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INTERNATIONAL PUBLIC SYSTEM ACCOUNTING STANDARDS (IPSAS)

Document prepared by the Secretariat

I. INTRODUCTION

1. In response to a request made by the Member States at the informal session of the Program and Budget Committee (PBC) in December 2006, an informative document (WO/PBC/11/7 Rev.) was presented to the Program and Budget Committee in June 2007 to provide Member States with an overview of the main implications of the possible adoption, by the World Intellectual Property Organization (WIPO), of International Public Sector Accounting Standards (IPSAS) by January 1, 2010.

2. During this session, discussions were based on document WO/PBC/11/7 Rev. The item was introduced by the Director of the Finance Department. Interventions were made by the Delegations of China, France, Japan, Nigeria and the United States of America.

General support was shown for the introduction of IPSAS as this was understood by the Program and Budget Committee to be a United Nations-wide decision. The Secretariat was requested to provide supplementary information on the estimated cost of adoption of these new standards, particularly on required information systems and training.

The Program and Budget Committee took note of the information contained in document WO/PBC/11/7 Rev. and recommended to the General Assembly the principle of the adoption of the International Public Sector Accounting Standards (IPSAS), subject to

additional information, notably on the estimated cost of their implementation, to be provided to the said Assembly in its September 2007 session (document WO/PBC/17).

3. Supplementary information on the estimated cost of the adoption of these new standards is provided in Annex IV.

II. BACKGROUND

4. It is recalled that the financial statements of the United Nations system organizations are currently prepared in accordance with the United Nations System Accounting Standards (UNSAS). These standards were developed following a study made by the Panel of External Auditors on the development of appropriate accounting principles and standards based on International Accounting Standards (now International Financial Reporting Standards (IFRS)) for consistent application in the United Nations system. By United Nations Resolution 48/216, voted in December 1993, UNSAS were adopted and have been followed ever since.

5. The Task Force on United Nations Accounting Standards, established under the sponsorship of the Chief Executives Board for Coordination (CEB) and the High-Level Committee on Management (HLCM), recommended that the United Nations system adopt IPSAS by 2010, replacing the current UNSAS. At a special session of the HLCM on November 30, 2005, the HLCM accepted the recommendation, and the CEB, at its session in April 2006, endorsed the same for adoption throughout the United Nations system by 2010. The United Nations General Assembly approved the adoption of IPSAS at its sixtieth session in July 2006 (resolution A/RES/60/283 (IV) 1), together with the required resources to permit the Secretary General to begin implementation of the Standards.

6. IPSAS are issued by the International Public Sector Accounting Standards Board (IPSASB), which is itself a standing committee of the International Federation of Accountants (IFAC), representing over 160 member bodies in 120 countries. IPSAS are credible, high quality, independently produced accounting standards, underpinned by a strong due process and supported by governments, professional accounting bodies, and international development organizations such as the World Bank, the Asian Development Bank (ADB), the Organization for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF), the International Accounting Standards Board (IASB), and the International Organization of Supreme Audit Institutions (INTOSAI). They represent best practice for governments and not-for-profit organizations. The OECD, European Commission (EC) and NATO have recently adopted IPSAS for their financial reporting.

7. The key benefits of the adoption of IPSAS are commonly considered to include:

(a) improved internal control and transparency with respect to all assets and liabilities;

(b) more comprehensive and consistent information about costs and income, which will better support governance of the organization; and

(c) improved consistency and comparability of financial statements over time and across different organizations.

8. A list of major differences between United Nations System Accounting Standards (UNSAS) and IPSAS appears in Annex I. Annex II presents the definitions of the key financial terms used in this document.

III. STATUS OF IMPLEMENTATION OF IPSAS WITHIN THE UN SYSTEM

9. A number of UN organizations have already presented formal proposals for the adoption of IPSAS for endorsement by their member states, including the International Labour Organization (ILO), the World Health Organization (WHO), the Food and Agriculture Organization (FAO), the United Nations Development Program (UNDP), and the International Civil Aviation Organization (ICAO). Support for the implementation of IPSAS across the UN system, together with coordination, guidance and leadership, is provided through the IPSAS technical team under the guidance of a Project Steering Committee and the Task Force on Accounting Standards under the auspices of the Finance and Budget Network of the High Level Committee on Management (HLCM).

