



**Administrative Committee
on Co-ordination**

ACC/1997/FB/R.22

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Consultative Committee on
Administrative Questions
(Financial and Budgetary Questions)

Eighty-seventh session
New York, 25-29 August 1997

Item 3.1 of the provisional agenda

ACCOUNTING AND FINANCIAL REPORTING

Accounting Standards

Working Party on Accounting Standards

Note by the secretariat

1. Annex I contains, for consideration by the Committee, the report of the CCAQ(FB) Working Party on Accounting Standards which held its meeting in Paris from 23 to 25 June 1997. In accordance with the decision of CCAQ(FB), the report of its meeting is being circulated to member organizations for review at the same time as it is being forwarded to the Panel of External Auditors for information.

Recommendation of the Working Party

2. As regards its work, the Working Party has recommended that CCAQ(FB):
- (a) **approve, on behalf of ACC, the revised text of accounting standards paragraphs as described in paragraphs 12 to 15 of its report;**
 - (b) **encourage organizations to apply the formats and guidelines to the presentation of their financial statements for financial periods ending in 1997 (para. 15 of its report).**
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ANNEX I

Report of the Working Party on Accounting Standards **(Paris, 23 to 25 June 1997)**

Introduction

1. At its eighty-sixth session (Vienna, 10-14 February 1997), the Committee decided to convene a Working Party and accepted the kind invitation of UNESCO to host the meeting in Paris, 23-25 June 1997. Terms of Reference were agreed as set out in Annex III of the report of the session (ACC/1997/5).
2. The proposed meeting was duly held. Mr. Mark Warren of UNESCO was elected Chairman. The participants in the Working Group are listed in annex II.

Adoption of the agenda and of a work programme

3. The Working Party adopted the agenda summarized in Annex III which contained the following work programme as approved by CCAQ(FB).
 - (a) Revisions to the United Nations Accounting Standards which are essential to clarify the preparation of financial statements for the current financial period and which would be based on:
 - Organizations' experience to date of applying the revised accounting standards to the financial statements and accounts, particularly the new formats and guidelines for financial statements,
 - Relevant views expressed by governing bodies and external auditors.,
 - (b) A mechanism for handling the development of the standards over the coming years, bearing in mind the methods used by other bodies for ensuring continuing work on accounting standards.
 - (c) A list of subjects identified as meriting further study in the context of the recommended mechanism

Discussions of the Working Party

(a) Revisions to the United Nations Accounting Standards (UNAS)

4. The Working Party reviewed the experience of organizations with regard to the application of the standards as covered in document ACC/1997/FB/WPAS/2 and as supplemented by additional information provided by participants during the discussion of this subject. Participants reported that Governing Bodies had been pleased to note the development of the standards and their application by most organizations to their latest financial statements. They also reported the positive reaction of their External Auditors and that in most cases there were minimal or no differences of opinion with regard to either application or interpretation of the standards.

5. The Working Party recalled that the UNAS was a living document and that the rules, regulations and decisions adopted by legislative authorities might in some cases involve variations from common approaches as exemplified by the standards. Taking these considerations into account and noting that the Panel of External Auditors concurred with the living document concept, the Working Party maintained that external auditors should not automatically treat any departure from standard as a cause for criticism or even possible grounds for qualification. Some issues had arisen as a result of the audit of the latest financial statements where further discussion by the Working Party would be helpful. As a result, the Working Party decided to review the issues considered below:

Accounting standards with regard to the United Nations Joint Staff Pension Fund (UNJSPF).

6. The Working Party had before it the communication dated 4 June 1997 (circulated prior to the meeting as document ACC/1997/FB/INF.4) from the Secretary of the Pension Fund to the Secretary of CCAQ(FB). It noted that the Committee of Actuaries had requested CCAQ(FB)'s comments on the issues involved and on the possible text of a disclosure statement for member organizations of the UNJSPF to annex to their financial statements.

7. Participants were of the opinion that the development of accounting standards with regard to the Pension Fund were the responsibility of the Pension Board but considered that any finalized accounting standard proposed on this issue for incorporation in the UNAS must be submitted for approval to CCAQ(FB). Not all organizations which were members of CCAQ(FB) participated in the UNJSPF.

8. Participants agreed with the Technical Group and the Committee of Actuaries that it was appropriate for the member organizations to make further disclosure as to participation in the UNJSPF and considered a text on the lines of that shown below might be included in a Note to financial statements of member organizations. Such a text should be reconsidered at the time that the UNJSPF submits its proposed accounting standards to CCAQ(FB).

“_____ is a member organization participating in the United Nations Joint Staff Pension Fund which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined

benefit plan. The financial obligation of the organization to the UNJSPF consists of its mandated contribution at the rate established by the United Nations General Assembly together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. [Such deficiency payments have not been considered necessary at this time].”

