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# Second progress report of the Board of Auditors on 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 30 June 2012 from the Chair of the United Nations Board of Auditors transmitting the second progress report of the Board of Auditors on the implementation of the International Public Sector Accounting Standards as at 30 June 2012.

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## Letter of transmittal

30 June 2012

I have the honour to transmit to you the second progress report of the Board of Auditors on the implementation of the International Public Sector Accounting Standards as at 30 June 2012.

(*Signed*) **Liu** Jiayi
Auditor-General of China
Chair of the Board of Auditors

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

# Second progress report of the Board of Auditors on 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 recommended that United Nations system organizations move from the internally developed United Nations System Accounting Standards to the accruals-based International Public Sector Accounting Standards (IPSAS) for the presentation of the organizations' financial statements. IPSAS are accounting standards written specifically for the public sector.

Accruals-based accounting requires organizations to recognize costs when they are incurred and income when it is earned. They must also account for the value of all assets and liabilities. This improved information will provide Member States with the potential for greater insight into the performance and financial position of entities, and management with better information to maintain control, drive cost-effective decision-making, and secure long-term financial sustainability. But these benefits need to be actively managed if they are to be successfully delivered.

In October 2010, the Advisory Committee on Administrative and Budgetary Questions recommended that the Board prepare an annual report on progress towards the implementation of IPSAS (A/65/498, para. 19). The Board's first progress report was submitted to the General Assembly in 2011 (A/66/151). The present second report examines the further progress made by the United Nations and its peacekeeping operations, as well as seven funds and programmes. The table at the end of the present summary provides an overview of the Board's findings across all entities.

**Overall conclusion of the Board**

Projected benefits form an important part of the business case for implementing IPSAS. It is the delivery of the intended benefits from IPSAS that is the ultimate test of success, not the delivery of unmodified opinions on the financial statements.

In its previous report, the Board highlighted and recommended in broad terms the need for all entities to establish clear benefits realization plans. The Board has seen limited progress in this area, primarily because of a strong focus on technical and practical delivery. While this is understandable, the Board is concerned that the delivery of benefits not be overlooked and notes that failure to actively manage benefits realization alongside technical delivery is a common factor in failed projects.

**United Nations and its peacekeeping operations**

The United Nations is a complex Organization comprising a large Headquarters in New York (made up of multiple departments and offices), as well as entities (many with their own governance structures and systems) and offices away from Headquarters and peacekeeping operations and projects across the globe. The implementation of IPSAS in such a diverse and fragmented business is a very

complex and demanding business transformation process. It requires strong leadership, effective project management and the commitment of the entire Organization. The Board notes that the United Nations IPSAS implementation team has made significant progress in 2011 and 2012 and has worked closely and constructively with the Board to achieve the near completion of the IPSAS accounting policy framework. The United Nations is now in a position to start converting this framework into practical application guidance for staff.

A key decision in early 2012, in light of delays to the implementation of the enterprise resource planning project (Umoja) was to use the Integrated Management Information System (IMIS) as a transitional measure for the production of IPSAS financial statements, with reliance on Umoja only when available and if testing confirmed that it was ready. Notwithstanding the good progress made, the Board considers that successful implementation of IPSAS in the peacekeeping operations by July 2013 and the rest of the United Nations by January 2014 remains at high risk because of the following factors:

- While the Administration informed the Board that IMIS had strong capabilities that were comparable to SAP in many areas and that it could be modified to provide accurate and auditable accruals-based accounting data, the Board notes that the proposed transitional IMIS solution will not be fully evaluated and tested until the end of 2012.
- The shortage of time and the difficulty of gathering timely, accurate, complete and reliable IPSAS-compliant accounting data from locations around the world, particularly with respect to asset and inventory records.
- The continuing and inherently risky need for manual collation of increased volumes of more complex accruals-based accounting data, increasing the risk of error.
- Resource constraints on offices and organizations away from Headquarters.

The Board also notes the limited time remaining to train staff in the new requirements of IPSAS and to develop comprehensive guidance for staff on how to implement the agreed accounting policy framework in practice. Without the new reporting functionality expected to be delivered by Umoja, many of the most important benefits of IPSAS implementation will be delayed.

As it has previously stated, however, the Board encourages the United Nations to continue to maintain the current target implementation dates, as any further deferral would lead to greater cost and reputational damage with no greater certainty of success. Committing to meet current target dates would maintain the project momentum and allow staff to become familiar with the new data and processes. The Board also recognizes that the United Nations has adopted processes to actively address the risks associated with the revised implementation strategy, and the Board will continue to work with the Administration to review and validate their evolving plans.

**Funds and programmes**

For the funds and programmes implementing IPSAS from January 2012, the Board concludes that good progress has been made. While there remains some level of risk, the Board considers that the United Nations Development Programme

(UNDP), the United Nations Children's Fund (UNICEF), the Office of the United Nations High Commissioner for Refugees (UNHCR), the United Nations Population Fund (UNFPA), the United Nations Office for Project Services (UNOPS), the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) and the United Nations Joint Staff Pension Fund are all now on track to implement IPSAS in 2012 and to produce their first IPSAS financial statements in early 2013. The Board notes that senior management involvement and support, implementation of fit-for-purpose enterprise resource planning systems and timely preparation of basic accurate accounting data are three important factors that have played a part in the good progress made by these entities. There were, however, a range of issues to be addressed as at the date of the present report, such as the completion of data collection and cleansing exercises, but the Board notes that management in the respective administrations is aware of, and actively addressing, the outstanding issues.

The Board considers that the particular challenges facing the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), in establishing its basic system and operations in its first full year of implementation, mean that successful IPSAS implementation is at higher risk. The Board considers, however, that it is still possible for the Entity to implement IPSAS successfully by taking stock of the remaining issues and addressing them with specific plans and strong managerial engagement.

**Key findings on the United Nations and its peacekeeping operations**

Significant progress was made by the United Nations IPSAS implementation team in 2011, and the Board notes in particular the near completion of the IPSAS accounting policy framework. The Administration has worked constructively with the Board to ensure that the proposed accounting policies are IPSAS-compliant and allow for progressive improvement in reporting going forward.

As Umoja will not be rolled out in time to meet IPSAS implementation target dates for the United Nations and the peacekeeping operations, the United Nations has decided to use its existing accounting system, IMIS, in conjunction with other legacy systems and manual workarounds to produce IPSAS-based financial statements for the first year. Based on the latest information supplied by the Administration, the expectation is that Umoja will be fully rolled out in peacekeeping operations by October 2013, enabling a partial use of Umoja in the first year of implementation, if Umoja is proven to be ready. For the United Nations, the first year of implementation will be more heavily reliant on IMIS. These are relatively recent developments, and the risks inherent in this approach will be examined in the Board's next progress report.

In this connection, the Board points out that:

- The change in strategy required a revised implementation plan setting out how IMIS and related systems would produce reliable, complete, accurate and auditable accounting data to support IPSAS financial statements. The revised implementation plan was produced at the end of April 2012.
- The scope of changes required to IMIS for transactions to be prepared on an accruals basis at Headquarters and locations away from Headquarters has not been fully determined, and the viability of IMIS functionality for accruals

accounting has not yet been confirmed. In this regard, the Administration has informed the Board that it is confident that IMIS will have been amended to meet IPSAS accounting requirements by the end of 2012.

- While scope exists for automated data uploads and electronic interfaces between legacy systems and IMIS, the level of such automation has yet to be decided. The Administration has informed the Board that it plans to minimize manual data entry. Under IPSAS, however, significant volumes of more complex accruals-based accounting data will need to be posted using journal vouchers. Such manual input can lead to human error and affect the completeness and accuracy of the financial statements.

- IMIS will consolidate accounting data from the underlying accounting system to trial balance level, but the financial statements will continue to be produced through a manual process. This is inherently risky. It also means that management can only expect accounting information and management accounting reports once a year as there is currently no functionality in IMIS for regular reporting.

Further progress with IPSAS implementation is dependent on the IMIS solution being fully determined, scoped, tested and rolled out to key stakeholders quickly.

The Board's work and the results from the Administration's pre-implementation exercises conducted at the Economic and Social Commission for Western Asia, the United Nations Interim Force in Lebanon (UNIFIL), the United Nations Office at Nairobi, the United Nations Office at Vienna, the United Nations Office at Geneva and the United Nations Mission in Liberia (UNMIL) during 2011 have highlighted three critical risks to the project:

- The completeness, accuracy, reliability and auditability of data in key areas (property, plant and equipment, staff costs, inventories and revenue recognition) will be reliant on many legacy systems rather than Umoja. Consistency, transferability and basic accuracy of data will be at risk from using a multitude of arrangements. The process of gathering, validating and cleansing data is just starting. Notwithstanding the commitment and energy shown by Headquarters staff there is a risk that there is insufficient time for reliable data to be prepared to meet implementation deadlines.

- There is a lack of clarity on funding for IPSAS implementation outside of Headquarters. Feedback from locations suggests that the expectation is for implementation to be funded from existing budgets. There is a significant risk to progress if local implementation teams are underresourced, especially with concurrent demands from other transformation programmes and existing mandates.

- It is critical that the accounting policy framework be converted to practical application guidance and rolled out as quickly as possible to achieve a meaningful exercise for gathering, cleansing and migration of data against agreed accounting principles.

**Key findings on the funds and programmes**

The findings below relate to the Board's examination of the progress on IPSAS implementation at UNDP, UNFPA, UNOPS, UNICEF, UNHCR, UNRWA and the United Nations Joint Staff Pension Fund.

The Board considers that these entities have effective project governance arrangements, already have or are developing fit-for-purpose enterprise resource planning systems and are on track to deliver opening balances and trial run audits as planned. All have finalized or nearly finalized their accounting policy frameworks, although the United Nations Joint Staff Pension Fund and UNRWA only finalized their accounting policies during 2012, creating additional complexity in preparing their opening balances.

While the entities are on track generally, they still face a number of challenges that could affect the successful implementation of IPSAS:

- Ensuring that all key accounting data has been collected, cleansed and brought into the appropriate accounting system and that the data is ready to be converted into auditable opening balances. The Board notes that despite its previous recommendations on these matters many entities had not yet completed their data cleansing exercises at the time of preparation of the present report.

- Preparation of dry-run financial statements containing real accounting data ready for audit by the Board no later than 30 September 2012.

- Developing benefits realization plans and associated change management processes.

In section V.C of the present report, the Board summarizes progress and issues in a wide range of other entities implementing IPSAS in 2014, many of which are linked and/or partially dependent on the United Nations IPSAS implementation strategy. The Board notes a range of issues, but in particular the lack of in-house capabilities and resources dedicated to IPSAS implementation and the need to proactively promote progress in implementation rather than relying entirely upon support and advice from United Nations Headquarters.

The Board is working with each of these entities to monitor developments, assess the reliability of data as it becomes available, review model financial statements and advise on the appropriateness of accounting policies.

**Recommendations**

The Board makes detailed recommendations in the main body of the report. Key recommendations are summarized below.

**The Board recommends that the United Nations:**

- **Finalize a comprehensive implementation plan based on engaging all stakeholders and clearly demonstrating how IPSAS statements will be reliably supported with valid transactional data.**

- **Clarify in its implementation plan: (a) how and when the switch from IMIS to Umoja will be made; (b) how and when it will be confirmed that IMIS will have the functionality to handle accruals-based data for Headquarters and offices away from Headquarters; (c) the timeline for adjusting and upgrading IMIS functionality, with a clear indication of associated costs and a clear mapping of the interconnections between IMIS and other existing legacy systems such as Galileo, Sun and Mercury.**

- **Develop an updated risk assessment for the revised implementation strategy to monitor, mitigate and manage key risks arising from using IMIS. The risk assessment should be overseen and actively managed at the senior management level.**

- **At the local level: (a) provide clarity to offices away from Headquarters on how, when and where key accounting data needs to be delivered using IMIS; (b) address the risks posed by limited local resources and determine how this may impact implementation; and (c) disseminate accounting application guidance as quickly as possible so that offices away from Headquarters have certainty on the parameters they are working to in data gathering, cleansing and migration.**

**For the United Nations and the funds and programmes implementing IPSAS, the Board reiterates its previous recommendation that all entities should:**

- **Define and plan for benefits they expect to achieve from the new information that will be available under IPSAS.**

- **Establish clear accountabilities for benefits delivery.**

- **Establish mechanisms to track benefits delivery.**

- **Keep senior management and governing bodies apprised of progress towards benefits realization.**

Further recommendations are contained in the Board's detailed reports on individual entities.

