Orientation to IPSAS

Participants Guide

Participants Guide for CBT -1
Orientation to IPSAS

International Public Sector Accounting Standards – (IPSAS)
IPSAS System-Wide Training Curriculum
Chief Executives Board (CEB) for Coordination, United Nations System

Orientation to IPSAS

TRAINING PRODUCTS TO SUPPORT THE ADOPTION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) BY UNITED NATIONS SYSTEM ORGANIZATIONS

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If there is any conflict between the contents of this material and IPSAS, the requirements of IPSAS prevail.

Course CBT 1 – Orientation to IPSAS – Participant's Guide

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List of Abbreviations/Acronyms Used in Course CBT 1

ERP	Enterprise Resource Planning
FEE	Federation of European Accountants
GPFR	General Purpose Financial Reports
GPFS	General Purpose Financial Statements
HLCM	High Level Committee on Management
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
INTERPOL	International Criminal Police Organization
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
IT	Information Technology
NATO	North Atlantic Treaty Organization
OECD	Organization for Economic Co-operation and Development
PP&E	Property, Plant and Equipment
UN	United Nations
UNSAS	United Nations System Accounting Standards

COURSE OVERVIEW

This is the first course in a curriculum of 18 courses to provide System-wide training on the implementation of International Public Sector Accounting Standards (IPSAS). The objectives of a system-wide approach to IPSAS training are to provide IPSAS training efficiently and effectively as well as support consistency in implementing IPSAS across the United Nations System. This introductory course will build awareness of IPSAS, helping participants to understand what IPSAS is and why it is being adopted by the United Nations System, the major challenges and changes expected, and what is needed to make the change a successful one.

The target audience for this course includes representatives from Member States, governing bodies, management and staff from all levels and areas of the Organization. Because of the wide diversity of the target audience (with course participants including executives, programme officials, technical specialists in such areas as information technology, logistics, communications and human resources), there is no single profile to describe the target audience. It is expected that most participants will have little knowledge of IPSAS and varying levels of comfort with financial matters generally.

The following suite of 7 Computer Based Training (CBT) courses and 11 Instructor Led Training (ILT) courses have been developed to support IPSAS implementation in United Nations system organizations

IPSAS Training Course Name	Course Number	
	CBT	**ILT**
Orientation to IPSAS	**CBT-1**	
Accrual Accounting under IPSAS – The Basics	**CBT-2**	**ILT-1**
Accrual Accounting under IPSAS – Beyond the Basics		**ILT-2**
Accounting for Property, Plant & Equipment	**CBT-3**	**ILT-3**
Accounting for Inventories	**CBT-4**	**ILT-4**
Accounting for Employee Benefits – The Basics	**CBT-5**	
Accounting for Employee Benefits – The Basics & Beyond		**ILT-5**
Accounting for Leases	**CBT-6**	**ILT-6**
Accounting for Provisions & Contingent Liabilities & Assets	**CBT-7**	**ILT-7**
Accounting for Intangible Assets		**ILT-8**
Accounting for Financial Instruments		**ILT-9**
Advanced Topics in Financial Reporting		**ILT-10**
Preparing Accrual-Based Financial Statements		**ILT-11**

Linkages Between IPSAS Courses		
Introductory	***Working-Level***	***Specialist***
Orientation to IPSAS	**Accrual Accounting: Beyond The Basics**	**Advanced Topics in Financial Reporting**
Accrual Accounting: The Basics	**Property, Plant and Equipment**	**Preparing Accrual Financial Statements**
	Inventory	**Employee Benefits: The Basics and Beyond**
	Intangible Assets	
	Financial Instruments	
	Leases	
	Employee Benefits: The Basics	
	Provisions and Contingencies	

Course Outline

The adoption of accounting standards is a critical decision since accounting standards prescribe what information is to be collected as well as how it is to be recognised and measured for presentation in the financial statements. The IPSAS Board (IPSASB) has been busy over the past 15 years developing international accounting standards for governments and public sector organizations generally. During this course, we will look at the following areas to provide an orientation to the IPSAS:

Course Content	Learning Objectives
1. Introduction	a. Explain broadly why organizations adopt accounting standards. b. Identify the authorisation to adopt IPSAS.
2. Adopting IPSAS	a. Describe IPSAS and its features. b. List the milestones in the IPSAS adoption decision. c. Identify the benefits of IPSAS adoption for the Organization and for stakeholders.
3. IPSAS Implementation: Changes and Challenges	a. Identify the major financial reporting changes resulting from IPSAS. b. Identify wider organizational changes: • Identify areas impacted by IPSAS adoption. • Describe the impact on Information Systems. • Describe how staff will be impacted by IPSAS adoption. c. Identify major challenges related to IPSAS adoption. d. Describe why the integration among various functions of the Organization is necessary for IPSAS implementation.
4. IPSAS: The Appropriate Standards for United Nations system organizations?	a. Describe why the adoption of independent accounting standards is important. b. Identify the body responsible for developing IPSAS. c. Summarise the IPSAS development process. d. Describe the three key elements of the IPSAS development process that support development of credible, high quality standards. e. List the international organizations that have already adopted IPSAS or IPSAS-like standards.
5. Accounting on an Accrual Basis	a. Explain some of the differences between accounting on a modified cash basis and accounting on an accrual basis. b. Describe major benefits and challenges of accounting on an accrual basis. c. Identify areas of the Organization that will be impacted by the change to accrual accounting.
6. Scope of IPSAS	a. Describe the objective of 'General Purpose Financial Statements'. b. Identify examples of areas that IPSAS does not address. c. Identify how IPSAS will affect budgeting. d. Identify examples of processes for which IPSAS provides no guidance.
7. The IPSAS Implementation Strategy	**a.** Describe the three aspects of IPSAS implementation common to all United Nations system organizations.

8.	Making This Change a Success	a. Identify four influential groups critical to the success of IPSAS. b. List critical IPSAS implementation steps. c. List what you can do to support this change.
9.	Summary: Key Learning Points	a. Benefits of IPSAS b. Changes and Challenges c. Why IPSAS are the Appropriate Standards for United Nations system organizations d. Implementation Strategy e. Critical Success Factors

Unit One

1. INTRODUCTION

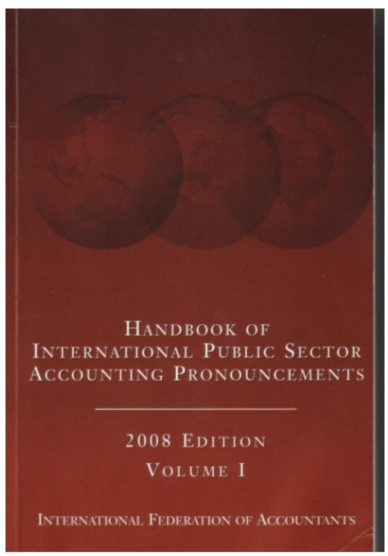
The learning objectives in this unit of the course are to enable the participant to know what IPSAS is, how IPSAS adoption was authorised, and the benefits of adopting IPSAS.

a. ***Learning Objective***—Explain broadly why organizations adopt accounting standards.

