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FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS OF THE BOARD OF AUDITORS

Accounting standards

Report of the Secretary-General

I. INTRODUCTION

1. At its forty-seventh session the General Assembly considered a report on progress in the development of common accounting standards for the United Nations system (A/47/443), submitted in response to General Assembly decision 46/445, of 20 December 1991. The report summarized the inter-organization work done on common accounting standards in 1991 and 1992, set out plans for further action and briefly described the characteristics of the draft standards as they then stood.

2. In its decision 47/449 of 22 December 1992, the General Assembly "took note of the report of the Secretary-General on accounting standards, requested the Secretary-General and the executive heads of the United Nations programmes and organizations of the United Nations system, pursuant to General Assembly decision 46/445 of 20 December 1991, to complete their efforts to develop common accounting standards for the organizations of the United Nations system and to take these standards into account in the preparation of their financial statements for the period ending 31 December 1993, and requested the Secretary-General to report thereon to the General Assembly at its forty-eighth session". The present report is being submitted in response to the request at the end of the decision.

II. ACTION IN 1992 AND 1993

3. The Working Party on Accounting Standards, established by the Consultative Committee on Administrative Questions (Financial and Budgetary Questions) (CCAQ(FB)), held two meetings after those mentioned in the last report of the Secretary-General. The meetings took place in December 1992 and June 1993.

Their purpose was to add new provisions to the draft standards, to carry out a critical review of the existing provisions and to deal with other tasks required to complete the text. In these tasks, the Working Party had the assistance of the Technical Group of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency, which provided comments as the work progressed and participated in joint discussions. The final draft prepared through this process was examined by CCAQ(FB) at its session held from 30 August to 3 September 1993. Subject to a few amendments, CCAQ(FB) expressed satisfaction with the text. The Panel, which participated in the session, indicated through its representatives that in its opinion the amended text represented a sound set of accounting standards for the United Nations system.

III. THE COMMON STANDARDS

4. The text of the standards is set out in the annex to the present report for the attention of the General Assembly, as adopted by the Administrative Committee on Coordination (ACC). The standards are also expected to be submitted to the governing bodies of other organizations of the system in accordance with the procedures applying in each case.

5. As indicated in the text, it is the intention that the standards should be applied throughout the system. Their primary objectives are to provide a framework for accounting and financial reporting in the system which reflects generally accepted accounting principles, while taking account of the specific characteristics and needs of the system; and to promote consistent accounting and financial reporting practice among the organizations. In conjunction with organizations’ financial regulations and relevant decisions of their legislative authorities, the standards are intended to form the basis for the accounting policies of each organization, and thus to guide its accounting practice in all matters of material significance.

6. The standards are based essentially on those promulgated by the International Accounting Standards Committee (IASC). Other authoritative sources, including the recommendations of professional bodies concerned with accounting standards in the public sector, have also been consulted. To the extent that there are variations between the common standards and those of the IASC, the main reason is that the IASC standards have been designed to meet the needs of the private sector. Thus some of their major concerns, centred upon matters such as profits, taxation and shareholders’ equity, are of limited relevance for the organizations of the system. A further reason for variations is the need for the common standards to cover particular requirements of the system, such as those which arise in relation to the accrual of receipts and expenditure of the different types of resources received.

IV. ISSUES RELATED TO THE COMMON STANDARDS

7. One of the main issues considered during development of the standards was the degree of latitude to be left to individual organizations in the selection of accounting policies and/or methods of disclosure. On this subject, the view of the Panel coincided to a large extent with that of CCAQ(FB), which was that

the standards should give the clearest possible guidance, and that this implied prescriptive provisions in all cases where such provisions were feasible. In application of this principle, the standards establish norms, some of which are expected to lead to important changes in existing accounting policies and practice. Where departures from the standards occur as a result of decisions of the legislative authorities of individual organizations, attention is to be drawn to each instance in the financial statements of the organization concerned.