9. In addition the Working Party noted that the Technical Group of the Panel of External Auditors (para. 16 of letter of 4 February 1997, see ACC/1997/FB/86/CRP.8) had concluded that, in the absence of a United Nations System Accounting Standard fully covering the disclosure of pension benefits, United Nations organizations should apply IAS 19 as appropriately as possible. The Working Party recalled that whereas IAS had been extensively used in the development of the UNAS they did not automatically apply in the absence of any UNAS.

Non-Convertible Currencies

10. The Working Party noted the comments of the General Assembly, as reflected in paragraph 17 of Resolution A/51/225, on the need to disclose the valuation of cash held in non-convertible currencies and encouraged all organizations to comply with the UNAS paragraph 48(i) where these amounts were material.

Delays in Collections of Assessed Contributions

11. The Working Party considered the comments and suggestions made by the Technical Group (paras. 17-20 of the letter of 4 February 1997, see ACC/1997/FB/86/CRP.8) on the need for uniform application of the existing UNAS relating to the provision for the delay in collection of assessed contributions. The Working Party noted that the individual legislative bodies have ultimate responsibility for deciding on the orientation and conduct of their work and the related financial arrangements. Accordingly, the UNAS have been designed to accommodate variations in common approaches taking into consideration the regulations, rules and decisions of individual organizations. The Working Party was, therefore, of the view that, as the concerns of various organizations are different, they should continue to have the flexibility provided for in current UNAS paragraph 32 which gives an option to make provision for delays in the collection of income so recognized.

12. In view of the fact that the pattern and level of contributions payments by individual contributors were impossible to determine ahead of the fact, the Working Party considered that for those organizations which opt to establish such a provision it would be unreasonable to set any provision for payment delays at less than 100 per cent. Furthermore, setting such a provision at a date other than at balance sheet date was not appropriate and could not be recommended. Therefore, in the interests of a uniform approach by those organizations which opt to provide for delays, such provision should be at 100 per cent of the unpaid contributions at balance sheet date. In conclusion, the Working Party recommended the following modification (additions in bold type, deletions strike out) to paragraph 32 of the UNAS:

“32. Income from assessed contributions represents a legal obligation of contributors as from the date when it becomes due payable. Such income should be accordingly 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 and disclosed in accordance with the formats of the financial statements. Such provision shall be 100 per cent of the unpaid contributions at the date of the financial statements at the end of the financial period.”

Voluntary Contributions in Kind

13. The Working Party discussed the existing UNAS paragraph 34 and recommended that the following modification (additions in bold type, deletions strike out) be made:

“34. Significant voluntary contributions in kind, if the particular nature of the organization’s operations so requires, which can be used in the normal course of an organization’s programme activity, and provided that a fair value can be reasonably estimated, should be recorded in the books of account reported in the organization’s financial statements. Where circumstances so warrant, contributions in kind should be disclosed in a note to the financial statements. An organization may choose to recognize these contributions on the face of the statements or disclose them as a Note. Such contributions should be valued at the donor’s valuation, fair market or budgeted value, whichever the organization considers to be most appropriate at a fair value, including donor’s valuation if appropriate, as best determined by the organization and the basis for such valuation should be disclosed. The recording of voluntary contributions in kind as income and expenditure should take place simultaneously.”

Costs of Termination Benefits

14. The Working Party considered that all liabilities for end-of-service and post retirement benefits should be disclosed in the financial statements. It believed that for most organizations these benefits would include annual leave, repatriation costs, termination benefits and after service health care. The Working Party agreed that the basis of valuation of these liabilities should be disclosed and recommended that the existing UNAS paragraph 57 should be amended (additions in bold, deletions in strike-out) as follows:

“57. Liabilities for end-of-service benefits (and ,post-retirement benefits) and annual leave should be provided for in the financial statements 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, showing the basis of valuation.”

Summary of Recommended Revisions

15. The Working Party accordingly recommends to CCAQ(FB) approval on behalf of ACC of the revisions to paragraphs 32, 34 and 57 of the UNAS as described above. It also recommended that, in accordance with past practice, organizations should be encouraged to apply the revised standards in the preparation of their financial statements for financial periods ending in 1997.

Non-Expendable Property

16. The Working Party noted the Technical Group's comments (in paras.5-7 of the letter of 4 February 1997, see ACC/1997/FB/86/CRP.8) but considered that, given that United Nations system organizations expended such items at the time of purchase, there was no necessity to make the detailed mandatory disclosure proposed by the Technical Group in paragraph 6 of the above-mentioned letter. It felt that paragraph 49 of the existing UNAS, which specified that the inventory value and method of valuation should be clearly stated, was sufficient.