Accounting standards, such as IPSAS, establish guidelines on how particular types of economic transactions and events should be reported in the financial statements of an Organization. They set ‘ground rules’ for the recognition, measurement, presentation and disclosure of the elements that are presented on the face of the financial statements and the information disclosed in the notes to the financial statements.

b. ***Learning Objective***—Identify the authorisation to adopt IPSAS.

In July 2006, the General Assembly approved IPSAS adoption for the United Nations based on the recommendation of the High Level Committee on Management (HLCM). Currently, the financial statements of United Nations system organizations are prepared in accordance with United Nations System Accounting Standards (UNSAS). By January 2009, ninety six percent (96%) of the United Nations systems organizations had gained support from their governing bodies for the adoption of IPSAS.



2. ADOPTING IPSAS

Most public sector organizations historically have maintained their accounting records on the ‘cash basis.’ Cash basis accounting systems only show a very limited picture of an Organization’s financial resources and performance. United Nations system organizations have been using a ‘modified cash basis’ of accounting, which provides more information but is still limited in the information that it provides. To provide better information for decision-making and accountability (as well as better control over their total resources), many public sector entities have already moved their accounting onto the *full accrual* basis, and many more are in the process of making this change. United Nations system organizations are now moving in the same direction. The decision to adopt IPSAS means changing the accounting basis that United Nations system organizations use from ‘modified cash’ to ‘full accrual.’ The full accrual basis transparently shows the resources that an Organization controls, how much the Organization owes, and the full costs of the services that the Organization is providing.

a. ***Learning Objective***—Describe IPSAS and its features.

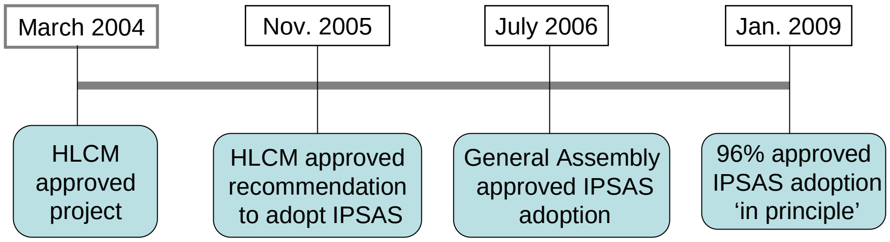
International Public Sector Accounting Standards (IPSAS) are a set of independently produced financial reporting standards:

- Designed to apply to Public Sector and not-for-profit entities for preparation of general purpose financial statements.
- Based on International Financial Reporting Standards (IFRS) developed for private sector profit-making organizations, which are amended to reflect public sector and not-for profit specific financial reporting issues.
- Developed based on a due process that includes the publication of an exposure draft for public comment.
- Issued by an independent standard setting body, the IPSAS Board (IPSASB), which was established by the International Federation of Accountants.

b. ***Learning Objective***—List the milestones in the IPSAS adoption decision.

In late 2005, HLCM approved IPSAS adoption, following a recommendation by the Task Force on Accounting Standards. The HLCM consists of representatives from twenty plus United Nations system organizations. Members of the Committee include the Under-Secretary General for Management of the United Nations. The Committee has delegated authority from the Chief Executives Board for Coordination (CEB) to make decisions on system-wide management initiatives. Following this decision, each individual Organization then proceeded to ask for approval from their governing bodies. The General Assembly approved IPSAS adoption by the United Nations in early July 2006. By January 2009, the governing bodies of 96% of United Nations system organizations had provided ‘in principle’ approval for IPSAS adoption.

Milestones



IPSAS adoption has strong support from Member States. Member States support IPSAS adoption because they see it as a way to maintain and enhance the credibility, transparency and accountability of the financial processes and transactions of the United Nations. Member States also consider IPSAS adoption to be a basic building block of productive organizational change and management reform.

c. ***Learning Objective***—Identify the benefits of IPSAS adoption for the Organization and for stakeholders.

Benefits of IPSAS adoption by the United Nations system organizations include the following:

- **Improved consistency, comparability and reliability of financial statements-** Adoption of the detailed requirements and guidance provided in IPSAS will mean improved consistency and comparability of financial statements which will provide a basis for increase in confidence and recognition in the international community
- **Positive contribution to the United Nations reform-** adopting IPSAS is part of the United Nations ongoing efforts to align United Nations Systems with internationally recognized best practices through the application of credible, independent accounting standards on a full accrual basis.
- **Opportunity to enhanced oversight and internal control –** The increased reporting requirements calls for improved tracking and oversight of assets as well as stewardship of resources, which can provide an opportunity to enhance the operational delivery.
- **Increased transparency with respect to assets and liabilities-** This increase in transparency results in better knowledge and disclosure that will support better management of assets and liabilities. The IPSAS requirement for full recognition of employee benefit obligations, such as annual leave, repatriation grants and health insurance, supports better management of these employee-related costs. The integration of non-expendable equipment into the accounting system will result in improvements in the accuracy and completeness of Property, Plant and Equipment (PP&E) records. For

the first time inventory (or stocks) will be recognised for the purpose of financial reporting, with a basis for improved assurance over inventory records and management.

- **More comprehensive information about costs** - Because IPSAS adoption means more comprehensive information about assets and liabilities, the resulting information on costs is much more meaningful, and that will better support results-based management.
- **Better quality financial reporting-** The adoption of IPSAS enables Member States to hold United Nations system organizations to a higher level of accountability and governance through improved financial reporting.

We have seen the benefits of IPSAS adoption for the Organization as a whole. Let us now look at the benefits to be expected for specific stakeholders:

- **Donors and Member States** - a basis for higher confidence in the financial reports and increased assurance of efficient resource utilization, accountability and financial management.
- **Beneficiaries** - improved efficiencies in resource management and effectiveness of operational delivery can expedite response to beneficiaries' needs.
- **Management** - better insight in terms of resources needs and uses as well as liabilities, leading to a basis for improved financial and operational decision making.
- **Programme Managers** - enhanced knowledge of existing resources, including equipment and inventories, which supports better oversight and accountability.
- **Staff** – will be exposed to best international practises in financial reporting.

3. IPSAS IMPLEMENTATION: CHANGES AND CHALLENGES

IPSAS adoption has full support from Member States and management because of significant benefits to be realised. IPSAS adoption will have a wide-ranging impact on the United Nations system organizations and the people in them. This unit identifies some of the financial reporting and wider organizational changes and their impact as well as describes in more detail the challenges of IPSAS adoption.

a. ***Learning Objective***—Identify the major financial reporting changes resulting from IPSAS.