8. Another issue considered in connection with the standards was their impact on organizations' financial reports and statements. The standards were expected to affect the substance and contents of these documents, but it was recognized that this in itself would not necessarily lead to greater comparability in the general presentation of the documents. CCAQ(FB) regarded such comparability as an important complement to the standards, and agreed that the aim of achieving it should be pursued as a matter of priority. It assigned this task to a Working Party on Financial Statements, which was to be open to participation by accounting specialists from all organizations wishing to be represented. The Working Party was scheduled to hold its first meeting in mid-1994, when CCAQ(FB) had approved precise terms of reference for it.

9. A third issue considered in relation to the standards was the question of their future development. The Panel had recommended that the text adopted should be regarded as a "living document", subject to review, extension and amendment in the light of needs and circumstances. CCAQ(FB) endorsed this approach. It noted that the Working Party on Accounting Standards had already recorded several subjects that would call for further study at a later stage, while the Panel, on its side, had indicated that it would assist in clarifying some of these subjects in the course of future audits. It was planned that the next stage of development work on the standards would begin as soon as the organizations had gained sufficient experience with the application of the existing text. The most recent standards of the IASC could be drawn upon, as well as relevant statements on technical subjects expected to be issued by the Accounting Standards Committee of the International Organization of Supreme Audit Institutions (INTOSAI) and other authoritative bodies.

V. APPLICATION OF THE COMMON STANDARDS

10. The organizations of the system are expected to take the standards into account, as requested by the General Assembly, in the preparation of their financial statements for the period ending 31 December 1993.

11. While the use of the standards will thus begin without delay, the attention of the General Assembly is invited to the view of the Panel, also held by CCAQ(FB), that the process of full adaptation to the common text is likely to extend over several years. This is the case not only because of the changes in financial practices, procedures and systems that will have to be made in a number of instances, but also because in several organizations governing bodies will need to consider changes in financial policies and/or the amendment of financial regulations.

VI. CONCLUSION

12. The Secretary-General believes that the common accounting standards set out in the annex represent a positive response to the requests formulated by the General Assembly on this subject and an important advance for the system. He has been pleased to note the professional quality of the text, the cooperative spirit shown by organizations of the system in drawing it up and their willingness to consider change.

13. The Secretary-General has also been pleased to note the constructive interest of the Panel of External Auditors, whose suggestions have contributed materially to the attainment of results with which both ACC and the Panel itself are in agreement.

14. The General Assembly is invited to take note of the common standards and of the organizations' plans for their application and development.

ANNEX

United Nations System Accounting Standards

Preface

The common inter-organization accounting standards set out in this document have been approved by the Administrative Committee on Coordination (ACC) in response to a request by the United Nations General Assembly, in its decision 46/445 of 20 December 1991, that the Secretary-General should "propose a set of accounting standards for common application to the United Nations system". The standards have been developed by accounting specialists of organizations of the system under the auspices of ACC's Consultative Committee on Administrative Questions (CCAQ), in consultation with the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency, for presentation to the General Assembly at its forty-eighth session.

The primary objective of the standards is to provide a framework for accounting and financial reporting in the United Nations system which reflects generally accepted accounting principles, while taking account of the specific characteristics and needs of the system. A further objective is to promote consistent accounting and financial reporting practice between the organizations.

Underlying these objectives are needs for governments and other contributors to the organizations to have the means to judge the manner in which resources made available by them are used, and for the management of each organization to demonstrate that it has fulfilled its responsibility for stewardship and accountability in respect of such resources.

Accounting and financial reporting in accordance with the standards should among other things assist those concerned:

(i) To ensure consistent and transparent treatment and disclosure of financial transactions;

(ii) To assess the financial position and its evolution over time;

(iii) To ascertain the sources from which income has been derived and the ways in which it has been used; and

(iv) To judge financial performance under approved budgets.

It is the intention of ACC that the standards should be applied throughout the system. In conjunction with organizations' financial regulations and relevant decisions of their legislative authorities, the standards should form the basis for the accounting policies of each organization, and thereby guide its accounting practice in all matters of material significance.

Given the wide range of mandates of the organizations, their structures and methods of operation are very diverse. Their individual legislative authorities have ultimate responsibility for deciding on the orientation and conduct of

their work and the related financial arrangements. In these circumstances the regulations, rules and decisions adopted may in some cases involve variations from common approaches as exemplified in the standards. ACC has included a provision in the standards specifying that attention will be drawn to any such variations in the financial statements of the organizations concerned.

