United Nations A/66/151

General Assembly

Distr.: General
18 July 2011

Original: English

Sixty-sixth session
Item 131 of the provisional agenda*
Financial reports and audited financial statements, and reports of the Board of Auditors

Progress in the implementation of the International Public Sector Accounting Standards

Note by the Secretary-General

The Secretary-General has the honour to transmit to the General Assembly a letter dated 14 July 2011 from the Chair of the United Nations Board of Auditors transmitting the report of the Board of Auditors on the progress in the implementation of the International Public Sector Accounting Standards as at 30 June 2011.

* A/66/150.

Letter of transmittal

12 July 2011

I have the honour to transmit to you the report of the Board of Auditors on the progress in the implementation of the International Public Sector Accounting Standards as at 30 June 2011.

(*Signed*) **Liu** Jiayi
Auditor-General of the People's Republic of China
Chair of the United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

Report of the Board of Auditors on the progress in the implementation of the International Public Sector Accounting Standards

Summary

In November 2005, the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination made the landmark recommendation that United Nations system organizations move from the internally developed United Nations System Accounting Standards and adopt the International Public Sector Accounting Standards (IPSAS) for the presentation of the organizations' financial statements.

IPSAS are accruals-based standards, written specifically for the public sector and international organizations. Accruals accounting means that an organization recognizes costs when they are incurred and income when it is earned, and must account for the value, the volume and the location of all of its assets and liabilities. This improved information will provide Member States with greater insights into entities' performance and financial position, and management with better information to maintain control, drive cost-effective decision-making, and secure long-term financial sustainability.

In the light of implementation delays, the imminent deadlines for many entities, and the concerns previously expressed by the Board of Auditors, the Advisory Committee on Administrative and Budgetary Questions recommended that the Board prepare an annual report on progress in IPSAS implementation (see A/65/498). Building on its previous work, the Board examined progress by the United Nations (including peacekeeping operations) towards its 2014 implementation target and by a range of other funds and programmes within its portfolio towards their 2012 target. This first IPSAS progress report by the Board sets out the findings and conclusions from that work. The table at the end of this summary provides an overview of the Board's findings across all entities.

Overall conclusion of the Board

There are a number of critical risks to achieving IPSAS implementation on time and to realizing the benefits envisaged by the General Assembly when it took the decision to adopt IPSAS. Unless urgent and effective action is taken to address these risks, it is highly unlikely that IPSAS will be successfully implemented on target within the United Nations, its peacekeeping operations and its funds and programmes. The Board is concerned that there must be no further deferment of the existing deadlines.

For the United Nations and the peacekeeping operations, the Board welcomes the increased focus on practical IPSAS implementation. There is a need to urgently decide on the realistic prospect of a revised enterprise resource planning (Umoja) implementation strategy in support of IPSAS implementation in 2014; and then to develop and roll out a practical and detailed IPSAS implementation plan across all operational areas if the huge task of gathering and cleansing the accounting data is to be achieved. This is a particularly high risk for the United Nations and peacekeeping operations, given the absence of a detailed implementation plan, the scale, the

number and the complexity of the entities involved, and the uncertainties over the implementation of Umoja.

In the Board's view, implementation on target (by 2012) is possible for all of the remaining entities, but there are significant and pressing risks to be managed if they are to achieve this. The Board is particularly concerned about progress to date by the United Nations Joint Staff Pension Fund, which is yet to obtain approval of its Pension Board to continue applying the Financial Regulations and Rules "mutatis mutandis" to its accounting and financial reporting process in a manner that allows it to be IPSAS-compliant by 2012. The Board is also concerned about the entities with implementation targets for 2012 that have not yet finalized their accounting policies.

While important to accountability and transparency, the achievement of unmodified audit opinions alone will not signal successful IPSAS implementation. It is the benefits to improved decision-making and more cost-effective delivery that are important. Securing these benefits will require engagement across all operational areas and significant cultural change. The Board recognizes that delivery of the full benefits from IPSAS adoption for financial reporting purposes and accrual accounting for management purposes will not be delivered immediately but will come from careful management over time. The Board is concerned that benefits realization plans are absent in nearly all entities and that appropriate change management arrangements are not yet in place to achieve the necessary business and cultural transformation. The Board has seen little evidence that operational areas understand the new information that will be available to them through IPSAS, or are considering and preparing for how they will use it to improve the cost-effectiveness of their operations.

Therefore, even if IPSAS-compliant financial statements are delivered by the target dates, there remains a significant risk of considerable delays before the full benefits from adopting accruals accounting under IPSAS are realized.

To realize the full benefits of the new processes and information under IPSAS, there also needs to be clear and effective organizational accountability and risk management frameworks that align both the appropriate accountability and authority against those managers responsible for delivering the core services and mandates of their organizations. The Board is concerned that without an appropriate accountability framework, within the United Nations in particular, managers will not be empowered or held accountable for using the new information to deliver more cost-effective operations and services.

Key findings on the United Nations and its peacekeeping operations: implementation target 2014

Inter-dependency with Umoja

The IPSAS adoption strategy selected by the United Nations and its peacekeeping operations is dependent on the successful implementation of Umoja, which, in addition to many other benefits, will provide the systems necessary to process increased data requirements under IPSAS. Delays with the Umoja project mean that it will now not be completed in time to support IPSAS as envisaged, and the Board is yet to see any firm plans on how the Umoja project will be reprioritized to support IPSAS implementation. Should the reprioritization of Umoja prove impossible, or only partially possible, there is currently no firm contingency plan in place, but the Board recognizes the United Nations and peacekeeping operations are aware of and beginning to address this risk.

Risks to implementation

Until a decision has been made on Umoja, and the Administration has prepared a clear overarching implementation plan setting out the full timetable implications, it is not possible for the Board to provide any firm assurance that the United Nations is on track to deliver IPSAS adoption by 2014. Regardless of the outcome of the decision, the Board notes further significant risks to achieving the target date:

- Effective risk management of IPSAS adoption is now crucial. At the time of the Board’s review, there was no formal risk management framework for the project, though the Administration has subsequently informed the Board that a risk register has since been put in place;

- The significant exercise needed to gather data to value assets and arrive at meaningful opening balances is not well advanced and many operational areas are not yet primed to undertake the task. The successful completion of the exercise will require concerted efforts from the whole organization;

- The United Nations IPSAS Implementation Project Team is not confident that it has the resources to prepare “dry run” financial statements with real accounting data. Without a “dry run” in the year prior to IPSAS implementation it is unlikely that an organization as complex as the United Nations will be able to establish opening balances for asset values in the balance sheet and achieve financial statements of sufficiently high quality to withstand audit within the planned implementation time frames;

- There will be insufficient time for operational areas to be ready to implement the policies and the associated processes correctly and consistently. Given the scale of peacekeeping operations in particular, this is a serious risk to achieving compliant financial statements in the first year of implementation.

Benefits and change management

The Board has seen little evidence of the deployment of the change management resources and methodologies needed to support IPSAS implementation and tackle the cultural changes needed to embed accruals-based concepts; for example, the need for non-financial staff to recognize the importance of reporting the progress of procurement from the point of placing an order to receiving the goods, receiving the invoice and then making final payment. More could be done to integrate the change management activities for the IPSAS and Umoja projects.

