



Economic and Social Council

Distr.: Limited
9 July 2007

Original: English

For information*

United Nations Children's Fund

Executive Board

Second regular session 2007

5-7 September 2007

Adoption of International Public Sector Accounting Standards

Summary

In its resolution 60/1 of 16 September 2005, the General Assembly requested the Secretary-General to take a number of actions for strengthening the United Nations in the context of Secretariat and management reform. In his report, *Investing in the United Nations for a stronger Organization worldwide: detailed report* (A/60/846/Add.3) of 12 May 2006, the Secretary-General proposed that the United Nations adopt International Public Sector Accounting Standards (IPSAS) for its financial statements as part of a United Nations system-wide adoption of IPSAS by 2010. The General Assembly approved the proposal in its resolution 60/283 of 17 August 2006.

This document summarizes the significance of accounting standards, the benefits of and changes resulting from IPSAS adoption and how UNICEF intends to adopt IPSAS by 2010. The document proposes that UNICEF report periodically to the Board on progress towards IPSAS adoption.

* This report is presented to the Executive Board for information only and will be discussed only if specifically requested by a member of the Board.



I. Introduction

1. In its resolution 60/1 of 16 September 2005, the General Assembly requested the Secretary-General to take a number of actions for strengthening the United Nations in the context of Secretariat and management reform. In his report *Investing in the United Nations for a stronger Organization worldwide: detailed report* (A/60/846/Add.3) of 12 May 2006, the Secretary-General proposed that the United Nations adopt International Public Sector Accounting Standards (IPSAS) for its financial statements as part of a United Nations system-wide adoption of IPSAS by 2010. The General Assembly approved the proposal in its resolution 60/283 of 17 August 2006.
2. After an in-depth review sponsored by the United Nations System Chief Executives Board for Coordination (CEB) High-Level Committee on Management (HLCM), the Task Force on Accounting Standards recommended that the United Nations system adopt IPSAS. The HLCM accepted the recommendation, after endorsement by its Finance and Budget Network, on 30 November 2005 (CEB/2005/HLCM/R.25). In April 2006, the CEB endorsed a recommendation from HLCM for the adoption of IPSAS throughout the United Nations system.
3. The adoption of IPSAS will improve the quality of United Nations system financial reporting, ensure that organizations attain and remain up to date with best management practices, support more efficient and effective use of financial and human resources, and improve the extent to which financial regulations, rules, policies and procedures respond to current needs of the United Nations system for delivering as one. In summary, IPSAS adoption will result in improved transparency, accountability and governance.
4. The Advisory Committee on Administrative and Budgetary Questions and the Board of Auditors have also supported the adoption of IPSAS.

II. Relevance of accounting standards

5. The financial statements of the United Nations system organizations, including UNICEF, are currently prepared in accordance with the United Nations System Accounting Standards (UNSAS), which were established in the early 1990s and based on International Accounting Standards. When the UNSAS were first approved, they were considered high-quality accounting standards. However, the UNSAS have not been able to keep pace with rapidly changing accounting developments and United Nations system accountants, managers and auditors have had concerns for several years about their continuing viability.
6. The adoption of high-quality accounting standards is essential for transparent financial reporting, strong accountability and good governance. High-quality accounting standards are critical for ensuring the consistency, comparability and credibility of the financial statements prepared by organizations within the United Nations system and therefore for ensuring the confidence of donors and the general public.
7. 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, the Organisation for Economic Co-operation and Development and the World Bank. They represent the best international accounting practices of more than 30 Governments and a number of international organizations.

III. Benefits of IPSAS adoption

8. The benefits of IPSAS adoption include:

- (a) The alignment of United Nations accounting with best accounting practices through the application of credible, independent accounting standards on a full accruals basis;
- (b) Improved consistency and comparability of financial statements as a result of the detailed requirements and guidance provided in each standard;
- (c) Improved internal control and transparency with respect to assets and liabilities generally;
- (d) More comprehensive information about costs that will better support results-based management;
- (e) The integration of non-expendable equipment into the accounting system, with resulting improvements in the accuracy and completeness of non-expendable equipment records.

IV. Major changes resulting from IPSAS adoption

9. IPSAS adoption will require the following major changes in financial reporting and accounting:

- (a) The “modified accrual” basis of accounting will be replaced by the “full accrual” basis. Full accrual accounting requires that expenses will be recognized on the basis of goods and services received (using the “delivery principle”) rather than when an internal obligation document is created;
- (b) Revenue will be recognized to the extent that conditions established by donors on the use of contributions have been met by the receiving organization;
- (c) Property, plant and equipment (or “fixed assets”) and inventories which remain under the control of the organization will be recognized as assets rather than expensed immediately on acquisition. Property, plant and equipment will be depreciated over their useful life;
- (d) The liabilities in respect of employee benefits including after-service health insurance, annual leave and termination costs will be brought to account;
- (e) Financial statements will be prepared on an annual basis.

V. Implementation

10. The United Nations system-wide IPSAS adoption strategy has two key elements: (a) “two-level” approach; and (b) phased implementation.

11. The “two-level” approach involves providing resources at both the system-wide level and the individual organization level. At the system-wide level, resources provide for system-wide adoption support, coordination and leadership and ensure consistent and efficient resolution of common implementation issues. At the individual organizational level, resources will provide for organization-specific IPSAS implementation.

12. Phased implementation allows for 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.

13. IPSAS adoption represents a major organizational challenge and will require significant investment in staff, communication, training and information systems. UNICEF has elected to implement IPSAS effective 1 January 2010. This decision allows UNICEF to consider fully the organizational impact, to make the necessary preparatory investments and to learn from the experience of the early adopters, while participating fully in the discussion and resolution of system-wide issues.

14. UNICEF is represented on the Steering Committee to which the system-wide IPSAS adoption project team reports and has been involved in the activities of the Task Force on Accounting Standards since February 2006.

15. The development of the UNICEF IPSAS implementation strategy commenced with an analysis of the UNICEF business model and current programmatic and operational practices and accounting treatments for comparison with the anticipated practices and treatments required by IPSAS compliance. This “fit/gap analysis” will provide an indication of the impact of IPSAS adoption for UNICEF and the scope of policy, process and system configuration changes. The fit/gap analysis will inform the development of the UNICEF IPSAS implementation project and plan.

16. The biennial support budget submission for 2008-2009 will contain an initial estimate of the cost of IPSAS adoption for UNICEF. The estimate will have been prepared prior to the completion of the fit/gap analysis but will be based on initial internal assessments and consultations with the early adopters and other United Nations system organizations.

17. Having implemented its enterprise resource planning system — SAP — in 1999, UNICEF is well positioned to accommodate the changes which will be necessary to become IPSAS-compliant. However the extent of the required system configuration changes will not be known until the programmatic and operational practices and accounting treatments have been defined in the fit/gap analysis.

VI. Communication

18. Communication will be critical to the successful implementation of IPSAS. As the UNICEF implementation project is developed and advances, UNICEF proposes to inform the Executive Board, through regular reports, of progress towards adoption, the impact on UNICEF, policy, process and systems issues and their resolution, and investment costs.