United Nations System Accounting Standards

CONTENTS

Foreword

1. The accounting standards agreed for application in organizations of the United Nations system are based to a large extent on relevant International Accounting Standards promulgated by the International Accounting Standards Committee, to which appreciation is expressed for its permission to draw upon its texts, as listed in the appendix. Where differences from the International Accounting Standards exist, it is mainly because of the essentially non-commercial nature of the organizations' activities. A further important factor is the central place of approved budgets in the organizations' operations, which makes it necessary to focus on accounting for income and expenditure in the framework of those budgets.

2. By their nature, the standards have to be open to modification, development and refinement as accounting principles evolve and new needs emerge in the system itself. They will accordingly be reviewed on a periodic basis through the same procedures as those through which they have been established.

3. Where individual organizations find it necessary to depart from the practice set out in the standards they should disclose the reasons for doing so in the statement of significant accounting policies included in their financial statements.

General Framework

4. Going concern, consistency and accrual are fundamental accounting assumptions, which are described below as they apply in the United Nations system. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If these fundamental accounting assumptions are not followed, that fact should be disclosed together with the reasons.

(i) Going concern - The organization is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the organization has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operations.

(ii) Consistency - It is assumed that accounting policies are consistent from one financial period to another.

(iii) Accrual - The accrual basis of accounting for revenue in each financial period means that income is recognized when it is due and not when it is received. Accrual of expenditure in each financial period means that costs are recognized when obligations arise or liabilities are incurred and not when payments are made.

5. Prudence, substance over form and materiality, as described below, should govern the selection and application of accounting policies.

(i) Prudence - Uncertainties inevitably surround many transactions. This should be recognized by exercising prudence in preparing financial statements. Prudence does not, however, justify the creation of secret or hidden reserves.

(ii) Substance over form - Transactions and other events should be accounted for and presented in accordance with their substance and financial reality and not merely with their legal form.

(iii) Materiality - Financial statements should disclose all items which are material enough to affect evaluations or decisions and all material information which is necessary to make the statements clear and understandable.

6. Where an organization has activities which are of a commercial nature, it may be appropriate to apply international accounting standards (e.g. IAS 18, on income recognition), in which case that should be specified.

Financial Statements

7. The objective of financial statements is to provide information about the financial position and performance of the organization, changes in its financial position, and compliance with legislative and other authorities. A complete set of financial statements should include: a statement of assets and liabilities (balance sheet); an income and expenditure statement; a statement of changes in financial resources (cash flow statement or statement of sources and applications of funds); and those notes and other statements and explanatory material which form an integral part of the statements. Financial statements may also include supplementary schedules and information based on or derived from, and expected to be read with, such statements.

8. Financial statements should have the qualitative characteristics required to make the information provided useful to readers. The four principal qualitative characteristics are understandability, relevance, reliability (accuracy, neutrality and completeness) and comparability over time. Compliance with the principal qualitative characteristics and appropriate accounting standards normally results in financial statements that convey what is generally understood as a true and fair view of, or as presenting fairly, the financial position of the organization at the end of the financial period, the results of its operations for that period and changes in its financial position.

9. Subject to the present standards and relevant inter-organization agreements on the harmonization of financial statements, each organization should adopt the form of presentation for its statements which is most informative in the circumstances.

10. Financial statements should include clear and concise disclosure of all significant accounting policies which have been used.

11. The disclosure of the significant accounting policies used is an integral part of the financial statements. The policies should be disclosed in one place, which is the notes to the financial statements, with cross-references as necessary to individual statements.

12. Wrong or inappropriate treatment of items in statements of assets and liabilities, income and expenditure statements or other statements is not rectified either by disclosure of accounting policies used or by notes or explanatory material.

13. Unusual items or prior period items should be disclosed if they have a material effect on the financial statements. Such items should be either:

(i) Reported by adjusting opening balances in the financial statements for the current period and amending the comparative information in respect of prior years which is included in the financial statements; or

(ii) Separately disclosed in the current statement of income and expenditure as part of net income.