Key findings on the United Nations funds and programmes: implementation target 2012

The findings below relate to the Board’s examination of the progress on IPSAS implementation at the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA), the United Nations Office for Project Services (UNOPS), the United Nations Children’s Fund (UNICEF), the Office of the United Nations High Commissioner for Refugees (UNHCR), the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) and the United

Nations Joint Staff Pension Fund. In the Board's view, implementation on target is possible for all of these entities, but the Board has the following key concerns:

- Despite the 2012 deadline, most organizations have not finalized all accounting policies, and significant work remains to adequately collect, cleanse and migrate data for IPSAS implementation, with uncertainty about how big this task might be in some cases. The Board is concerned that delays in the completion of accounting policies may have the effect that field offices at the entities might not be trained and familiar with the new policies and procedures necessary for IPSAS implementation; for example, the need to accurately catalogue the volume and value of assets;

- While most entities are planning to develop "dry run" statements prior to implementation using real accounting data, the Board is concerned that the timetable for this is now very challenging and any delays could leave inadequate time for review and correction;

- Fully resourced and expert implementation teams are not in place in most entities. UNRWA lacks a specific project leader or dedicated implementation team. UNHCR is overly reliant on external consultants, while UNFPA is still in the process of recruiting for some key positions in its implementation team;

- The United Nations Joint Staff Pension Fund still needs to obtain approval of its Pension Board to continue applying the Financial Regulations and Rules "mutatis mutandis" to its accounting and financial reporting process in a manner that allows it to be IPSAS-compliant by 2012. The Board has identified a number of risks that need to be mitigated if the Fund is to meet its deadline of 1 January 2012.

For several entities, even if IPSAS-compliant financial statements are delivered by 2012, it is highly unlikely that the intended benefits of IPSAS adoption will be realized without significant further delay owing to the absence of appropriate benefits realization strategies and change management processes at most entities.

Recommendations

In the light of the key findings above, the Board has made detailed recommendations in the main body of this report. In summary the main recommendations are:

(a) **That the United Nations and peacekeeping operations:**

- **Fully examine all of the potential interdependencies, risks, costs and benefits of a phased implementation of Umoja and IPSAS**

- **Include contingency plans, should the phased implementation of Umoja prove impossible or fail**

- **Complete a practical and detailed implementation plan for the United Nations and peacekeeping operations as soon as possible after a decision has been made on the Umoja implementation strategy, setting out how and when accruals accounting data will be collected, cleansed and migrated to Umoja. The overarching plan should be underpinned by supporting plans at the operational level to provide a sharp focus for the efforts of departments, offices away from Headquarters and missions**

- **Develop, as a matter of urgency, an effective risk framework for IPSAS implementation.**

(b) **That all entities that have not already done so, including the United Nations and peacekeeping operations:**

- **Prepare model financial statements and produce clear plans for a "dry run" set of accounts with real accounting data, factoring in sufficient time for review by the Board**
- **Establish a fully resourced and expert IPSAS implementation team**
- **Establish a clear plan for data collection, cleansing and migration for IPSAS implementation, communicate requirements to relevant staff, and urgently commence with the exercise**
- **Establish an IPSAS benefits realization plan and organization-wide change management programme for IPSAS, including a comprehensive communications plan to set out the changes and benefits that IPSAS will bring, and how senior management in every department and office must take ownership and drive the delivery of the intended benefits.**

Table
Progress towards IPSAS implementation

Main criteria	*United Nations (2014)*	*Peacekeeping operations (mid-2013)*	*UNDP (2012)*	*UNFPA (2012)*	*UNOPS (2012)*	*UNICEF (2012)*	*UNHCR (2012)*	*UNRWA (2012)*
Board’s assessment of achieving IPSAS implementation	High risk	High risk	Low risk	Medium risk	Medium-high risk	Medium risk	Medium risk	Medium risk
Entity is on track against key milestones in implementation plan	No detailed implementation plan	No detailed implementation plan	Yes	Yes	Partially; some slippage against plans	Yes	Partially; some slippage against plans	Partially; some slippage against plans
A fit for purpose enterprise resource management system is in place	No. Umoja is under development but behind schedule.	No. Umoja is under development but behind schedule.	Yes	Yes	Yes	Partially	Yes	Partially
Plans for gathering, cleansing and migrating accounting data on track	Work has only started.	Work has only started.	In progress and ongoing	In progress and ongoing	In progress and ongoing	In progress and ongoing	In progress and ongoing	Yes
Model draft financial statements have been prepared and shared with the Board	No	No	Yes	Yes	No	No	No	No
There are clear plans for establishing opening balances	Partially	Partially	Yes	Yes	Partially	Partially	No	No
Planned for a dry run using real accounting data	Partially	Partially	Yes	Yes	Partially	Partially	Yes, but timetable is tight	Yes
An effective benefits realization plan has been established	No	No	No	No	No	Partially	No	No
An effective business change management programme has been established	No	No	Yes	Partially	Partially	Yes	Partially	Partially

I. Background

1. The International Public Sector Accounting Standards (IPSAS) are accruals-based standards, written specifically for the public sector and international organizations. They are issued by the International Public Sector Accounting Standards Board, which seeks to promote transparency and accountability in the public sector. They are far more precise and detailed than the United Nations system accounting standards, and leave far less scope for inconsistent interpretation.

2. Accruals accounting means that an organization recognizes costs when they are incurred, and income when it is earned, rather than waiting until payment is made or received. IPSAS also requires details of the value, the volume and the location of an organization's assets (such as property, equipment, vehicles, food stores, medicine) and liabilities (such as pensions, staff-related liabilities, debts to suppliers, and commitments for funding), which the United Nations organizations have never captured before. Thus IPSAS is really about organizations having a much better understanding, and a more accurate picture, of its costs, income, assets and liabilities. IPSAS will provide greater managerial control over assets and liabilities, and, more importantly, will provide better information to drive cost-effective decision-making, secure better value for money and maintain long-term financial sustainability.

3. In November 2005, the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination (CEB) made the landmark recommendation that United Nations system organizations move from the internally developed United Nations System Accounting Standards (UNSAS) and adopt IPSAS for the presentation of the organizations' financial statements; in essence, that the organizations adopt full accruals accounting. In 2006, the General Assembly, in its resolution 60/283, decided to approve the adoption of IPSAS.

4. The High-level Committee on Management recommended that all United Nations system organizations, with the exception of three early adopters,[1] adopt IPSAS effective no later than 2010. This implementation target proved difficult for a number of organizations for one or more reasons: a lack of IPSAS expertise; the absence of compliant enterprise resource planning systems; and conflicting organizational priorities. As at 30 June 2009, 11 organizations had revised their original timeline; two further revisions took place by 31 December 2009. As at 30 June 2010, two of the four organizations that had previously planned to implement IPSAS in 2011 had deferred to 2012, and one organization set to implement IPSAS in 2012 is now aiming for 2014. The latest implementation dates for United Nations system entities are set out in annex I to the present report.

5. The Board, in its report on peacekeeping operations for the year ended 30 June 2010 (A/65/5, vol. II), and its concise summary of principal findings issued in July 2010 (A/65/169), continued to highlight concerns with the progress being achieved, the deferral of the dates for IPSAS implementation and, in particular, the continuing problems administrations faced in accurately accounting for assets across global operations and the associated risks of qualified accounts post-IPSAS implementation.

[1] The three early adopters were the World Food Programme, the International Civil Aviation Organization and the World Health Organization. The World Food Programme successfully adopted IPSAS in 2008.

Mandate, scope and methodology

6. Against this background, the Advisory Committee on Administrative and Budgetary Questions recommended in its report issued in October 2010 (A/65/498) that the Board prepare an annual report on progress towards IPSAS implementation. Building on its previous work and ongoing engagement with United Nations entities on IPSAS matters, the Board examined progress towards IPSAS implementation across its portfolio focusing on whether the entities concerned:

- Are on track to implement IPSAS as planned;
- Have established appropriate governance and implementation arrangements and are identifying and managing the risks to successful implementation;
- Are actively managing the business transformation required to secure IPSAS-compliant processes and deliver the intended benefits.

7. There are a number of critical risks to achieving IPSAS implementation on time and to realizing the benefits envisaged by the General Assembly when it took the decision to adopt IPSAS. The Administrations have, themselves, recognized many of these risks, but the purpose of this report is to provide the Board's independent perspective on these matters, as requested by the General Assembly.

8. The Board coordinated its work where appropriate with the Office of Internal Oversight Services and other internal audit services. The Board also took account of the 2010 report of the Joint Inspection Unit entitled "Preparedness of United Nations system organizations for the International Public Sector Accounting Standards" (JIU/REP/2010/6). That report found that many United Nations organizations had underestimated the concerted efforts and resources that would be required and had failed to undertake initial preparedness and risk assessments. The review also emphasized that successful transition to IPSAS hinges on strong senior management support and engagement, dedicated intra-departmental task forces and the adoption of a project management approach, and went on to recommend the implementation of 16 best practices.