**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)* | *UNJSPF (2012)* |
|---|---|---|---|---|---|---|---|---|---|
| Board's assessment of achieving IPSAS implementation | High risk | High risk | Low risk | Low risk | Low risk | Low risk | Low risk | Low risk | Low risk |
| Entity is on track against key milestones in implementation plan | Implementation plan is being updated to provide more detail on the use of the IMIS transitional solution | Implementation plan is being updated to provide more detail on the use of the IMIS solution and migration to Umoja in the first year of adoption | Yes | Yes | Yes | Yes | Partially; some slippage against plans | Yes | Yes |
| A fit-for-purpose enterprise resource management system is in place | No, but under current plans, there may be some partial use of Umoja for first-time adoption | Partially; based on the latest plans, Umoja will be fully rolled out in all missions by October 2013, which means that there will be potential to partially use Umoja for production of financial statement | Yes | Yes | Yes | Yes | Yes | Partially | Partially. UNJSPF will rely on legacy systems until a new system is developed |
| Plans for gathering, cleansing and migrating accounting data are on track | Pre-implementation reviews have been conducted, but the process is only starting | Pre-implementation reviews have been conducted, but the process is only starting | In progress and ongoing | In progress and ongoing | In progress and ongoing | Yes | In progress and ongoing | Yes | In progress and ongoing |

| *Main criteria* | *United Nations (2014)* | *Peacekeeping operations (mid-2013)* | *UNDP (2012)* | *UNFPA (2012)* | *UNOPS (2012)* | *UNICEF (2012)* | *UNHCR (2012)* | *UNRWA (2012)* | *UNJSPF (2012)* |
|---|---|---|---|---|---|---|---|---|---|
| Model draft financial statements have been prepared and shared with the Board | Yes | Yes | Yes | Yes | A draft was shared with the Board in 2011; a revised version with a revised set of accounting policies has not been shared with the Board | A draft was shared with the Board in 2011; the updated pro forma financial statements are still being finalized and were not shared with the Board at the time of the audit | Yes | No | Yes |
| There are clear plans for establishing opening balances | Yes, but they have not yet been fully tested for the IMIS solution | Yes, but they have not yet been fully tested for the IMIS solution | Yes | Yes | Yes | In progress and ongoing | Yes | No | No |
| A dry run using real accounting data is planned | Not yet fully tested for the IMIS solution and will involve a complex use of multiple systems | Not yet fully tested for the IMIS solution and will involve a complex use of multiple systems | Yes | Yes | Yes | Yes | Yes, but the timetable is tight | Yes | Yes |

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# I. Background

1. In July 2006 the General Assembly approved the adoption by the United Nations of the accruals-based International Public Sector Accounting Standards (IPSAS) for the presentation of the organizations' financial statements (resolution 60/283). IPSAS are independently developed standards, written specifically for the public sector. They are more precise and detailed than the internally developed United Nations System Accounting Standards, leaving far less scope for inconsistent interpretation.

2. Accruals accounting requires organizations to recognize costs when they are incurred and income when it is earned. IPSAS also requires full disclosure of the value of organizations' assets (such as property, plant and equipment) and liabilities (such as staff-related liabilities), which United Nations organizations have not always captured before. Thus, IPSAS-based accounts provide a more accurate picture of organizations' costs, income, assets and liabilities. Most importantly, it will provide better information to drive cost-effective decision-making, secure better value for money, enhance accountability and maintain long-term financial sustainability.

3. The High-level Committee on Management recommended that all United Nations system organizations, with the exception of three bodies that chose to adopt IPSAS early, adopt IPSAS no later than 2010. This implementation target proved impractical, and by 31 December 2009 13 organizations had revised their original timeline. Further deferrals followed. The latest implementation dates for United Nations system organizations are set out in annex I.

4. Two organizations (the International Atomic Energy Agency (IAEA) and the Universal Postal Union (UPU)) implemented IPSAS in 2011, while 10 organizations (mostly funds and programmes) planned to implement IPSAS by 1 January 2012. The United Nations University (UNU) and the Food and Agriculture Organization of the United Nations (FAO) deferred their planned implementation from 2012 to 2014. As at June 2012, the United Nations continued to work towards the first full year of IPSAS adoption as follows:

(a) For peacekeeping, the financial year ended 30 June 2014, which means the Administration will need to be ready in all practical respects by 1 July 2013;

(b) For the United Nations, the financial year ended 31 December 2014, which means that the Administration will need to be ready by 1 January 2014.

# II. Mandate, scope and methodology

5. In October 2010, the Advisory Committee on Administrative and Budgetary Questions recommended that the Board of Auditors prepare an annual report on progress towards IPSAS implementation (A/65/498, para. 19). The Board submitted its first report in July 2011 (A/66/151).

6. This second annual progress report summarizes the current status of progress, the key risks to successful delivery, the actions required to address them and the extent to which entities are actively managing the realization of potential benefits from IPSAS adoption. More generally, it addresses matters which, in the view of the Board, should be brought to the attention of the General Assembly. There are a

number of critical risks to achieving IPSAS implementation on time and to realizing the benefits of IPSAS implementation envisaged by the Assembly. The administrations recognize many of the risks and are actively addressing them, but the purpose of the present report is to provide the independent perspective of the Board on these matters, as requested by the Assembly.

7. In the present report, the Board has assessed progress made in relation to the nine entities within the Board's portfolio that implemented IPSAS as of 1 January 2012 and has identified residual risks that need to be managed to successfully implement IPSAS. In respect of the United Nations and its related entities, the Board continues to assess the adequacy of the plans in place, as well as the progress that has been made against those plans to implement IPSAS by the end of 2014. The present report contains findings and recommendations on managing the benefits from IPSAS adoption and progress in implementation by the United Nations (including peacekeeping operations) and the nine main entities (funds and programmes) already in their first year of adoption, as well as other entities in the Board's portfolio. The Board has also followed up on progress made with respect to its previous recommendations.

8. The Board undertook a comprehensive review at all the main entities of the IPSAS implementation plan and supporting documents, the draft accounting policy framework and evidence supporting the rationale for the policies, and other key documents. It also conducted interviews and meetings with key personnel involved in IPSAS implementation.

9. The Board's observations and conclusions were discussed with the respective administrations, whose views have been appropriately reflected in the report. The work was also coordinated with the work of the Office of Internal Oversight Services and the internal audit services of the funds and programmes, where relevant.

# III. Managing the benefits from the adoption of the International Public Sector Accounting Standards

## A. Follow-up to the Board's previous recommendations

10. In its previous report on IPSAS, the Board made 23 recommendations, of which 3 have been implemented, 19 (83 per cent) are under implementation and 1 has been overtaken by events. Progress on the implementation of recommendations is summarized in annex II. Ten of the recommendations were related to all entities and are commented on in the present section or the relevant sections of the present report. Ten recommendations were related solely to the United Nations and its peacekeeping operations and are commented on in section IV.A below. The remaining three were related to specific funds and programmes and are commented on in section V.

## B. Realization of benefits

### Benefits realization strategies

11. Projected benefits form an important part of the business case for implementing IPSAS. Benefits projections can also be used as a performance monitoring tool, as a basis for decision-making (for example, when considering change requests or changes to a project's scope) and to assess the overall success of a project at its conclusion. It is the delivery of the intended benefits from IPSAS that is the ultimate test of success, not only the delivery of unmodified opinions on the financial statements.

12. Evaluation and effective communication of the likely benefits across the Organization are powerful tools to help achieve business transformation, as stakeholders can more clearly see the tangible gain from accepting change. It is therefore important that entities make progress in the development and communication of the benefits realization plan during IPSAS implementation and use it to secure the buy-in of senior business owners who will be instrumental in the delivery of the benefits.

13. In its previous report, the Board highlighted and recommended in broad terms the need for all entities to: (a) define and plan for the benefits they expect to achieve from the new information that will be available under IPSAS; (b) establish clear accountabilities for their delivery; (c) establish mechanisms to track benefits delivery; and (d) keep senior management and governing bodies apprised of progress towards their realization (A/66/151, paras. 15 and 21). In general, the Board has seen limited progress in this area, primarily because of a strong focus on technical and practical issues with respect to the delivery of IPSAS. While the limited progress is understandable, the Board is concerned that the delivery of benefits cannot be overlooked entirely, and notes that the failure to actively manage benefits realization alongside technical delivery is a common factor in failed projects. Furthermore, there is a need to demonstrate to governing bodies the benefits derived from the significant investment made to implement IPSAS.

14. The Board notes that the system-wide IPSAS Task Force, drawing on the work conducted by the World Food Programme on its "IPSAS dividend", has started a process of common definition and data gathering on IPSAS benefits from the various entities. The Board considers that this work, while still ongoing, could provide a useful common framework for developing entity-level benefits realization plans.

15. The Board previously recommended that the United Nations establish an IPSAS benefits realization plan and organization-wide change management programme for IPSAS, to set out the changes and benefits that IPSAS will bring and underscore that senior management in every department and office must take ownership and drive the delivery of the intended benefits. The United Nations appointed a change manager in the third quarter of 2011, and a significant amount of progress has now been made, but a benefits realization plan remains to be finalized. The Administration anticipates that the plan will be fully developed, accepted by the relevant accountable manager and approved by the IPSAS Steering Committee in December 2012.

16. The Board considers that the proposed structure and coverage of the plan is broadly in line with best practice to reliably measure benefits, but will assess its implementation in 2013. In addition, while the Board notes the initial progress made in implementing its recommendation to develop a benefits realization plan, IPSAS implementation plans changed in early 2012, in that the United Nations will now use IMIS and other existing systems for first-time adoption. This potential delay to benefits realization will need to be taken into account.

17. The Board recommends that the United Nations, in developing the benefits realization plan take into account the impact of its decision to use IMIS and other existing systems.

18. In terms of the funds and programmes, the Board previously recommended that each entity establish an IPSAS benefits realization plan. The Board notes that limited progress has been made in identifying benefits and that virtually no progress has been made in developing a benefits plan. The Board notes, however, that the United Nations Children's Fund (UNICEF) has established a change management office and developed a new performance reporting system to track and monitor progress and provide real time performance reporting for management.

19. The Board notes that the Office of the United Nations High Commissioner for Refugees (UNHCR) is aware of the importance of benefits realization, and in response to its previous recommendation is developing a formal benefits realization and tracking methodology to be presented to the IPSAS Steering Committee for endorsement in the third quarter of 2012. UNHCR has discussed the benefits of IPSAS with the Board and is communicating the benefits to different stakeholders; however, a formal benefits realization plan has not been developed. Some benefits are, however, already being realized. For example, the global inventory management system has been verified for accuracy and obsolete assets have been identified and disposed of, reducing storage costs and providing global oversight of the inventory on hand.

20. While the United Nations Development Programme (UNDP), the United Nations Office for Project Services (UNOPS), the United Nations Population Fund (UNFPA), the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) and the United Nations Joint Staff Pension Fund have identified the benefits of IPSAS in their plans and objectives for IPSAS implementation, they have not developed a benefits realization plan. Given that each of these entities is now in the first year of IPSAS adoption, it is critically important for them to develop plans to capture and assess the benefits they will gain from adoption.

21. **For the United Nations and the funds and programmes implementing IPSAS, the Board reiterates its previous recommendations that they should: (a) define and plan for benefits they expect to achieve from the new information that will be available under IPSAS; (b) establish clear accountabilities for benefits delivery; (c) establish mechanisms to track benefits delivery; and (d) keep senior management and governing bodies apprised of progress towards benefits realization.**

22. **The Board also recommends that all entities finalize or prepare a comprehensive benefits realization plan by the end of 2012.**

23. **The Board considers that, in defining and managing benefits from the implementation of IPSAS, entities need to consider two important aspects among others:**

(a) **Benefits to operations.** Each operational business unit needs to determine how it will use the new information available to it, for example:

(i) Units with facilities management functions need to consider how to use the new information on asset valuations, depreciation and leases to determine the most cost-effective management of the estate, and assets replacement and maintenance strategies;

(ii) Supply management and logistics operations will need to consider what new information will be available on, for example, the existence, cost and valuation of inventory, and how this will impact on procurement and asset management strategies;

(iii) Human resources management units will need to consider the implications of the availability of new information regarding the scale and value of end-of-service and other staff-related liabilities. For example, a review of such liabilities might lead to reconsideration of funding strategies and a review of the affordability of benefits currently provided;

(b) **Benefits to financial management.** The implementation of IPSAS presents a major opportunity to enhance the role and profile of financial management in general and the finance function in particular, moving it away from a strong focus on transactional-level control of budgets and accounting, to greater input to, for example, the development of organizational strategy, the design and oversight of service delivery models and business transformation programmes, supporting operational decision-making and identifying opportunities for cost reduction. An enhanced role for finance functions will be vital if the United Nations system is to move forward effectively at a time of fiscal constraint and financial retrenchment.

### Delayed benefits realization owing to the adoption of transitional provisions

24. The Board has continually raised the need for improved recording and management of non-expendable property, and the implications of this for future IPSAS implementation in its past reports. The Board is concerned that several entities will adopt, or are considering adopting transitional measures under IPSAS 17 on property, plant and equipment. The transitional arrangement, considering the challenges of ensuring accurate property, plant and equipment balances, allows entities an optional five-year period to fully account for property, plant and equipment (previously referred to as non-expendable property). While acceptable within the IPSAS standards, this will result in another delay in fully accounting for assets in the financial statements and in realizing the benefits from improved control and more complete information. The Board considers, however, that many of the entities could avoid the use of the transitional provision through smarter focus of their remaining work on data preparation.