IPSAS adoption will have a big impact on the information reported in the financial statements. It would take quite some time to list all the different changes, so here are some of the biggest ones:

- IPSAS requires a report on an annual basis- most United Nations system organizations currently do not prepare financial statements on an annual basis.
- Report all assets and all liabilities - Presently United Nations system organizations use 'modified cash' accounting under UNSAS. 'Modified cash' accounting requires some note disclosure of PP&E as well as of employee liabilities, but does not include these assets and liabilities on the face of the financial statements and does not report expenses associated with these items at the time that those expenses are actually incurred. Under UNSAS, PP&E is fully expensed immediately when they are acquired and no expense associated with the use of these assets (i.e. depreciation) is reported in subsequent periods. By contrast, under IPSAS the value of these items will be shown on the face of the 'Statement of Financial Position' (or 'Balance Sheet'), and explained in further detail in the notes to the financial statements. Depreciation expense, to show the on-going costs of using PP&E, will be included in the 'Statement of Financial Performance' (or 'Income Statement'). Inventory (or 'stock') and intangibles are generally not reported at all under UNSAS. Under IPSAS these assets will be shown on the face of the 'Statement of Financial Position' and expensed over time (in the case of intangibles) or when either sold, transferred or consumed (in the case of inventory).
- Presently only the cash outlays arising from large employee liabilities (such as After Service Health Insurance) are reported as expenditures, and then only when they are actually paid. The obligations that give rise to future cash outlays, as a result of service provided, are not reported at the point that they actually come into existence. Under IPSAS, those obligations will be recorded as liabilities and the related expense reported, during the period that they are actually incurred (i.e. when an employee earns the right to receive those benefits).
- Change in the timing of revenue and expense recognition- Under UNSAS, an expense presently can be reported when a purchase order is issued. Under IPSAS, expenses will be reported later in the purchase cycle – at the point when services are delivered and, in the case of goods, when they are used or consumed. That is the point at which an obligation comes into existence and the Organization incurs an expense.
- Increased Note Disclosure- IPSAS Note Disclosure requirements are much more diverse, detailed and complex in comparison to UNSAS.

These accounting changes involve major changes that have implications beyond merely the technical financial reporting change. There are many other reporting changes arising from IPSAS adoption that will be covered in later courses in the system-wide training curriculum.

b. ***Learning Objective***—Identify wider organizational changes

We can classify the wider organizational changes into two groups: the impact on the Organization (with special emphasis on Information Systems) and the impact on the staff.

Areas Impacted in General:

- **Personnel-** As the United Nations system organizations move from the current modified cash basis of accounting to the full accrual basis under IPSAS, personnel will need to be trained in new business and accounting processes and procedures.
- **Financial related processes**- IPSAS adoption will directly impact all financial related processes- these will provide additional information on the real cost of operations over time as well as identify the total assets and the total liabilities. Significant changes in the existing accounting systems will be made to provide this additional information.
- **Non financial related processes**- The content of the United Nations system organization's financial statements will increase significantly since the financial statements will identify the total resources available to each United Nations system organization. For example, to cope with increased reporting requirements and transparency, property management and logistics will have to enhance their tracking and control mechanisms. Further, having total cost information on each of the various programmes reported in the statements will permit more comprehensive decision-making as well as provide a basis for improved programme management and better delivery of programmes.

Impact on Information Systems:

Under the wider organizational changes one of the areas that will be largely impacted by IPSAS adoption are the Information Systems.

- Some organizations will need to replace their current system with a new integrated information system (ERP- Enterprise Resource Planning); other organizations might be able to cope with IPSAS requirements by upgrading their current systems or acquiring new modules.
- Some of the areas that are likely to involve system changes include:
    - Reporting of PP&E as well as inventories- which involve existence of an accurate asset register and inventory management tracking system;
    - Reconfiguration of the chart of accounts to support IPSAS requirements- some transactions will be posted differently under IPSAS;
    - Other changes related to adoption of full accrual, such as timing of expenses recognition. For example, currently under UNSAS the systems are recognizing the approval of a purchase order as a liability; and
    - Dual recording: if the budget basis and the financial statements basis are not the same, each transaction will "hit" the budget accounts and the finance accounts differently, and IPSAS requires reconciliation between both sets of accounts.

Impact on Staff:
To provide the required information, the business and accounting processes will change to capture asset information at the time of their purchase and liabilities at the time obligations are incurred. Costs related to PP&E will be reported as those assets are used over time, while the initial investment in such assets will be reported as an investment rather than expensed when the asset is first acquired. Expenses will occur as services are delivered, including employee related costs of items such as after service health benefits that the Organization becomes obligated to provide to an employee during the year that the employee earns those benefits. It will no longer be possible to report an expense at the point that a purchase order is created (e.g. when an Organization does not yet have any obligation to pay) because no goods or services have been received. Programme managers will have more information on the total cost of their respective programmes and can better monitor these costs. The budget process will also be able to use the additional information in making budget allocation decisions. Staff will need to spend more time learning about IPSAS and understanding the use of new information so as to better support changes to their areas by helping to collect new information and provide input to new processes and procedures for IPSAS compliance.

Management and staff will be challenged to develop a better understanding of what the new information means and how it can best be used to improve financial and programme management in their areas. Benefits are likely to include improved set of skills in accounting and financial reporting, stronger support for ideas that improve programme delivery and better informed decisions.

c. *Learning Objective*—Identify major challenges related to IPSAS adoption.
There are many challenges ahead of the IPSAS implementation. These include:

- **Processes** - New processes and procedures will be required in order to capture new information on assets and liabilities.

- **Management** - The increased transparency with respect to liabilities and assets is likely to change how these items are managed.

- **Information Systems** - In order to support IPSAS information needs, Information systems will need to be either replaced or upgraded.

- **Communication and Training** - Training will be required to support staff as they collect, process, report and utilize new information. Building the capacity of people within the organizations to implement this change becomes even a greater challenge when we take into consideration the geographical dispersion of most of the organizations. Many people will be involved in learning about the new information needs and system changes as well as the implications and significance of the information reported. All this needs to be communicated efficiently as this major change is rolled out.