10. A report of August 2007 (CEB/2007/HLCM/X), to the HLCM from the Chief Executives Board for Coordination on the progress in IPSAS implementation across the UN system, indicates that progress has been made in the following areas:

- Project Infrastructure – A Steering Committee formed in March 2006 has met regularly since then. The Committee's members represent the four main centers and the main UN system organizational types.
- Accounting Policies and Guidance – The Accounting Policies and Guidance (APG) Group was formed in March 2006, acting as a review group for the development of accounting policies and guidance. The group has members from 14 organizations and an observer from the International Organization for Migration (IOM). A number of accounting policy papers have been drafted by the APG for consideration by the Task Force, covering the significant options in the 21 IPSAS standards. Initial guidance is provided on the interpretation and application of IPSAS standards through the documents prepared by the APG.
- Communication – Progress has been made in ensuring access by UN system organizations to reference, guidance as well as discussion materials for the implementation of IPSAS. A number of organizations have also already established internal projects teams, and these are now involved in internal discussions with IPSAS focus groups.
- Budgetary Practices – Representatives from two organizations (UNDP and ICAO) have developed examples and provided presentations on the application of accrual budgeting within the UN system. A paper was presented to the Steering Committee with the relevant recommendations in August 2007.
- Early Adopters – Three organizations (World Food Program (WFP), WHO and ICAO) propose to adopt IPSAS with effect from January 1, 2008. A further three (UNDP, United Nations Fund for Population Activities (UNFPA) and United Nations Office for Project Services (UNOPS)) were investigating this option, but have since decided to adopt IPSAS progressively and aim for full adoption and compliance only in 2010.

11. Responses of members of the Task Force on Accounting Standards to a questionnaire on their IPSAS adoption progress^{*}, covering the period up to the end of July 2007, indicated that over half of the organizations who provided responses had completed most of the following key steps:

- An approved budget for IPSAS adoption;
- Staff resources working exclusively on IPSAS implementation;
- An IPSAS adoption project plan;
- An IPSAS communication plan;
- An evaluation of the extent of the information system changes required.

As of July 2007, 90% of respondents stated that they had raised the question of IPSAS adoption with their Governing bodies or Committees and 85% had gained, “in principle”, support for IPSAS adoption. Thirteen organizations provide that an adoption report with budget estimates and an initial implementation timetable has either been provided to their Governing body or that it is in the process of being provided.

12. The 13 organizations which had prepared budget or initial cost estimates indicated a wide range of costs, depending on the size and complexity of the organization as well as the extent of system changes required to implement IPSAS. All organizations have confirmed that they will need to make changes to their information systems in order to implement IPSAS. The timelines covered by the cost estimates also varied significantly (two to six years).

IV. THE MAIN IMPLICATIONS OF THE ADOPTION OF IPSAS FOR WIPO

Accounting and financial reporting

13. The impact of IPSAS adoption on WIPO’s accounting and financial reporting will include the following:

- (a) full recognition of liabilities for employee benefit obligations such as After-Service Health Insurance (ASHI), and other accruing compensatory benefits, e.g. annual leave and repatriation grants.
- (b) recognition and depreciation of capital assets such as buildings, vehicles, furniture and equipment, as a result of which capital assets will not be charged to expenditures at the cost of purchase (including the cost of bringing the asset into operation) in the year of purchase, but will be depreciated over their useful life;
- (c) recognition of expenses on the basis of the delivery principle, which is more restrictive than the current obligation principle required by UNSAS. (Under the delivery principle, expenditure is recognized on the basis of goods and services delivered. However, as WIPO already applies this principle in practice when recording expenditure at the end of

* The 20 organizations which provided responses were: FAO, IAEA, ICAO, ILO, IMO, ITC, ITU, UN, UNDP, UNESCO, UNFPA, UNICEF, UNIDO, UNRWA, WTO, WIPO, WHO, WFP, UPU and PAHO.

the financial period, this aspect of IPSAS will not have any material impact for the Organization);

- (d) changed basis for recognition of revenue from certain voluntary contributions (funds-in-trust) and exchange transactions;
- (e) valuation of inventories;
- (f) change in the structure and content of financial reports at all levels; and
- (g) annual, rather than biennial, audit of the financial statements.