In either case the disclosure relating to these items should be adequate to facilitate comparisons of the figures for the periods presented.

14. A change in accounting policy should be made only if the adoption of a different accounting policy is required by resolution of the competent legislative authority or by the present accounting standards (endorsed as necessary by legislative authority), or if it is considered that the change would result in a more appropriate presentation of the financial statements.

15. If there is a change in accounting policy that has a material effect in the current period, or may have a material effect in subsequent periods, the effect of the change should be disclosed and quantified, together with the reason for the change.

16. A change in an accounting estimate should be accounted for as part of income or expenditure relating to the ordinary activities of the organization in:

(i) The period of change if the change affects that period only, or

(ii) The period of change and future periods if the change affects both.

Revision of an estimate that relates to an item that was treated as an unusual item should itself be reported as unusual.

17. Contingent gains or losses, or events occurring after the end of the financial period, should be disclosed in the financial statements if they are considered to be of such importance that non-disclosure would affect the ability of users of the financial statements to make proper evaluations and decisions. If disclosure is necessary, the following information should be provided:

(i) The nature of the contingency or event and factors that may affect any future outcome;

(ii) An estimate of the financial effect, or a statement that such an estimate cannot be made.

18. Financial statements for assessed regular budgets should relate actual expenditure to budgeted expenditure for the period. At the summary level, statements of income and expenditure and of assets and liabilities should show corresponding figures for the preceding period.

19. The name of the organization, the balance sheet date and the period covered by financial statements, and the currency in terms of which they are expressed, should be stated.

20. The amounts and classifications of items should be supplemented by any additional information required to make their meanings clear. Significant items should not be included with, or offset against, other items, without separate identification.

21. All income and expenditure of the organization, whatever the source of funds, should be reported. The extent of consolidation of income and expenditure in respect of different sources of funds (regular budget, extrabudgetary and any other resources) is a matter of judgement and depends on the extent to which it is meaningful and useful.

22. A statement of changes in financial resources concerning the organization's assessed regular budget and, where appropriate, other funds, should be included as an integral part of its financial statements. The statement of changes in financial resources should be presented for each period for which the financial statements are prepared. Each organization should adopt the form of presentation for this statement which is most informative in the circumstances.

Currency questions

23. The accounts of the organizations are maintained, and their financial statements are presented, in the currency or currencies best suited to their operations. Where a transaction occurs in a currency other than the currency of account, it should be recorded in the organization’s accounts and reflected in its financial statements in the currency of account.

24. A transaction in a currency other than the organization’s currency of account should be recorded in the currency of account by applying (i) the United Nations operational rate of exchange, (ii) the budget rate of exchange or other rate of exchange approved by the legislative authority of the organization, or (iii) the actual rate of exchange yielded at the time of the transaction. The United Nations operational rate of exchange should be the benchmark rate of exchange for the determination of exchange gains and losses.

25. Where organizations enter into forward exchange contracts or other financial instruments for hedging against currency fluctuations, they should disclose in their financial statements the value of outstanding contracts, together with the basis used for measuring and reporting the transactions.

26. Differences on exchange and income or expense relating to forward exchange contracts or other financial instruments should be cleared into income or expenditure or into an authorized reserve account in the financial period in which they arise.

27. In the statement of assets and liabilities, for the purpose of reporting items denominated in currencies other than the currency of account:

(i) Monetary items (that is, money held and assets and liabilities to be received or paid in fixed or determinable amounts of money) should be reported using the United Nations operational rate of exchange in effect at the reporting date. Where changes in market rates of exchange are such that the use of this rate would cause a material discrepancy in the valuation of such items, the operational rate of exchange for the subsequent month (reflecting the market rate at the end of the financial period) may be used, subject to disclosure;

(ii) Non-monetary items which are carried in terms of historical cost should be reported using the United Nations operational rate of exchange at the date of the transaction; and

(iii) Non-monetary items which are carried at fair value should be reported using the United Nations operational rate of exchange in effect at the reporting date in determining their value.

