.

2. The deadline for the beginning of the financial period projected as IPSAS compliant allowed the WFP IPSAS Project team only 18 months to prepare itself. Starting from scratch and building one block at a time, the introduction of IPSAS has been a multifaceted, time-bound, complex project. Thanks to effective leadership and careful risk management it has finally been successfully delivered as originally envisaged. Because the WFP was in the end the only so-called IPSAS "Early Adopter" it was ahead of the United Nations system as a whole in the formulation of technical accounting issues related to IPSAS. This major initiative involved a comprehensive review of all financial policies and many revisions to these, the preparation of a related Policy Guidance Manual and extensive staff training.

A. Setting up the financial management as a preparatory step

3. This remarkable achievement also crowns an overall process of transformation of the financial management of the whole organization, the origins of which are to be found at least as far back as the biennium 2002-2003, when, at the instigation of its external auditor (NAO) and its top management, the WFP undertook **to improve its financial administration.**

4. An IPSAS project is built on **the shared motivation, knowledge and accountability** of all those in the finance functions of the entity, **at all levels of headquarters, regional and field offices**: an active network had to be created among them all to ensure a full understanding and implementation of the organization business model and a fertile ground receptive to the necessary reforms. To this end, **essential posts must be filled in a timely manner with staff in the required numbers and with the required qualifications**. The training of finance managers and staff, and the mixture of employees from these different levels is a key factor for success as a prerequisite for the creation of a modern accounting culture.

5. In 2004-2005, the WFP leadership introduced a number of **initiatives aiming at improved quality and timeliness in the financial reporting** for its Board, donors and management. Those management priorities included the following:

- Worldwide enlargement of the operational capability of the WFP ERP (known as the WFP Information Network and Global System or WINGS, subsequently WINGS II after it was enhanced);
- Investment in human resources with 19 international and 17 national additional finance officers in the field (an increase of 61 per cent and 68 per cent respectively) and 5 regional financial analysts to support the new business model resulting from a business process review;
- Training of managers in financial management, and training of finance staff on WFP business and financial processes, in particular in the field offices, with a monthly closure reporting package;

- ➢ Training of the newly appointed country directors with emphasis on their responsibilities for internal controls and effective financial management;
- ➢ Workshops conducted with senior finance officers from headquarters, regional bureaus and country offices to discuss strategic issues on financial management and to clarify roles and responsibilities;
- ➢ Annual regional bureau workshops involving finance officers from country offices, to prepare for the closure of the biennial financial accounts, introduce new initiatives, review audit response follow-up and provide advanced training to WINGS;
- ➢ Issuance of a Consolidated Finance Manual, to provide clear guidance on financial policies and procedures, while reports on the management and the financial implementation of projects were produced by WINGS;
- ➢ Development of a new foreign exchange strategy to reduce risks on the basis of an analysis of the exposure of the WFP;
- ➢ Reorganization of the finance function for a stronger focus on cost analysis and internal controls.

B. Choice of accounting standards: a resolutely proactive position

6. In January 2005 the WFP External Auditor observed that **WFP already provided an almost complete set of financial statements (FS) as required by either the IAS/IFRS or the IPSAS.** After the presentation of the External Auditor’s report on financial reporting standards to the Board, through which the External Auditor was encouraging the WFP Board to accept universally accepted international accounting standards, the Executive Director established **a steering committee and a task force** to manage the transition in that direction. After discussions with external organizations and with experts in accounting standards, they made a **preliminary review of those WFP regulations and rules that might require revision** before WFP could fully adopt international accounting standards. Changes toward accrual accounting being a requirement common to all modern accounting standards, their implementation would significantly prepare the entity to implement any of the standards. In 2007, WFP recognized that the present WINGS, which supported some aspects of IPSAS, had allowed WFP in recent years to introduce systematic improvements into its financial reporting, including accrual-based income recognition, investments recognition at market rate, expense recognition based on the delivery principle and annual financial reporting. In this respect, **WFP had already achieved an advanced level of readiness for IPSAS.**

