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United Nations Nations Unies

INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

TO: Heads of Department/Offices at Headquarters
A: and Offices away from Headquarters and Peacekeeping Missions
Rector, United Nations University
Registrars, ITY and ICTR
Executive Director, International Trade Centre

DATE: 10 January 2007

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THROUGH:
S/C DE:

FROM: Warren Sach
DE: Assitant Secretary-General, Controller

SUBJECT: **Adoption by the United Nations of the**
OBJET: **International Public Sector Accounting Standards (IPSAS)**

1. At its resumed 60th session in May 2006, the General Assembly, having considered the report of the Secretary-General entitled "Investing in the United Nations: for a stronger Organization worldwide: detailed report" (A/60/846 and Add. 1-4) decided to "approve the adoption by the United Nations of the International Public Sector Accounting Standards;" (A/RES/60/283, part IV, paragraph 1). The report of the Secretary-General noted that the United Nations System Chief Executives Board for Coordination (CEB) had already endorsed system-wide adoption of IPSAS by 2010 at its spring session for 2006 in Madrid.

2. The purpose of this memorandum is to inform you of developments to date within the Secretariat as well as to outline future activities to ensure that the Secretariat is prepared to move to the revised standards as smoothly and effectively as possible.

3. In this regard, it is important to note that implementation of IPSAS has far and wide implications on the way the Organization does business in both the financial and budgeting context. Further, it is closely linked to the introduction of the next-generation enterprise resource planning (ERP) system to replace IMIS. A comprehensive report on this latter subject is expected to be submitted to the resumed 61st session of the General Assembly in 2007.

4. On a UN system-wide basis, an Inter-Agency Task Force on Accounting Standards under the Chairmanship of Mr. Karia, Director, Accounts Division, has been established to consider the aspects involved on behalf of each agency which also has a Steering Committee to oversee the work of the Inter-Agency Task Force. The

Task Force is reviewing all IPSAS standards with a view to have common accounting policies in the UN system. In this respect, five focus groups have been established at various locations in New York, Geneva, Rome, and Vienna.

5. At the same time within the Secretariat, an IPSAS Implementation Steering Committee, co-chaired by Ms. Pollard, Director, Peacekeeping Financing Division, and Ms. Van Buerle, Director, Programming Planning and Budget Division, has been established. It will be complemented by a small dedicated full-time team within OPPBA, as approved by the General Assembly during its second resumed 60th Session in July 2006.

6. The UN Steering Committee has to date been operating on the basis of four separate Working Groups each dealing with the four priority topics identified. These topics are:

a. Financial Statements presentation;

b. Revenue (Applied to voluntary contributions);

c. Expense recognition;

d. Property, Plant and Equipment (PP&E).

7. As each Working Group deals with its topic to formulate the UN's position, critical issues are being identified and future action specified. The results of these working group meetings form the basis of the UN position to be channelled to the New York Focus Group (comprising representatives from the United Nations and other entities such as UNDP/UNCDF, UNICEF, UNFPA, UNOPS, ICAO and PAHO) and subsequently to the Inter Agency Task Force to ensure harmonization of implementation of the IPSAS standards.

8. It is my intention to share with you and the responsible staff of your office any and all outcomes concerning IPSAS as they develop. By means of correspondence, as well as periodic video conferences and on-site meetings, key staff from your offices, will continue to be informed of the next steps in the ongoing process of adopting IPSAS at the United Nations.

9. In this connection, it would be appreciated if you would identify contact points for your office or should it be more appropriate, a representative and a back up from your regional location, so that they may be involved in this important process. Ideally such a contact point should have a strong financial and/or budget background.

10. You may wish to note that at the recent Chief Finance Officers workshop held in New York from 3 December 2006, an initial presentation and discussion on IPSAS was conducted which I understand proved useful for the participants.