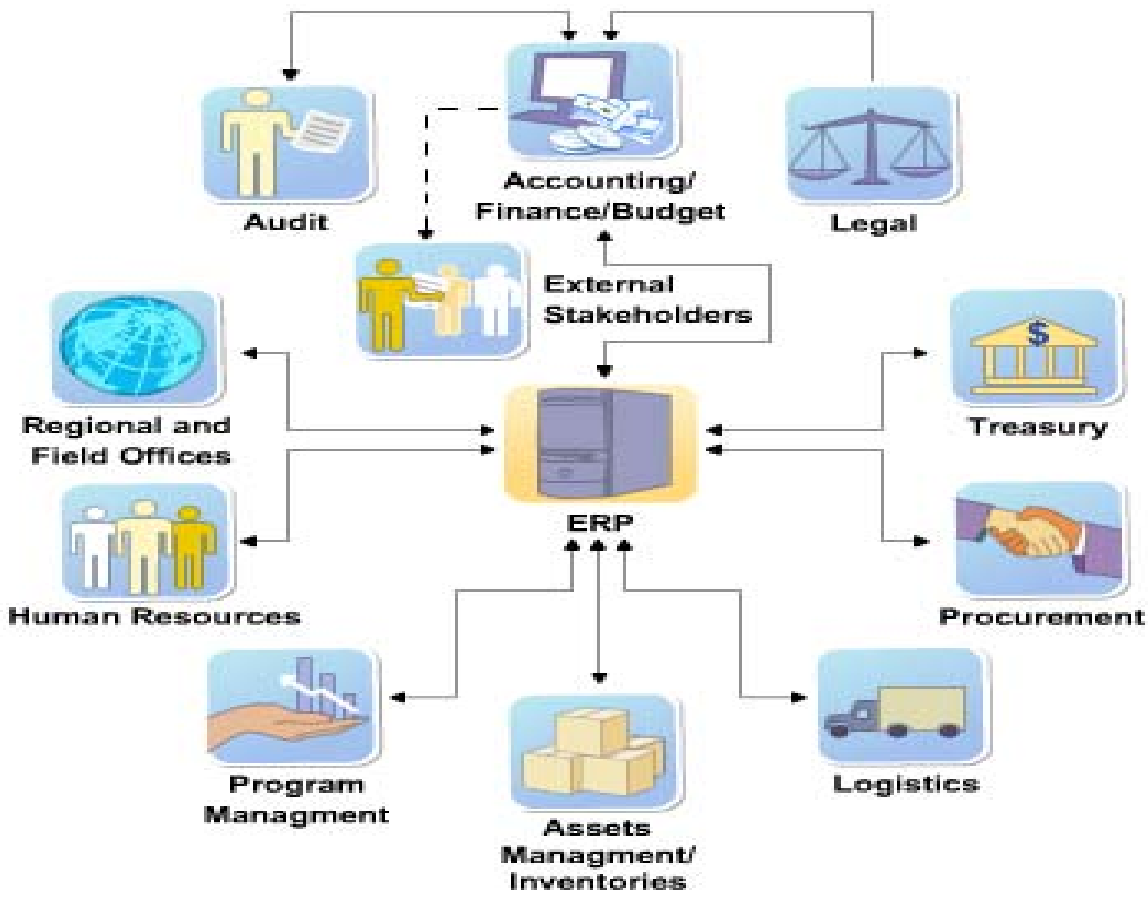
- **Financial Reporting** – Increased complexity of financial reporting and disclosure will imply the existence of detailed IPSAS compliant procedures. Financial Regulations and Rules will change.

- **Co-ordination** - Integrated effort to reach shared solutions to new and demanding problems across various functions and in multiple geographic locations.

d. ***Learning Objective***—Describe why the integration among various functions of the Organization is necessary for IPSAS implementation.

The adoption of IPSAS is not just an issue for an accounting department. Rather, because accounting change impacts so many areas within an Organization, IPSAS adoption must be viewed broadly. For that reason IPSAS adoption requires the involvement of most departments within an Organization. IPSAS issues affect and must be discussed, planned and implemented with not only the accounts/finance department but also the budget, treasury, procurement, logistics, human resources and ERP departments to name a few. The involvement of the Organization's programme managers, regional and field offices, legal council and auditors is also critical to the successful adoption of IPSAS within an Organization as depicted diagrammatically below.

Integrated IPSAS Implementation



Unit Four

4. IPSAS: THE APPROPRIATE STANDARDS FOR UNITED NATIONS SYSTEM ORGANIZATIONS?

This unit describes why it is important for the United Nations system organizations to adopt independently developed accounting standards. It also identifies the Organization responsible for standard-setting and the process by which the IPSAS are established as well as the international organizations that have adopted IPSAS.

a. ***Learning Objective***—Describe why the adoption of independent accounting standards is important.

Full compliance with IPSAS moves away from a culture where organizations were both the preparer and the standard setter which often invited concerns of objectivity and credibility of such specially developed standards that only applied to United Nations system organizations. Internally developed standards have failed to keep abreast with international developments in financial reporting. Full IPSAS adoption confers the full benefits of external independent standards - credibility, quality, robust due process, in keeping with international best practice and external discipline.

b. ***Learning Objective***—Identify the body responsible for developing IPSAS.

In the mid 1990's, the International Federation of Accountants (IFAC) initiated the development of accounting standards for the public sector with a primary focus on accrual accounting. Initially developed by IFAC's Public Sector Committee (renamed the IPSASB in 2004), IPSAS accrual standards are based on private sector International Financial Reporting Standards/International Accounting Standards (IFRS/IAS) developed by the International Accounting Standards Board (IASB) for private sector entities. IPSAS incorporate IFRS accounting concepts and treatments, unless there is a specific, compelling reason for public sector departure from IFRS/IAS.

IPSASB's work focuses on the development of conceptually sound, principles based IPSAS. The IPSASB is an independent standard setting body and the only one responsible for developing international accounting standards for not-for-profit organizations. It receives financial support from many international and regional organizations including the World Bank, the Asian Development Bank and the European Commission. The IPSASB's mission is to serve the public interest by developing high-quality accounting standards for use by public sector entities around the world in the preparation of general purpose financial statements.

The IPSASB is comprised of 18 Members - 15 Members nominated by their professional accounting organizations which are member bodies of IFAC and 3 Public Members appointed from nominations of member bodies as well as from other organizations and the public. These members rotate after serving a maximum of two terms of three years and can be supported by a technical adviser at the Board meetings (but the technical advisers cannot vote). In 2008, member bodies nominated new members from Argentina, India, Israel and Mexico, and the at large member from the USA retired. New members were appointed from Canada, USA, Kenya and Turkey. The United Nations system organizations are represented by the United Nations and UNDP as observers (without vote but with privileges of the floor) at each of the IPSASB meetings.

c. ***Learning Objective***—Summarise the IPSAS development process.

The due process for development of the IPSAS by IPSASB involves the following process:

- The Board meets publicly three times per year to deliberate the issues and the agenda materials which are publicly available before each meeting.
- Exposure drafts of all proposed Standards are developed often with input from a task force or project advisory panel. In some cases, an exposure draft is preceded by a consultation paper and Invitation to Comment.
- After an exposure period of no less than four months, comments received as a result of the exposure process are considered by the IPSASB and the draft Standard is revised.
- The final Standard is issued following the affirmative vote of at least two-thirds of IPSASB members. As of 31 December 2008, the IPSASB had issued 26 accrual IPSAS.

Meets → Drafts → Revises → Approves

d. ***Learning Objective***—Describe the three key elements of the IPSAS development process that support development of credible, high quality standards.

The IPSASB follows a rigorous and transparent due process that provides an opportunity for all those interested in financial reporting in the public sector, including preparers and users directly affected by IPSAS, to have their views considered in the standards development process. The IPSASB uses a variety of media to obtain public input into its deliberative processes.

- The IPSAS are developed with input from experts who sit on the board or specially invited specialists (who are non-IPSASB members) to be part of Steering Committees, Project Advisory Panels or Task Forces.
- IPSAS accrual standards are based on private sector IFRS/IAS which are high quality and independently developed by the IASB for private sector entities. IPSAS incorporate IFRS accounting concepts and treatments, unless there is a specific, compelling reason for public sector departure from IFRS/IAS. IPSAS maintain a very close relationship to the IFRS and are continuously updated when the IFRS are changed in order to maintain the best international practice.
- IPSASB mission is serving the public interest. The IPSASB publishes all its documents on its web site (www.ifac.org/PublicSector/) and they are downloadable free of charge; IPSAS are available in English, Spanish and French.

e. ***Learning Objective***—List the international organizations that have already adopted IPSAS or IPSAS-like standards.