7. But this had not been easy: IPSAS is principles based. WFP being the first in the United Nations and among the first organizations in the world to implement IPSAS, its IPSAS team **had to draft many policies, often before the discussion and publication of any guidance by the inter-agency Task Force**. Some of the very difficult policies to draft were, inter alia, the inventory capitalization, expensing, and measurement, financial instruments, services in kind, PPE, intangibles, and, in particular, revenue recognition, which was particularly difficult given the major differences between WFP and the private sector, but which also assessed contributions-based organizations and States. Comparing the previous UNSAS-compliant FS and the present IPSAS-compliant FS gives a measure of the impact and the difficulties faced in the accounting policies.

8. The WFP attitude toward the supporting work carried out by the System-wide team and TF was full proactive participation and a resolute move ahead, and even ahead of the team if necessary, as with the training materials (where WFP went ahead by creating its own training material without waiting for the delayed CEB training kit). As an early adopter, the perspectives and experience of WFP with regard to IPSAS implementation are very relevant to other United Nations system organizations. In circumstances where United Nations discussions had not yet matured enough to be able to pronounce on all IPSAS issues, management interpreted them as they saw fit, in agreement with the External Auditor. Where no IPSAS was available, the IFRS were used. As the “trail blazer”, WFP could not always count on the United Nations to provide practical advice and counsel on the wide range of issues faced during the

transition. Indeed, other United Nations organizations looked to WFP for guidance and example. WFP also had contacts with other IPSAS pioneers such as the EC, NATO and the Government of Switzerland.

9. When, during the summer of 2005, the TF discussed the matter with the CEB project development team and turned to IPSAS, at an accelerating pace, WFP, which had prepared itself for such a transition, positioned itself as ready to play a leading role as an early adopter. It thus set out two basic documents which demonstrate in-depth autonomous thinking about its own situation: a tentative timetable for the transition to international accounting standards from 2005 to 2008 and a table on all changes required from the entity according to its gap analysis, IPSAS by IPSAS. They constituted the backbone of the WFP IPSAS project. The business plan approved in June 2006 by the Executive Board included timelines, milestones, coordination with the WINGS II project and the estimated costs, budget and funding options to enable WFP to implement IPSAS from 2008 on, as recommended.

C. Full measurement and realization of the tasks to be implemented

10. According to an excerpt from the WFP external auditors' report on preparedness on two major projects: IPSAS and WINGS II, adherence to international accounting standards required considerably more than revision and improvement of the presentational aspects of financial reporting as seen through the organization's annual accounts. Improvements were required in business procedures and SOPs, for example on how WFP manages and accounts for assets and liabilities; and on how income and expenditure are accounted for and reported. They require major business process and financial management changes in WFP operational infrastructure and financial procedures, which the Secretariat has been taking forward.

11. WFP, which, more than other entities of the United Nations system, was already prepared to comply with many of these changes, as observed above, chose a fast track: a transition in eighteen months from where it was, well prepared as it was, with probably the shortest path to the target among all organizations of the United Nations system. A full set of (UNSAS compliant) **annual** FS was prepared for the first time at WFP in 2006. That enabled the Programme to position itself for the introduction of annual accounts and a full audit, as an advance exercise for the annual financial period which became mandatory from 2008 onwards. While its area would be most directly affected by IPSAS, the WFP financial reporting unit played a key role in the challenge of their implementation. WFP launched a series of "dry runs" over 6-month and 9-month periods, as "IPSAS compliant" parts of the future 2008 accounts.

D. A fully fledged project

1. Outline

12. Following the Board's decision in November 2005, the Secretariat developed a comprehensive workplan for the accounting standards project. The plan outlined the approach to identifying and addressing changes to WFP Rules and Regulations, accounting policies and administrative procedures affected by the implementation of IPSAS. Milestones were set for the different phases of the project, including analysis, proposals for revised policies and procedures, endorsement by management, the External Auditor and the Board, preparation of guidelines and the training of Headquarters and field staff. The Secretariat also prepared budgetary estimates of implementation costs.