11. At this time, I am attaching an extract from the Report of the Secretary-General (A/60/846/Add.3) which provided a brief explanation on the subject of IPSAS to better enable you to make an informed decision as to the most appropriate representative to participate in this important activity. Given the tight deadline and magnitude of work to be done in the areas cited in paragraph 6 above, including preparations of relevant reports and proceeding through legislative review for their concurrence to any changes to regulations, rules, policies, procedures and financial and budgetary presentations, your early response would be highly appreciated but in any event by 26 January 2007.

cc: Executive/Administrative Officers at Headquarters
Chiefs of Administration, Offices away from Headquarters, Tribunals and Peacekeeping Missions

EXTRACT FROM THE REPORT OF THE SECRETARY-GENERAL (A/60/846/Add.3)

II. International Public Sector Accounting Standards

A. Background

1. In its resolution 60/1 of 16 September 2005, the General Assembly requested the Secretary-General, inter alia, to take a number of actions for strengthening the United Nations in the context of Secretariat and management reform.

2. The present section proposes that the United Nations adopt the International Public Sector Accounting Standards for its financial statements as part of a United Nations system-wide adoption of IPSAS by 2010. The Standards represent international best practices for public sector and not-for-profit organizations accounting. This management reform measure would support more efficient use of the financial and human resources available to the Organization; improve the extent to which financial policies, regulations and rules respond to the current needs of the Organization; support efficient and effective conduct of its work; and take account of the measures already under way for the reform of human resources management and the budgetary process. The adoption of IPSAS is a vital component of the United Nations drive to excel as a modern, progressive Organization that attains – and remains up to date with – best management practices: it would improve the quality of United Nations system financial reporting and result in benefits for governance, accountability and transparency.

3. The Board of Auditors and Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency consider that IPSAS adoption would be a significant step forward to achieving the quality, consistency and comparability of United Nations system financial reporting. On 14 July 2005, the Chairman of the Panel of External Auditors wrote to the President of the General Assembly, in the context of deliberations of the 2005 World Summit, recommending that the United Nations system:

> "… apply international accounting standards, policies and practices consistently in line with recognized good practices … with the objective of presenting stakeholders with adequate financial information uniformly and in a meaningful manner, while keeping abreast of the latest developments in financial matters".

4. The financial statements of United Nations system organizations are currently prepared in accordance with the United Nations System Accounting Standards (UNSAS).

For the United Nations, this requirement is set out in rule 106.3 of the Financial Regulations and Rules. UNSAS were developed following the General Assembly's consideration of a Panel of External Auditors study on the development of appropriate accounting principles and standards for consistent application in the United Nations system (A/46/341). In response to General Assembly decisions 46/445 of 20 December 1991 and 47/449 of 22 December 1992, the Secretary-General submitted a set of common accounting standards for the United Nations system, based on the International Accounting Standards (A/48/530). In its resolution 48/216 of 23 December 1993, the General Assembly took note of that report and requested the Secretary-General and the executive heads of the United Nations organizations and programmes to take those standards into account in the preparation of their financial statements for the period ending 31 December 1993.

5. When UNSAS were first approved, they were considered high-quality accounting standards in comparison to standards applied by comparable organizations. However, UNSAS have not been able to keep up with rapidly changing accounting developments. United Nations system accountants, managers and auditors have had concerns for several years about the continued viability of UNSAS. After an in-depth review, sponsored by the CEB High-level Committee on Management (HLCM), of the possibility of United Nations system organizations adopting external accounting standards, the Task Force on Accounting Standards recommended that the United Nations system adopt the International Public Sector Accounting Standards (IPSAS). HLCM accepted the recommendation, after endorsement by its Finance and Budget Network, on 30 November 2005 (see CEB/2005/HLCM/R.25).

6. In a letter to the Secretary-General dated 16 December 2005, the Chairman of the Panel of External Auditors stated that the decision by HLCM to adopt IPSAS was a welcome development. In April 2006, CEB endorsed a recommendation from HLCM for the adoption of IPSAS throughout the United Nations system.

B. Transparent financial reporting

Importance of accounting standards

7. The adoption of high-quality accounting standards is essential for transparent financial reporting, strong accountability and good governance. In its resolution 59/272 of 23 December 2004, the General Assembly emphasized the importance of establishing real, effective and efficient mechanisms for responsibility and accountability. In his report on accountability measures, the Secretary-General identified accounting standards as

essential for achieving transparency in support of improved accountability (see A/60/312, para. 58). High-quality accounting standards are critical to the consistency and comparability of the financial statements prepared by organizations within the United Nations system. The credibility of United Nations financial statements depends on the quality of the accounting standards that regulate them and is important to ensure the confidence of Member States, donors and the general public in the United Nations.