### Modernization of financial regulations and rules

25. The Board notes that while United Nations entities have made or proposed changes to their respective financial regulations and rules, and appropriately sought

the Board's views, only the minimal changes necessary to achieve IPSAS-compliant financial statements were made. There has been limited consideration of the larger changes that could be made to reflect the development of modernized business processes to provide accurate information in a timely manner regarding the activities of the organization.

26. As an example, the Board notes that management accounts[1] are poorly developed within the United Nations and its funds and programmes. The advent of both IPSAS and fit-for-purpose enterprise reporting systems will provide the capability for entities to provide valuable management accounting information to support their businesses. But this will require a strong financial management discipline across entities to ensure the underlying accounting data is entered accurately and on a timely basis. The entities, in turn, will need to define clear timetables for the frequency with which accounting data is to be available for such reporting purposes.

27. **The Board recommends that entities consider how information generated from IPSAS accounts can be used to develop comprehensive management accounts on the costs of operations to support effective management decision-making.**

28. The United Nations agreed with the recommendation, stating that the Administration had already embraced this idea and was incorporating its thinking into the design of Umoja. UNDP, UNFPA and UNOPS also have plans in place or under way to develop management accounts.

## C. Change management

### Staff training

29. In its previous report, the Board emphasized that the adoption of IPSAS was a major business transformation and required all of the disciplines and approaches necessary to effect business change. In particular, the Board highlighted the need for all staff to understand the impact of IPSAS on their day-to-day activities and the fact that they will need to carry out new processes or provide or use new information.

30. The Board noted that the United Nations had developed an enhanced training plan and that training would be provided to varying degrees throughout the Organization. A target audience of about 3,500 staff members worldwide would be given awareness training; some 1,500 staff members would be targeted for working-level conceptual training; and about 500 of the latter group would be given specialist training.

31. In January 2010, the Controller issued instructions to Directors/Chiefs of Administration that, as a first step, the awareness course computer-based training 1 should be taken by all administration staff, with other staff to complete the course closer to the implementation date. The Controller asked recipients to follow up with

[1] Management accounts are typically drawn from an organization's financial systems on a frequent basis (weekly and monthly), with the data packaged to assist managers in their business control and decision-making. Organizations can design management accounts to fit their purpose, as they are largely free of constraints imposed by legislation and accounting standards.

appropriate communications to staff requesting completion of computer-based training 1. On 14 November 2011, the Department of Field Support instructed all Directors/Chiefs of Mission Support to complete the seven modules of the online IPSAS training programme by 31 December 2012. In addition, the current workplan includes the development of a course aimed specifically at senior managers at the IPSAS sponsor level. This level mainly comprises Assistant Secretaries-General and Under-Secretaries-General. The course is anticipated to be completed by 31 December 2012.

32. Training started in the fourth quarter of 2011 and is expected to be completed by the end of the second quarter of 2013, just before the start of the first year of IPSAS adoption in the peacekeeping operations. Based on discussions with the IPSAS implementation team, the Board estimates that some 1,500 staff have already received either online or instructor-led training, and that the Administration is making good progress with rolling out its training plan. The Board notes that a change manager has been appointed to oversee the implementation of the training plan, which is a welcome strengthening of the arrangements for business transformation.

33. At the funds and programmes, the picture is one of progress on rolling out the basic (mostly webinar) training for staff, but with limited progress in developing more specific training for staff and managers who will play a vital role in assuring, providing or using new information. UNDP, UNOPS, UNFPA and the United Nations Joint Staff Pension Fund have carried out specific user training, while UNRWA plans to do this during the third and fourth quarter of 2012. The Board also noted good progress on training at UNICEF.

34. The Board notes that IPSAS will require a shift in the skills set required in finance functions. Entities recognize there will be challenges in recruiting staff that are knowledgeable about IPSAS. Continuous rigorous training and updates will also be required as the standards themselves are developed further over time. Furthermore, some entities will have to account for more complex transactions under IPSAS. For example, the Board notes that the Pension Fund manages a $40 billion investment portfolio composed of a variety of complex financial instruments. This will pose ongoing technical accounting challenges under IPSAS. The new Chief Financial Officer of the Fund will need to consider initiatives to enhance the expertise at the Fund to manage such a complex portfolio on a daily basis.

35. Entities need to consider the adequacy of their training and resourcing strategies for training to ensure that they are commensurate with and maintain the level of accounting expertise required. The Board notes that one solution that has been developed by UNDP is the establishment of a global shared service centre where complex accounting transactions will be processed for all country offices, thus using core expert staff efficiently for the benefit of the whole entity.

36. **For all entities, the Board reiterates its previous recommendation that senior managers within the United Nations and its funds and programmes should, as a minimum, complete IPSAS awareness training that emphazises the benefits of accruals accounting and how it might improve decision-making and business performance.**

### Communication strategies

37. The Board previously recommended that entities develop organization-wide change management programmes 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. The Board notes that all entities addressed this recommendation during the year.

38. As previously recommended by the Board, the United Nations has developed a communications plan focused on three target audiences:

(a) Those who will be provided with awareness training on IPSAS and be kept aware of the implementation progress;

(b) Those who will support or be impacted by IPSAS implementation and must understand the impact IPSAS has on their work responsibilities and know when these changes will occur;

(c) Those who must understand the changes brought by IPSAS implementation across the Organization and whose support is important for the success of implementation.

39. The Board considers that the United Nations communications plan is well developed, includes all the key stakeholders and identifies actions for their involvement in the business transformation. The Board would encourage the Administration, however, to test during roll-out whether all United Nations staff have a common and shared commitment towards the IPSAS project to help with its successful implementation.

## D. Harmonization and standardization of business practices

40. The Board notes that, although complex accounting policies have been discussed with the IPSAS Task Force, for the most part the entities have developed their own set of accounting policies and have referred, in limited cases, to the United Nations accounting policy framework. The Board is aware that UNFPA, UNDP and UNICEF, however, have sought in applicable instances to harmonize their accounting policies where appropriate. IPSAS are principle-based standards requiring the exercise of judgement, as they do not contain definitive guidance on every matter. It is therefore entirely appropriate for entities and the United Nations to assess and evaluate the individual circumstances relating to their businesses and to determine whether the accounting policy they have developed is appropriate and in compliance with the principles of IPSAS. In some more complex and specific areas of activity, entities will need to exercise judgement and agree on policies on a case-by-case basis with the Board.

41. One of the benefits of adopting IPSAS was to bring consistent and comparable accounting treatment among the entities of the United Nations system. The Board endorsed and recognized the need for every entity to adopt the policies that best suit its business and circumstances. The Board notes the continuing discussions and progress by the United Nations system-wide IPSAS Task Force, but considers that there remains scope for improved consistency in accounting policy treatments among entities with similar business delivery models.

42. The Board encourages all entities to monitor and seek greater consistency over time, as they begin to fully understand the impact of their accounting policies, especially where the activities and business models are substantively the same across entities. This will facilitate improved comparison of financial and other aspects of performance across entities, one of the important benefits the General Assembly was hoping to achieve through IPSAS adoption.

43. **Conscious of the need for each entity to apply IPSAS-compliant accounting policies to fit its specific circumstances and activities, the Board reiterates its previous recommendation that the IPSAS Task Force establish the reasons for significant differences in accounting policy treatments with a view to achieving greater consistency.**

## E. Annual accounts and reporting

44. Under IPSAS, financial statements will be produced on an annual rather than a biennial basis. The requirements of IPSAS may also lead to the production of an increased number of financial statements, as some entities currently included within the financial statements of parent bodies may need to produce separate accounts. The production of more frequent financial statements and clearer reporting is one of the benefits of the switch to IPSAS, but this comes with practical consequences that need to be managed. In its previous report, the Board highlighted the need for the Administration to deal with the implications of annual accounts and reporting, and the increased workload this will produce, for the schedule of work of the Advisory Committee on Administrative and Budgetary Questions and Fifth Committee (A/66/151, paras. 31-33).

45. In addition, the Board notes that account closure dates and dates for the production of financial statements may need to be reconsidered, in concert with the requirements of the General Assembly, as entities move to annual accounting. For example, under their financial rules, UNDP, UNFPA and UNOPS are required to submit financial statements by 30 April, and the United Nations and other entities submit financial statements by 31 March.

46. The Board is aware that the revision of submission dates requires careful consideration of all matters that affect closure of accounts, including dependencies among United Nations organizations, the ability of the General Assembly to revise its own schedule, timely availability of assurance mechanisms for expenditure and the need to ensure compliance with IPSAS. IPSAS requires financial statements to be published no more than six months after the end of the financial period in order to ensure that audited accounts are available in good time to support accountability and effective decision-making. The Board recognizes that this may not be possible to achieve considering the legislative processes of the General Assembly, but will continue to discuss the matter with its stakeholders.

# IV. Findings and recommendations on the United Nations and its peacekeeping operations

## A. Follow-up to the Board's previous recommendations

47. Of the 10 previous recommendations relating specifically to the United Nations and its peacekeeping operations, the Board considers that 2 have been implemented, 5 are under implementation and 3 have not been implemented (see annex II). In its first progress report on IPSAS implementation (A/66/151), the Board highlighted the impact on IPSAS implementation of an expected delay in readiness of the United Nations new enterprise resource planning system (Umoja). Previously the Administration had strongly tied the implementation of IPSAS to the availability of Umoja. At the time of the Board's first report, the Administration had decided on a two-part implementation strategy — Umoja Foundation and Umoja Extension[2] — and a mixture of reliance on a partially rephased Umoja, the use of some modified legacy systems and a range of manual workarounds. In response, the Board made a number of recommendations, in particular that the Administration:

(a) Fully examine all of the potential interdependencies, risks, costs and benefits of a phased implementation of Umoja and IPSAS;

(b) Finalize and agree on contingency plans, should the phased implementation of Umoja prove impossible or fail;

(c) 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 would be collected, cleansed and migrated to Umoja, supported by plans at the operational level to provide a sharp focus for the efforts of departments, offices away from Headquarters and missions;

(d) Develop, as a matter of urgency, an effective risk framework for IPSAS implementation;

(e) Establish a clear plan for data collection, cleansing and migration for IPSAS implementation, communicate requirements to relevant staff and urgently commence with the exercise.

48. The United Nations IPSAS implementation team has, over the course of 2011 and early 2012, been developing an implementation plan. But the plans need to be fully updated because the new enterprise resource planning system will only be ready for use by peacekeeping operations in October 2013 and only partially for the United Nations in 2014, initially using IMIS, and because of the sheer scale of certain data capture issues, particularly with respect to property, plant and equipment.

49. The Administration is currently redesigning the implementation strategy based on the decision to use IMIS. This, in turn, means the Board's recommendations can only be partially implemented because the Administration will have to revisit its

[2] Umoja Foundation is the initial enterprise resource planning system providing accruals accounting functionality for financial statement production. Umoja Extension involves the addition of functionality and modules for other business workflows such as human resources and procurement.

assessment of interdependencies, contingency and implementation planning, and risk assessment. The Board comments further on this issue in the relevant sections of the report.

50. The Board acknowledges the positive steps being taken. For example, since June 2011 the IPSAS implementation team has developed project and risk management tools to assist Headquarters and local staff begin the process of gathering, preparing and cleansing data. The project management tool is designed to enable local teams to track progress of planned activities, capture risks and issues, and provide a dashboard report to the central IPSAS team summarizing progress on the capture and cleansing of key accounting data. A risk management tool is also being rolled out in parallel, creating a risk register for each location. The risk registers follow a conventional risk assessment format showing key risks, risk likelihood and impact, as well the planned mitigating actions, and assigns accountability to identified risk owners.

51. Both the project and risk management tools have been created to enable online collation of information on a regular basis. The IPSAS implementation team requires the tools to be updated and submitted one week before the monthly IPSAS Steering Committee meeting to permit a high-level composite report to be produced for the Steering Committee highlighting the key risks to implementation. The first such risk assessment was considered by the IPSAS Steering Committee in April 2012.

52. The Administration is focused on achieving target deadlines and is adjusting its strategy and detailed plans to react positively to the changing circumstances created by the delays in developing Umoja.

53. The Board also previously recommended that the Administration include the joint Umoja/IPSAS working group established in 2011 in its formal governance structure. The Board notes that the joint working group has been dissolved; its recommendation has therefore been overtaken by events. The delay in the deployment of Umoja has led to a partial delinking of the business change activities for the transition period. The Board notes that, even so, the two projects continue to coordinate and collaborate extensively, and that the Management Committee continues to review both projects concurrently.