Budgeting

14. The adoption of IPSAS will change the basis for financial reporting from modified accruals to full accruals. To facilitate the reconciliation between budgeted and actual results, the Organization will have to decide to implement one of the following options:

(a) prepare the budget on a cash basis, i.e. plan the budgetary requirements on the Organization's projected cash needs, and provide a reconciliation of the budget/expenditure and the accrual-based financial statements to Member States within the context of the annual financial statements. This would mean the least significant change when submitting, compiling, and reviewing budget proposals, primarily because assets would continue to be shown as "budgetary expense" or cash requirement in the current year. However, this would also require extensive effort at the end of the year in order to explain and fully reconcile the accrual-based financial statements (where expenditure will be lower) and the cash-based budget utilization report(s);

(b) prepare the budget on an accrual basis, i.e., fully aligned with the accounting and financial reporting standards. This will require extensive review and re-design of the budgeting processes, templates, etc., together with training for Program Managers. The current budgeting and accounting practices regarding the carry-over of budgetary appropriations for unliquidated obligations would also require review. Accrual budgeting would also require more emphasis on parallel liquidity management and planning in order to ensure that liquidity requirements are closely considered at the planning stage and managed prudently throughout the budget and financial period.

15. The possibility of the need for a separate capital budget would also have to be considered. This would address the need to transparently present to Member States the impact of the requirement to capitalize assets. Further implications may need to be considered in respect of WIPO's biennial budgeting and planning cycle period vs. the provision of annual audited financial statements to Member States. Since these two cycles will no longer be fully aligned, a review of the requirements for reconciling reporting under these two related processes will need to be undertaken and addressed.

16. The adoption of IPSAS will also have an impact on the timing of expenditure and will consequently affect funding requirements as well. This impact will be manifested as follows:

(a) the recognition of capital assets and their subsequent depreciation over their useful lives, together with the adoption of the delivery principle for the recognition of

expenditure will generate accounting timing differences. However, this will not affect funding requirements; and

(b) the requirement to fully accrue and provide for the liabilities of the Organization, e.g., employee benefit obligations, raises the need for providing funding for past liabilities, as well as accruing for ongoing obligations in respect of serving staff.

Financial Regulations and Rules

17. IPSAS will have an impact on the Organization's financial regulations and rules. The draft revised Financial Regulations and Rules that were submitted to the Program and Budget Committee in June 2007 (WO/PBC/11/8) take into account the impact of IPSAS as much as possible at this stage (in document WO/PBC/11/8, the provisions that may be affected by the implementation of IPSAS are marked with an asterisk). Further adaptations may be needed with the full implementation of IPSAS. These will be reflected in revised Regulations or, as required, Rules.

Staff Training

18. Another significant element in the implementation of IPSAS will be staff training. Awareness and understanding of the changes in financial management policies, systems and business processes will be crucial to ensuring the success of this initiative. In this regard, a training needs analysis, development of training plans and the estimation of associated costs would be undertaken.

Financial management systems

19. While the transition to IPSAS will require adjustments to the resource management systems of all UN organizations, the extent of these changes will vary, depending on the state of the current systems in place. Some organizations of the UN system (such as UNDP, the United Nations High Commissioner's Office for Refugees (UNHCR), WMO, ILO) have already deployed a modern Enterprise Resource Planning (ERP) system, which includes the functionality and modules required to reflect the requirements of IPSAS. In their cases, therefore, the transition to IPSAS will require smaller adjustments to these existing systems. Other organizations of the system (such as WFP/FAO and WHO) are still in the process of selecting, procuring or implementing such systems, and plan to develop the new functionalities required by IPSAS (to track inventory, assets, purchasing, etc.) within the context of a wider ERP project.