8. IPSAS are credible, high-quality, independently produced accounting standards, underpinned by a strong due process and supported by Governments, professional accounting bodies and international organizations, such as the International Organization of Supreme Audit Institutions (INTOSAI), the Organization for Economic Cooperation and Development (OECD) and the World Bank. They represent the best international accounting practices of more than 30 Governments and a number of international organizations. OECD, the European Commission (EC) and the North Atlantic Treaty Organization (NATO) have also recently adopted IPSAS for their financial reporting. Additional information on IPSAS is provided in annex I.

Benefits of IPSAS adoption

9. The benefits of IPSAS adoption include:

(a) Improved internal control and transparency with respect to assets and liabilities generally;

(b) The alignment of United Nations accounting with best accounting practices through the application of credible, independent accounting standards on a full accruals basis;

(c) More comprehensive information about costs that will better support results-based management;

(d) The integration of non-expendable equipment into the accounting system, with resulting improvements in the accuracy and completeness of non-expendable equipment records;

(e) Improved consistency and comparability of financial statements as a result of the detailed requirements and guidance provided in each standard.

10. IPSAS adoption would result in increased transparency with respect to, for example, accounting for assets and liabilities. This increase in transparency is expected to result in better knowledge and disclosure and therefore better management of assets. The IPSAS requirement for full recognition of employee benefit obligations, such as annual leave, repatriation grants and health insurance, would support better management of these employee-related costs. Above all, the adoption of IPSAS would enable the

General Assembly to hold the Secretariat to a higher level of accountability for the proper management and tracking of its financial and non-financial assets.

C. Implementation

11. The United Nations system-wide IPSAS adoption strategy has two key elements: a "two-level" approach and phased implementation. The first element, the two-level approach, involves providing resources at both the system-wide level and the individual organization level. At the system-wide level, the resources provide system-wide IPSAS adoption support, coordination and leadership, and ensure the consistent and efficient resolution of common implementation issues. At the individual organization level, dedicated organization-specific resources will be responsible for ensuring successful IPSAS implementation within each organization. Each organization must have sufficient resources to run its own internal project; implement any necessary changes to systems, procedures and financial regulations; and provide necessary staff training. The second element – phased implementation – allows a few pilot organizations or, "early adopters", to implement effective 1 January 2008, while the majority of organizations will implement effective 1 January 2010. Phased implementation is responsive to different levels of implementation readiness among organizations, and reduces costs and risks. The United Nations implementation strategy, timetable and estimated cost, as described below, are consistent with the system-wide strategy and timetable.

12. The United Nations strategy is to integrate IPSAS adoption into the proposed upgrade of its information technology systems. Implementation is expected to take four years, with the first set of IPSAS-compliant financial statements for the United Nations available for the year ending 31 December 2010, when it is anticipated that the United Nations Controller would be in a position to formally attest to the effectiveness of the internal financial controls of the Organization. This is a cost-effective strategy, which also allows the United Nations to learn from the experience of early adopters, while contributing expertise to efficiently resolve system-wide issues. In addition, the feasibility of linking the United Nations enterprise resource planning (ERP) project with the ERP projects of other United Nations system organizations that have current plans to upgrade their information systems is being pursued.

13. It is recalled that the Integrated Management Information System (IMIS) of the United Nations was custom developed for the United Nations in 1994. A project recently completed has determined that future United

Nations ERP needs would be best met through a replacement of IMIS. To meet UNSAS accounting requirements, off-the-shelf software packages required substantial, expensive customization. A decision to adopt IPSAS would place the United Nations in a better position with respect to the cost-efficient acquisition of a high-quality ERP system because IPSAS accounting requirements are compatible with off-the-shelf accounting software packages. Future ERP upgrades should also be more cost-effective because of the relative ease with which off-the-shelf software can be upgraded, in comparison with the costs of upgrading custom-developed software, such as IMIS, for one organization.

14. A provisional implementation timetable for United Nations adoption of IPSAS, including key milestones, is provided in annex II. The timetable is conditional on the availability of necessary funding and approval.