## B. Progress against milestones

### Changes in the implementation strategy

54. While the Administration’s key implementation milestones remain in place, the decision to rely on IMIS and manual workarounds, rather than Umoja, means that underlying planning assumptions regarding IPSAS implementation have fundamentally changed. The IPSAS implementation plan developed since June 2011 was based on the roll-out of Umoja Foundation, which had specific functionality to support accruals-based accounting. This aspect of the implementation plan is now in large part no longer relevant, and at the time of preparation of the present report a further iteration of the strategy was under development. The Board reports on the problems that have impacted the implementation of the enterprise resource planning system in its separate progress report on Umoja (A/67/164).

55. The Administration took the decision not to rely on Umoja Foundation because there was too great a risk that it would not be delivered on time, and any further delays would potentially leave the United Nations without the means to produce financial statements. The Board recognizes that IMIS is an established system familiar to staff at Headquarters and in the field and that using IMIS relieves the immediate pressure on the schedule for Umoja implementation.

56. The Board is aware that without the support of Umoja, the decision to rely on IMIS remained the only feasible option for the Administration to pursue within the existing deadlines. This decision was therefore driven by necessity (the Board had previously recommended that formal contingency plans be put in place, but this was not done), but the Board recognizes that this is a sensible approach, in that IPSAS transition arrangements, based on IMIS and legacy systems, will be part of the contingency plans to tackle potential slippages in the new Umoja deployment plans. While the Board considers this revised approach to be feasible, it will require a very well-designed and executed strategy. In the meantime, the Board is concerned that with relatively little time left to complete remaining IPSAS work, the viability of the IMIS solution has not yet been fully tested or confirmed. In particular:

(a) While recognizing that work on this started immediately upon the decision to utilize IMIS, the United Nations has not yet fully scoped or tested the required changes to IMIS to enable it to prepare and process transactions on an accruals basis at Headquarters, in the field and at other locations away from Headquarters. It is therefore possible that the United Nations may find it is not viable to use IMIS as envisaged. When the present report was under preparation, the Administration informed the Board that most of the critical changes had been fully scoped and that functional and technical specifications had already been completed. Some functionality had been scoped but not defined owing to competing priorities, but the Administration remained confident that these could be delivered on schedule;

(b) With the strong focus in recent years on Umoja development, the IMIS technical support team has been streamlined and reduced to a level where, in the Board’s view, it is now underresourced and lacks the skills required to develop general ledger coding structures to support accruals-based accounts and make the required amendments to IMIS to enable it to support IPSAS implementation. At the time of preparation of the present report only three staff remained in support of IMIS. The Administration informed the Board, however, that it remained confident that it had sufficient expert resources proficient in accounting and the IMIS software and that all IMIS enhancements would be prepared, tested and deployed to all locations by the end of 2012. The Administration further stated that it had maintained IMIS for the last two decades and anticipated no technical difficulties in executing the planned changes;

(c) While recognizing the Administration’s intention to use automated interfaces and automated IMIS functionality where available and appropriate, the Board notes that all accounting data outside IMIS will be posted using manual journal vouchers,[3] increasing the inherent risk of errors to completeness and

[3] A written authorization prepared for every financial transaction that is an integral part of the audit trail and typically includes a serial number, the transaction date, the transaction amount, the ledger account(s) affected, reference(s) to documentary evidence (such as invoices or receipts) supporting the entry, a brief description of the transaction and the signature(s) or initials of one or more authorized signatories. In a normal environment, they are typically used to make adjustments or corrections to the books of accounts.

accuracy. This is an acute risk in light of the scale of the data involved, in particular assets data, and there is a likelihood that Headquarters staff will simply be unable to validate and check manual inputs in the field. The Board is concerned that there is a risk that the underlying transactional data will not properly support the IPSAS financial statements;

(d) IMIS will consolidate accounting data to trial balance level, but the financial statements will then be produced through a manual process. While IMIS is a proven system, the Board has direct experience of, and has previously expressed concern about, the complex set of additional offline manual tasks required to produce financial statements under the United Nations System Accounting Standards. These processes will be even more time-consuming, complex and risky under IPSAS. At the time of preparation of the present report the Administration informed the Board that the scope and methodology of necessary adjustments under IPSAS had been identified, that simulations would be performed to fine-tune the process and that controls would be strengthened if the IPSAS-related processes were deemed riskier.

57. The Board considers that the decision to use IMIS instead of Umoja places some of the key milestones at serious risk. For example, given the huge volume of data to be prepared, the Board is concerned that the United Nations may not have sufficiently reliable accounting data in time to conduct planned dry-run audits of IPSAS-based financial statements for peacekeeping operations at the end of 2013, and for the United Nations at the end of June 2014.

58. In addition, the manual creation and collation of key accounting records and data for the first set of IPSAS financial statements may prove to be extremely challenging. For example, information on property, plant, equipment, inventories and locally recruited personnel in non-Headquarters locations and field offices will be recorded on a variety of systems, including in some cases spreadsheets. Without a common system and format for recording such data there is a significant risk of accounting data being inconsistent, incomplete and inaccurate.

59. The Administration acknowledges that generating reliable information on property, plant, equipment and inventories, especially in the non-peacekeeping environment where there is an absence of one common system across the offices away from Headquarters, will be particularly challenging. The Board notes the Administration’s desire to avoid enhancing local systems for a purely transitional phase. The Administration informed the Board that other alternatives, such as deployment of Galileo to non-peacekeeping areas, have been considered but shelved owing to the change management effort involved. Recognizing the challenges in assets accounting, the central IPSAS implementation team is developing standard formats to capture the relevant information from the source systems so that accounting data will be consistent, complete and accurate; and the auditability of these systems is also being reviewed to ensure the reliability of the data generated.

60. The Administration acknowledges that for the financial statements of the United Nations in particular, until Umoja is fully deployed, it is inevitable that the current consolidation process will have to be expanded to accommodate IPSAS requirements for the data outside IMIS, and that owing to increased requirements under IPSAS, it is inevitable that the consolidation tasks will be more challenging. The Administration informed the Board that it plans to enhance the closing

instructions and develop and utilize other procedures to ensure that Headquarters staff can validate the quality of data from the field.

61. The Board notes that the overall IPSAS implementation plan was updated at the end of April 2012 to identify how IMIS will be integrated into the IPSAS project. The IPSAS plan now shows that in respect of IMIS the key target dates are as follows:

(a) Development of technical adjustments/enrichments to IMIS and local databases and systems and procedures to support the requirements of IPSAS starting on 30 June, with a target date for completion of 31 October 2012;

(b) Introduction of new IMIS object codes to separately capture IPSAS-associated costs relating to acquisition of assets starting on 1 October 2012, with a target date for completion of 1 January 2013;

(c) Completion of development and testing of the initial version of technical adjustments/enrichments to IMIS, Procure Plus, local databases and systems and office-specific systems and procedures to support the requirements of IPSAS by 31 December 2012;

(d) Testing of the IMIS parallel ledger process and enhancement of the financial statement consolidation process with data as at 31 December 2012 by 31 July 2013;

(e) Confirmation of the final version of the transition plan, with instructions for opening balances and tested IMIS parallel ledger and enhanced financial statement consolidation processes, and full architecture of staging areas, enhanced systems and processes to support IPSAS by 30 September 2013.

62. The Board welcomes the Administration's identification of key tasks and target dates to prepare IMIS for IPSAS implementation, and acknowledges that there has been an intensive series of meetings since February 2012 between the United Nations IPSAS implementation team and key staff at offices away from Headquarters and within the Department of Field Support on the need to use IMIS, Galileo and Mercury as part of the IPSAS transition strategy; as well as detailed briefings for the Management Committee. The Board notes, however, that the plan as it stands provides little detail beyond the five high-level tasks concerning how IMIS preparation will be phased among New York and the offices away from Headquarters and what each task will entail. The Board encourages the Administration to develop further each of these key tasks and to set out in more detail the work to be undertaken for their successful delivery.

63. **The Board recommends that the Administration: (a) detail, within the implementation strategy, what each of the key tasks set out in paragraph 61 will involve and provide coverage to all the affected entities in volumes I (United Nations) and II (United Nations peacekeeping operations) of the financial reports and audited financial statements; and (b) reassess the risks to implementation. The Board recommends that the implementation strategy be completed, at the latest, by the start of the third quarter of 2012.**

64. **The Board also recommends that, in finalizing the new implementation plan, the Administration clarify: (a) when and how it will be confirmed that IMIS has the requisite functionality to handle accruals-based data and the costs that will be involved in any upgrading; and (b) the consolidation process to**

**produce IPSAS-compliant financial statements volumes I and II of the financial reports and audited financial statements.**

65. The Administration agreed with the recommendations. It stated that a document setting out detailed IPSAS transition arrangements had been drafted as of 19 June. The document provides details on how the main gaps to IPSAS implementation, as a result of the delayed Umoja implementation, will be addressed using legacy systems such as IMIS, Galileo and Mercury. It also describes the guiding principles of the transitional arrangements and the initial risk log, along with contingency measures to address those risks. The document has been used to brief Accenture, the vendor that has been engaged to perform a validation of the IPSAS transitional arrangements to ensure synergy with the Umoja deployment plans and data migration efforts. The results of the validation will be available by mid-August, allowing for further refinement of the plans to mitigate risks.

*Upgrade of the Integrated Management Information System*

66. The Board notes that obtaining key benefits from IPSAS depends on having a functional accruals-based reporting system in place to enable management to use the new information to improve the delivery of operations and services. Such reporting functionality will not be available from IMIS, but is one of the key deliverables of the enterprise resource planning project. Key benefits from IPSAS will therefore be delayed every year that reliance is placed on IMIS.

67. The Board has highlighted the risks of error inherent in using significant manual workarounds. The requirement for workarounds stems in part from the need to combine information from many different legacy systems, such as Galileo, Sun and Mercury. Electronic interfaces would be a far more reliable method of data transmission than manual journal postings, but it is unclear how and when such interfaces might be built, or whether there is a business case to do so. The Administration needs to assess whether IMIS should be upgraded to include electronic interfaces to obtain accruals-based figures for opening and year end balances (enhancing both the quality and auditability of the data) rather than the riskier option of posting manual journal vouchers. In the meantime, there remains a lack of clarity about how and when the switch from IMIS to Umoja will happen.

68. The Administration informed the Board that it intended to minimize manual data entry by utilizing automated data upload functionality within IMIS. If warranted, IMIS web capabilities could also be used to minimize the data transfer risks for field operations. The Administration recognized, however, that there was a significant gap in IMIS functionality relating to assets accounting, in particular in a number of non-peacekeeping locations and for certain types of assets, and that it did not yet have a complete plan for capturing assets data. The options for dealing with this problem were still being evaluated at the time of preparation of the present report. The Board is concerned that such a complex issue, which is critical to the successful implementation of IPSAS, is currently unresolved.

69. The Board recommends that the Administration assess and clarify: (a) the costs and benefits of developing electronic interfaces between IMIS and legacy systems for the purpose of the production of IPSAS financial statements; and (b) when and how the switch from IMIS to Umoja will be made. The Board also recommends that the Administration formulate a viable solution for capturing accurate and complete assets accounting data as a matter of urgency.

70. The Board notes that the Financial Information Operations Service of the United Nations Secretariat is working with the IPSAS implementation team and the Department of Field Support on the design of the IMIS solution. Some critical dates have been identified, in particular the Financial Information Operations Service and the IPSAS implementation team must agree on the required general ledger structure by 30 June 2012; once this has been agreed, the Office of Information and Communications Technology will develop the general ledger application by 31 August 2012 based on the current requirements of the Financial Information Operations Service. The Board notes that the Umoja development team is developing a chart of accounts and related coding structure known as a coding block.

71. In order to maximize the benefit from work already undertaken on developing the chart of accounts and the account coding structure by the Umoja team, the Board recommends that the Office of Information and Communications Technology and the Financial Information Operations Service continue to work closely with the team in developing IMIS functionality to deliver IPSAS, using the knowledge and experience already gained in developing the Umoja general ledger application.

**Readiness in missions and offices away from Headquarters**

72. Since June 2011, the IPSAS implementation team has undertaken pre-implementation reviews and testing at the United Nations Interim Force in Lebanon, the Economic and Social Commission for Western Asia, the United Nations Office at Nairobi, the United Nations Office at Geneva, the International Trade Centre, the United Nations Office at Vienna and the United Nations Mission in Liberia. These exercises assumed the use of Umoja Foundation to support IPSAS implementation, and the results are not therefore wholly relevant to the new strategy.

