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

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NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for approval.

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.

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EXECUTIVE SUMMARY

This document informs the Board of progress made by WFP and the United Nations system in the transition to International Public Sector Accounting Standards.

At its Annual Session in June 2006, the Board approved adoption of IPSAS as WFP's financial reporting and accounting standards and established an implementation project. In July 2006, the United Nations General Assembly approved the adoption of IPSAS by the United Nations.

The WFP IPSAS implementation project, comprised mainly of professional accountants, has worked with the WFP Information Network and Global System II Project to develop policy guidance, identifying issues of high impact and their appropriate accounting treatment.

Inter-agency bodies are coordinating and harmonizing the efforts of all United Nations organizations to achieve compliance and uniformity in IPSAS adoption. Early adopters of the standards, such as WFP, are guided and assisted by the United Nations Accounting Standards Project.

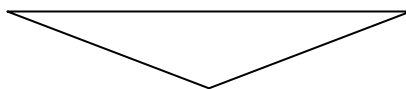
The document also discusses developments in the proposed accounting treatment for employee benefits, inventories and property, plant and equipment under IPSAS, and the implications.

It proposes an additional amendment to WFP's General Rules, required to permit IPSAS implementation. The need for further amendments was noted in the Third Progress Report on the Implementation of IPSAS, during the Board's Second Regular Session in November 2006, when amendments to WFP's General Regulations, General Rules and Financial Regulations were approved.

The proposed amendment is a change to the General Rule governing the valuation of in-kind commodities, non-food items, services and other contributions.

Additional amendments to the General Regulations, General Rules and Financial Regulations may be proposed to the Board at later sessions, should the need arise.

DRAFT DECISION*



The Board:

- i) takes note of the actions taken by WFP and the United Nations in preparation for IPSAS implementation;
- ii) takes note of issues arising from the accounting of fixed assets, inventories and employee benefits under IPSAS, which will be reported in WFP's financial statements for the first time; and
- iii) approves the proposed amendment to General Rule XIII.6, with effect from 1 January 2008, and its submission for information to the Economic and Social Council and the FAO Council.

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



BACKGROUND AND INTRODUCTION

1. At the Board's First Regular Session of 2005, the United Kingdom National Audit Office (NAO), WFP's External Auditors, invited the Board and the Secretariat to consider adopting improved, independent and universally accepted accounting standards.¹ At the Board's Second Regular Session of 2005, the Secretariat reported² on actions taken by the United Nations system and WFP regarding the move towards international accounting standards.
2. During 2006, three progress reports on WFP's implementation of international accounting standards³ were presented to the Board. These reported that the United Nations High-Level Committee on Management (HLCM) had endorsed the United Nations Accounting Standards Task Force recommendation that United Nations organizations adopt International Public Sector Accounting Standards (IPSAS), and outlined progress so far. At its 2006 Annual Session, the Board approved WFP's adoption of IPSAS, with effect from 1 January 2008, and funding for an implementation project, as part of the Update on the WFP Management Plan 2006–2007.⁴ At the Board's Second Regular Session of 2006, amendments to WFP's General Regulations, General Rules and Financial Regulations required to permit the implementation of IPSAS were approved. The main amendment was a change of financial reporting period, with financial statements being presented annually rather than biennially.⁵
3. Subsequent to the Board's Annual Session of 2006, a two-year IPSAS implementation project was established; the project team has been working with the WFP Information Network and Global System II (WINGS II) project and the United Nations Task Force on Accounting Standards. The team will carry out support, guidance and maintenance activities until WFP's first IPSAS-compliant financial statements have been finalized.

PURPOSE AND OBJECTIVE

4. The objectives of this document are to:
 - update the Board on developments in IPSAS implementation in the United Nations system and WFP;
 - present issues arising from the accounting for fixed assets, inventories and liabilities for employee benefits under IPSAS; and
 - propose an amendment to WFP's General Rule XIII.6, to allow in-kind contributions to be valued, as required under IPSAS.