9. This report by contrast provides, for the entities reported on, a concise summary of the current status of progress, the key risks to the successful delivery of the full benefits of IPSAS, and the actions required to address these risks. It addresses matters that, in the view of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with the respective administrations, whose views have been appropriately reflected in this report.

II. Managing the benefits from IPSAS adoption

10. This section of the report considers the benefits that the adoption of IPSAS will confer on the entities involved, and how the realization of these benefits is being managed, including whether the associated business change management disciplines are in place or being established. It also looks at the realization of the benefits from the harmonization and comparability of accounting policies and business processes, and the impact of more timely information that will stem from annual reporting. At all times the Board's focus was on the entities contained within its portfolio and set out in the scope.

Benefits realization and change management

11. The General Assembly originally envisaged (see A/60/846/Add.3) that the benefits of IPSAS adoption were expected to include:

- Improved internal control and transparency of assets and liabilities generally
- The alignment of United Nations accounting with best accounting practices through the application of credible, independent accounting standards on a full accruals basis
- More comprehensive information on costs to better support results-based management
- Improvements in the accuracy and completeness of non-expendable equipment records
- Improved consistency and comparability of financial statements.

12. The Board is aware that the Administration made a presentation at an informal session of the Advisory Committee on Administrative and Budgetary Questions in May 2011 on the importance of managing benefits realization and the potential risks for their non-realization, both within the United Nations Secretariat and across the United Nations system.

13. The new accruals-based information on, for example, assets, inventories, investments and future liabilities will provide the bedrock for more informed decision-making in all United Nations organizations. It is therefore important that, as this information is gathered, it is given to operational managers and staff who understand and can interpret accrual-based management information, and who are empowered to think differently about, and are held accountable for, using scarce resources more cost-effectively. For these reasons, the delivery of IPSAS-compliant financial statements is only one, albeit important, milestone towards realizing the full benefits. For example, new information of the value, the cost and the useful lives of all property assets will enable entities to develop integrated property asset strategies in a way that has previously not been possible.

14. The Board recognizes that delivery of the full benefits from IPSAS adoption for financial reporting purposes and accrual accounting for management purposes will not be delivered immediately but will come through careful management, over time. Nevertheless, work towards realizing the benefits from this major change programme must start now to avoid excessive delay in their delivery. The Board is concerned that at all of the entities examined:

- The intended benefits of IPSAS adoption are not comprehensively collated in any single document, including the high-level IPSAS project plan; and there is neither an action plan for benefits delivery, nor any benefits-tracking arrangements. In essence there is no benefits realization plan for IPSAS adoption across the United Nations system organizations;
- There is little evidence that operational areas understand the new information that will be available to them, or are considering and preparing for how they will use it to improve the cost-effectiveness of their operations and deliver other tangible benefits;

- It is unclear who has accountability for delivering the benefits from IPSAS. Operational areas have not signed up to delivery of tangible and quantifiable benefits attributable to their area of the business and cannot say how the benefits will be achieved or measured.

15. **The Board recommends that the United Nations, its peacekeeping operations, and its funds and programmes: (a) clearly identify the objectives of the IPSAS project and link them to the benefits for the United Nations; (b) require operational areas to do the same for their own implementation plans; (c) develop a methodology to track the benefits from IPSAS adoption; and (d) communicate regularly on progress towards benefit realization to senior management, the Management Committee, the Advisory Committee on Administrative and Budgetary Questions and the General Assembly, as appropriate for the entity in question.**

Business change management

16. IPSAS implementation is a major business change programme. It is already impacting on staff, management and those responsible for governance and will require major cultural change if the United Nations, its peacekeeping operations, and its funds and programmes are to achieve the transition to IPSAS and reap the full benefits over time.

17. It is vital that all staff understand the impact of the new reporting regime on their day-to-day activities. Without sufficient resources being dedicated to training and change management, there is a real risk that IPSAS will not be understood and that the intended benefits will not be realized. The Board has seen little evidence of the deployment of the change management resources and methodologies needed to support IPSAS implementation and realize its intended benefits.

18. There is a risk that staff will fail to buy-in to the IPSAS project if the benefits and changes that IPSAS adoption will bring are not effectively communicated and if staff are not engaged more actively in both implementation and working towards benefits realization. In particular, the Board has seen no evidence of a communication strategy and vision of what needs to be achieved and how to do it, in particular:

- How the new information and the active management of balance sheets and cash flows will support improved accountability and the delivery of more cost-effective ways of working

- The role that United Nations finance functions will play in improving organizational performance, providing sophisticated information for decision-making, and acting as a centre of excellence in financial management for the United Nations system as a whole

- The training needed for policymakers and operational managers in the new information and how it can be used to enhance, for example, performance measurement, activity costing and investment appraisal.

19. At the United Nations, while online IPSAS awareness and basic conceptual training has been provided to over 2,000 staff, the training has been conducted on a voluntary basis and has not been managed in a tracked or targeted fashion thus far. The Administration informed the Board that its next phase of more detailed training

will be targeted at individuals who will be directly impacted by IPSAS implementation. The Board notes that all IPSAS training should emphasize the benefits of accruals accounting and how it might improve decision-making and business performance. The Board also notes that a "change manager" was engaged in April 2011, and considers that this role should incorporate developing the United Nations communications strategy for the roll out of IPSAS across the Organization. The Board also considers that effective change management will also require effective engagement, support and leadership from senior management across the United Nations.

20. At the United Nations funds and programmes, there is little evidence of the change management resources and activities needed to support IPSAS, such as staff training activities. There is also a lack of emphasis on the significant cultural and behavioural changes required to realize benefits. There is a real risk that IPSAS will not be understood and that its benefits will be lost.

21. **The Board recommends that the United Nations Management Committee and senior management within funds and programmes, establish, where absent, an IPSAS benefits realization plan and organization-wide change management programme for IPSAS, including a comprehensive communications plan to set out the changes and benefits that IPSAS will bring, and how senior management in every department and office must take ownership and drive the delivery of the intended benefits.**

22. **The Board also recommends that all senior managers within the United Nations and its funds and programmes should, as a minimum, complete IPSAS-awareness training that emphasizes the benefits of accruals accounting and how it might improve decision-making and business performance.**

Harmonization and standardization of business practices

23. IPSAS adoption is consistent with the shared aim of the United Nations system to increase its effectiveness by promoting harmonized business practices. IPSAS was agreed as the desired United Nations system standard because it has been developed through a rigorous independent process by international financial accounting experts, conferring credibility and comparability on the financial statements. This is vitally important given the United Nations entities' reliance on funding from Member States at a time of fiscal constraint. Inconsistent interpretation on major issues between United Nations entities could lead to questions as to the value of IPSAS over any other standard, including UNSAS, hence the High-level Committee for Management's understandable desire for harmonization.

24. There is a significant risk to the credibility of United Nations financial reporting and the IPSAS adoption project within the United Nations system as a whole if organizations with essentially similar business activities or administrative arrangements apply differing interpretations of the same IPSAS. There is general agreement by United Nations organizations that consistency in interpretation and application should apply when the business activities, or the administrative arrangements covered by specific IPSAS, are the same or similar.