73. Based upon its work in missions and offices away from Headquarters, and drawing on assistance and insight from the Office of Internal Oversight Services, as well as the results of the Administration’s pre-implementation reviews, the Board noted a number of consistent themes and concerns emerging across all locations. In particular:

(a) Delays in the Umoja project mean that there is no system functionality available to support assets data gathering, and the task of data gathering, validation and cleansing is only just starting. Therefore, the timeline for completing IPSAS-compliant assets verification and valuation and for changes to systems and development of manual workaround processes do not align with the target dates for IPSAS. The Board acknowledges, however, that templates for data gathering, for instance for real estate in November 2011, have been developed and that instructions for plants and equipment have been issued. The Administration also informed the Board that at the time of preparation of the present report drafting of functional and technical specifications for changes to Galileo had been completed, as had the procurement of consultants to develop the first phase of the assets valuation methodology for peacekeeping operations;

(b) The resources required for data gathering, validation and cleansing have been underestimated. Locations away from Headquarters are not adequately resourced to undertake preparatory work or implementation and are having to find resources from within existing budgets, in addition to resources needed for Umoja implementation and, in the case of missions, for implementation of the global field support strategy. The additional work is required without any change to existing mandates. If local implementation teams are under-resourced and do not have clear priorities, it could critically slow down, not only IPSAS implementation, but also other important business transformation projects;

(c) There is insufficient understanding at the local level of the benefits of implementing IPSAS, combined with a lack of local senior management buy-in, accountability and engagement to support implementation.

74. **The Board recommends that senior management: (a) act quickly to resolve any conflicting business transformation priorities; and (b) ensure that adequate resources are available to missions and offices away from Headquarters to support IPSAS implementation and other business transformation projects.**

75. The Board also reviewed the Administration's own assessment of progress in implementing IPSAS in the United Nations and its peacekeeping operations. A summary is presented in annex III, including the Board's comments on the progress made. The update provided by the Administration is consistent with the Board's findings, as reflected in the present report and shows that good progress has been made in the peacekeeping operations in some areas such as developing the accounting policy framework. However, the Board identifies a number of issues and is particularly concerned that the accounting manual to be used by peacekeeping operations may not be started until March 2013 — some three months before IPSAS is due to go live.

### Development of the IPSAS accounting policy framework

76. The United Nations completed the initial draft of the complete accounting policy framework in January 2012 and has actively engaged with the Board to clarify and agree on their proposed accounting policies. Although some of the proposed policies were not immediately IPSAS-compliant (see annex IV), the IPSAS implementation team has addressed the Board's concerns, and there are now only a few residual matters to be resolved.

### Development of application guidance

77. Given the tight timescale for adoption in the peacekeeping operations and the Secretariat, it is vital that the agreed set of accounting policies be converted into practical guidance that can be readily applied by staff. As noted by the pre-implementation reviews, the missions and offices away from Headquarters consider this a vital step if they are to be able to move forward efficiently and effectively.

78. The Board understands that the IPSAS implementation team plans to update and amend existing accounting guidance rather than develop new instructions. It will therefore be essential for updates to existing guidance to be carefully reviewed for consistency with the IPSAS accounting policy framework before being issued. As noted in paragraph 75 above, the Board is concerned that current plans envisage issuing a revised accounting manual for peacekeeping operations only three months before IPSAS is due to be implemented. The Board considers that this important manual should be issued no later than December 2012.

79. The latest proposal to use IMIS is predicated on entering accruals data onto IMIS using journal vouchers prepared from accruals-based records from offices in remote locations where IMIS is not available. This means that the key internal IMIS controls currently in place to validate data and prevent errors will not operate at such remote locations. Senior management will therefore need to ensure that there are key compensating controls in place at remote locations to ensure the accuracy of the considerable amount of accruals data input to IMIS.

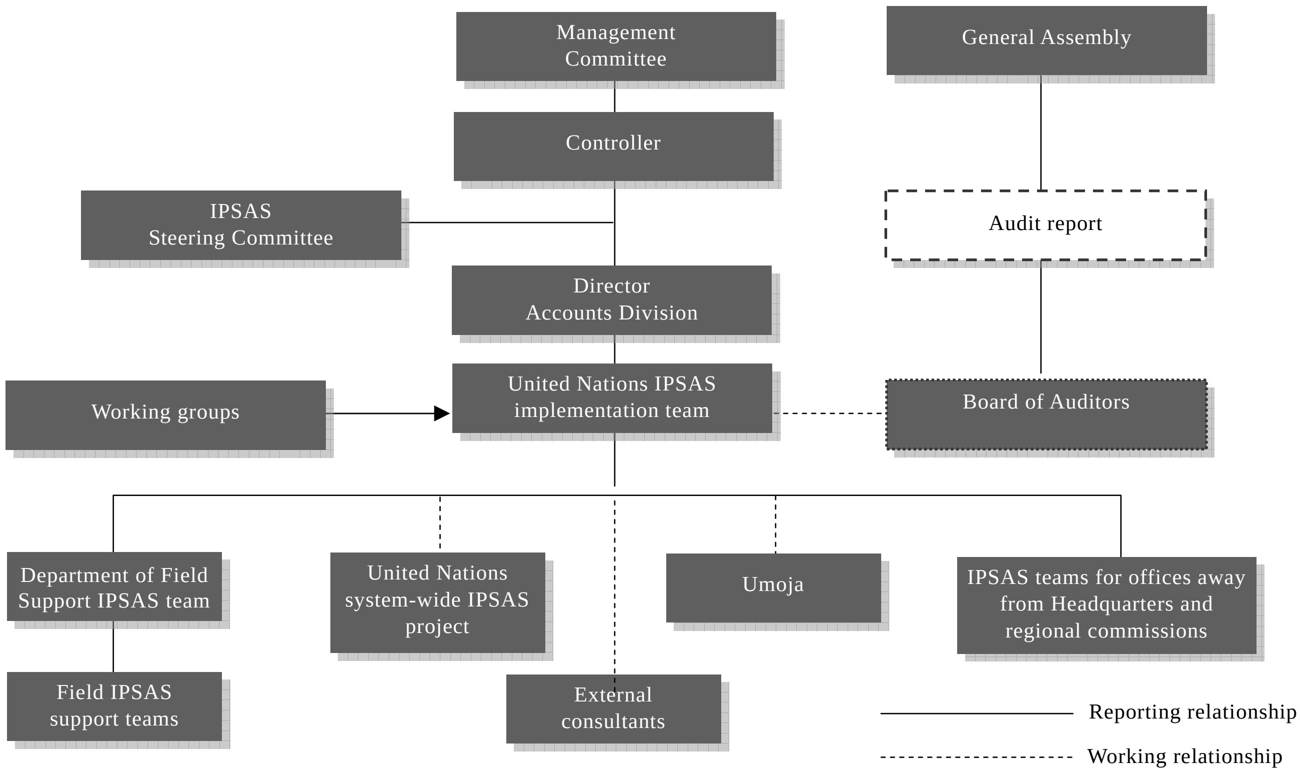
80. **The Board recommends that in developing guidance on IPSAS for use across the United Nations, and in particular at those locations where IMIS and its control environment are not available, the Administration should: (a) ensure that procedures are incorporated into the guidance to ensure adequate control over the accuracy, completeness and reliability of data prepared for manual input into IMIS; and (b) consider whether it will be more cost-effective, less complex and less risky to develop the application guidance afresh rather than updating and amending existing accounting guidance. The Board also considers that revised guidance should be available for peacekeeping operations no later than December 2012.**

81. The Administration agreed with the Board’s recommendations. It stated that some existing guidelines may be worth updating. For example, property management guidelines have several existing procedures, such as for assets verification and impairment tests, that would lend themselves favourably to IPSAS-compliant financial reporting, thereby reducing the change management effort.

## C. Governance

82. The IPSAS Steering Committee remains the key governance body for IPSAS implementation (see figure below). The Board notes that during 2011 and 2012 the Committee has increasingly focused on identifying and managing risks for timely implementation, rather than on policy formulation. A high-level risk register for the project is maintained and is regularly monitored by the Steering Committee. In view of the heightened risks to timely implementation relating to the heavy dependency on Umoja implementation, the Management Committee has also intensified its oversight of both the Umoja and IPSAS projects, including assessing the interdependencies of their respective implementation strategies, through quarterly reviews and other interventions as necessary.

**IPSAS project governance structure**




*Source*: United Nations IPSAS implementation plan.

83. The Board notes that following its previous recommendations the IPSAS governance structure has been strengthened. The day-to-day responsibility for managing the project remains with the Deputy Controller, who also chairs the system-wide IPSAS Task Force. The Controller chairs the IPSAS Steering Committee, and the Administration informed the Board that she is also the senior responsible owner for the project. Given the importance of the IPSAS project, and the interdependence of the Umoja and IPSAS projects, the Management Committee, now chaired by the Chef de Cabinet, has intensified its oversight of the progress of these two projects and actively intervenes to facilitate their timely implementation. The Board considers that the action taken to strengthen senior management arrangements is a positive step demonstrating the necessary level of commitment and engagement at a suitably senior level in the United Nations and will assess the impact of these changes in its future reports.

84. The current structure as shown in the figure above has not been updated to reflect the shift in strategy to use IMIS for first-time adoption. The Board considers that the Financial Information Operations Service and Office of Information and Communications Technology teams now developing IMIS for IPSAS implementation should be integrated into the governance structure to establish clear reporting lines on progress with the IMIS solution and to enable IPSAS project owners to manage the risks arising from IMIS.

85. **The Board recommends that the IPSAS Steering Committee integrate the IMIS technical support team into the overall IPSAS project framework to ensure accountability and monitoring of this new aspect of the project.**

86. The Board notes that in 2010 the Administration established a joint IPSAS and Umoja working group, but that the working group has not been retained. The Administration has reverted to the Steering Committees for IPSAS and Umoja, and discussions on overlapping issues are dealt with by the Management Committee. The Board's previous recommendation about formalizing the new joint working group (A/66/151, para. 53) has, therefore, been overtaken by events.

87. While the Board notes the strengthening of the governance arrangements within the Management Committee, given the interdependencies of the IPSAS and Umoja projects, there is a clear need for the two projects to be closely aligned to ensure that their concurrent objectives are met. The Board notes that there is very close cooperation between the respective project implementation teams. The Board previously recommended that the Administration assess the feasibility of combining the business change activities for IPSAS and Umoja (ibid., para. 52). In view of recent developments, the Board encourages the Administration to continue to enhance the arrangements for appropriate joint working, planning and change management activities on the two projects.

**Implementation budget**

88. The overall indicative budget approved by the General Assembly for IPSAS adoption in 2006 was $23 million (see annex V). The overall budget remains the same, although the split between the amounts to be funded from the regular budget (formerly $11.6 million, now $9.6 million) and the support account for peacekeeping operations (formerly $11.4 million, now $13.4 million) has changed as the level of effort required for preparedness of peacekeeping operations is considered to be more resource intensive. As at the end of March 2012, the Administration had spent some $7.2 million between 2006 and 2012, with $9.1 million still available to the end of the current biennium.

89. There is no planned reduction to the $23 million budget, and the Administration accepted the Board's previous recommendation that the available budget be more closely aligned with the implementation strategy. The Board notes, however, that the budgetary information provided has not been updated to reflect the new strategy to use IMIS. It is not clear how the changes to IMIS will be resourced or whether, more specifically, IMIS changes will be funded from the Umoja budget, the IPSAS budget or an entirely separate IMIS budget.

90. The Board notes that the allocation set aside for the use of consultants funded from the support account has risen from $6.4 million to $9.4 million. This compares with a total of $5.1 million for established permanent posts. The Board previously highlighted the need to balance the use of consultants against the need to develop sustainable internal financial management capacity and capability. The Board again encourages the Secretariat to ensure that sufficient in-house IPSAS expertise is developed and retained after implementation to maximize the benefits from IPSAS and to ensure the long-term sustainability of IPSAS adoption.

91. The Board has highlighted findings from the pre-implementation review that resources at offices away from Headquarters are limited. The Board understands that

not all of the offices have a separate budget for implementation and that they are expected to find resources from existing allocations. Uncertainty remains, however, as to how this will be achieved, particularly when set against other priority business transformation activity, such as implementing the new enterprise resource planning system. The Board is concerned that there is a general lack of clarity and information on the scale of activity needed outside of the Headquarters IPSAS implementation team and how this will be resourced.

92. **The Administration agreed with the Board's recommendation that it clearly identify the budgeted resources required to implement the revised strategy and to support first-time adoption of IPSAS.**

93. **The Board also reiterates its previous recommendation that the Administration plan for sufficient in-house capacity and expertise for IPSAS implementation and to support the project in the longer term.**

94. The Administration informed the Board that it recognized the merit of the Board's recommendation to develop adequate in-house capacity and expertise to support post-implementation activities. It noted, however, that many of the contractual resources were geared towards managing the initial rounds of training and the surge capacity needed during the preparation of opening balances.

# V. Findings and recommendations on the United Nations funds and programmes

## A. Overall summary

95. The present section provides an overview of the progress made by United Nations funds and programmes audited by the Board. It focuses mainly on those entities with a 2012 IPSAS adoption target which are in the first year of implementation and are aiming to produce their first IPSAS-compliant financial statements in 2013.