Income and expenditure

(a) Income

28. Income for a financial period is defined in the United Nations system as money or money equivalent received or accrued during the financial period which increases existing net assets. The following are the main types of income received by the organizations:

(i) Contributions assessed under

- regular budgets, or
- special accounts;

(ii) Voluntary contributions pledged

- in cash, or
- in kind;

(iii) Voluntary contributions received to fund specific activities under trust-fund and other arrangements;

(iv) Contributions received under inter-organization arrangements;

(v) Miscellaneous income and income derived from revenue-producing activities.

29. Income from assessed contributions represents a legal obligation of contributors as from the date when it becomes due and payable. Such income should accordingly be recognized as at that date. However, in the interests of prudent financial management, provision may be made as appropriate for delays in the collection of the income so recognized.

30. Voluntary contributions formally pledged represent a good faith commitment of the contributor for the period and/or programme to which they relate. Such income should accordingly be recognized in that period. However, in the interests of prudent financial management, provision may be made as appropriate where the collection of the income so recognized is considered doubtful. In specific cases, where the pledge is deemed uncollectible, write-off action will be required. Alternatively, the income may be recognized only when funds are received.

31. Voluntary contributions in kind, if the particular nature of the organization’s operations so requires, should recorded in the books of account. Where circumstances so warrant, contributions in kind should be disclosed in a note to the financial statements. Such contributions should be valued at the donor’s valuation, fair market value or budgeted value, whichever the organization considers to be most appropriate. The basis of valuation should be disclosed. The recording of voluntary contributions in kind as income and expenditure should take place simultaneously.

32. Voluntary contributions received to fund specific activities represent monies received in advance for the execution of those activities and held in trust. Such contributions are accordingly recorded only when received.

33. Miscellaneous income is defined in the United Nations system as income other than (i) the value of assessed or voluntary contributions and (ii) such other income items as may be excluded under the organization's financial regulations and rules. Miscellaneous income normally includes bank and investment interest and income from publications and services. Miscellaneous income should be recorded on an accrual basis.

(b) Expenditure

34. Expenditure for a financial period is the sum of the disbursements and valid unliquidated obligations made against the appropriation/allocation of the period. The main types of expenditure incurred by the organizations are (i) expenditure under assessed regular or special budgets, which is governed by organizations' financial regulations, and (ii) expenditure under voluntary contributions, which may be governed either by the organizations' financial regulations or by separate rules established in accordance with those regulations.

35. Obligations are amounts of orders placed, contracts awarded, services received and other transactions which involve a charge against the resources of the current financial period and which will require payment during the same or a future period. Obligations under assessed regular or special budgets are maintained for the period specified in the organizations' financial regulations. Obligations charged to voluntary contributions may be maintained either for that period or until liquidated or cancelled.

36. Obligations may be increased during the financial period to which they relate according to the same rules as those applying to their establishment. During their period of validity they should be reduced as soon as they come to represent a decreased charge against the resources of the organization, and cancelled as soon as they no longer represent such a charge; in these cases the accounts should be adjusted in accordance with the organization's financial regulations and rules.

37. Obligations unliquidated at the end of a financial period which continue to represent a charge against the resources of the organization should be maintained if the relevant regulations or rules so permit, and shown as a liability in the accounts. Any other remaining unliquidated obligations should be cancelled. Where obligations remain a valid charge but are required to be cancelled because of time-limits under the relevant regulations or rules, corresponding new obligations should be established against the resources of the current financial period.

38. Where commitments are incurred against future financial periods, they should be recorded in the organization's accounts or disclosed in a note to the financial statements. Disbursements against such commitments should be recorded as deferred expenditure.

39. The costs of non-expendable equipment, furniture and motor vehicles should be charged to expenditure on purchase.

40. Losses represent other items that meet the definition of expenses and may, or may not, arise in the course of the ordinary activities of the organization. Losses, which include for example losses or thefts of cash, stores or other assets, are not different in nature from other expenses.

41. Transfers to reserve accounts should be fully disclosed.

Assets and liabilities

42. Assets, liabilities, and fund balances and reserves are the elements directly related to the measurement of organizations' financial position. They are defined as follows:

(i) An asset is a resource owned by or due to the organization as a result of past events;

(ii) A liability is a present obligation of the organization arising from past events, the settlement of which is expected to result in an outflow of resources from the organization;

(iii) Fund balances and reserves represent the difference between the assets and liabilities of the organization.