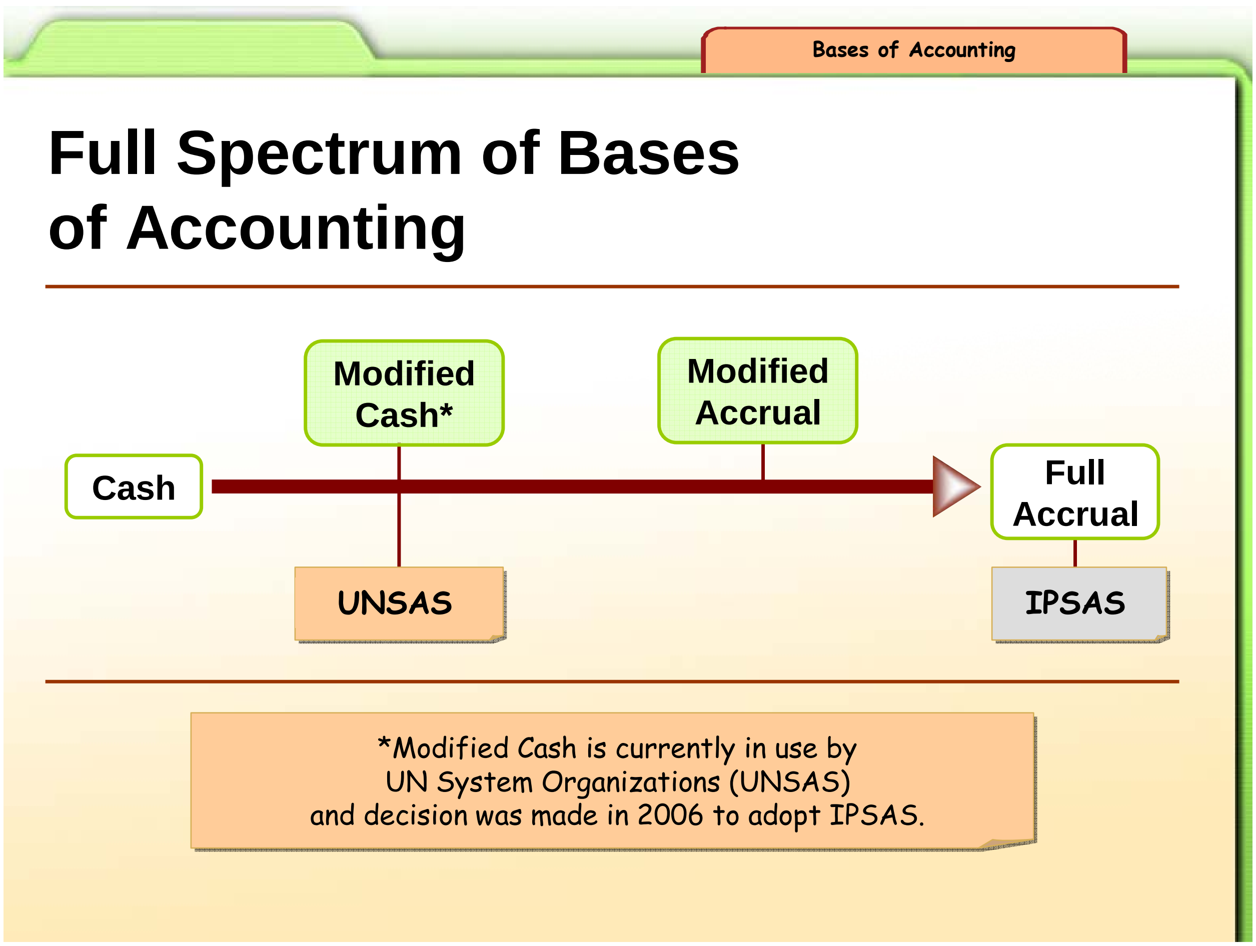
To provide good governance, accountability and transparency, many international public sector organizations (i.e. European Commission, IFAC, NATO, and OECD) have adopted IPSAS and others (i.e. INTERPOL) are in the process of IPSAS adoption. In addition, over 70 different countries either have adopted or are in the process of adopting IPSAS or IPSAS based standards. Under IPSAS guidelines, development banks (IMF, World Bank, etc.) are expected to comply with the IFRS/IAS for financial institutions used in the private sector.

5. ACCOUNTING ON AN ACCRUAL BASIS

Accounting on a modified cash basis under UNSAS differs significantly from accounting on a full accrual basis under IPSAS. In addition to providing better accountability and transparency, full accrual accounting under IPSAS will provide greater consistency of practice and comparability in the financial statements of United Nations system organizations. This unit describes the main differences between the modified cash and full accrual bases of accounting, and the benefits, drawbacks and impacts of accounting on an accrual basis under IPSAS.

a. ***Learning Objective***—Explain some of the differences between accounting on a modified cash basis and accounting on an accrual basis.

The continuum of accounting bases ranges from cash to full accrual. Under the cash basis of accounting, transactions and events are recognized only when cash is received and paid. Under the full accrual basis of accounting, all assets and liabilities are recognized. In addition, expenses and revenues are recognized when due irrespective of the associated cash flows.



Between these two extremes are two hybrid bases of accounting. Under the modified cash basis of accounting, records are held open for an extra month or two at the end of the reporting period to settle liabilities for the period just ended. But modified cash does not account for some of the resources and liabilities of the entity. Under the modified accrual basis of accounting, liabilities are recognised when incurred and some assets (primarily liquid assets) are recognised when received. But modified accrual does not account for investments in long-term assets or their usage over time. Although UNSAS recognizes commitments at the purchase order stage as expenses (which no other basis of accounting does), it does not recognize all liabilities including long-term liabilities and is therefore closest to modified cash accounting.

Those public sector entities that want to better manage and report on their total asset and liability positions move to the full accrual basis of accounting. The organizations using a full accrual basis of accounting will be able to show the full costs of operations in their managerial and financial reporting.

Under the present ‘modified cash’ accounting standards used by United Nations system organizations (UNSAS), revenue and expenses are generally reported when cash is received or a payment is made. Physical assets and intangibles are expensed immediately when the purchase order is issued; therefore these assets are not reported in the financial statements nor are any expenses associated with their usage over time. In addition, liabilities associated with employees (i.e. annual leave, repatriation grants and After Service Health Insurance) are not reported in the financial statements.

Since IPSAS requires reporting on the ‘full accrual’ basis, all assets (including all physical and intangible assets) are reported in the financial statements. All liabilities (including obligations to pay staff benefits in the future) are reported in the financial statements as those obligations are incurred.

Expenses are reported in the period when they occur rather than in the period in which cash is paid or the purchase order is approved. Further, the cost of using physical and intangible assets is recognised as a period expense (depreciation) over the life of the asset. And expenses related to employee benefits are recognised when the obligation to make a future payment is incurred rather than when the payment is actually made.

The change to a full accrual basis of accounting under IPSAS will have a big impact on the financial statements. Since all assets and all liabilities will be reported under IPSAS, these elements will be significantly higher than previously reported under UNSAS. And since an Organization’s equity is computed by subtracting liabilities from assets, an Organization’s reported ‘equity’ may be negative if the liabilities (especially considering future employee benefits) are higher than the assets.

