

برنامج
الأغذية
العالمي



Programme
Alimentaire
Mondial

World
Food
Programme

Programa
Mundial
de Alimentos

**Executive Board
Second Regular Session**

Rome, 22–26 October 2007

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 5

*For information**

E

Distribution: GENERAL
WFP/EB.2/2007/5-E/1
24 September 2007
ORIGINAL: ENGLISH

FIFTH PROGRESS REPORT ON THE IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

* In accordance with the Executive Board's decisions on governance, approved at the Annual and Third Regular Sessions, 2000, items for information should not be discussed unless a Board member specifically requests it, well in advance of the meeting, and the Chair accepts the request on the grounds that it is a proper use of the Board's time.

This document is printed in a limited number of copies. Executive Board documents are available on WFP's WEB site (<http://www.wfp.org/eb>).

NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for information.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

Deputy CFO* and Director, CFOA**	Mr E. Whiting	tel.: 066513-2701
-------------------------------------	---------------	-------------------

Chief, CFOAI***	Mr D. Bato	tel.: 066513-3071
-----------------	------------	-------------------

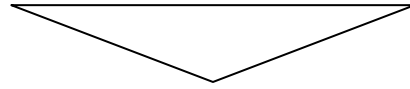
Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms C. Panlilio, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).

* Division of the Chief Financial Officer

** Office of Financial Accounting

*** IPSAS Implementation Project

DRAFT DECISION*



The Board takes note of “Fifth Progress Report on the Implementation of International Public Sector Accounting Standards” (WFP/EB.2/2007/5-E/1).

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document (document WFP/EB.2/2007/15) issued at the end of the session.



PURPOSE AND OBJECTIVE

1. The objectives of this document are to:
 - inform the Board of recent developments related to activities undertaken by United Nations system organizations to address the adoption of International Public Sector Accounting Standards (IPSAS);
 - update the Board on the progress made by the Secretariat to implement IPSAS at WFP. The update covers the areas most affected by IPSAS such as financial statements, inventories, employee benefits and fixed assets; and
 - inform the Board of WFP's readiness for IPSAS adoption from 2008.

INTRODUCTION

2. IPSAS adoption is part of the ongoing United Nations reform effort aimed at improving the accountability, comparability, transparency and harmonization of financial accounting and reporting in the United Nations. The General Assembly has approved IPSAS implementation by 2010; WFP's Board approved IPSAS adoption effective from January 2008. WFP is considered an early adopter in the United Nations system organizations, in addition to the International Civil Aviation Organization (ICAO) and the World Health Organization (WHO), which also intend to adopt IPSAS in 2008.
3. Several amendments to the General Rules and Regulations and Financial Regulations with regard to IPSAS compliance have been approved by the Board, which is following the regular procedure of endorsement by the Food and Agriculture Organization of the United Nations (FAO) Conference and the General Assembly. The most important of these amendments involves the preparation of audited annual financial statements for the financial period 2008 onward.
4. Progress reports have been presented to the Board with information on IPSAS implementation progress at WFP and harmonization in the United Nations system.

UPDATES AND DEVELOPMENTS ON UNITED NATIONS AND WFP ACTIONS TOWARD IPSAS IMPLEMENTATION

A) United Nation System Update

5. The United Nations Task Force on Accounting Standards of the Finance and Budget Network of the High-Level Committee on Management (HLCM) is tasked with ensuring IPSAS adoption while achieving harmonization in United Nations system organizations. The TF is supported by an Accounting Standards Project team funded by United Nations system organizations. The goal of the TF is to establish a uniform approach to the interpretation and application of the principles-based IPSAS standards. WFP participates in all United Nations fora addressing IPSAS-related issues.
6. The Accounting Standards Project Team has developed accounting policy and guidance papers containing recommended policies and accounting procedures on IPSAS compliance. A number of these papers have been subject to detailed discussion and review prior to agreement at TF meetings held between August 2006 and June 2007. A further TF



meeting is scheduled for late 2007 to address further accounting issues that must be clarified to meet the accounting policy and guidance needs of organizations adopting IPSAS from 1 January 2008.

7. The United Nations Accounting Project Team also contributes to communications with the Panel of External Auditors – and their Technical Group – of the United Nations system organizations on IPSAS implementation issues. The team also supports system-wide training and communication needs, participates as observers at the IPSAS Board, and provides support to early adopters of IPSAS.

B) WFP Update

8. Since mid-2006, guidance papers have been developed and discussed with managers and staff for all WFP business and operational areas that will be affected by the move to IPSAS. Adoption requirements resulting in business process impacts that will have system implications are being incorporated into the WINGS II project. A Project Governance Board has recently been established to provide high-level oversight, guidance and advice to the IPSAS project
9. The IPSAS implementation team has embarked on an organizational communications and training strategy to ensure wide coverage of IPSAS awareness and knowledge within WFP. This is coordinated with WINGS II and the Human Resources Division (ADH) training unit to ensure efficiency and economies of scale. Regular bulletins are sent to field staff members to apprise them of IPSAS adoption efforts.
10. Adoption requirements include the establishment of opening balances so that WFP's opening statement of its financial position as at 1 January 2008 is IPSAS-compliant. The implementation team coordinates with the business units responsible for impacted areas, including the field, to ensure that data required for opening balances have been identified.
11. The External Auditor has been kept informed of WFP's IPSAS implementation progress. Their advice and guidance has been sought on implementation issues; their support for implementation has been valuable and effective.
12. The areas of major impact under IPSAS and ongoing activities are discussed in the following paragraphs.