20. WIPO belongs to the latter group of organizations. Document WO/PBC/11/11, presented to the Program and Budget Committee in June 2007, and document WO/PBC/12/4(c), due to be presented to this same Committee at its September 2007 session, present a proposal to implement a full ERP system with a specific component designed to address IPSAS functionality requirements. Annex III of this document provides a brief overview of IPSAS implementation at WIPO.

V. CONCLUSION

21. Following the recommendation of the CEB, in 2006, to adopt IPSAS, as of 2010, as the official accounting standards for the United Nations system, the organizations of the system have started to prepare for this transition by analyzing its implications (in respect, mainly, of accounting and financial reporting, budgeting, Financial Regulations and Rules, staff training and upgrade of the financial management systems). In analyzing these implications, the Secretariat is using opportunities to learn from the practical experiences of those agencies of the UN system which may be further advanced in their implementation of the required changes.

22. The Assemblies of the Member States of WIPO are invited to agree to the principle of the adoption, by WIPO, of International Public Sector Accounting Standards (IPSAS) by 2010, and to take note of the cost estimate provided in Annex IV.

[Annexes follow]

KEY DIFFERENCES BETWEEN UNSAS AND IPSAS

UNSAS	IPSAS	IMPACT
1. Reporting requirements take a “modified accruals” approach that is very close to cash accounting.	Requirements are on a “full accrual” basis.	The effect of this is that IPSAS reports a larger group of items (assets and liabilities) on the balance sheet than does UNSAS. The pattern of expenses associated with these assets and liabilities is different. Under IPSAS, expenses associated with investments in assets are reported later than would be the case under UNSAS, while expenses associated with liabilities are reported earlier than is the case under UNSAS.
2. Costs of fixed assets are reported as expenditure, in the Statement of Income and Expenditure, when the assets are purchased.	Costs of fixed assets are capitalized and are included on the balance sheet when the assets are first acquired. The original cost of the assets is spread over their useful lives as the assets are used (depreciation expense).	There will be a decrease in reported expenditure and an increase in assets reported. Under IPSAS, upon initial recognition of existing fixed assets, a corresponding capital reserve needs to be established.
3. Accrued employee benefits in respect of repatriation grants; after service health insurance and annual leave are reported in the note to the accounts.	Full recognition of liabilities for employee benefits and reported as an expense.	This will result in an increase in reported expenditure due to creation of accrued liabilities. Any unfunded liabilities will require that a funding mechanism be put in place to meet them.
4. Reported expenditure represents disbursements and unliquidated obligations.	Recognition of expenditure on the basis of goods and services received (the delivery principle).	As WIPO already applies this principle in practice when recording expenditure at the end of the financial period, this aspect of IPSAS will not have any material impact for the Organization.
5. Costs of expendable property (stock and supplies) are charged to expenditure on purchase.	Only costs of expendable property consumed will be recorded as expenditure. The value of inventories at the end of the financial period will be taken to assets on the balance sheet.	There may be a reduction in reported expenditure during the initial years of IPSAS adoption. There will be a requirement to conduct physical verification of inventories at financial period end and also to determine the basis for valuation.
6. Recognition of voluntary contributions on cash basis.	Voluntary contributions recorded on the accrual basis under certain conditions.	Reporting of revenue from all WIPO’s various sources would require analysis.

UNASAS	IPSAS	IMPACT
7. Financial period for WIPO consists of two calendar years, with an audit opinion issued on the financial statements every biennium.	Annual financial audits are required.	Consideration will also need to be given to the mechanism for reconciling budgetary and financial reporting to Member States.
8. Preparation of program and budget on cash basis	Preparation of program and budget on accrual basis OR providing reconciliation of cash vs. accrual views at year-end (as part of financial reporting).	This will require careful consideration and review of budget process, format and content, which may lead to additional work by the Organization as well as its External Auditor.

[Annex II follows]

DEFINITIONS OF TERMS USED IN THE DOCUMENT

Accrual basis – A basis of accounting under which transactions and other events are recognized when they occur (and not when cash or its equivalent is received or paid).

