United Nations
Educational, Scientific and
Cultural Organization

Executive Board

Hundred and seventy-sixth session

176 EX/40

PARIS, 23 February 2007
Original: English

Item **40** of the provisional agenda

PROGRESS REPORT BY THE DIRECTOR-GENERAL ON THE IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

SUMMARY

This document is a progress report which updates the Executive Board on developments in UNESCO and the United Nations system regarding the transition to IPSAS. It contains information on the IPSAS project implementation approach and organization, time-lines and estimated costs together with funding options.

With the requirement under IPSAS to record all liabilities as incurred, the document also revisits the issue of long-term unfunded liabilities for staff benefits.

Decision proposed: paragraph 25.

Introduction

1. At the last Executive Board, document 175 EX/INF.7 was presented providing background information for the decision taken by the United Nations General Assembly in June 2006. The adoption of IPSAS by 2010 is considered 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, improving the quality of United Nations system financial reporting and resulting in benefits for governance accountability and transparency. The document also outlined the potential impacts on financial reporting for UNESCO to be brought about by the adoption of IPSAS, and went on to conclude that the move to IPSAS would represent a significant change for the Organization.

2. 175 EX/Decision 33 included the following relative to IPSAS:

> "8. Requests the Director-General to keep it informed of the outcome of the United Nations system's deliberation and decisions on the issues involved;
>
> "9. Also requests the Director-General to present proposals, consistent with action taken in the other agencies of the United Nations system, for amendments to the Organization's Financial Rules and Regulations, for submission to the General Conference in 2007, and to make recommendations on the needs of the Organization in making the transition to IPSAS, including training needs and arrangements and effective application and oversight; and to specify all cost implications;"

Action taken by the United Nations system

3. The United Nations Accounting Standards Project extends until the end of 2009 coinciding with the final date for adoption of IPSAS, i.e. for reporting periods beginning on 1 January 2010. The Project will be implemented under the guidance of a Steering Committee which reports to the Task Force on Accounting Standards acting under the auspices of the Finance and Budget Network. The High-Level Committee on Management (HLCM) is the overall authoritative body sponsoring the implementation of the Project, which in turn reports to the Chief Executives Board (CEB) chaired by the United Nations Secretary-General.

4. A project team leader and three financial accounting policy analysts based in New York and Geneva are currently working in the following areas: preparation of draft accounting policy and guidance papers following review of the Standards, communication to key stakeholders via papers and a website, involvement on the IPSAS Board as observers, work on budgetary practices, consistency and harmonization and the definition of a training policy.

5. In order to facilitate the flow of information and the exchange of ideas in a more structured way across all members of the United Nations and specialized agencies concerned, the concept of focus groups based in the main centres (New York, Geneva, Vienna and Rome) has evolved. UNESCO has been grouped with WFP and FAO (Rome) and with IMO (London) making up the Rome Focus Group.

6. Individual agencies are required to familiarize themselves with IPSAS documentation and exchange views within their respective focus groups. Following this interaction, input is provided to papers issued by the project team. When necessary, meetings of the Accounting Standards Task Force take place in order to consolidate the comments and views of each Focus Group and to ensure consistency across the United Nations system. Ultimately the objective is to produce harmonized and compliant policies.

Action taken by UNESCO

7. The implementation of IPSAS warrants a project-type approach at the local level. A structure mirroring that of the United Nations system has therefore been introduced for the Organization.

8. A Steering Committee chaired by the Comptroller, with representatives from the Bureau of the Budget (BB), the Division of Information Systems and Telecommunications (ADM/DIT) and the Education Sector (ED), is being established. The Office of International Standards and Legal Affairs (LA) is to be consulted when required. A team of three professional accountants in the Division of the Comptroller (ADM/DCO) plus a finance officer from an institute have been co-opted as part time members to the UNESCO Project Team which is lead by the Chief Accountant. Since these staff members will take on this work in addition to their existing tasks, some additional help together with expertise will be required from outside consultant(s). The Assistant Director-General for Administration (ADG/ADM) is the overall sponsor for the Project.

9. IPSAS awareness sessions have already been held for approximately 60 staff members closest to the subject in order to diffuse knowledge and assist the change process. Additional presentations, along with training sessions, will be organized subsequently for other concerned parties.

10. Initial discussions are being held with the External Auditors with a view to establishing close communication and dialogue on this important subject.

11. The Secretariat participates actively in the United Nations Task Force on Accounting Standards and works closely with the United Nations Project Team.

Business Plan and Budget – IPSAS Implementation Project

12. The Organization’s objective is to be compliant with IPSAS as from 1 January 2010 within the harmonized United Nations system.

13. As already indicated, in addition to Financial Statement presentation issues, the adoption of IPSAS is likely to require a change in the way we collect and record information at the detailed level. It will therefore necessarily have some influence on the work of those people responsible for such transactions and possibly on the systems they use. The scope of training and the staff concerned will need to be agreed upon. The business plan is based on a pragmatic approach therefore, breaking the project down into two distinct phases.

14. The aim of the first phase is to obtain a thorough understanding of the new accounting standards, their requirements and how they may be applied within the context of the Organization. This phase, being the technical accounting analysis, will involve mainly ADM/DCO with input from other sectors when requested. One of the benefits to be gained from this project is harmonization within the United Nations system based on output from the United Nations Project Team. The Organization’s plan provides for the first phase to be completed by end 2007.