43. The amount at which an asset or liability is stated in the financial statements should not be reduced by the deduction of another liability or asset unless a legal right of set-off exists and the offsetting represents the expectation as to the realization of the asset or settlement of the liability.

44. The statement of assets and liabilities presents the financial position of the organization at a given moment in time. Information to be disclosed in the statement is set out in the following paragraphs.

(a) Assets

45. Assets to be disclosed include, amongst others, the items mentioned below. They should be listed in descending order of liquidity and any restrictions on title should be indicated:

(i) Cash, including cash on hand, current and call accounts and term deposits with banks. Separate disclosure should be made of any amounts held in non-convertible currencies;

(ii) Marketable securities. The market value should be disclosed if it is different from the carrying amount in the financial statements;

(iii) Receivables, including contributions outstanding, inter-fund receivables and advances, and debit balances and advances under other accounts. There should be disclosure in the statement of assets and liabilities, or in supporting schedules, of current contributions outstanding, arrears of contributions and contributions payable in instalments, with detailed listings by Member States;

(iv) Land and buildings. The value of such property should be disclosed, and the method of valuation (cost, valuation or nominal) should be clearly stated.

46. The inventory value of non-expendable equipment, furniture and motor vehicles should be disclosed and the method of valuation (cost or valuation) should be clearly stated in a note to the financial statements.

47. The costs incurred during construction or major long-term acquisitions which extend over more than one financial period should be accumulated and disclosed in a separate account. The sources of financing of the operation should be disclosed separately. On completion the construction or acquisition should be brought to account at final cost, and any remaining liability for the financing thereof should be separately shown.

48. Separate disclosure should be made of the amounts and timing of commitments for acquisition of land or buildings.

(b) Liabilities

49. Liabilities to be disclosed include, amongst others, the items mentioned below. They should be listed in the order of increasingly distant due dates, and any security given in respect of them should be disclosed.

(i) Payments or contributions received in advance;

(ii) Bank loans and overdrafts;

(iii) Unliquidated obligations;

(iv) Inter-fund payables and borrowings;

(v) Other accounts payable, credit balances and accrued expenses;

(vi) Other funds and special accounts;

(vii) Other loans payable after one year.

50. Separate disclosure should be made of any secured or unsecured borrowings, and a summary of the interest rates and repayment terms should be provided.

(c) Fund balances and reserves

51. Fund balances and reserves include, amongst others, the following items:

(i) Surpluses or deficits;

(ii) Working capital funds;

(iii) Capital funds relating to land and buildings;

(iv) Other reserves.

52. 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.

53. The value of any accumulated surplus or deficit should be separately disclosed. Surpluses under assessed regular budgets should be disclosed in such a manner as to enable users of the organizations' financial statements to

ascertain the amounts actually available for distribution under the provisions of its financial regulations which relate to the surrender of such surpluses.

54. Liabilities for end-of-service benefits (and post-retirement benefits) should be provided for in the accounts to the extent required by the financial policies of the organization. In so far as such liabilities are not fully provided for, appropriate disclosure should be made in the notes to the financial statements and the total estimated liabilities quantified where possible.

APPENDIX

Accounting Standards of the International Accounting Standards Committee drawn upon in developing the United Nations system accounting standards

Framework for the Preparation and Presentation of Financial Statements

IAS 1 Disclosure of Accounting Policies

IAS 5 Information to be Disclosed in Financial Statements

IAS 7 Statement of Changes in Financial Position

IAS 8 Unusual and Prior Period Items and Changes in Accounting Policies

IAS 10 Contingencies and Events Occurring after the Balance Sheet Date

IAS 13 Presentation of Current Assets and Current Liabilities

IAS 16 Accounting for Property, Plant and Equipment

IAS 17 Accounting for Leases

IAS 18 Revenue Recognition

IAS 21 Accounting for the Effects of Changes in Foreign Exchange Rates

IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries

E 44 The Effects of Changes in Foreign Exchange Rates (Exposure Draft)