25. In 2010 the United Nations systemwide IPSAS Task Force commissioned a survey to determine the status of the level of "diversity" between United Nations

system organizations as at December 2010. The survey indicated that where accounting policies had been agreed and approved by the Task Force there was a high level of consistent adoption, or clear reasons for non-applicability in a minority of cases, indicating a good degree of harmonization. Where the Task Force had only acknowledged guidance on the interpretation of IPSAS standards there was a wider level of variance in the level of deemed applicability or differences in interpretation. This reflects both the options available under IPSAS and disagreements on how they are to be applied and also differing levels of preparedness where some entities have established a firm position and others are still examining options. There are seven policy areas of particular concern where there are significant differences in approach, and where further dialogue between entities, and between entities and external auditors, is required and planned for mid-2011, including:

- Revenue recognition of non-exchange transactions, such as voluntary contributions, multi-year funding agreements, and goods and services in kind
- The accounting treatment for a range of employee benefits including, for example, after-service health insurance, annual leave, sick leave, death grants, education grants
- Control over project assets, where organizations have differing views on whether assets purchased as part of a project should be recognized as assets of the organization and included on their balance sheets, or should be expensed at the point of purchase because the organization has no control, and derives no benefit from, the asset
- The treatment of donated rights to use, where there are differing views on whether control and use of the asset in question requires it to be treated as an asset of the organization.

26. The Board supports the need for consistency in interpretation in the application of IPSAS as mandated by the High-level Committee for Management. Though it is clearly important for similarly placed United Nations organizations to embrace similar, if not identical, accounting treatments and policies to obtain the benefits of comparability, the pursuit of a harmonized approach must not compromise an entity's ability to deliver IPSAS-compliant financial statements and true and fair reporting. It is the responsibility of each entity's management to determine the most appropriate interpretation and application for that entity. Crucially, Member States should have the fullest possible understanding of the financial position of each individual entity.

27. **The Board recommends that, conscious of the need for each entity to apply IPSAS-compliant accounting policies to fit the entity's specific circumstance and activities, the IPSAS Task Force establish in each case the reasons for any differences in accounting policy treatments with a view to achieving greater consistency.**

28. The Board, in its 2010 concise summary of principal findings (A/65/169), noted that there were inconsistencies in business procedures across United Nations organizations that were entrenched or unchallenged by the financial regulations and rules in each entity. These inconsistencies limit the comparability of the financial statements, and the Board commented that IPSAS implementation presented an opportunity to improve consistency.

29. Work to align the Financial Regulations and Rules of United Nations system entities commenced in 2006, but had still not been completed at the date of the writing of this report. The Board recognizes that the autonomous nature of the funds and programmes may result in genuine differences in business processes and therefore the rules and regulations. In addition, the different timelines being followed for IPSAS implementation, and the necessary focus now on implementation, rather than harmonization, of financial rules and regulations means there is unlikely to be harmonization in the near future.

30. Even if the regulations and rules are aligned, unless they are also strengthened and made more precise, there will remain an inherent risk that the United Nations system will not achieve its objective of harmonized business processes. The Board will continue to consider the issue of harmonization of financial rules and regulations, business processes and the presentation of financial statements in its future reports. The Board considers that the administrations must keep the matter of harmonization under review.

Annual accounts and reporting

31. As required under IPSAS, United Nations entities will be reporting and producing financial statements on an annual basis rather than biennially. It is important that the annual financial statements are also audited so that they are credible and can be relied upon, a view which is supported by both the United Nations Panel of External Auditors and the IPSAS Task Force. This will, in turn, provide those charged with governance with more timely information of the financial position and performance of United Nations entities.

32. There will be implications from annual reporting, including the extent to which administrations used to biennial reporting are ready for annual accounts production; and how the General Assembly will manage the increased number and frequency of accounts and associated external audit reports, in particular the impact on the schedule of work of the Advisory Committee on Administrative and Budgetary Questions and the Fifth Committee.

33. The United Nations Administration is in discussion with the various stakeholders, including the Board, on potential scenarios, options and solutions that might be presented to the Advisory Committee on Administrative and Budgetary Questions for their consideration. Given that the shift to annual reporting will have an impact from 2012 onwards, there is a pressing need for the United Nations Administration to resolve this matter.

III. Findings and recommendations on the United Nations and peacekeeping operations

A. Progress against implementation deadline

Deadline for IPSAS implementation in the United Nations and peacekeeping operations

34. As at 30 June 2009, the United Nations had revised its original 2012 IPSAS implementation deadline (including for peacekeeping operations) from 2012 to 2014. The key dates are as follows:

- The first full year of IPSAS adoption on peacekeeping will be the financial year ended 30 June 2014, which means that the Administration will need to be ready in all practical aspects by 1 July 2013
- The first full year of IPSAS adoption for the United Nations will be the financial year ended 31 December 2014, which means that the Administration will need to be ready by 1 January 2014.

35. The Administration explained that the decision to delay was taken in order to coordinate IPSAS implementation with Umoja readiness because the existing resource and asset management systems are unable to produce the accounting data needed to produce IPSAS-compliant financial statements without significant and costly enhancement or manual interventions. In late 2010 it became clear that the timetable for Umoja had slipped and in March 2011 the United Nations Management Committee was informed that Umoja was at least 10.5 months behind its target delivery date (December 2014); it will therefore not be fully deployed until 2015, and is therefore unable to support IPSAS implementation as planned.

36. In March 2011, a joint working group, chaired by a representative of the Department of Field Services, was established to facilitate improved coordination between the two projects and support the Umoja Project Director in developing and presenting an IPSAS-supportive Umoja strategy and timeline to the Umoja Steering Committee. At the time of the Board’s examination, the implementation of Umoja was being reassessed to see whether it could be refocused on the delivery of the elements needed to support IPSAS implementation on target for 2014. A decision on this was expected between June and August 2011, at which point there will be less than 24 months to be ready for peacekeeping (1 July 2013). The Board also notes that the Umoja Project Director resigned in June 2011, and at the time of writing of this report it was unclear to the Board what the full implications of this are for Umoja, and therefore IPSAS delivery.

37. While there is a clear logic in prioritizing the parts of Umoja that support IPSAS, other elements of Umoja will by necessity be delayed if this is done. This could create risks to business transformation in other priority areas; and also presents risks to the momentum and budgets for Umoja, as staff could become exhausted and funding could be depleted, potentially delaying, or even reducing, the full delivery of the intended benefits from Umoja. The potential interdependencies, risks and benefits need to be thoroughly considered, and set out to enable informed decision-making. The Board is also concerned that, should the phased implementation of Umoja prove impossible, or only partially possible, there is currently no agreed contingency plan. The Board considers that any further deferral of the date of IPSAS implementation would be damaging to the reputation of the United Nations and would put the successful adoption of IPSAS at risk. It is therefore vital that the United Nations develop a pragmatic and viable contingency plan to achieve the 2014 implementation target without Umoja.

38. **The Board recommends that the Administration fully examine all of the potential interdependencies, risks, costs and benefits of a phased implementation of Umoja and IPSAS.**

39. **The Board also recommends that the Administration finalize and agree contingency plans, should the phased implementation of Umoja prove impossible or fail.**

40. The Administration stated that it was mindful of the need to manage the realization of the benefits of both projects, and informed the Board that the Management Committee was informed in late June that the Umoja project cannot be fully rephased to support IPSAS implementation. The Administration has, therefore, started developing contingency plans to mitigate the risks arising from potential delays in the deployment of Umoja. The intention is that the contingency plans, which will include some rephasing of Umoja, limited modifications to current functional systems and some manual workarounds will be periodically reviewed by the Administration to adapt to the progress of both projects. The Board has yet to see any plans and stresses that any manual workarounds can only be temporary stopgaps for a limited period prior to the implementation of a fully functional enterprise resource management system.

Implementation plan

41. The Administration informed the Board that the IPSAS project has operated on the basis of a high-level implementation plan focusing on accounting policy gaps, the development of training materials and the design work needed for Umoja. Up to 2010 other work had included progressive implementation of IPSAS requirements, including, for example, the recognition of and detailed disclosure on liabilities relating to after-service health insurance; rationalization of the construction in progress accounting for the capital master plan; and disclosures on in kind contributions and contingent liabilities. These developments have started to help pave the way for all parts of the United Nations to embrace the changes IPSAS implementation will bring about, but they are only a start.

42. In late 2010 the Administration initiated production of a more detailed implementation plan than had previously been available. This will include templates for detailed planning in operational areas (missions, departments and offices) with far more focus on the practical and logistical challenges in implementing new business processes and collecting and preparing the raw accounting data needed for IPSAS implementation. The United Nations has also conducted a recent survey to assess office and mission readiness for IPSAS implementation and to identify the scale of work to be performed. At the time of this report the detailed implementation plan remained a work in progress with a target for approval later in 2011.