2. Governance

13. Governance for the transition was first conceived as a relatively small team (four finance consultants, one project management consultant, one other consultant, two finance staff and four others) under the leadership of a full-time project manager reporting to the Chief Finance Officer, who was also in charge of the WINGS II project and thus able to monitor the WINGS II/IPSAS synergies. In 2007, a "Project Governance Board" was established to provide high-level oversight, guidance and advice to the IPSAS project. Further to internal audit recommendations and risk assessment, a change management coordinator and a project management coordinator were added to the project staff. This reduced reliance on consultants and provided stability in communications and training and in monitoring and updating the budget and workplan.

3. Funding

14. Thanks to its renewed financial management culture, WFP was very soon (September 2005) able to produce detailed cost estimates and planned budgetary requirements for:

- ➢ Technical expertise with knowledge in the following areas:
  - i. transition to international accounting standards;
  - ii. change in organization process flows;
  - iii. asset management; and
  - iv. preparation of policies, procedures and guidance manuals.
- ➢ Travel and training to implement the new policies and procedures (workshops etc.)
- ➢A significant amount of planning and organizational processes review, together with the formulation of policies and procedure guidance.

15. The first move toward funding the project was to try to identify savings by seeking possible absorption of the additional costs. The second was to seek out synergy with an already existing and related project. The third was merely to look for new forms and sources of funding.

16. In June 2006 the Board authorized an allocation of US$3.7 million from the Programme Support and Administration line, to cover for two years the cost of a timely introduction of IPSAS for the 2008 financial period. Two years later, a retrospective analysis of the project expenditures highlighted an overall actual level of expenditures similar to the planned amount, showing some under-budgeting in staff costs (which are governed by the United Nations common system), offset by savings in most of the other items and particularly travel. The cost of consultants was kept at the remarkably low level of US$0.3 million, over the whole duration of the project, compared to a projected US$0.5 million, itself relatively modest in comparison with some other organizations.

4. Human resources

17. The project plan provided for the creation of a dedicated team to implement the accounting standards project with support from WFP staff, which would provide expertise relevant to their areas of competence and responsibility. A project manager had been identified to lead the project, which drew on in-house expertise, specialist staff and specially recruited consultants to ensure that WFP had the capacity to make a successful transition to IPSAS. But staffing was difficult: when the project began trying to hire staff experts in the IPSAS field in 2006, there were virtually none. Many accountants were experts in IFRS or New Zealand or Australian Standards, but hardly any had expertise in IPSAS implementation. Only those who worked with pioneering organizations such as OECD and EC would have had IPSAS experience. Also, many consultants had theoretical experience in IPSAS but no implementation experience. The project manager opted at the end to hire professional accountants and to give them the time necessary to familiarize themselves with IPSAS, investing in them, so that, over time, they built up an expert implementation knowledge of IPSAS.

5. Content and deliverables

18. The team developed comprehensive implementation documents covering all IPSAS and IPSAS exposure drafts, including the new draft accounting requirements and practices under which the WFP FS would be prepared from 1 January 2008, to guide business users and systems developers. Detailed implementation plans for each area of accounting were linking implementation documents to the practical adoption of IPSAS, including the establishment of opening balances for 1 January 2008 for inventories, employee benefits and property, plant and equipment, and the accounting of revenue under IPSAS. An implementation manual was to be developed for business units and finance professionals.

E. A motivated Organization: communication, training and change management

1. Communication and training support

19. As part of its communication programme the WFP set up a special website page dedicated to the transition to IPSAS and produced an additional series of six “progress reports” on the subject, from 2006 to 2008, where all the relevant information on past and forthcoming decisions was explained or proposed, submitted to the Board for information, consideration or approval, thereby keeping it fully informed, motivated and active in the interests of the smooth progress of the transition process.