96. Table 1 provides an updated overview of the progress made by entities in implementing IPSAS in 2012. While most of the entities still face varying degrees of risk to successful implementation and the Board cannot conclusively say at this time whether an auditable set of financial statements will be successfully produced, the Board considers that:

(a) UNDP, UNFPA, UNOPS, the United Nations Joint Staff Pension Fund, UNRWA, UNICEF and UNHCR are on track for successful implementation in 2012. There are specific areas in which each of these entities can make some further improvement (for example, in concluding work on valuation of assets and liabilities) to manage residual risk;

(b) UN-Women is a newly formed entity that has chosen 2012 as its first year of IPSAS implementation. The Board is concerned with progress to date and considers successful implementation to be at higher risk. The Board comments separately on UN-Women in section V.C.

97. UNDP, UNOPS, UNFPA, UNICEF, UNRWA and the United Nations Joint Staff Pension Fund have completed their accounting policy frameworks; but two entities (United Nations Joint Staff Pension Fund and UNRWA) only finalized their

accounting policies during 2012, after the start of the first year of adoption. The completion of these policies during the first live year of IPSAS implementation means that the entities concerned will need to adjust their accounts to incorporate the accruals-based figures for the opening balances as at 1 January 2012. This is an additional complexity for them to overcome in preparing the opening balances and increases the risk of error.

98. While the entities are on track generally, they still face a number of challenges that could affect the successful implementation of IPSAS:

(a) Ensuring that all key accounting data have been collected, cleansed and brought into the appropriate accounting system and are ready to be converted into auditable opening balances. The Board notes that despite its previous recommendations on these matters many entities had not yet completed their data cleansing exercises at the time of preparation of the present report;

(b) Preparing dry-run financial statements containing real accounting data ready for audit by the Board no later than 30 September 2012;

(c) Developing benefits realization plans and associated change management processes.

Table 1
**Progress against implementation targets**

| *Main criteria* | *UNDP* | *UNFPA* | *UNOPS* | *UNICEF* | *UNHCR* | *UNRWA* | *United Nations Joint Staff Pension Fund* |
|---|---|---|---|---|---|---|---|
| Risk to 2012 IPSAS implementation | Low risk | Low risk | Low risk | Low risk | Low risk | Low risk | Low risk |
| A comprehensive implementation plan is in place | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| The plan identifies the appropriate milestones | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| The entity is on track against the key milestones | Yes | Yes | Yes | Yes | Yes. | Yes | Yes |
| A fit-for-purpose enterprise resource management system is in place | Yes | Yes | Yes | Yes | Yes | Partially; relies on a legacy system that is partially compliant and may not be sustainable in the long term | Partially; the Pension Fund plans to rely on legacy systems until a planned new system is available |
| Plans for gathering, cleansing and migrating accounting data are on track | In progress and ongoing | In progress and ongoing | In progress and ongoing | In progress and ongoing through interviews with the Vision team | In progress and ongoing | Yes | In progress and ongoing |
| Model draft financial statements have been prepared and shared with the Board | Yes | Yes | First draft shared in 2011, but not a final version with a revised set of accounting policies | Yes | Yes | Yes | Yes |
| There are clear plans for establishing opening balances | Yes | Yes | Yes | In progress and ongoing; plans were not provided at the time of audit but were subsequently provided | Yes | Yes | Partially |

| *Main criteria* | *UNDP* | *UNFPA* | *UNOPS* | *UNICEF* | *UNHCR* | *UNRWA* | *United Nations Joint Staff Pension Fund* |
|---|---|---|---|---|---|---|---|
| Planned for a dry run using real accounting data | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

99. In section V.C the Board also provides a brief summary of the progress of IPSAS implementation in the other entities in the Board's portfolio, including those which are following the United Nations implementation strategy.

100. For all entities, the Board continues: (a) to engage closely in support of IPSAS adoption; (b) to include coverage of IPSAS-related matters in its detailed management letters; and (c) to prepare entity-specific long-form reports that include coverage of key findings and recommendations pertaining to IPSAS implementation.

## B. Governance and implementation arrangements

101. Table 2 summarizes progress made by the entities in terms of governance and implementation arrangements.

**Progress against implementation targets**

102. In general, the Board has seen strong commitment to delivery of the implementation plans and good progress against all of the key milestones, and even accelerated action in some cases. All of the entities maintained effective project governance; and all of the entities have established well-resourced implementation teams with the exception of UNWRA and the United Nations Joint Staff Pension Fund. Last year the Board highlighted the absence of a project leader and dedicated IPSAS implementation team at UNRWA. The Board was also concerned that UNWRA had put on hold its plans to appoint a project leader because of budgetary constraints (A/66/157, para. 85). UNWRA has continued to implement the project without a project leader, but with a heavy level of input and involvement from its finance team to compensate for the lack of dedicated resources.

103. The Board also noted in its previous report that the Pension Fund did not have a Chief Financial Officer to lead the project, nor a dedicated implementation team. The Board notes that the Fund appointed a Chief Financial Officer with immediate responsibility to oversee the implementation of IPSAS and that this resulted in a much improved and more cohesive approach to the implementation of IPSAS across the two divisions of the Fund. The Board sees the need for the Fund to develop in-house expertise to manage post-IPSAS implementation challenges considering the complexity of some financial instruments in its portfolio.

Table 2
**Governance and implementation arrangements**

| *Main criteria* | *UNDP* | *UNFPA* | *UNOPS* | *UNICEF* | *UNHCR* | *UNWRA* | *United Nations Joint Staff Pension Fund* |
|---|---|---|---|---|---|---|---|
| The governance arrangements are fit for purpose and involve senior management | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| A fully resourced and capable implementation team is in place | Yes | Yes | Partially | Yes | Yes; some limited reliance on external experts | Partially; no project leader or dedicated IPSAS implementation team | Partially; strong reliance on external consultants |
| Up-to-date and adequate budget in place | Yes | Yes | Yes | Yes | Yes | Partially; but not adequate except for engaging consultants where needed | Yes |
| The project has a structured risk management framework | Yes | Yes | Yes | Yes | Yes | Partially | No |
| Accounting policy framework is complete | Yes | Yes | Yes | Yes | Yes. | Yes | Yes |
| Field offices are ready to implement the new policies/ procedures | Yes; the Global Shared Service Centre was implemented to process more complex transactions on behalf of the field offices | Partially | Partially | Yes | No; procedures for field offices are not yet ready or rolled out. | Yes | Not applicable |
| The financial rules and regulations have been revised and approved | Yes | Yes | Yes. | Yes | Yes | Waiting for resubmission to the Advisory Committee on Administrative and Budgetary Questions | Applying the United Nations Financial Regulations and Rules mutatis mutandis |

104. In its previous report, the Board noted that the United Nations Joint Staff Pension Fund was in the process of re-examining the feasibility of its implementation strategy pending approval by the Pension Board of the use of the United Nations Financial Regulations and Rules and raised other concerns about timelines and specific risks. The Board was concerned, given the state of the Fund's readiness, that its target of 2012 implementation might be unrealistic and recommended that the Fund urgently finalize its implementation strategy and risk assessment (see A/66/151, paras. 89-91). The Board notes that the Fund stayed within its 2012 target and made good progress and that management now has firm control of the project.

**Readiness of the field networks**

105. Many of the entities operate extensive global field networks. Successful IPSAS implementation is highly dependent on the ability of the field offices to understand the new processes needed to generate accurate data for IPSAS. The Board had previously highlighted its concern about the readiness of the field offices, but noted good progress in staff training and guidance. A key step, following completion of the accounting policies, is to develop and issue practical application guidance that can be readily understood and used by staff in the field. It is also important that the central IPSAS implementation team confirm with field staff that the instructions are fully understood and useable.

106. The Board noted other centrally managed mitigating actions taken to tackle the risk of lack of field readiness. For example, UNDP, which has the largest global network, has established a Global Shared Service Centre to help handle the more complex transactions under IPSAS on behalf of the field, as well as to support IPSAS implementation activities in the field. The Board considers that this has been a successful approach to making the most cost-effective use of expert resources, with lessons for other entities operating global field office networks. The first true test of field readiness, however, will be the completion of the opening balance audits which are scheduled for June to August 2012. It will be important for entities to identify and quickly implement the lessons from the opening balance audits.

**Opening balances**

107. Most entities are preparing for opening balance audits scheduled for June to August 2012. To ensure that this goes smoothly and that it does not impact the later dry-run and final audits, it is imperative that entities develop and maintain clearly documented audit trails for all adjustments to their opening balances, both for their own assurance and to facilitate an efficient audit.

108. The Board previously recommended that all entities that had not already done so should: (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 data factoring in sufficient time for review by the Board (A/66/151, para. 74).

109. The Board notes that UNHCR faces some difficulties establishing opening balances for non-expendable property (property, plant and equipment) where there are delays in data preparation, and accounting for and valuation of expendable property (inventories). The Board is therefore working closely with UNHCR to

advise on the use of transitional arrangements to account for property, plant and equipment. UNHCR has a plan of action to address these areas, and the Board will monitor developments throughout 2012.

110. The Board noted that the cleansing of data for accruals accounting was not complete at the start of 2012 for UNDP, UNOPS, UNFPA, UNICEF, UNRWA and the United Nations Joint Staff Pension Fund. However, each entity was close to resolving this issue at the time of preparation of the present report. More specifically, the Board found that assets registers and staff annual leave balances were incomplete. Entities therefore need to prioritize and accelerate the data preparation processes to ensure that accurate information is available for preparing opening balances. The Board remains concerned about the completeness of such data and encourages management to establish rigorous ongoing measures to validate the completeness of data gathering and cleansing.

111. **The Board recommends that management within each entity urgently ensure that data to be used for IPSAS opening balances is checked and validated for completeness and accuracy.**

### Dry-run financial statements

112. It is essential that the entities produce dry-run financial statements with real accounting data, audited informally by the Board, during the first year of implementation if the entities are to test their readiness for full financial statement production at the end of the year. Most entities are planning for dry-run financial statement production, using real accounting data for at least the first six months of 2012. For example, UNHCR will prepare financial statements as at 31 May and 30 September 2012 using live accounting data, and the Board has been invited to audit these in July and November 2012. The Board considers that these plans are well developed.

113. The Board notes that UNDP, UNFPA, UNOPS, UNICEF, UNRWA and the United Nations Joint Staff Pension Fund all have plans to prepare dry-run financial statements by September 2012. The Board has seen mock financial statements which provide a degree of assurance on how the accounts will look, but without accounting data. Where possible, the Board encourages these entities to produce dry-run statements with as much live accounting data as possible (both in terms of months and coverage across the entire organization).

### Enterprise resource planning systems

114. The Board notes that UNDP, UNFPA, UNOPS, UNICEF and UNHCR have already established fit-for-purpose enterprise resource planning systems to support IPSAS adoption (although some modifications have been necessary).

115. UNRWA and the United Nations Joint Staff Pension Fund will continue to rely on their existing systems for first-time adoption. UNRWA is expected to move to the World Food Programme’s enterprise resource planning system in 2013. The Board previously recommended that UNWRA develop contingency plans in case its plans for the use of its current enterprise resource planning system proved unrealistic.

116. The United Nations Joint Staff Pension Fund is in the process of implementing the Integrated Pension Administration System (IPAS), which is the replacement for the legacy pension entitlement system (Pensys), the financial and accounting system

(Lawson) and the content manager system. The IPAS project is planned to be completed in 2014.

**Lessons learned**

117. It will be important for the lessons from the first live year of implementation to be captured and disseminated for future implementation, and the Board will consider developing a paper on this subject. Some early lessons are already apparent, in particular the need for early preparation and a phased approach. The Board has seen a good example with UNFPA, which started phasing in some of the elements of IPSAS early, through stages that are allowed within UNSAS, by changing to accrual-based accounting methods, doing away with unliquidated obligations two years ago, preparing an IPSAS-compliant assets register module and preparing mock IPSAS statements during the 2010/11 financial year. These steps helped staff to become accustomized to the new regime.

## C. Progress towards implementation at the other entities in the Board's portfolio

**UN-Women**

118. Owing to its recent establishment, in 2011, UN-Women has had insufficient time to establish effective procedures to support its strategy for the implementation of IPSAS in 2012. It has, however, reviewed and tailored the UNDP IPSAS-based accounting policies to its operational environment. While the Board remains concerned about the progress of the Entity to date, it considers that it is possible to implement IPSAS successfully by taking stock of the remaining issues and addressing them with specific plans and strong managerial engagement.