43. The implementation plan has to be finalized in consultation with missions and offices away from headquarters, and the Board notes that this was discussed at the Chief Finance Officers' workshop in June 2011, with a view to finalizing site-specific plans shortly thereafter. The increased emphasis on addressing practical implementation is welcomed by the Board. Without a clear overarching implementation plan, it remains difficult for operational areas to engage effectively with IPSAS adoption; and without clarity on the decisions regarding Umoja and a detailed implementation plan, the Board cannot provide any firm assurance that the United Nations is on track to deliver IPSAS adoption by 2014. Development of a detailed implementation plan is now a critical path task and cannot be delayed. Some of the key tasks that must be clearly set out in the implementation plan are set out below:

(a) **Preparation of accounting data**: There is a huge amount of new data that needs to be captured across the United Nations global operations in order to achieve IPSAS compliance. For example, data on the value, the volume and the location of assets, a task that is particularly acute for peacekeeping, where the majority of United Nations assets are held. There is also the significant task of migrating "legacy" accounting data from the numerous existing systems into the new Umoja system. At the time of the Board's review, the bulk of this systematic data collection and cleansing had only recently been started, and the Administration could not provide the Board with a clear plan for cleansing and migrating data from the "legacy" systems into Umoja and making this available for audit. The scale of this critical task cannot be underestimated, and annex II illustrates the range of data that needs to be prepared and the challenges involved. The Board notes, and welcomes, that the Office of Internal Oversight Services (OIOS) has been developing work programmes to support the Administration in preparing accounting data and reinforcing compliance by operational areas. The Board will be coordinating closely with OIOS so that this work can help provide the assurance required by the Board;

(b) **Development of draft financial statements**: Developing a "dry run" model set of accounts using real accounting data allows the United Nations to test its readiness to produce IPSAS-compliant accounts while enabling the Board to identify potential weaknesses and provide advice in advance of IPSAS implementation. The United Nations IPSAS Implementation Team has prepared a model IPSAS account, but because of unresolved issues on accounting policies, it has not yet been provided to the Board. The implementation team is also aware of the importance of having draft financial statements populated with actual data for assessment by the Board, but is not confident that it has the resources to prepare full scope "dry run" accounts. Without a "dry run" with real data it is unlikely that an organization as complex as the United Nations will be able to achieve financial statements of sufficiently high quality to withstand audit within the planned implementation time frames;

(c) **Audit of opening balances**: The development of model financial statements will be supported by an exercise to establish opening balances for assets, liabilities and reserves for the first year of adoption. This is in effect the starting point under full accruals accounting from which the opening financial position is established. The Board notes that the IPSAS Implementation Team is anticipating that opening balances will be prepared on a "progressive basis", fund by fund, and made available to auditors on that basis. As with the uncertainty over the collection of key accounting data, the Board is concerned that there is a lack of clarity on how opening balances and an opening balance sheet will be developed through this progressive approach and the time frames for this.

44. **The Board recommends that the Administration prepare a complete, practical and detailed implementation plan for the United Nations and peacekeeping operations as soon as possible after a decision has been made on the Umoja implementation strategy.**

45. **The Board also recommends that the Administration's implementation plan:**

(a) **be underpinned by supporting plans at the operational level to provide a sharp focus for the efforts of departments, offices away from headquarters and missions;**

(b) **set out how and when accruals accounting data on non-expendable property, leases, legal obligations, guarantees, consumable inventories, contracts and locally recruited staff will be collected, cleansed and migrated to Umoja and made available for audit;**

(c) **include clear plans to benchmark the United Nations financial statements against an IPSAS compliant set to establish the necessary action and revisions required to meet the implementation timetable; and produce a "dry run" set of accounts with real accounting data for review by the Board;**

(d) **include clear plans for the creation of opening balances and balance sheets that should be shared with the Board as soon as possible. The plan should be risk based, focusing on the preparation of opening balances by the most material offices first, and factor in sufficient time for the Board to conduct an audit of the opening balance sheet as soon as is practicably possible and certainly no later than three months before the end of the first live year of IPSAS adoption.**

46. The Administration informed the Board that, owing to the tight timetable, it might not be possible to produce complete "dry run" accounts, but that it intended to carry out dry runs on the most material and high risk funds for United Nations and peacekeeping operations. The Board will follow up on the planning for dry run audits as a matter of urgency during 2011.

B. Governance and implementation arrangements

47. The United Nations Management Committee, chaired by the Deputy Secretary-General, has overall responsibility and oversight of the IPSAS and Umoja business transformation projects. The United Nations IPSAS project is overseen by the IPSAS Steering Committee, which is chaired by the United Nations Controller. The Umoja Steering Committee is chaired by the Under-Secretary-General for Management. Prior to December 2010, the two steering committees reported periodically to the Management Committee. The governance arrangements have been strengthened more recently with the requirement for both the IPSAS and Umoja steering committees to report quarterly to the Management Committee.

48. Given the scale and technical aspects involved in each, it is understandable and appropriate that separate steering committees have been established for IPSAS and Umoja implementation. It is clear that the interdependencies between the two are very strong, and both are working towards similar goals in more than one area; for example, more effective policies and processes for financial management. This interdependency has been further highlighted by the impact of delays to Umoja and the establishment of the new joint IPSAS and Umoja working group.

49. The Board considers the increased joint working and coordination between the project teams a positive development. Given the challenges to delivering the benefits from IPSAS, which are in turn dependent on revised business processes and a fully functional enterprise resource planning system, the Board would encourage the Administration to consider other areas in which joint working can be delivered, especially as operational areas are increasingly drawn into implementation and demands are placed on them by both projects. In the meantime, the Board notes that

the working group does not have formal terms of reference and it is unclear how the decisions that it takes will be approved and enforced.

50. At the United Nations the business change activities for Umoja and IPSAS could potentially be combined to bring benefits in terms of costs (for communications, training, staff time) and effectiveness. The change management messages would be more powerfully delivered as a joint message, and would more effectively use senior management time. They would also help change the perception that IPSAS is a technical financial initiative and start to ground it in people's minds as something that can have real impact for them.

51. To realize the full benefits from new processes and information from both IPSAS and Umoja, there needs to be a clear and effective accountability and risk management framework for the organization as a whole; and implicit in this observation is the need to align both the appropriate accountability and authority for those managers delivering the services of the United Nations. These are necessary precursors for benefits realization, which must be integrated within an overall change programme. Otherwise, management will not be empowered or accountable for using the new information to improve the cost effectiveness of their activities and the full benefits will not be realized. The Board is aware of various initiatives to improve accountability and risk management in the United Nations, and this is an issue the Board will be considering further in its future reports.

52. **The Board recommends that the Administration assess the feasibility of combining the business change activities for Umoja and IPSAS.**

53. **The Board recommends that the Administration include the new and important joint working group in its formal governance structure and establish clear terms of reference that clarify how its decisions will be approved and enforced.**

Implementation team

54. It is important that for any major business transformation project there be a dedicated, well resourced and capable project implementation team. The United Nations established the IPSAS Implementation Project Team in 2007. It has an agreed complement of 18 staff, but at the time of our review had three vacancies, and has operated for over 12 months with a reduced team. Key posts have been left vacant, including a change manager to coordinate the IPSAS project with the delivery of Umoja business processes and to manage other aspects of this business transformation, including training. The Administration informed the Board that it had deliberately left these posts vacant so as to protect its budget for the implementation phase. The Board is of the view that the vacancies have inevitably contributed to a delay in completing a detailed implementation plan. The Board was informed that the project team will be up to full strength by December 2011, including the recruitment of a "change manager".