Assets – Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Cost – The amount of cash or cash equivalent paid or the fair value of the consideration given to acquire an asset at the time of its acquisition.

Depreciation – The systematic allocation of the cost of an asset or other amount substituted for cost in the financial statements, over its useful life.

Delivery principle – The principle by which the expenses are recognized in the financial statements on the basis of goods and services received.

Exchange transactions – Transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash goods, services, or use of assets).

Expenses – Decrease in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decrease in net asset/equity.

Fair value – The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arms' length transaction.

Liabilities – Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Net assets/equity – The residual interest in the assets of the entity after deducting all its liabilities.

Useful life – The period of time over which an asset is expected to be used by the entity.

[Annex III follows]

IPSAS IMPLEMENTATION

2007

- Seek approval, in principle, from Member States for IPSAS adoption
- Finalize the terms of reference for IPSAS component of the ERP project, together with internal responsibilities and resources for its delivery
- Hire a subject matter expert (in progress)

2008

- Analysis of key financial management, budgeting, and accounting issues, impact on financial systems, Financial Regulations and Rules, and develop accounting policies, procedures and guidelines
- Perform training needs assessment and set out proposed training plan
- Contribute to configuration of ERP system design and adjustment

2009/10

- Implement training plan
- Prepare *pro forma* financial statements
- Prepare introduction of changes in budgeting practice
- Begin parallel reporting in accordance with IPSAS
- 2010 IPSAS compliant

[Annex IV follows]

CONDITIONS AND PRELIMINARY COST ESTIMATE
FOR IPSAS IMPLEMENTATION

Between 1999 and 2001, WIPO began to make preparations for a project which would provide an integrated administrative information management system (AIMS) that would include Finance, payroll, Human Resource Management, budgeting, procurement, enterprise reporting, travel and program management. This system was to be built around an Enterprise Resource Planning (ERP) software package. At the time, however, a progressive approach was decided on with a preliminary scope limited to Finance and Budget Reporting functionality. The other functionalities were to be addressed only after the successful introduction of a core financial and budget control and reporting system. The main reasons behind this approach were the limited experience and success of implementing large scale ERP systems within the United Nations (UN) system at the time, as well as the marked absence of proven, stable human resource and payroll module implementations within the UN system.

It should be emphasized that the full benefits of ERP systems are obtained when used in an integrated manner across targeted sectors so that data is captured and validated by the originating source and made available for further processing by downstream functions, with workflow and approval hierarchies being effectively managed. The administrative and resource management functions of the Organization, which were not included in the scope of the first phase of the project, have remained largely unsupported by mainstream IT systems and have therefore maintained a strong demand for an integrated system with functional modules to support their information system needs. This is the reason for the global proposal in respect of the implementation of an ERP system described in document WO/PBC/12/4(c).

By 2010, the Finance Department will have to make the shift to using the International Public Sector Accounting Standards (IPSAS) and implement procedures which are compatible with the requirements of this specific accounting framework. As a result, the need for certain functionalities and the implementation of key system modules, such as asset management, will be reinforced. As outlined in document WO/PBC/11/7 Rev., compliance with IPSAS will require the support of integrated and enhanced IT systems not only within the Finance Department but also within the Office of the Controller.

A detailed definition of IPSAS requirements and their implications is being undertaken prior to the design and implementation of the system.

Without this detailed definition of IPSAS requirements, which will take about six months, it is difficult to give an accurate estimation of the costs associated with IPSAS implementation. However, in order to respond to requests made by some Member States, we have drawn up the following estimate to the best of our knowledge at the present time.

The cost of this project will be financed from the regular budget.

<u>Area</u>	<u>Estimated cost</u> (Swiss francs)
Two project resources, fully dedicated to IPSAS implementation, over two years	653,000
Implementation of the asset management and inventory control modules	340,000
Adaptation of income modules	128,000
Training costs:	
For core Finance users	132,000
For Project Managers	21,000
For other administrative areas	38,000
Reporting modifications	510,000
Changes to AIMS for capital projects expenditure tracking and reporting	200,000
<u>Total cost estimate</u>	<u>2,022,000</u>

[End of Annex IV and of document]