20. This IPSAS project Intranet website, much used by WFP staff, provided information on the UNSAS, International Accounting Standards, IPSAS and the IPSAS adoption process. It served as a one-stop information source for users seeking information or guidance on IPSAS. As part of the communications strategy, bimonthly bulletins were distributed to finance officers and other staff members, mainly to inform field staff members about the project’s progress. IPSAS and financial experts with experience of IPSAS implementation projects in other organizations held workshops to familiarize WFP staff with the nature of IPSAS implementation. During the latter half of 2006 and in early 2007, workshops were held at all regional offices to brief regional directors, country directors and finance officers about IPSAS implementation activities and major impacts on WFP. Additional training workshops and sessions were arranged as IPSAS-compliant processes became available.

21. In the same way, the maintenance of a communication flow to top management, middle management and staff with provision for feedback was necessary to create awareness and support. The IPSAS implementation team embarked on an organizational communications and training strategy to ensure wide coverage of IPSAS awareness and knowledge within WFP. This was coordinated with WINGS II and the Human Resources Division’s training unit to ensure efficiency and economies of scale. At the beginning of 2008, regular IPSAS training in Headquarters and field offices had already been given to 1,400 staff members. Refresher courses would be offered throughout 2008 for stakeholders such as Board members and participants in United Nations workgroups and events. Coordination with the New York IPSAS team continued as specialized training materials on accrual accounting applicable to the United Nations were being developed, but were either not yet published or not usable.

22. Altogether, training, communication, discussions, workshops, meetings and workgroups required a considerable amount of time to convert people's behaviours from UNSAS to IPSAS, and IPSAS was seen as (and in fact is) more difficult and more demanding. Therefore, changing behaviour, especially that of the “non-believers” was extremely difficult and called for the use of various means.

2. “Tuning” with the Executive Board

23. WFP established and maintained close relations in communication on its IPSAS project with its Executive Board (EB), composed of 36 member States of United Nations and FAO, donors and recipient countries. Despite this diversity, from 2005 to 2009, the External Auditor and the Secretariat of WFP played a “duet” for the Board, with various reports relating to their respective roles. They brought converging views on the transition to international accounting standards, thus creating a climate of trust, explaining at every stage the situation, risks, proposals made, and their expected benefits. **Raising and retaining such interest and support in the administrative and financial area,** often considered less attractive to Member States delegates, **is a major achievement.** Concerns were raised regarding the level of understandability of the new IPSAS compliant FS versus previous FS produced under UNSAS, which used the budgetary financial reporting format. They were addressed through ongoing discussion, briefings, informal consultations, finance seminars and guest speakers’ events.

24. Communication with the legislative body (the Executive Board) was also carried out by various means, including a special series of six progress reports as mentioned above. **This permitted in particular the initial funding of posts to strengthen the finance administration, and thereafter the relatively straightforward funding of the IPSAS and WINGS projects,** thus allowing their respective teams to fully dedicate themselves to the substantive activities associated with the projects without wasting their energy on fund-raising. As a result, the EB endorsed the various steps toward IPSAS as

proposed. But obtaining funding is easier than changing deeply entrenched working and managing processes of management and staff. This was very difficult at WFP, as in other organizations.

F. A project in a network

1. Institutional Partnerships

25. The WFP never worked in isolation. Just as it had organized thinking and training internally, it was keen to make the most of profitable linkages with existing external partners.