55. **The Board recommends that the Administration establish an IPSAS implementation team based on a reassessment of the resources, skills and experience required, in the light of the revised implementation plan, the scale of the tasks, and the change management challenges.**

56. The IPSAS Implementation Team has developed an extensive series of IPSAS accounting policy papers, and the Board is engaged in advising on these. On current

projections, the approved accounting policy framework will not be completed until March 2012. The roll out of most of the IPSAS policies to the operational units will be done through Umoja and will, for the most part, be blended with the Umoja implementation. Beyond the current concerns over the implementation strategy and delays to Umoja, the Board considers there is a risk that this timetable will leave insufficient time for operational areas to be ready to implement the policies and associated processes correctly and consistently. Given the scale of peacekeeping operations in particular, this is a serious risk to achieving compliant financial statements in the first year of implementation.

57. **The Board recommends that in developing the IPSAS implementation plan, the Administration factor in adequate time and resources for an appropriate level of consultation with the Board prior to approval to identify any potential risks or problems arising from its adoption.**

58. It is recognized good practice on any major project to establish a core group responsible for handling the considerable project management disciplines required for successful delivery, progress tracking and reporting, and for creating a common project management approach across the organization. The Board noted that the United Nations IPSAS Implementation Team is creating a Project Management Office for this purpose, which it envisages will help both reduce the administrative burden in missions and offices, and raise the visibility on progress at all levels within the United Nations.

IPSAS budget

59. The overall indicative budget approved by the General Assembly for IPSAS adoption in 2006 is $23 million (see annex II). This excludes the considerable but unquantifiable costs that will be involved as operational areas are increasingly drawn into implementation. As at the end of February 2011, the Administration had spent some $4.7 million between 2006 and 2011, with $6.1 million still available to the end of the current biennium.

60. The budget proposed for 2012-2013 has been substantially reduced as part of the Secretary-General’s required cost reduction across the United Nations, although the Administration informed the Board that the eventual total budget for IPSAS adoption would remain at the $23 million initially approved by the General Assembly. The Board considers that this may be unhelpful, given the challenges to IPSAS implementation, and may prove problematic if in the longer term this delays the implementation, thereby increasing costs overall, and the delivery of the benefits (the “return”). The Board noted that there will be a need to reassess the adequacy of the IPSAS budget and to align it with the detailed implementation strategy.

61. The Board also noted that within the overall $23 million budget (see annex II) there is an allocation set aside for $7.5 million for the use of consultants, $5.7 million for general temporary assistants and $5.2 million for contractual services, travel and other expenses. This compares with only $4.6 million for established permanent posts. This may be an indication that the IPSAS Implementation Team has been smaller than desired, and therefore a significant amount of short-term, external support may be required. The Board is concerned that the approach of using consultants is balanced against the need to develop sustainable internal financial management capacity and capability.

62. **The Board recommends that, in developing the new implementation strategy, the Administration reassess the IPSAS budget to ensure that the budget available is commensurate with the updated plans for implementing IPSAS and that adequate resources are available to support the new strategy to meet the timetable for first financial statement adoption and beyond.**

Risk assessment and management

63. The Board is concerned that no formal and structured approach to risk management, including a risk register, had been established for the IPSAS implementation project at the time of the review. For this major business transformation project, the Board would have expected, from the outset, to see the main risks to the project identified, prioritized in order of severity, clearly assigned to owners with the authority to manage them, and with clear mitigating actions and regular risk reporting. The March 2011 presentations to the Management Committee on the status of the IPSAS and Umoja projects did summarize the key risks to each project, with particular emphasis on establishing reliable opening balances for assets and liabilities, producing compliant financial statements and obtaining external audit acceptance for accounting policies. There was, however, no assessment of the probability of these risks occurring or their likely impact, nor any detailed plans for how these risks will be mitigated beyond some higher level considerations.

64. **The Administration agreed with the Board's recommendation that the joint IPSAS/Umoja working group, as a matter of urgency, develop a risk framework for IPSAS implementation, identifying the main risks to implementation, setting how the risks will be mitigated (including establishing a contingency budget if appropriate), and assigning ownership and accountability for their management.**

65. The Administration commented that the United Nations IPSAS implementation team had developed and presented a risk register to the IPSAS Steering Committee in June 2011. Work has now started on developing mitigation strategies and assigning clear ownership and accountability for each risk.

Revision of the United Nations Financial Rules and Regulations

66. The IPSAS Implementation Team is currently working on proposed revisions to the Financial Regulations and Rules of the United Nations to reflect the adoption of accruals accounting and IPSAS. This work is expected to be completed for approval by the General Assembly in the fall of 2011. The Board has not seen the proposed amendments but is aware of the Administration's intention to provide them to the Board to confirm the consistency of the new rules and regulations with the fundamentals of accruals accounting prior to approval.

IV. Findings and recommendations for the United Nations funds and programmes

Overall summary

67. This section of the report covers seven United Nations funds and programmes, including the United Nations Joint Staff Pension Fund, all of which have a planned

IPSAS adoption date of 2012. While conscious that the entities are at different stages of their planned implementation schedules, the Board's view is that implementation of IPSAS by 1 January 2012 is possible for these entities, but that there are key tasks yet to be completed in some entities and significant risks that need to be mitigated if IPSAS is to be implemented on time. With minimal time left to the target date, these entities cannot afford slippages.

68. Even if IPSAS-compliant financial statements are delivered by 2012, it is unlikely that the intended benefits of IPSAS adoption will be realized without a significant further delay owing to the absence of appropriate benefits realization strategies and implementation plans at most entities.

69. The Board has provided each of the entities with detailed feedback in observation memorandums and management letters and will continue to report in detail at the entity level. In this report, the Board has summarized in table 1 important elements of the IPSAS implementation plans to provide an overview of the entities' progress as at the date of its review.

Table 1

Progress against implementation targets

Main criteria	*UNDP*	*UNFPA*	*UNOPS*	*UNICEF*	*UNHCR*	*UNRWA*
Risk to 2012 IPSAS implementation	Low risk	Medium risk	Medium-high risk	Medium risk	Medium risk	Medium risk
A comprehensive implementation plan is in place	Yes	Yes	Yes	Yes	Yes	Yes
The plan identifies the appropriate milestones	Yes	Partially	Yes	Yes	Yes	Yes
The entity is on track against the key milestones	Yes	Yes	Partially; some slippage against plans	Yes	Partially; some slippage against plans	Partially; some slippage against plans
A fit for purpose enterprise resource management system is in place	Yes	Yes	Yes	Partially; user acceptance testing has been launched and will be complete at end August 2011	Yes	Partially; relies on a legacy system that is partially compliant and may not be sustainable in the long term
Plans for gathering, cleansing and migrating accounting data on track	In progress and ongoing	In progress and ongoing	In progress and ongoing	In progress and ongoing	In progress and ongoing	Yes
Model draft financial statements have been prepared and shared with the Board	Yes	Yes	No	Yes	No	No
There are clear plans for establishing opening balances	Yes	Yes	Partially	Partially; plans not completed at time of audit	No	No; not sufficiently detailed
Planned for a “dry run” using real accounting data	Yes	Yes	Partially	Partially	Yes, but timetable is tight	Yes

Progress against implementation targets

70. The Board reviewed the progress made by funds and programmes against the milestones set out in their implementation plans and found that some entities were behind schedule. Generally, the Board noted that the entities had detailed plans, supported by milestones, and that the progress against these milestones was monitored and reported to senior management.

71. **The Board recommends that all entities that have not already done so: (a) implement adequate project monitoring controls; (b) enhance their plans to include detail on preparation of "dry run" model financial statements and opening balances; and (c) prioritize activities required on and before the go-live date against activities that could be performed after the go-live date (particularly for those entities that are behind schedule).**

Model financial statements and "dry run" accounts

72. The preparation of model financial statements and "dry run" accounts are crucial steps in implementing IPSAS. It provides the entities with an early opportunity to test their readiness to prepare IPSAS-compliant financial statements while enabling the Board to identify potential weaknesses and provide advice. Model financial statements have been prepared and presented to the Board by UNDP and UNFPA; but these did not yet contain real accounting data and need to be revised and discussed with the Board again after the completion of further accounting policy revisions at these entities. While completion of the model financial statements is included in their respective plans, the remaining entities have not yet prepared model financial statements.