i) *Financial Statements Presentation*

13. A harmonized IPSAS-compliant financial statements model has been developed and agreed on by the United Nations TF and the F&B network. The model will comprise (i) a statement of financial position, (ii) a statement of financial performance, (iii) a cash-flow statement and (iv) a statement of changes in net assets/equity.
14. This model allows for variability among individual organizations. WFP, for example, will report expense categories in the financial statements such as cost of food distributed, transport costs, salaries, storage costs, rent and depreciation. This will replace the current reporting on food, external transport, landside transport, storage and handling (LTSH), other direct operational costs (ODOC), direct support costs (DSC) and programme support and administrative (PSA) cost components. Note disclosures will include information that was not required under United Nations System Accounting Standards (UNSAS) such as related party transactions, minimum lease payments and fixed assets. Examples of the financial statement formats will be provided to the Board for information in a future progress report.



ii) *Inventories*

15. Inventories are items contributed to or purchased by an organization that are not immediately consumed or distributed. Food in WFP is a prime example of inventories held for distribution. The reporting of inventories held for distribution will impact WFP financial statements at the asset and fund balances level. Current efforts are aimed at recognizing opening balances of inventories as assets. The new accounting treatment will result in inventories being expensed when distributed or utilized. WFP has sought the advice of the External Auditor to ensure proper recognition of inventories in the financial records and statements.

iii) *Employee Benefits*

16. The recognition of employee benefit liabilities is a critical IPSAS compliance issue. The fourth progress report¹ on the implementation of IPSAS reported that the United Nations recognized all end-of-service accrued employee benefits liabilities as at 31 December 2006. The United Nations encouraged all its organizations to do the same. WFP plans to recognize and provide for these liabilities at 31 December 2007, thereby progressively adopting IPSAS-compliant reporting practices.

iv) *Fixed Assets*

17. Fixed assets recognition in the financial statements is one of the areas most affected by IPSAS adoption. Fixed assets are currently recorded in WFP's Assets Management Database (AMD), mainly for tracking and custodianship purposes. Different classes of fixed assets have been identified and estimated useful lives have been set according to IPSAS principles and best business practice. Items below the capitalization threshold are expensed upon their acquisition but tracked for control and stewardship purposes. Efforts are ongoing to establish opening balances as part of WFP readiness for IPSAS adoption.

v) *Other*

18. Some of the continuing activities and measures taken by the Secretariat leading to IPSAS adoption are as follows:
- cooperation between the WINGS II and IPSAS implementation team;
 - production of IPSAS accounting implementation manual;
 - establishment of the opening balances for the first IPSAS-compliant financial statements;
 - assurance that field and Headquarters staff are trained and fully aware of IPSAS implications and requirements;
 - development of a final model of the new IPSAS financial statements and their accompanying note disclosures;
 - enhancement of current systems when necessary;
 - delivery of communications among internal and external stakeholders;
 - consultation on major issues with the External Auditor;

¹ Fourth Progress Report on the Implementation of International Public Sector Accounting Standards, WFP/EB.A/2007/6-A/1.



- development of methods for comparison between budget and actual amounts in the financial statements;
- meeting of recruitment requirements for expert staff in the area of IPSAS while building internal WFP capacity; and
- assessment of quality control at post-adoption stage to ensure appropriate overall coverage.

WFP READINESS: MOVING FORWARD

19. As outlined above, steady progress continues to be made in preparation for adopting IPSAS at WFP in January 2008. The strategy for adoption has been reviewed in the light of the expected WINGS II readiness after mid-2008. Having a fully IPSAS-compliant enterprise resource planning (ERP) system is essential for sustaining IPSAS reporting standards over time. This has been acknowledged by both the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the External Auditor. The present SAP/WINGS, which supports some aspects of IPSAS, has allowed WFP in recent years to introduce systematic improvements into its financial reporting, including accrual-based income recognition, investments recognition at market rate, expense recognition based on the delivery principle and annual financial reporting. In this respect, WFP has already achieved an advanced level of compliance and readiness for IPSAS.
20. The chief financial officer (CFO) is monitoring the WINGS II/IPSAS synergies and assessing the viability of the present systems to support IPSAS adoption in 2008, pending introduction of fully IPSAS-compliant system with WINGS II. WFP is also considering taking advantage of IPSAS transitional clauses when necessary, particularly those relating to fixed assets recognition. Preliminary results of the assessment indicate that with certain system improvements, continued commitment by WFP business units to providing financial data such as inventory levels and valuation, manual interventions and technical input from the CFO staff, IPSAS adoption in 2008 should be achieved.
21. WFP will work toward full IPSAS compliance in the financial statements for 2008 using the bridging mechanisms between the existing systems and WINGS II as described above. In the event that unforeseen difficulties arise that require a review of the IPSAS compliance timelines, WFP will inform the Board accordingly and maintain the present reporting standards under UNSAS. Financial Regulation 13.1 requires that WFP financial statements comply with UNSAS, which allows United Nations system organizations either to apply individual IPSAS standards while gradually adopting IPSAS, or to adopt all IPSAS standards when ready.
22. The Secretariat will keep the Board updated on the status of IPSAS adoption during 2008.

ACRONYMS USED IN THE DOCUMENT

ACABQ	Advisory Committee on Administrative and Budgetary Questions
ADH	Human Resources Division
AMD	Assets Management Database
CFO	Division of the Chief Financial Officer
CFOA	Office of Financial Accounting
CFOAI	IPSAS Implementation Project
DSC	direct support costs
ERP	Enterprise Resource Planning
FAO	Food and Agriculture Organization of the United Nations
HLCM	High-Level Committee on Management
ICAO	International Civil Aviation Organization
IPSAS	International Public Sector Accounting Standards
LTSH	landside transport, storage and handling
ODOC	other direct operational costs
PSA	programme support and administrative
WHO	World Health Organization
WINGS	WFP Information Network and Global System
UN	United Nations
UNSAS	United Nations System Accounting Standards