26. The first of these partners was **the External Auditor** of the WFP, from the National Audit Office (NAO) of the United Kingdom, who very soon proved to be a driving force in the introduction of internationally recognized accounting standards, in particular in his report on the subject for the consideration of the Executive Board.[105] The External Auditor and the Executive Director of WFP regularly underlined their valuable collaboration in their respective reports until they could proudly share in 2009 the honour of having achieved the first set of FS prepared under IPSAS for 2008 and presented these to the Executive Board without any qualification in the opinion of the External Auditor, as repeated for the next annual financial period. The Inspector considers that it is fair to mention, in addition to the local involvement of the External Auditor, the enormous efforts made by the NAO in terms of education and information with regard to the use of IPSAS, including two important and detailed "guides" downloadable from the NAO website at www.nao.org.uk :

- An IPSAS Compliance Guide, which provides a comprehensive, step-by-step checklist to ensure accounts conform to the requirements of the Standards;
- A guide entitled "IPSAS – Preparing for Audit", produced specifically to assist international organizations in understanding what their External Auditor will require to support an unqualified audit opinion against the requirements of IPSAS. In the foreword, NAO claims that "the guidance sets out the circumstances required and the evidence needed by external auditors from management; and gives illustrations of the audit issues and problems that can arise and which need to be avoided."

27. Another important institutional partner was the **Audit Committee** (AC), which, according to its annual report issued in 2009, "devoted considerable time and attention to the oversight of this challenging project. At each meeting, implementation plans and potential obstacles, including changes in key project personnel, were monitored. The AC noted key milestones (e.g. June and September 2008 "dry runs") and assessed the results produced by management and the reports on progress provided independently by the NAO and the Office of Internal Audit. It advised on how to deal effectively with obstacles encountered and reinforced management's commitment to the project. The AC's views and advice were conveyed to management. It suggested changes and reviewed management's response during the implementation process and when discussing the final versions of the draft FS".

28. As mentioned above, WFP played more than its part in the interaction with the other agencies of the United Nations system through its active participation in the TF and the related Rome "focus group". Once again, the Inspector stresses that, without wishing to downplay its merits in this successful transition, it is fair to say that WFP was probably among the best prepared organizations, in particular through its financial corporate culture.[106]

2. Internal partnerships

29. Another, no less important partnership was internal, with the conception and realization of the coordinated planning and running of two interrelated IPSAS and WINGS II projects. From the outset, synergy and continuous interaction to identify and initiate new and improved business processes were essential to avoid duplication of effort or the omission of processes necessary to ensure compliance with

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[105] Report of the external auditor on financial reporting standards of the World Food Programme (WFP/EB.1/2005/5-E)
[106] See JIU/REP/2009/7 Management and Administration Review of the World Food Programme

IPSAS. But the need to prepare WINGS II to IPSAS requirements represented a high level of demand from the modestly sized WFP IPSAS project team.

30. Partnership not only involves institutional partners but, just as importantly, various components of the secretariat. Distinct but synergetic roles were to be attributed to the IPSAS and the ERP projects, in mutual respect and collaboration for the overriding common goal of better management of the organization. In this type of situation there should be no domination, no competition and no confusion, leaving the way clear for systematic ongoing development. The same is true for the community of all users and staff affected in their jobs by the changing business processes.

G. Legal framework and accounting policies

31. The project team identified the General Regulations, General Rules and Financial Regulations that required amendment as a result of the implementation of IPSAS. This initial assessment of changes had been re-evaluated throughout the project. The main change affecting the General Regulations is the move to annual financial reporting. No other accounting policy change requiring Board approval was identified. In this regard, the case of WFP can be considered particularly favourable, because with the exception of this amendment and some funding such a major transition process was legally mostly in the hands of the executive head.

32. From 2005 on, the WFP kept its accounting policies under review, and introduced changes resulting in improved standards of financial reporting. Examples included changes in the income recognition policy, from cash to accrual, and in the recognition of after-service medical liabilities for WFP staff.

33. Key changes from the previous standards (UNSAS) included the capitalization of PPE, recording of inventories, recording of employee benefits and recognition of income. But IPSAS reform is a continuous process: nearly one year after the opening balance date of the 2008 IPSAS compliant accounts, the year 2008 was still considered by the project team as a "transition year", implying that there was room for further progress.

H. Final situation, risks and dividends arising from the transition

34. In June 2008, the capacity built into the IPSAS adoption team needed to be maintained, subject to resource availability, at least until WINGS II went live in early 2009 and the first IPSAS-compliant FS was submitted for Board approval in June 2009. It was expected that IPSAS adoption would be completed in June 2009 and the capacity built by the project then mainstreamed as far as possible, taking into account resource constraints.