73. Although most entities were planning to develop "dry run" statements prior to implementation, using real accounting data, the Board is concerned that the timetable for doing so will be compact, and any delays could leave inadequate time for review and correction. The time frames to complete biennial accounts, which will form the precursor for the preparation of opening balances, may also affect the time frames to perform a "dry run" exercise.

74. **The Board recommends that all entities that have not already done so (a) benchmark their financial statements against an IPSAS-compliant set to establish the necessary action and revisions required to meet the implementation timetable; and (b) prepare model financial statements and produce clear plans for a "dry run" set of accounts with real accounting data, factoring in sufficient time for review by the Board.**

Enterprise resource planning systems

75. The increased requirements for data on accounting transactions under IPSAS mean that the entities need more advanced enterprise resource planning systems to implement the standards. Work to establish a fit for purpose enterprise resource planning system is well advanced at most of the entities. For example, UNDP, UNOPS and UNFPA co-own a now-established enterprise resource planning system (Atlas). Whereas each of these entities is responsible for its own system's specification and configuration, UNDP has overall responsibility on behalf of all three entities. At UNDP progress on the system specification and configuration was behind schedule. UNDP, UNOPS and UNFPA need to closely monitor how the

activities of the UNDP Office of Information System and Technology are designed to meet the timelines for their respective system customizations.

76. Owing to budgetary constraints, UNRWA is planning to implement IPSAS using its current enterprise resource planning system, despite a gap study that it commissioned in 2008 that concluded that the system could only reach partial compliance and may not be sustainable in the future. UNRWA indicated that it would submit the required system changes to its supplier to determine whether the system would be able to accommodate them as soon as the policies and procedures are complete. The Board considers this a significant risk, which will need to be closely managed to avoid any delay to IPSAS implementation.

77. **The Board recommends that UNDP, UNOPS and UNFPA keep under review how the activities of the UNDP Office of Information System and Technology are designed to meet the timelines for their respective enterprise resource planning system customizations.**

78. **The Board also recommends that UNRWA keep under close review the risk of its current enterprise resource planning system being unable to comply with IPSAS and develop contingency plans, as appropriate.**

Data collection

79. Across all entities significant work remains to adequately collect, cleanse and migrate data for IPSAS implementation. The complexity of data collection is increased under IPSAS, as the entities need to consider data maintained at the field level and country offices. Annex III sets out examples of data that needs to be collected to support compliance with IPSAS standards. The Board noted that most entities had included data cleansing and migration as part of their implementation plans, although generally there were slippages on the schedules. At UNFPA the Board noted that the cleansing tasks were assigned to different business units and may need to be tracked as part of the IPSAS project to ensure alignment with the overall IPSAS project plan. The Board is concerned that without adequate plans, staff in field or country offices might not be trained and familiar with the new policies and procedures necessary for IPSAS implementation; for example, the need to accurately catalogue the volume and the value of assets.

80. **The Board recommends that all entities that have not already done so establish clear plans for data collection, cleansing and migration for IPSAS implementation and urgently commence with the exercise.**

Table 2
Governance and implementation arrangements

Main criteria	*UNDP*	*UNFPA*	*UNOPS*	*UNICEF*	*UNHCR*	*UNRWA*
The Governance arrangements are fit for purpose and involve senior management	Yes	Yes	Yes	Yes	Yes	Yes
A fully resourced and capable implementation team is in place	Yes	Partially	Partially	Yes	Partially; some reliance on external experts	Partially; no project leader or dedicated IPSAS implementation team
Up to date and adequate budget in place	Yes	Yes	Yes	Yes	Yes	Partially, but not adequate except for engaging consultants where needed
The project has a structured risk management framework	Yes	Yes	Yes	Yes	Yes	Partially
Accounting policy framework is complete	Substantially complete; one policy to be finalized	Substantially complete; one policy to be finalized	Partially; only two policies finalized	Partially; some policies still under development	Partially; not all policies finalized and approved	Partially; only two policies finalized
Field offices ready to implement the new policies/procedures	Partially; Global Shared Service Centre to manage complex country office transactions awaits host government agreement and finalization of staff recruitment	Partially	Partially	No; procedures for field offices not yet ready or rolled out	No; procedures for field offices not yet ready or rolled out	Not applicable

Main criteria	*UNDP*	*UNFPA*	*UNOPS*	*UNICEF*	*UNHCR*	*UNRWA*
The financial rules and regulations have been revised, and approved	Yes; revised financial rules and regulations finalized and awaiting approval	Yes, well advanced	Partially; further revision is in progress	Yes; financial rules and regulations finalized and awaiting approval	Partially; drafts received by Board June 2011	No

Governance of the IPSAS project

81. The Board found that the governance arrangements were fit for purpose and involved senior management at all of the entities.

Development of accounting policies

82. Development of accounting policies to comply with IPSAS is a crucial early step towards implementation. Delays are likely to result in a congested plan to address the required system configurations, revise business processes and prepare field and country offices to implement the new policies. The Board noted that, while some entities have made significant progress in terms of the finalization of accounting policies (UNDP and UNFPA, UNICEF and UNHCR), some entities (UNOPS and UNRWA) had significant amounts of work left to finalize their accounting policies. This presents major risks as the accounting policies selected have major implications for data gathering processes, training strategies and, most importantly, the customization of enterprise resource planning systems. The Board emphasizes the need for all entities to finalize their accounting policies for compliance with IPSAS and provide them to the Board for review.

83. **The Board recommends that all entities that have not already done so establish adequate strategies to mitigate the risk of a congested plan in the period leading up to 1 January 2012.**

Budget resources available for implementation

84. The Board reviewed the extent to which each entity has an adequate budget for IPSAS adoption and how performance against budget is being managed. Generally the IPSAS project teams were adequately resourced with appropriate input from relevant stakeholders and steering committees supporting the project teams. The Board noted that UNOPS and UNRWA relied predominantly on internal staff, and did not engage IPSAS specialists. However, their respective budgets and plans catered for the use of consultants to assist the internal teams. The use of internal staff in the project has certain benefits to these entities in terms of reducing costs and retaining knowledge, but entities need to manage the risk of their accounting policies and procedures being insufficiently aligned with IPSAS and of conflicting staff schedules, especially as the target date draws near. The specified IPSAS budgets in these entities may not therefore be a true reflection of the resources actually extended in implementing IPSAS because the budgets do not reflect the time spent by internal finance staff.

85. UNRWA has put on hold its plans to hire a dedicated project leader because of budgetary constraints. UNHCR will need to rely on external consultants for some tasks, but in the longer term will need appropriately qualified staff for delivering and securing the benefits from IPSAS post adoption. UNFPA is still in the process of recruiting for key positions in its implementation team, while the recruitment process for one post has been temporarily frozen owing to budget constraints. UNOPS has only one IPSAS-dedicated staff member and had not yet recruited other staff to support the implementation of IPSAS.

86. **The Board recommends that all entities which have not already done so (a) establish fully resourced and expert IPSAS implementation teams; and (b) review the adequacy of their budgets against their most up to date plans for IPSAS implementation and put in place appropriate resources accordingly.**

Table 3
Managing the delivery of the full benefits from IPSAS

Main criteria	*UNDP*	*UNFPA*	*UNOPS*	*UNICEF*	*UNHCR*	*UNRWA*
Operational areas have been fully engaged in identifying the potential benefits	Partially	Partially	Partially	Partially	Partially	Partially
An effective benefits realization plan has been established	No	No	No	Partially	No	No
Staff training	Partially	Partially	Partially	Yes; specific training strategy and plan in place; training will be conducted from August 2011	Plans are in place ready for roll out	Partially
Communication strategy	Yes	Yes	Yes	Yes	Partially	Yes
An effective business change management programme has been established	Yes	Partially	Partially	Yes	Partially	Partially

Benefits realization plans

87. Even if IPSAS-compliant financial statements are delivered by 2012, it is highly unlikely that the intended benefits of IPSAS adoption will be realized without a significant further delay, owing to the absence of appropriate benefits realization strategies and implementation plans at most entities.