The pattern of expenses will also change under IPSAS. Expenses from the use of assets will be reported later than they would under UNSAS. For example, the cost of long-lived assets will be recognized as an expense over the life of the asset in the form of depreciation rather than at the time of asset acquisition. The cost of inventory will be recognized as an expense when used or distributed rather than when acquired. Expenses associated with liabilities will be reported earlier than they would under UNSAS. For example, expenses associated with employee benefits will be recognized as those benefits are earned rather than when they are paid in the future.

The pattern of revenues may also change under IPSAS since revenue will generally be reported earlier than when cash is received.

b. ***Learning Objective***—Describe major benefits and challenges of accounting on an accrual basis.

The cash and modified cash bases of accounting are easy to understand, maintain and administer but do not provide the total picture of an Organization's resources and obligations. Only the full accrual basis of accounting provides such information. Full accrual accounting permits organizations to manage their total resources since the accounting system identifies how much the entity owns and how much it owes (its full financial position). In so doing, accrual accounting provides a greater degree of accountability and transparency over the use of funds provided by Member States and donors.

By fully reporting expenses associated with liabilities as they are incurred, accrual accounting provides more complete information that allows an Organization to fully cost its services. This has a flow-on impact for service delivery as organizations consider more cost-effective ways of delivering services. Concurrently, accrual accounting reduces the scope that exists at present under UNSAS to report expenses at the commitment stage when in fact these expenses may never be realized.

Accrual accounting provides information necessary to help management make important investment decisions. It provides an Organization with the opportunity to demonstrate effective management of its investments and is useful in evaluating its' performance in terms of services costs and efficiency. It allows users of the financial statements to evaluate the Organization's ongoing ability to finance its activities and meet its liabilities and commitments. Entities that report their financial position, performance and cash flows on a full accrual basis have increased incentive to manage these resources effectively and to show improvements in financial management on an annual basis.

Accrual accounting provides many benefits but these do not come without costs. Accrual accounting relies more heavily on the use of estimates and judgments and therefore requires greater training and experience. Accrual accounting systems are more complex than cash accounting systems and require a more highly trained workforce to manage and significant resources to implement.

Accrual accounting requires the collection of new types of information and this involves more people all of whom must understand what they are collecting and why. This wealth of new information needs to be interpreted and understood by financial and programme managers in order to be used to improve management and performance. In subsequent courses, managers will be given training on how to understand and use the improved information provided by IPSAS.

The greater transparency in the financial statements provided by IPSAS is a double-edged sword. By highlighting issues that were previously invisible, it is likely to increase pressure on organizations to address those issues (i.e. the funding of long-term employee benefit liabilities).

c. ***Learning Objective***—Identify areas of the Organization that will be impacted by the change to accrual accounting.

The accrual basis of accounting is actively promoted by the IPSASB because it provides the most beneficial information to the users of the financial statements including information about assets, liabilities, revenues, expenses, cash inflows and cash outflows. Accounting systems capable of accrual basis accounting must also ensure that all the information available under cash accounting or any modified basis is also available, if desired.

The collection of information required by IPSAS will have a big impact on procedures and people in the Organization. Information on the initial cost of physical assets provided by procurement will be used to capitalise assets at cost and information on the useful lives of physical assets provided by asset managers will be used to write off that initial cost as depreciation over those useful lives. Asset managers will need to periodically evaluate assets to determine if they have become 'impaired' and this information will be used to write down the value of the asset in the financial statements. Human resources will be involved in the collection of information necessary to report on employee benefit liabilities and related expenses, for example, unused leave balances, home leave entitlements and repatriation grants.

Because budgets in the United Nations System are prepared on a different basis than the accrual financial reports, reconciliation between expenses reported on budgetary basis and those reported on an accrual basis will be necessary. This enables the Organization to discharge its accountability obligations to readers of the financial statements by clarifying the relationship between these two different sets of numbers. Finance and budget managers will need to understand and be able to explain these differences.

Changes in procedures to capture information required for the proper recording of revenue and expenses on an accrual basis for funding agreements will have a big impact across a range of organizational units in virtually all organizations of the United Nations System. The impact will be greatest in those organizations that rely heavily on voluntary contributions for their funding.

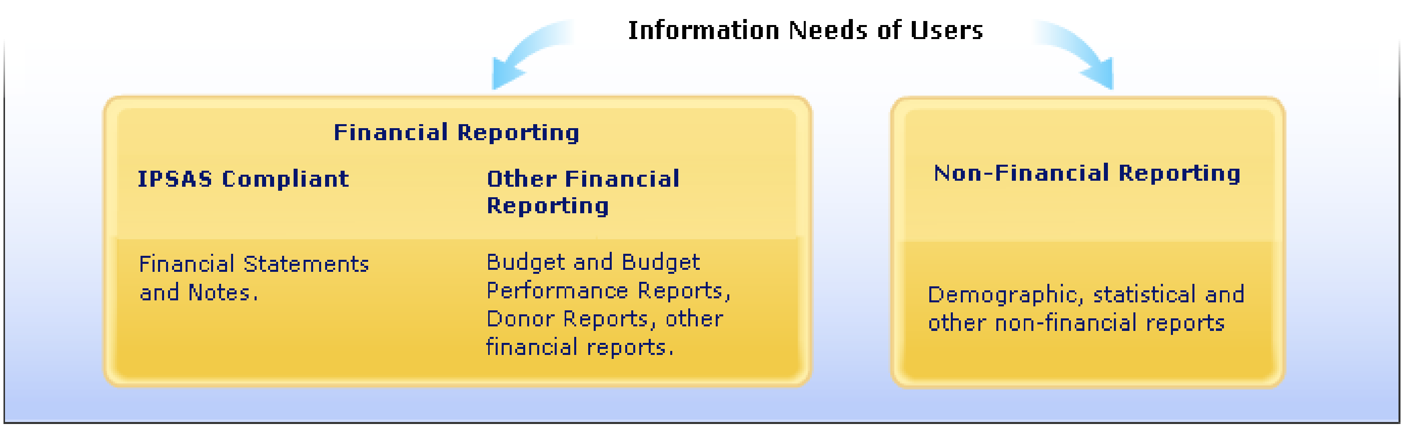
6. SCOPE OF IPSAS

Thus far in the course we have seen how IPSAS adoption will affect different areas of the Organization, individuals, business processes, and financial reporting. Yet, there are many things that IPSAS adoption will *not* affect and many things that IPSAS does *not* tell you. This unit explains the purpose of general purpose financial statements and provides examples of areas that are *not* affected or explained by IPSAS. This unit will also explain how IPSAS will affect budgeting and will provide examples of financial processes for which IPSAS provides no guidance.

a. ***Learning Objective***—Describe the objective of 'General Purpose Financial Statements'.

It is important to note that IPSAS deals only with the content and presentation of **General Purpose Financial Statements** (GPFS). These are statements that are provided to Member States and made available to the general public to report on an Organization's financial position and performance thereby providing information useful for accountability and decision-making from a governance and public accountability perspective.

Users require information as input to the assessment of accountability and for resource allocation and other decisions; this includes information provided by IPSAS, as well as other financial and non-financial information outside the scope of IPSAS. Thus, the information needs of users are broader than the information provided in the financial statements and notes required by IPSAS.



b. ***Learning Objective***—Identify examples of areas that IPSAS does not address.