35. **Major challenges that persisted** included inventory accounting, PPE recognition and completeness, revenue recognition and other accounting policies, calculation of employee benefits related to those staff members administered in the field by organizations other than WFP, intangible assets identification and management and budget reconciliation. The **many associated risks of all kinds** - internal and external, stakeholders' risks, and IPSAS Board risks had been assessed and were to be managed. The greatest stress and pressure related to senior management support, IPSAS-compliant ERP system availability, sustained staff capacity and knowledge of IPSAS, Governing Body support, effective communications with the External Auditor, effective communications and training and TF involvement. Coming from an agency which had already given much importance to all those factors, and at a time when the first year of compliance was completed, this **demonstrates how vulnerable such a project is and remains**, until everyone is accustomed to the new roles assigned. The retrospective analysis of risks contained in the sixth and last progress report concludes: "Challenges included the scarcity of qualified candidates who would commit themselves to a project of short duration, the tight adoption timeline, the lack of specialized training materials and the lack of internal capacities at the early stages of the project."[107]

[107] Sixth progress report on the Implementation of IPSAS (WFP/EB.A/2008/6-G/1), para. 31

36. In other words, the main challenges were to continuously brief the governing body, deal with internal stakeholders, communicate with the external auditor, manage differences in opinion with internal auditors, deal with difficulties and differences of opinion within the interagency TF on accounting standards and still continue with the implementation. Countless hours were spent on ironing out differences and trying to come up with all sorts of solutions and risk mitigations.

37. The WFP and its External Auditor are rightly proud of their achievement regarding IPSAS compliance and a June 2009 brochure on the subject was titled: *WFP Leads the Way: enhanced credibility and transparency in the United Nations system accounting practices – A glance at WFP's 2008 Financial Statements under IPSAS*, while the Report of the external Auditor on the IPSAS dividend prepared for the February 2010 session of the EB is subtitled: "Strengthening Financial Management"[108]. Far from considering the success of the WINGS II and IPSAS projects as ends, in either sense of that word, it recommends that their benefits for financial reporting be used in order to:

- More regularly inform the Executive Director and senior management, including on key areas of financial management risks or interest, to enhance and focus their monitoring function at the corporate level and inform decision-making
- Report and gauge financial performance
- Improve the linkage between strategic objectives, resources and outcomes
- Develop a common corporate view on financial performance as a senior management group.

[108] Report of the External Auditor on the IPSAS Dividend: Strengthening Financial Management (WFP/EB.1/2010/6-E/1)

Annex V

Overview of action to be taken by participating organizations on JIU recommendations JIU/REP/2010/6

		Intended impact	CEB*	United Nations, its funds and programmes												Specialized agencies and IAEA												
				United Nations**	UNCTAD	UNODC	UNEP	UN-HABITAT	UNHCR	UNRWA	UNDP	UNFPA	UNICEF	WFP	UNOPS	ILO	FAO	UNESCO	ICAO	WHO	UPU	ITU	WMO	IMO	WIPO	UNIDO	UNWTO	IAEA
Report	**For action**		☐	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒
	For information		☒	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Recommendation 1				L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Recommendation 2				L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Recommendation 3				E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E

Legend: **L:** Recommendation for decision by legislative organ
E: Recommendation for action by executive head (*in case of the CEB by the Chair of the CEB)
: Recommendation does not require action by this organization

Intended impact: **a:** enhanced accountability **b:** dissemination of best practices **c:** enhanced coordination and cooperation **d:** enhanced controls and compliance **e:** enhanced effectiveness **f:** significant financial savings **g:** enhanced efficiency **o:** other

** Covers all entities listed in ST/SGB/2002/11 other than UNCTAD, UNODC, UNEP, UN-HABITAT, UNHCR, UNRWA.