119. Nevertheless, given the unique circumstances, the Board considers there is a higher risk of failure in terms of successful IPSAS implementation, especially in relation to the following and given that UN-Women is already some six months into the first year of adoption:

(a) During its preparation and implementation phase, UN-Women did not have a dedicated IPSAS team except for a project manager and a consultant who were engaged towards the end of 2010, nor did it have a steering committee responsible for overseeing the project;

(b) As of 1 January 2012, UN-Women had not processed any IPSAS transactions, creating a risk that to produce IPSAS-compliant financial statements it would rely on retrospective journal entries, a process that exposes UN-Women to increased risk of errors, omissions and misstatements;

(c) As at the time of the audit (May 2012), the IPSAS accounting policies of UN-Women had not yet been approved by senior management;

(d) UN-Women has yet to develop IPSAS-based model financial statements or to determine some of the IPSAS opening balances (although the Board recognizes that data clean-up exercises are under way);

(e) Although global training was carried out throughout the Entity in 2011, the same level of training is not planned for 2012. Training in the form of webinars had been conducted, however user-specific training that would assist users in effecting IPSAS transactions had not yet been performed;

(f) In its report on UN-Women (A/67/5/Add.13), the Board has noted a number of areas that need improvement that could also impact on IPSAS implementation, including the lack of an adequate financial statement preparation process, weaknesses in assets management and weaknesses in leave management.

120. **The Board considers that UN-Women will need, as a matter of urgency, to develop a plan to address, closely monitor and manage the risks that could affect its successful implementation of IPSAS.**

121. UN-Women informed the Board that it had developed a revised IPSAS implementation plan that defined in detail the activities and timelines to implement IPSAS, including establishing a benefits realization plan to track achievement of objectives. UN-Women has also strengthened its capacity in the functional areas affected by IPSAS, strengthened the IPSAS project team, and appointed a senior IPSAS project adviser.

### United Nations Office on Drugs and Crime, United Nations Environment Programme and United Nations Human Settlements Programme

122. The United Nations Office on Drugs and Crime, the United Nations Environment Programme (UNEP) and the United Nations Human Settlements Programme (UN-Habitat) are closely linked to the United Nations implementation timetable (2014) and strategy. Each is working closely with their co-located United Nations office, on which they rely for many operational services including financial accounting.[4] The Board noted the establishment of local implementation teams and, with support from the United Nations Headquarters implementation team, clear plans and risk assessments. The Board also noted progress on refining United Nations IPSAS accounting policies to fit specific requirements for these entities.

123. The Board was concerned to note that no additional resources had been supplied to the entities to effect IPSAS implementation, and that there was uncertainty concerning how the IPSAS work was going to be resourced. In light of this uncertainty, the entities had serious concerns about the feasibility of completing the work within the required timescales. All are also affected by the shift in implementation strategy of the United Nations away from the new enterprise resource planning system to IMIS. Local implementation plans will need to be revisited. The Board considered that successful implementation, at this stage, was a medium risk for all three entities.

### International Trade Centre

124. Like the United Nations Office on Drugs and Crime, UNEP and UN-Habitat, the implementation strategy of the International Trade Centre (ITC) is closely linked to the United Nations implementation timetable (2014) and strategy. While progress has been made in the ITC IPSAS implementation project, the Board considers that the responses to many of the identified risks and issues are overly reliant on full and timely delivery of the United Nations enterprise resource planning system and that it

[4] The United Nations Office at Vienna for the United Nations Office on Drugs and Crime and the United Nations Office at Nairobi for UNEP and UN-Habitat.

should be possible for ITC to address some identified issues with practical solutions. With appropriate support to the project, ITC is well placed to deliver IPSAS-compliant shadow financial statements before 2014. ITC is also well placed with other initiatives, such as results-based budgeting and management, to gain significant benefits from the adoption of IPSAS, but has not formally set out the benefits it expects from the project.

**United Nations University, United Nations Institute for Training and Research, secretariat of the United Nations Framework Convention on Climate Change, secretariat of the United Nations Convention to Combat Desertification, International Criminal Tribunal for Rwanda and International Tribunal for the Former Yugoslavia**

125. The Board noted insufficient preparedness for IPSAS adoption at UNU, the United Nations Institute for Training and Research (UNITAR), the secretariat of the United Nations Framework Convention on Climate Change, the secretariat of the United Nations Convention to Combat Desertification, the International Criminal Tribunal for Rwanda and the International Tribunal for the Former Yugoslavia (see table 3).[5] All of these entities have an IPSAS implementation target date of 2014. At the time of preparation of the present report, the Board was informed by the United Nations IPSAS implementation team that UNU, UNITAR and the International Residual Mechanism for Criminal Tribunals, which has a branch in each of the Tribunals, are on the list of participants following the instructions given by the United Nations implementation team, while the secretariat of the United Nations Framework Convention on Climate Change and the secretariat of the United Nations Convention to Combat Desertification are not on the list because they are treaty bodies and are therefore outside the scope of the Secretariat. The process for the two Tribunals remains under discussion. The Board was concerned that:

(a) The entities had not established sound project governance such as a high-level steering committee. The Tribunals and the Residual Mechanism claimed that their IPSAS support teams also served as the steering committee;

(b) UNU, UNITAR, the secretariat of the United Nations Framework Convention on Climate Change and the secretariat of the United Nations Convention to Combat Desertification had not established IPSAS implementation teams and action plans. For UNU and UNITAR, while they were part of the United Nations Secretariat's process to implement IPSAS, they appear to be waiting for instructions from Headquarters, rather than proactively identifying the work needed for IPSAS implementation; for the secretariat of the United Nations Framework Convention on Climate Change and the secretariat of the United Nations Convention to Combat Desertification the Board was informed by the United Nations IPSAS implementation team that since they were treaty bodies and were therefore out of the scope of the Secretariat's IPSAS implementation projects, they would not be tracked by the United Nations. The Board was informed, however, that the Secretariat remained willing to assist them as needed;

[5] It is unclear when ICTR and ICTY need to implement IPSAS. At the time of reporting, the Board was informed that a final decision would be made soon. Meanwhile, it is clear that the International Residual Mechanism established for Criminal Tribunals by the Security Council in its resolution 1966 (2010) to replace the two Tribunals is to implement IPSAS in 2014.

(c) There was a general lack of clear and sufficient budgets for IPSAS implementation;

(d) UNU, the secretariat of the United Nations Framework Convention on Climate Change and the secretariat of the United Nations Convention to Combat Desertification were overdependent on other entities to support the development of a fit-for-purpose enterprise resource planning system;

(e) Limited work is being done on the important tasks of data gathering, cleansing and migration.

Table 3
**Summary of progress at six entities**

| *Main criteria* | *UNU* | *UNITAR* | *UNFCCC* | *UNCCD* | *ICTR and the Residual Mechanism* | *ICTY and the Residual Mechanism* |
|---|---|---|---|---|---|---|
| Board's assessment of achieving IPSAS implementation | High risk | Moderate risk | High risk | High risk | Moderate risk | Moderate risk |
| Steering committee established | The project team implements the approved policies, and the executive sponsor provides leadership and guidance | No | No | No; awaiting appointment of the IPSAS project manager | The IPSAS support team serves as the steering committee | The IPSAS support team serves as the steering committee |
| Detailed action plan developed | Not ready at the time of the audit, but in progress | No, but following the instructions from Headquarters | Partially, but not on track | No; awaiting the appointment of the IPSAS project manager | Yes | Yes |
| Functioning implementation team in place and staffed | The team structure, remit and posts have been recently defined | No, but following the instructions from Headquarters | No; the core team in place, but the position of IPSAS project manager is still vacant | No; awaiting the appointment of the IPSAS project manager | Yes | Yes |
| IPSAS budget established | Partially; the budget is expected to be finalized at the next Bureau meeting | No | Partially; it was established in 2010, although without an actual allocation | Partially; the budget was established for hiring an IPSAS project manager and for IPSAS training for 2012-2013 | No | No, but ICTY is considering seeking resources for IPSAS implementation |
| Accounting policies developed | Following the IPSAS policies of Headquarters, but no refinement for local differences | Following the IPSAS policies of Headquarters, but no refinement for local differences | No | No; awaiting appointment of the IPSAS project manager | Following the IPSAS policies of Headquarters; some refinement for local differences | Following the IPSAS policies of Headquarters |
| Preparedness of the enterprise resource planning system | No; dependent on UNDP support for development of the Atlas system | Following the instructions of Headquarters | Not ready and dependent on IMIS at the United Nations Office at Geneva | Not ready, and dependent on IMIS at the United Nations Office at Geneva | Following the instructions of Headquarters | Following the instructions of Headquarters |

| *Main criteria* | *UNU* | *UNITAR* | *UNFCCC* | *UNCCD* | *ICTR and the Residual Mechanism* | *ICTY and the Residual Mechanism* |
|---|---|---|---|---|---|---|
| Plans for data gathering, cleansing and migration established and on track | No; following the instructions of Headquarters | In progress and ongoing | No | No; awaiting the appointment of the IPSAS project manager | In progress and ongoing | In progress and ongoing |

*Abbreviations*: ICTR, International Criminal Tribunal for Rwanda; ICTY, International Tribunal for the Former Yugoslavia; UNCCD, secretariat of the United Nations Convention to Combat Desertification; UNFCCC, secretariat of the United Nations Framework Convention on Climate Change.

126. The Board considers that all of the entities need to take ownership of their IPSAS implementation projects and start to establish the necessary arrangements for implementation. Those entities which are receiving instructions from the United Nations IPSAS implementation team need to more proactively identify what they should do. Those entities which are not participants should make more preparations to implement IPSAS. The Board will be following up on progress at these entities in its future audits.

# VI. Acknowledgement

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

(*Signed*) **Liu** Jiayi
Auditor-General of China
Chair of the Board of Auditors

(*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 South Africa

30 June 2012

# Annex I

## United Nations system organizations' targets for implementation of the International Public Sector Accounting Standards

| *Year* | *No. of organizations* | *Organization* |
|---|---|---|
| 2014 | 4 | United Nations (including peacekeeping operations)[a,b] |
| | | World Tourism Organization |
| | | United Nations University[a] |
| | | Food and Agriculture Organization of the United Nations |
| 2012 | 10 | International Labour Organization |
| | | Office of the United Nations High Commissioner for Refugees[a] |
| | | United Nations Development Programme[a] |
| | | United Nations Population Fund[a] |
| | | United Nations Children's Fund[a] |
| | | United Nations Office for Project Services[a] |
| | | United Nations Relief and Works Agency for Palestine Refugees in the Near East[a] |
| | | United Nations Joint Staff Pension Fund[a,c] |
| | | World Health Organization |
| | | United Nations Entity for Gender Equality and the Empowerment of Women[a,d] |
| 2011 | 2 | International Atomic Energy Agency |
| | | Universal Postal Union |
| 2010 | 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 |
| | | World Intellectual Property Organization |
| | | World Meteorological Organization |
| 2008 | 1 | World Food Programme |

*Note*: The secretariats of the United Nations Framework on Climate Change and United Nations Convention to Combat Desertification do not report to the General Assembly but will be adopting IPSAS in 2014.

[a] Audited by the Board of Auditors.

[b] Implementation by the United Nations Office on Drugs and Crime, the United Nations Environment Programme, the United Nations Human Settlements Programme, the International Trade Centre and the United Nations Institute for Training and Research is linked to the timetable and implementation strategy of the United Nations for adoption.

[c] The United Nations Joint Staff Pension Fund is tentatively planning to move its implementation of the International Public Sector Accounting Standards (IPSAS) to coincide with that of the United Nations.

[d] UN-Women is adopting IPSAS following the schedule of the United Nations Development Programme. It is in its first year of operations.