It is equally important to note what IPSAS does not deal with. IPSAS does not deal with budget preparation although the information provided by the GPFS may assist in the budget preparation process. IPSAS does not apply to internal management reports, reports to donors on the use of their funds, or any other special purpose reports. IPSAS does not currently cover reporting on service performance relative to outputs or outcomes although the information provided will assist in identifying the full cost of a program.

As mentioned earlier, IPSAS does not deal with budget preparation, internal managerial reports, or reports to donors. These documents are important in United Nations system organizations, but they serve a different purpose than GPFS. Although IPSAS do not provide specific guidance for budgeting or reporting to management and donors, IPSAS adoption will provide opportunities and challenges in these areas.

While IPSAS are designed to apply to the GPFS, the Preface to IPSAS encourages the use of IPSAS in the preparation of 'special purpose financial statements'. Thus, it is important to consider the information needs of these other financial reports and incorporate them into information system changes that are made to support IPSAS implementation. Stakeholders need to understand that organizations may prepare reports on other basis that are different from IPSAS and they may need to understand the difference. To the extent that reported information is different, organizations need to be aware that IPSAS adoption may raise issues of reconciling that information with information in financial reports.

At this point we know that IPSAS adoption is the goal. The units that follow trace the path to get there by highlighting the main features of IPSAS implementation in the United Nations system and the criteria key to success. Additional relevant resources of benefit to course participants have been collected by the United Nations System Chief Executives Board for Coordination and are available on the following website: (https://fb.unsystemceb.org/reference/05). In addition, specific guidance on transitioning to the full accrual basis of accounting has been developed by the IPSASB in Study 14, "Transition to the Accrual Basis of Accounting" which is downloadable free of charge from the www.ifac.org/PublicSector/ website.

c. ***Learning Objective***—Identify how IPSAS will affect budgeting.

The IPSAS do not dictate the method of budgeting since they deal only with the recognition, measurement and disclosure of elements in the GPFS. There is no requirement to change to an accrual basis of budgeting as a result of IPSAS adoption. Nevertheless, financial reporting and budgeting are closely interconnected and IPSAS does include a standard (IPSAS 24) on Budget Reporting. But this Standard does not prescribe how to budget, what to include in a budget, or the budget basis.

While IPSAS 24 on Budget Reporting does not require any change to the budget basis, there are still implications related to budgeted amounts:

- Dual recording will be required to take care of one basis for financial reporting, for instance on accrual accounting and another for budget on a modified cash basis. Transactions recorded on the two bases, budgetary and financial, must be reconciled;
- Annual budget amounts will be required; thus, the multi-year budget amounts have to be split into annual amounts; and
- Variance analysis and explanation of changes from original to final budget must be issued in conjunction with the financial statements.

- *Learning Objective*—Identify examples of processes for which IPSAS provides no guidance.

IPSAS are ‘principle based’ standards that outline high-level requirements for recognition, measurement and disclosure of the elements in the GPFS. Even though IPSAS is ‘principle based’, IPSAS provides much more detailed accounting requirements than UNSAS. This is evident when you compare the number of pages that make up the two sets of standards. (UNSAS is 24 pages long, while IPSAS is more than 1,200 pages long.) While IPSAS are more detailed than UNSAS, they are not a ‘rule book’ and do not prescribe how accounting and reporting must be done in all instances and every specific case.

The IPSAS do not tell managers how to manage their physical assets or cash flows, how to delegate authority or how to establish internal controls. Nor do they tell accountants how to structure a Chart of Accounts, exactly what debits and credits to record for each transaction or how to pro-rate fixed costs. IPSAS answers many questions but it does not answer all. The table below summarises a few examples of processes which are outside of the scope of IPSAS, and thus will need to be determined by each Organization:

Your Organization will have to decide how to:	
Management	**Accountants**
Manage its Property, Plant and Equipment	Record accounting transactions (debit/credit)
Manage its cash-flow	Pro-rate fixed costs
Delegate authority to Field Offices	Structure the Chart of Accounts
Create and implement reliable internal controls	Structure ERP to address needs of the IPSAS-compliant reporting

7. THE IPSAS IMPLEMENTATION STRATEGY

The United Nations system has a strategy for IPSAS adoption that involves three main elements. Often when you have major change in an Organization, concerns, rumours and misconceptions arise. This unit attempts to dispel the rumours, clear up the misconceptions and alleviate the concerns by explaining what you need to know about IPSAS implementation in the United Nations System. As you work through this unit of the course, take the opportunity to consider what path to IPSAS implementation your Organization has chosen and where you are in the implementation process.

a. ***Learning Objective***—Describe the three aspects of IPSAS implementation common to all United Nations system organizations.

There are three elements to the United Nations System IPSAS adoption strategy. (1) Phased implementation allows some organizations to move towards IPSAS adoption more quickly than others. (2) Progressive roll-out allows organizations to move gradually towards full adoption by spreading the implementation effort and adopting specific IPSAS requirements early. Thus, your Organization may have fully or partially adopted IPSAS requirements while others will still be working on it. The flexibility of this strategy allows each Organization to choose the approach that best meets its needs. (3) The final element of the strategy involves implementation at two levels with organizations working on IPSAS issues and making implementation happen at the organizational level while also working with other organizations across the United Nations System to address issues at the system-wide level.

Phased implementation allows organizations who are ready to move ahead with IPSAS adoption more quickly. The first phase of adoption is by a small group of pilot organizations or ‘Early Adopters’ who will fully adopt IPSAS no later than 2009. That group includes the World Food Programme (WFP), the World Health Organization (WHO) and the International Civil Aviation Organization (ICAO). Some remaining organizations or ‘Fast Followers’ aim to adopt IPSAS effective 2010 while the rest plan to adopt IPSAS later. That group includes the United Nations. It is very important to know your Organization’s IPSAS implementation timetable.

Progressive implementation allows organizations to rollout IPSAS requirements in a stepwise fashion. For example, some organizations [very unlikely] may decide to report expenses in the Statement of Financial Performance on delivery rather than at the time a purchase order is approved. Still others may decide to report some employee benefits (i.e. After Service Health Insurance) as a liability on the Statement of Financial Position and related expenses in the Statement of Financial Performance. Progressive implementation is an option that may be occurring within your Organization.

The activities that are occurring at the individual Organization level are key to successful implementation. Most important is the need to gain governing body approval for IPSAS adoption with the necessary funding for implementation. Once approval is received, a project team and project governance structure needs to be established. One of the early responsibilities of the project team is to develop a detailed implementation plan against which progress toward implementation of IPSAS can be monitored. Detailed procedures will need to be developed, training provided, and relevant changes to information technology (IT) and

Financial Regulations and Rules enacted. A System-wide IPSAS Team supports all organizations as they adopt and implement IPSAS.

The System-wide Team assists United Nations system organizations in their implementation of IPSAS. This assistance includes draft guidance, accounting policies and recommended accounting practices to support System-wide IPSAS compliance and consistency. The System-wide Team monitors organizations' progress toward IPSAS adoption and reports on this progress semi-annually to the HLCM. The System-wide Team reports to a Steering Committee and is accountable to the Task Force on Accounting Standards.