88. **The Board recommends that all entities establish an IPSAS benefits realization plan and organization-wide change management programme for IPSAS, including a comprehensive communications plan to set out the changes and the benefits that IPSAS will bring, and how senior management in every department and office must take ownership and drive the delivery of the intended benefits.**

United Nations Joint Staff Pension Fund

89. The Board is aware that the United Nations Joint Staff Pension Fund is in the process of re-examining its implementation strategy. The Fund uses the Financial Regulations and Rules of the United Nations. These will be revised in 2012 at the earliest, adding an element of uncertainty to the Fund's IPSAS implementation by 2012. The Fund is seeking to obtain the approval of the Pension Board to continue applying the Financial Regulations and Rules "mutatis mutandis" to its accounting and financial reporting process in a manner that allows it to be IPSAS-complaint; and will request the Pension Board to endorse this transitional provision for approval by the General Assembly at its sixty-sixth session in 2011.

90. The Board has noted a number of other risks that the Fund will have to address, if it is to implement IPSAS by 2012. In particular, the Board has noted (a) an inadequate implementation strategy; (b) limited progress in developing accounting policies; (c) the absence of a Chief Finance Officer to lead the project, as well as a dedicated and integrated implementation team; and (d) the need to fully assess the impact of IPSAS implementation on its systems. In the light of these risks, the Board is concerned that the Fund's strategy to implement IPSAS by 2012 may be unrealistic.

91. **The Board recommends that the Fund, as a whole, (a) finalize its IPSAS implementation strategy considering the decision of the Pension Board; and (b) develop risk mitigation plans to address the identified risks.**

V. Acknowledgement

92. The Board wishes to express its appreciation for the cooperation and the assistance extended to its staff by the Management of the entities concerned and members of their staff.

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the United Kingdom of Great Britain and Northern Ireland
Lead auditor

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa

(*Signed*) **Liu** Jiayi
Auditor-General of the People’s Republic of China
Chair of the Board of Auditors

12 July 2011

Annex I

United Nations system organizations IPSAS implementation targets

ea r	*No. of organizations*	*Organizations*
014	2	United Nations (including peacekeeping operations)*[a]
		World Trade Organization
012	10	Food and Agriculture Organization
		International Labour Organization
		United Nations Development Programme*
		United Nations University*
		United Nations Population Fund*
		United Nations High Commissioner for Refugees*
		United Nations Children's Fund*
		United Nations Office for Project Services*
		United Nations Relief and Works Agency for Palestine Refugees in the Near East*
		United Nations Joint Staff Pension Fund*[b]
		World Health Organization
		United Nations Women*[c]
011	2	International Atomic Energy Agency
		Universal Postal Union
010	8	International Civil Aviation Organization
		International Maritime Organization
		International Telecommunications Union
		Pan American Health Organization
		United Nations Educational, Scientific and Cultural Organization
		United Nations Industrial Development Organization

ea r	No. of organizations	Organizations
		World Intellectual Property Organization
		World Meteorological Organization
0 0 8	1	World Food Programme (in the third year post full IPSAS implementation)

* Audited by the United Nations Board of Auditors.

[a] The United Nations Office on Drugs and Crime, United Nations Environment Programme, United Nations Human Settlements Programme and the International Trade Centre (UNCTAD/WTO) are linked to the United Nations IPSAS adoption.

[b] The United Nations Joint Staff Pension Fund is tentatively planning to move its implementation of IPSAS to a period that coincides with that of the United Nations.

[c] United Nations Women shall adopt IPSAS in keeping with the schedule of the United Nations Development Programme. It is in its first year of operations (2011).

Note: The United Nations Framework on Climate Change, the United Nations Institute for Training and Research and the United Nations Convention to Combat Desertification do not report to the General Assembly but will adopt IPSAS in 2014.

Annex II

Budget for IPSAS implementation at the United Nations

March 2011

The General Assembly was informed that the estimated budget for IPSAS is $23.034 million. The budget is approved separately for each fiscal cycle under the regular budget and the support account for peacekeeping operations. The status of expenditures is reflected below:

Projections of expenditures of IPSAS adoption at the United Nations

(Thousands of United States dollars)

	2006-2011 Expenditures*	*2010-2011 Balance*	*2012-2013 Estimates***	*2014*	***IPSAS Totals***
(1) Regular budget					
Section 28B, Office of Programme Planning, Budget and Accounts					
Posts	2,271.1	541.4	1,179.7	589.9	**4,582.0**
General temporary assistance	-	656.8	657.4	328.7	**1,642.9**
Consultants	-	488.5	193.8	193.8	**876.1**
Travel of staff	118.5	93.8	37.3	50.0	**299.6**
Contractual services	16.7	583.4	583.4	583.4	**1,766.9**
Other	43.5	24.6	41.4	20.0	**129.5**
Subtotal, Section 28B, Office of Programme Planning, Budget and Accounts	2,449.8	2,388.5	2,693.0	1,765.8	**9,297.1**
					-
Section 31, Jointly Financed Activities					**-**
Grants and contributions	1,335.9	241.3	500.0	200.0	**2,277.2**
Total regular budget	**3,785.7**	**2,629.8**	**3,193.0**	**1,965.8**	**11,574.3**
					-
(2) Peacekeeping support account***					**-**
General temporary assistance	871.8	809	1,580.8	790.4	**4,051.7**
Consultants	62.4	2,582	3,351.7	650.0	**6,646.1**
Travel	20.2	62	405.4	202.7	**690.1**
Other	-	-	52.2	18.8	**71.0**
Total support account for peacekeeping operations	**954.4**	**3,452.5**	**5,390.1**	**1,661.9**	**11,458.9**
Grand total (1) and (2)	**4,740.1**	**6,082.3**	**8,583.1**	**3,627.7**	**23,033.2**

* Total expenditures as of 28 February 2011.

** These figures are high-level estimates.

*** Peacekeeping support account 2010-2011 balance includes allotment of 2010/11 and estimates of the first six months of 2011/12.

Annex III

Examples of the accounting data required to support IPSAS-compliant financial statements

Existence, ownership and valuation of fixed assets. This will be a major issue for many entities, in particular for United Nations peacekeeping operations. The United Nations needs to unequivocally establish what assets it owns, how much they are worth and how much use they can get from them. This is critical to establishing its asset base and future charges for the consumption of these assets. This will potentially require professional external asset valuations and determinations of the assets remaining useful lives of all assets catalogued.

Procurement. There are at present some 220 framework agreements and thousands of individual contracts or one-off agreements, each containing a complex set of procurement arrangements. During the process of assessing progress towards the adoption of IPSAS, the type of contract entered into will impact on the accounting for the related transactions, assets and liabilities. It will therefore be important to consider the nature of these contracts to determine if they are asset purchases, service purchases, financial leases, operating leases, or financial instruments.

Legal obligations and guarantees. Again, this is fundamental to establishing the correct accounting treatment of these obligations and guarantees much in the same way as for leases.

Preparation of non-expendable property and expendables data for conversion to IPSAS. The values and volume of this data is expected to be enormous (e.g., the Food Supply Management system provides for the procurement and the distribution of food supply for some 100,000 United Nations forces personnel in the field). The challenge will be in ensuring that capture of this data is as complete and reliable as needed to avoid material omissions or errors in the financial statements.

Information on locally recruited staff at missions. In addition to international staff for which records are kept centrally, some 10,000 personnel are recruited locally in field locations for peacekeeping, special political or other missions. At present, the information is kept on a multitude of local systems and manually consolidated into the relevant financial statements. In addition both international staff and locally recruited staff are entitled to a range of staff benefits such as repatriation grants, education grants, subsistence allowances and after-service health insurance. For IPSAS adoption information will be needed on staff leave, including accumulated outstanding leave; and staff benefit payments, in particular details of accrued benefits such as education grants, which are now available for locally recruited staff: and entitlement to any after-service benefits and the potential liabilities relating to these.