# Annex II

## Analysis of the status of implementation of the recommendations of the Board in its first progress report on implementation of the International Public Sector Accounting Standards

| *Summary of recommendation in A/66/151* | *Paragraph number* | *Not accepted by the United Nations* | *Fully implemented* | *Partially implemented* | *Not implemented* | *Overtaken by events* |
|---|---|---|---|---|---|---|
| The Board recommends that the United Nations, its peacekeeping operations, and its funds and programmes: (a) clearly identify the objectives of the International Public Sector Accounting Standards (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. | 15 | | | X | | |
| 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. | 21 | | | X | | |
| The Board 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. | 22 | | | X | | |
| 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. | 27 | | | X | | |
| 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. | 38 | | | X | | |

| *Summary of recommendation in A/66/151* | *Paragraph number* | *Not accepted by the United Nations* | *Fully implemented* | *Partially implemented* | *Not implemented* | *Overtaken by events* |
|---|---|---|---|---|---|---|
| The Board recommends that the Administration finalize and agree on contingency plans, should the phased implementation of Umoja prove impossible or fail. | 39 | | | X | | |
| 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. | 44 | | | X | | |
| The Board 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. | 45 | | | X | | |
| The Board recommends that the Administration assess the feasibility of combining the business change activities for Umoja and IPSAS. | 52 | | | X | | |
| 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. | 53 | | | | | X |
| 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. | 55 | | X | | | |

| *Summary of recommendation in A/66/151* | *Paragraph number* | *Not accepted by the United Nations* | *Fully implemented* | *Partially implemented* | *Not implemented* | *Overtaken by events* |
|---|---|---|---|---|---|---|
| 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. | 57 | | X | | | |
| 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. | 62 | | | X | | |
| 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. | 64 | | | X | | |
| 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). | 71 | | | X | | |
| 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. | 74 | | | X | | |
| 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. | 77 | | X | | | |
| The Board 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. | 78 | | | X | | |

| *Summary of recommendation in A/66/151* | *Paragraph number* | *Not accepted by the United Nations* | *Fully implemented* | *Partially implemented* | *Not implemented* | *Overtaken by events* |
|---|---|---|---|---|---|---|
| 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. | 80 | | | X | | |
| 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. | 83 | | | X | | |
| The Board recommends that all entities that 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. | 86 | | | X | | |
| 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. | 88 | | | X | | |
| The Board recommends that the United Nations Joint Staff Pension 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. | 91 | | | X | | |
| **Total** | | **–** | **3** | **19** | **–** | **1** |
| **Percentage share of total** | | **–** | **13** | **83** | **–** | **4** |

# Annex III

## Progress in the implementation of the International Public Sector Accounting Standards in the United Nations and its peacekeeping operations

| *IPSAS project key milestones* | *Target date* | *Status (data provided by the Administration)* | *Updated status as at l1 May 2012* | *Board comments* |
|---|---|---|---|---|
| **Initial stage** | | | | |
| 1. Steering Committee established | January 2007 | Done; still two vacancies | Vacancies have been filled | Agreed |
| 2. Project team staffed | June 2011 | Done | | Agreed |
| 3. Gap analysis documented | January 2011 | Done | | Agreed |
| 4. Communication plan and training plan developed/deployed | July 2011 | Partially completed; computer-based training deployed about 4,500 e-certificates; communication plan and plans for instructor-led training being reformulated; establishment of United Nations e-Room for IPSAS | Plans completed; deployment progress as planned; about 23,000 e-certificates issued for computer-based training; train-the-trainer programme implemented; instructor-led training courses in process | The Board has examined the training plan and concurs with the Administration's comments here |
| | | Two training sessions were deployed in July and November 2011 | Revamped IPSAS intranet site deployed for information on IPSAS for all staff; new IPSAS collaboration site launched to facilitate content sharing and knowledge dissemination for IPSAS implementation teams | The Board has examined the training plan and concurs with the Administration's comments here |

| *IPSAS project key milestones* | *Target date* | *Status (data provided by the Administration)* | *Updated status as at l1 May 2012* | *Board comments* |
|---|---|---|---|---|
| 5. International Public Sector Accounting Standards (IPSAS) accounting policy framework completed | September 2011 | Version 1 of the accounting policy framework has been completed; version 2 of the policy framework will be issued shortly | Version 2 completed; final version and, based on further discussions with the Board, a revised complete draft has been submitted to the Board for comment | The Board has substantially agreed with the accounting policy framework and received the final version for review in early July 2012 |
| **Implementation stage** | | | | |
| 6. Contingency plan in place to address the two-year delay in the implementation of Umoja | October 2011 | Done | Contingency plans invoked; transitional measures identified; and implementation in progress | The Board reports here on the decision to use IMIS for first-time adoption and the associated risks involved, with appropriate recommendations; these risks need to be addressed as a matter of urgency |
| 7. Financial statement format completed | December 2011 | In progress; draft financial statement format developed in 2010; to be updated based on approved accounting policy framework | Done | Noted; the Board will review a further iteration of the financial statements in 2012 |
| 8. Detailed implementation plan developed and deployed | December 2011 | In progress | Done; IPSAS action plan developed by the Department of Field Support IPSAS team; tasks logs developed for missions | The Board has reported that following the change in strategy to use IMIS, the implementation plan will need to be revised and substantially changed to cover the issues and risks identified by the Board in the present report |

| *IPSAS project key milestones* | *Target date* | *Status (data provided by the Administration)* | *Updated status as at l1 May 2012* | *Board comments* |
|---|---|---|---|---|
| 9. Board of Auditors review of policies | March 2012 | In progress | Completed; final updated version, incorporating discussions with the Board, to be confirmed by the Board | The Board has substantially agreed with the accounting policy framework and awaits formal submission of the final version for its review and formal agreement |
| 10. Financial Regulations and Rules updated and approved | December 2012 | Not started | Revisions drafted; being reviewed by stakeholders; expect to be on time for presentation to the General Assembly at the main part of its sixty-seventh session | The Board will review and comment on the Financial Regulations and Rules before submission to the General Assembly |
| 11. Procedures and financial instructions updated | March 2014 | Not started | Not started | The Board has highlighted the need to urgently develop application guidance (procedures and financial instructions) and to roll this out to users within 2012, well before the first year of implementation |
| 12. Annual progressive incorporation of IPSAS requirements | In every forthcoming fiscal cycle | Ongoing | Ongoing | Noted |
| 13. Accounting manual developed | March 2013 | Not started | Not started | The Board highlights the need for this to be developed in 2012 rather than 2013 |

| *IPSAS project key milestones* | *Target date* | *Status (data provided by the Administration)* | *Updated status as at l1 May 2012* | *Board comments* |
|---|---|---|---|---|
| **Final stage** | | | | |
| 14. Opening balances developed for peacekeeping operations | June 2013 | Not started | Final preparations will be in the second quarter of 2013; however, several preparatory steps are in progress | The Board will continue to monitor and examine evidence on the development of opening balances in 2012 and 2013 to help ensure that sufficient progress is being made; however, the Board considers the second quarter of 2013 to be too late and the Administration should seek to achieve this earlier |
| 15. Dry-run IPSAS statements for peacekeeping operations | December 2013 | Not started | Has to be done between July and December 2013; however, a preliminary simulation with existing systems is in progress | Again, the Board encourages the Administration to plan for the earliest possible dry run to allow sufficient time to deal with issues that arise |
| 16. Successful IPSAS financial statement | September 2014 | Not started | Not started | Subject to audit by the Board |

*Source*: United Nations IPSAS implementation team.

# Annex IV

## Main International Public Sector Accounting Standards accounting policies for the United Nations that required resolution with the Board

The purpose of the present annex is to highlight where most of the main discussions on accounting policies between the Board and the Administration have focused.

### Consolidation

Consolidation is the bringing together of financial information for all of the United Nations funds and programmes in volume I of the financial reports and audited financial statements, where the funds and programmes are deemed to be controlled by the Secretariat. There will be no consolidation in 2014 on first-time adoption, other than what is currently in volumes I and II. The International Public Sector Accounting Standards (IPSAS) policy framework will provide for the ongoing assessment of consolidation, applying the “control” test to entities’ relationships with the United Nations.

### Inventories

Much of the discussion between the Board and the United Nations has centred on significant volumes and values of inventory in respect of strategic fuel reserves used for peacekeeping missions. It is possible that operational reserves will need to be included as inventories on materiality grounds. The Board will review the methodology for valuing inventories once it has been developed.

### Use of donated premises and lease arrangements

The Board has consistently proposed that each agreement should be considered on a case-by-case basis to assess the length and nature of the agreement. In principle, the United Nations has agreed to capitalize long-term donated rights to use premises. The Board and the IPSAS implementation team also agreed to continue to evaluate the team’s register and analysis of all leased property and property owned to assess the accounting treatment for each, including how to treat the associated donation — either as in-year income or as a deferred asset. The Board offered the view that assets used by the United Nations under verbal agreement only or by unsigned agreement, should not be included as assets, and that they should be carefully assessed for liabilities.

### Accounting for property, plant and equipment

The United Nations will conduct annual reviews of impairments and of the useful economic lives of assets. Further, the United Nations has agreed that the terminology for the application of depreciation will be updated to ensure that depreciation is charged when asset ownership passes to the United Nations rather than on deployment of assets, for example from a strategic distribution centre such as the United Nations Logistics Base at Brindisi, Italy, because assets will in reality start to depreciate as soon as they are delivered to the United Nations.

One of the key benefits of IPSAS is improved operational decision-making in respect of the replacement and procurement of assets to ensure that the lead time between acquisition and deployment is minimized, thereby also minimizing storage, asset maintenance and impairment costs. The United Nations and the Board are continuing to discuss how certain specialist categories of assets below the capitalization threshold of $20,000 could be capitalized so that the associated benefits of spreading the cost of these assets over their useful economic lives can be achieved. The Board has established that the functionality within the enterprise resource planning system (Umoja) will not accommodate asset grouping.

**Segment reporting**

Segment reporting refers to reporting the income and expenditure, assets and liabilities of the Secretariat for each pillar of activity, allowing Member States to assess the performance of each discrete area of activity undertaken by the United Nations. The IPSAS implementation team has agreed to produce segment reporting on a pillar (activity) basis rather than on a fund basis. Such reporting will initially report related income and expense with a progressive move to reporting assets and liabilities going forward. While the principle has been agreed, the United Nations will need to establish and confirm that the change in strategy to use the Integrated Management Information System (IMIS) for first-time adoption will still enable auditable information to be extracted for segment reporting because it is not yet known whether IMIS has the capability to produce this information.

**Presentation of budget information**

IPSAS requires a comparison of budgets to the actual amounts arising from the execution of the budgets in the financial statements of the entities. This enables Member States to assess the performance of each entity against its approved plans for delivering its remit. The United Nations will include the regular budget information for volume I and information for the United Nations Environment Programme, the United Nations Human Settlements Programme and the United Nations Office on Drugs and Crime. The IPSAS policy framework will provide for the ongoing assessment and development of budget reporting to increase coverage in line with IPSAS transparency and accountability expectations in the longer run, particularly in relation to activities funded by voluntary contributions.

**Accounting for cash and investments**

The Board has carefully assessed the evidence presented by the IPSAS implementation team with respect to treating the cash pool arrangement as a cash equivalent. The Board considers that a significant proportion of the cash pool is held in long-term investments maturing in more than one year. While the Board accepts that each pool participant has immediate access to their funds within the pool, the investments are held in relatively liquid and secure instruments and there is a history of movements of cash between the pool and the participants. Therefore, the substance of the cash pool is that a majority of the cash pool at any point will be held in investments due to mature in more than one year. The IPSAS implementation team has agreed that cash pools will therefore be reported as cash, short-term investments and long-term investments.

**Intangible assets**

The Board considers the costs to date of developing Umoja to be significant and material. On this basis the IPSAS implementation team has agreed to capitalize the costs of Umoja within the opening balance for intangible assets. This will be based on a new process that will capture costs from 1 January 2013 and retrospectively capture staff, software and hardware costs up to 1 January 2013. The Board is continuing to discuss other potentially material areas such as software licences.

# Annex V

## Projected expenditure for adoption of the International Public Sector Accounting Standards at the United Nations

(Thousands of United States dollars)

| | *2006-2012 expenditure (as at 31 March 2012)* | *2012-2013 balance* | *2014-2015 estimate*[a] | ***Total*** |
|---|---|---|---|---|
| **(1) Regular budget** | | | | |
| Section 29B, Office of Programme Planning, Budget and Accounts | | | | |
| Posts | 2 937.0 | 1 007.8 | 1 139.8 | **5 084.7** |
| General temporary assistance | 498.4 | 262.2 | 433.8 | **1 194.4** |
| Consultants | 272.9 | – | – | **272.9** |
| Travel of staff | 230.0 | 89.6 | 56.6 | **376.1** |
| Contractual services | 38.2 | 117.2 | 118.1 | **273.4** |
| Other | 78.7 | 33.6 | 33.6 | **145.9** |
| **Subtotal** | **4 055.2** | **1 510.4** | **1 718.9** | **7 347.4** |
| Section 32, Jointly financed activities | | | | |
| Grants and contributions | 1 159.3 | 534.7 | 534.7 | **2 228.7** |
| **Total, regular budget** | **5 214.5** | **2 045.1** | **2 316.6** | **9 576.1** |
| **(2) Support account for peacekeeping operations**[b] | | | | |
| General temporary assistance | 1 586.3 | 1 204.8 | 740.3 | **3 531.4** |
| Consultants | 406.4 | 5 465.0 | 3 519.2 | **9 390.6** |
| Travel | 29.7 | 328.1 | 56.6 | **414.3** |
| Other | – | 54.0 | 33.6 | **87.6** |
| **Total, support account for peacekeeping operations** | **2 022.5** | **7 051.8** | **4 349.7** | **13 423.9** |
| **Grand total (1) and (2)** | **7 237.0** | **9 096.8** | **6 666.2** | **23 000.0** |

*Note*: The budget is approved separately for each fiscal cycle under the regular budget and the support account for peacekeeping operations.

[a] These figures are high-level estimates.

[b] The 2012-2013 balance for the support account includes the prorated appropriation for the period from 1 January to 30 June 2012 (adjusted after January-March expenditures) and estimates for the remaining months of 2012 and for 2013 (18 months).