15. Ideally, the second phase will commence with a presentation of changes that may be required by IPSAS, possible solutions and explanation of choices for validation. This phase will include: analysis of current processes, definition of system changes and reconfiguration, revision of Financial Regulations, training, testing and data adjustment. Phase two will involve a much wider community ranging across ADM/DCO, Administrative Officers (both Headquarters and field), BB, the Sector for External Relations and Cooperation (ERC), ADM/DIT and the Procurement Section (ADM/PRO). At this point in time the project team will be enlarged or will include sub-groups set up to tackle different subjects requiring specific expertise and knowledge (e.g. ULOs, property plant and equipment in the field, revenue recognition, etc.).

16. Some of the key areas being addressed by the Project Team are: application of the “delivery principle”, revenue recognition, and treatment of capital expenditure, presentation of financial statements, employee benefits and budget information in financial statements.

17. Costs for design and implementation of the UNESCO IPSAS Implementation Project are estimated at US $2.3 million over the three-year period 2007 to 2009. The following table provides a breakdown by cost component:

(US $ millions)

	2007	2008-2009	Total
Staff costs	0.07	0.28	**0.35**
Consultants	0.14	0.14	**0.28**
Travel	0.07	0.20	**0.27**
Training	-	0.60	**0.60**
Systems	-	0.50	**0.50**
Contribution to United Nations Central Project Team	0.15	0.15	**0.30**
Total	**0.43**	**1.87**	**2.30**

Project funding

18. As stated above, costs will be incurred over three years starting in 2007 and building up in the 2008-2009 biennium. When document 33 C/5 was being prepared no decision had been made by the United Nations system to move to IPSAS and therefore no budgetary provision was made at that time. Therefore another source of funding has to be found in 2007 (33 C/5) for expenses which are estimated at $430,000. For 2008-2009 (34 C/5), the estimated costs of $1.87 million are fully budgeted in the Real Growth ($658.3 million) and Zero Real Growth ($648.3 million) budget scenarios, provided that the training budget foreseen under HRM would contribute to this purpose. However, under the Adjusted Zero Nominal Growth (A-ZNG) ($623 million) and Zero Nominal Growth (ZNG) ($610 million) scenarios there would be a shortfall of approximately $400,000, due to budgetary constraints and given the Organization’s other principle priorities. Therefore additional funding sources would have to be found for the unbudgeted amount if the A-ZNG and ZNG scenarios were adopted.

Possible changes to the Financial Regulations

19. The project is not yet sufficiently advanced, either at the United Nations level or at the Organization’s level, to enable the establishment of a complete list of changes to the Financial Regulations. In addition, on such an important subject, it is also advisable to progress in line with the United Nations Project.

20. The move to full accruals accounting involving, for example, the recognition of capital items and long-term liabilities will necessarily require changes to the Financial Regulations. The Executive Board will be informed of proposed changes in due course as the project and related discussions progress.

Unfunded liabilities

21. There exists a significant amount in respect of future benefits accruing to staff, mainly after-service health insurance, which is not recorded in the Organization’s accounts as a liability. Detailed information is included in the Notes to Financial Statements for the biennium 2004-2005 and, based on the most recent actuarial calculation, the accrued liability amounts to approximately US $600 million. Under IPSAS, such liabilities will need to be recorded and reflected in the Organization’s Statement of Financial Position. Furthermore, no funding has been accumulated in respect of this liability, which is treated on a “pay as you go” basis.

22. 171 EX/Decision 34 called for the Director-General to report on the United Nations study on this subject and to suggest possible ways of addressing this issue for the Organization.

23. At the sixtieth session of the United Nations General Assembly, the Secretary-General presented document A/60/450 entitled “Liabilities and proposed funding for after-service health benefits”. The proposed funding strategy provided for: one-time funding from unencumbered balances and retained surpluses as of end 2005 which was not approved; and the transfers of amounts from medical and dental reserves and the Compensation Fund which were approved. The strategy also provided for: annual long-term funding measures including current arrangements for health benefit costs for current retirees with amounts appropriated from the regular budget which were approved; and the establishment of a charge equivalent to 4% of salary costs on all budgets which was agreed in principle but subject to further study. The proposal to use savings under the regular budget as a component of long-term funding was not accepted.

24. In light of the United Nations experience, the Organization should continue with current funding arrangements from the regular budget and undertake a study to assess the advantages to be gained from levying a fixed percentage of salaries on all budgets. While positive, it must be stressed that such measures are far from adequate given the amount of the liability concerned. Substantial additional funding will be required over time in order to meet future staff benefits.

Proposed draft decision

25. The Board may wish to adopt a decision along the following lines:

The Executive Board,

1. Recalling the decision of the United Nations General Assembly in June 2006 approving the adoption of International Public Sector Accounting Standards (IPSAS) for the United Nations system by 2010 at the latest,

2. Having examined document 176 EX/40,

3. Takes note of the significant amount of work involved in the change to IPSAS over the period 2007 to 2009 and the important need for funds to ensure successful and timely implementation;

4. Further notes that little progress has been made in resolving the major issue of identifying a source of funding for long-term staff benefits;

5. Recommends that the General Conference at its 34th session approve the adoption of IPSAS for the financial period commencing on 1 January 2010 at the latest;

6. Further recommends that the Secretariat examine the Financial Regulations of the Organization with a view to proposing all necessary amendments in order to reflect the adoption of IPSAS and that such amendments be presented to the General Conference at its 35th session.