Annex I

International Public Sector Accounting Standards

1. When United Nations system accounting standards were first developed, international accounting standards for not-for-profit organizations did not exist. Because of this gap, the Panel of External Auditors recommended that the United Nations system develop its own accounting standards. Since then, the International Public Sector Accounting Standards (IPSAS) have been developed for not-for-profit public sector organizations. IPSAS are a set of high-quality, independently developed accounting standards that require accounting on a "full accruals" basis, which is considered the best accounting practice by international organizations for the public as well as the private sector. IPSAS include detailed requirements and guidance that provide considerable support for financial statement consistency and comparability. They are the only international accounting standards applicable to public sector and other not-for-profit organizations.

2. The IPSAS standards are produced by the International Public Sector Accounting Standards Board, which is part of the International Federation of Accountants (IFAC), an international organization that represents 163 professional accounting institutions from 120 different countries. The development of new accounting standards requires a significant investment in people and time. The IPSAS Board is a dedicated independent international standard-setting body that uses strong due process, including public consultation and public meetings. It acts for the public interest rather than the interest of organizations preparing financial statements and provides benefits to public sector financial management and good governance, which depend on the existence of high-quality international public sector accounting standards.

3. The IPSAS Board currently includes representatives of Argentina, Australia, Canada, France, India, Israel, Japan, Malaysia, Mexico, the Netherlands, New Zealand, Norway, South Africa, the United Kingdom of Great Britain and Northern Ireland and the United States of America. It considers United Nations system issues when developing accounting standards. The United Nations system secretariats hold two observer places (United Nations and United Nations Development Programme) on the Board. Board observers participate fully in discussions and receive all meeting papers at the same time as other Board members. They have "full rights of the floor".

4. The IPSAS Board applies a policy that IPSAS standards will be the same as the International Financial Reporting Standards (the former International Accounting Standards) (IAS/IFRS) unless there are demonstrable reasons for public sector/not-for-profit differences. This policy is consistent with the principle of accounting standards convergence. The effect of this policy, combined with the generally accepted practice of applying IAS/IFRS where no equivalent IPSAS exists, is that approximately two thirds of the accounting standards under IPSAS adoption are the same as those that would apply under IAS/IFRS adoption. Although the not-for-profit differences in the other third of the applicable standards are important, the majority of the requirements in these standards remain the same as those in the equivalent IAS/IFRS standards. This means that the guidance and software developed for IAS/IFRS accounting is applicable to IPSAS accounting with no or little amendment. It also means that the financial information produced and standards applied are understandable and largely comparable between public and private sector organizations. This facilitates movement of accounting expertise between the two sectors.

5. More than 30 countries have either already adopted or are in process of adopting IPSAS for financial reporting by all or part of their public sectors. In addition, OECD, EC and NATO organizations have adopted IPSAS for their financial reporting. Where a public sector organization operates as a financial institution, IPSAS requires that the organization apply IAS/IFRS. Consistent with that requirement, development banks, such as the World Bank, the Asian Development Bank and the International Fund for Agricultural Development, apply IAS/IFRS.

Annex II

Provisional implementation timetable for United Nations adoption of IPSAS[a]

2006

Obtain General Assembly approval for IPSAS adoption

Establish steering committee and project team, and develop project plan

Conduct initial analysis of accounting requirements and implications for Financial Regulations and Rules

Complete ERP procurement and initiate installation

2007

Complete initial impact analysis

Review and amend chart of accounts, as necessary

Continue ERP installation

2008

Complete systems, policies and procedures development

Prepare pro forma financial statements

Continue ERP installation

Commence staff training for new procedures etc.

2009

Prepare amendments to Financial Regulations and Rules (to take effect in 2009/10)

Complete development, testing and evaluation of new procedures etc.

Complete ERP installation, ready for preliminary operations by 1 July 2009

Continue staff training for new procedures etc.

Determine opening balances

2010

Commence operation of new system, policies and procedures

Continue training and support, including guidance for end-users

Address any accounting and financial policy issues that arise

Over the period 2006-2010, the total estimated costs for the project to be borne by the United Nations would amount to approximately $23 million

[a] This provisional timetable is conditional on the availability of necessary funding and approval.