Cash Flow Statements

17. The Working Party agreed with the views of the Technical Group (para. 11 of the letter of 4 February 1997 - see ACC/1997/FB/86/CRP.8) that "it was too early to conclude on a preference for either the direct or indirect method". The Working Party considered that organizations needed additional experience in preparing cash flow statements before it would be able to make any recommendation for any changes to the existing UNAS on this subject.

Contributions from New Member States

18. The Working Party considered that the individual legislative bodies had taken varying decisions on this matter and that, therefore, uniform treatment was not appropriate. Organizations should therefore follow the procedures agreed by their governing bodies.

(b) Mechanism for handling the development of the standards

19. The Working Party recalled that the standards were to be treated as a "living document" and that further development was to be expected. It also recalled previous CCAQ(FB) decisions that permanent Subcommittees or regular Working Parties were to be discouraged unless found to be essential. It was therefore desirable to set up a mechanism to ensure timely resolution of accounting standard issues without having regularly scheduled meetings of Working Parties. After discussion of possible mechanisms, bearing in mind the timing of the closings of financial periods and subsequent audit cycles together with the likely schedule of future meetings of CCAQ(FB), the Working Party recommended the following:

- (i) The Secretary of CCAQ(FB) will at all times serve as a "clearing house" for all significant accounting issues raised by external auditors or governing bodies. Members are requested to keep the Secretariat informed of all such issues while remaining free to consult informally with other members on particular issues. The secretariat will advise members of significant issues and will also ensure prompt dissemination of any exposure drafts or final IAS of the International Accounting Standards Committee.
- (ii) The secretariat will compile in time for the Spring session of CCAQ(FB) in 1999 and subsequent odd-numbered years a list of those issues identified by member organizations. The Committee will decide at the Spring session which issues, if any, should be the subject of further development work and whether or not a Working Party

is appropriate at that time. The Committee, in the interest of making optimum use of participant's time, may also choose to nominate "lead" organization(s) to research one or more issues before any such meeting.

- (iii) If it is decided at the Spring session of the Committee that a Working Party is called for, such a Working Party should meet at the latest by June of that same year with a view to completing its report for circulation to members for comments well before the August session. An informal copy of the report of the Working Party would be made available to the Technical Group at the same time.

(c) List of subjects meriting further study

20. The following subjects were identified as meriting further study in the context of the recommended mechanism for future development of the standards.

- Review of the structure of the UNAS including introductory paragraphs;
- Review of applicability of those IAS not already reflected in UNAS;
- Further work on cash flow statements in the light of organizations' experience;
- Contingencies and events after balance sheet dates;
- Currency issues, including treatment of exchange gains and losses;
- Matching income and expenditure for voluntary contributions;
- Further development of standards relating to the UNJSPF.

Adoption of the report of the Working Party

21. The Working Party agreed that the report would be prepared by the Secretary and cleared by the Chairman. It would thereafter be circulated to all participants for information and an informal copy would be provided to the Chairman of the Technical Group.

ANNEX II**List of participants**

Chairman: Mr. Mark Warren

Secretary: Mr. Peter Leslie

Representatives of member organizations CCAQ(FB)

United Nations Mr. Jay Karia, Director, Accounts Division

UNICEF Mr. J. Louis Bradley, Deputy Director, Accounting Services,
Division of Financial and Administrative Management

UNDP Mr. Alan Potter, Chief, Accounts Section, Division of Finance
Mr. Gilbert Hounbo, Manager, Financial Reporting Group, DOF

UNFPA Ms. Linda Kintzios, Finance Officer

WFP Mr. Olivier Tayar, Chief, Finance Section

UNHCR Ms. Raymonde Vander Goten, Head, Financial Services

ILO Ms. Barbara Farrish-Walker, Chief, Treasury and Accounts Branch
Mr. Charles Agbavwe, Chief, General Accounts Unit

FAO Mr. Rino Imponenti, Chief, Headquarters Accounts

UNESCO Mr. Mark Warren, Deputy Comptroller

WHO Mr. Sova Bhandary, Chief Finance and Chief Accounts
Mr. Georges Micod, Accounts Officer
Mr. John Morgan, Finance Officer

UPU Mr. Thierry Beaucent, Head, Finance Department

ITU Mr. Allen Griffith, Chief, Voluntary Contributions Section

WMO Mr. Ah-Kim Lee Choon, Chief, Finance and Budget Division

WIPO Mr. Philippe Favatier, Director, Finance Division

UNIDO Ms. Elisabeth Baumann, Chief, Accounts and Payments Unit

IAEA Mr. Joseph N. Longton, Head, Finance and Accounting Section

ANNEX III

Agenda

adopted by the Working Party on 23 June 1997

1. Election of the Chairman
 2. Adoption of the agenda
 3. Review of Terms of Reference
 4. Proposed schedule of work
 5. Report of the session
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