The Task Force on Accounting Standards (comprised of accounting managers from United Nations system organizations) reviews the draft guidance, accounting policies and recommended accounting practices developed by the System-wide Team. Accounting policies and recommended accounting practices agreed by the Task Force are approved by the Finance and Budget Network. The Task Force also discusses IPSAS implementation progress and issues to share experiences and develop common solutions to problems.

Since the early 1990s, United Nations system organizations have applied the same accounting standards – UNSAS. Now the decision has been made to move forward together and adopt IPSAS. The United Nations System is a diverse group of organizations, committed to consistent, high quality financial reporting. They are also quite independent. United Nations system organizations are widespread geographically and cover issues that are diverse – health, agriculture, aviation, peacekeeping, needs of children and refugees, etc. However, these organizations do work together cooperatively and aim to apply common, consistent practices, including common financial reporting practices. IPSAS implementation is a truly a system-wide initiative.

8. MAKING THIS CHANGE A SUCCESS

Another aspect of implementation is the desire to learn as much as possible from other international organizations and governments that have already moved to full accrual accounting. There is no point in 're-inventing the wheel'. There are many useful resources freely available on the internet. For example, there is research on key success criteria for successful adoption of accrual accounting, including useful papers by the Federation of European Accountants (FEE) (*The Adoption of Accrual Accounting and Budgeting by Governments, July 2003* available at http://www.fee.be/) and a paper by Hassan Ouda (*Basic Requirements Model for Successful Implementation of Accrual Accounting in the Public Sector* in the February 2004 volume of Public Fund Digest available at http://www.icgfm.org/downloads/PFDFeb04.pdf). This unit will look at some key influential groups to success, the critical steps for implementation, and what you can do to help make this change a success.

a. ***Learning Objective***—Identify four influential groups critical to the success of IPSAS.

Research on successful adoption of accrual accounting indicates that the attitude of key influential groups is very important. For a major change such as IPSAS adoption to be successful there must be broad-based support from the following influential groups:

- Political leadership;
- Management;
- Implementing staff; and
- Auditors.

b. ***Learning Objective***—List critical IPSAS implementation steps.

With key stakeholders on board, each United Nations system organization is expected to have addressed the five critical implementation steps identified below:

- Adequate funding;
- Dedicated staff is necessary for the implementation;
- Identification of the system changes that need to be accomplished;
- A project plan is critical to assure movement toward the 2010 target date; and
- Communication of that plan to keep everyone informed as to the status of the project and training is a major element of effective change management.

c. ***Learning Objective***—List what you can do to support this change.

This course has emphasized the importance of support from a variety of stakeholders in the implementation but ultimately it is the support of each individual in the Organization that will make the difference between success and failure. Your support is needed.

With the continued support of all personnel within United Nations system organizations, IPSAS can be successfully implemented in a timely manner. You can help by keeping informed and informing others about what the change involves and why it is important, keeping your eyes and ears open for further information on IPSAS, and rolling up your sleeves to help when IPSAS implementation impacts on your area of responsibility.

For United Nations system organizations, the move to IPSAS is an evolution rather than a revolution. The basis for this change began quite some time ago. It has deep roots. The benefits and way forward are clear. Now that the decision has been made, everyone has a responsibility to make it happen!

The benefits that Member States expect to gain from this significant improvement to financial reporting are common to many organizations. Although the benefits are common, United Nations system organizations face some unique challenges that governments and other international organizations do not face. There is a lot of work ahead. At this point in the change process, it is somewhat daunting. But there is a clear goal—a vision of where to be with a target date of 2010. IPSAS is part of the reform effort but in the end it is being implemented not simply in the name of reform but because it is the right thing to do.

9. Summary: Key Learning Points

The following shows the key learning points covered in this orientation course about IPSAS:

a. ***Learning Objective***—Explain Benefits of IPSAS

IPSAS is a set of independently produced financial reporting standards. By 2012 most United Nations system organizations will move away from the existing UNSAS which is a "modified cash basis" of accounting to IPSAS—a 'full accrual basis ' of accounting. The expected benefits of moving to IPSAS include:

- Improved consistency, comparability, and reliability of financial reporting;
- Increased transparency and accountability for better financial management and decision-making;
- Contribution to United Nations System reform by aligning with international best practices and harmonising within the United Nations System; and
- Supports the opportunity for increased confidence of stakeholders.

b. ***Learning Objective***—Identify Changes and Challenges

IPSAS implementation changes include:

- Financial reporting
  - Annual reporting
  - Report all assets and liabilities
  - Change timing of recognition of expenses and revenue
  - Increased disclosures
  - Reconciliation to budget
- Information Systems—upgrade or replace

Implementation challenges include:

- Communication, training and co-ordination;
- Non-financial processes—redesign of workflows and business process re-engineering;
- Financial processes—redesign to capture new and more comprehensive information;
- Management—supports change management process.

c. ***Learning Objective***—Summarise Why IPSAS are the Appropriate Standards for United Nations Organizations

United Nations reform called for improved financial reporting. IPSAS is appropriate for the United Nations system organizations because, it is:

- Internationally accepted accounting standards for non-profit organizations and public sector.
- Based on IFRS which is on full accrual basis and is the accepted best practice for private sector.

UNSAS was not keeping pace with international best practices. Major differences between IPSAS and UNSAS occur because UNSAS is on a 'modified cash' basis and IPSAS is on 'full accrual' basis. This means that:

- Physical assets (inventories and PP&E) and intangible assets (e.g. software) are expensed when purchased under UNSAS, but are reported as assets in the Financial Statements and expensed as they are used/consumed under IPSAS.

- Employee benefits are expensed under UNSAS as payment is made, but shown as liabilities under IPSAS as service is rendered.
- Expenses are recognised when Purchase Order is issued under UNSAS. However, under IPSAS, expenses are recognised when goods or services (if not classified as assets) are delivered.
- Revenue is recognised through a variety of approaches under UNSAS, whereas under IPSAS, revenue is recognised when earned or control of the related asset is gained.

IPSAS adoption does not require a change in the budget basis, but requires reconciliation between budget basis and financial reporting basis as well as issuing a variance analysis report in conjunction with financial statements. Also multi-year budgets will have to be split into annual amounts.

d. ***Learning Objective***—Describe Implementation Strategy

There are two levels of IPSAS implementation—inside an Organization as well at the United Nations System-wide level.

- Phased implementation among organizations—early adopters and fast followers; and
- Progressive roll-out of specific IPSS requirements within an Organization.

System-wide accounting policies and guidance papers have been issued in an effort to harmonise practices across organizations.

e. ***Learning Objective***—List Critical Success Factors

The critical success factors include:

- IPSAS resources:
  - An approved budget for IPSAS implementation
  - Dedicated staff
  - Detailed project, communication and training plans
  - Information Systems that support IPSAS compliant financial reporting
- Support from key stakeholders (i.e. Management)
- Implementing staff:
  - Finance officers
  - Programme managers
  - Regional and field officers
  - IT staff
  - Auditors
  - Political leadership