¹ Report of the External Auditor on Financial Reporting Standards of the World Food Programme: WFP/EB.1/2005/5-E.

² International Accounting Standards: WFP/EB.2/2005/5-C/1.

³ First Progress Report on the Implementation of International Accounting Standards: WFP/EB.1/2006/6-E/1; Second Progress Report on the Implementation of International Accounting Standards: WFP/EB.A/2006/6-I/1.

⁴ Update on the WFP Management Plan (2006–2007): WFP/EB.A/2006/6-K/1.

⁵ Third Progress Report on the Implementation of International Accounting Standards: WFP/EB.2/2006/5-A/1.



ACTIONS TAKEN BY THE UNITED NATIONS SYSTEM

5. At its Sixtieth Session in July 2006, the General Assembly of the United Nations approved the adoption of IPSAS by the United Nations.
6. Under the auspices of the United Nations Chief Executives' Board for Coordination High-Level Committee on Management (HLCM) and the Finance and Budget Network, the United Nations Task Force on Accounting Standards is the forum where United Nations organizations discuss and decide on issues related to IPSAS adoption. The United Nations Accounting Standards Project has been established under the task force; its work is overseen by an IPSAS adoption steering committee, which deliberates on such issues as policies and guidance, as discussed in the March 2007 IPSAS Project Report to HLCM.
7. The accounting standards project has focused on developing accounting policies and guidance, and communicating with stakeholders. Regional focus groups of United Nations organizations consider shared issues. WFP works with the United Nations Educational, Scientific and Cultural Organization (UNESCO), the Food and Agriculture Organization of the United Nations (FAO), the World Tourism Organization (UNWTO) and the International Maritime Organization (IMO).
8. Since June 2006, the task force has developed 19 papers covering accounting policies, recommended practices and guidance relating to pro-forma financial statements, revenue, expenses, property, plant and equipment, inventories, intangible assets, employee benefits, and transition periods.
9. Accounting policy and guidance papers have been reviewed and recommendations agreed at task force meetings in August 2006 in Vienna, and in December 2006 and April 2007 by videoconference. The next meeting will be in June 2007 in Geneva. Certain tasks and activities established within the business processes are dependent on the outcomes of such harmonized United Nations decisions.
10. The tight schedule for task force meetings, with input from the focus groups, is necessary to meet the accounting policy and guidance needs of organizations adopting IPSAS from 1 January 2008. These "early adopters" include WFP.⁶
11. The task force communicates with stakeholders, including external auditors. A new Web site provides stakeholders with information on such topics as focus groups, IPSAS training needs, auditors, and implications for budget practices. A system-wide approach to IPSAS training has been approved.
12. United Nations organizations coordinate their IPSAS implementation activities through their governing bodies. Agencies share knowledge and experience to ensure a uniform approach to the development of accounting policies.
13. The United Nations will recognize all end-of-service accrued benefit liabilities from 31 December 2006, and encourages all United Nations organizations, including WFP, to do the same, even though this date precedes IPSAS adoption by the United Nations and the organizations. Liabilities include after-service health insurance (ASHI) liabilities, accrued annual leave and repatriation benefits.

⁶ Other early adopters are the World Health Organization (WHO) and the International Civil Aviation Organization (ICAO.) The United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA) and the United Nations Office for Project Services (UNOPS) also considered early adoption.



ACTIONS TAKEN BY WFP

14. The Secretariat is implementing IPSAS in line with the Board's approval at its 2006 Annual Session. The Secretariat's overall goal is successful implementation of IPSAS and receipt of an unqualified audit opinion on the first set of IPSAS-compliant financial statements.
15. The IPSAS project team has developed a work plan for the project, ensuring effective use of project resources.
16. The team has developed comprehensive implementation documents for applying IPSAS requirements in the context of WFP. Documents cover all IPSAS and IPSAS exposure drafts, including the new draft accounting requirements and practices under which WFP's financial statements will be prepared from 1 January 2008. These documents guide business users and systems developers.
17. The team has participated in design workshops for the WINGS II project, providing inputs to ensure that the new system accommodates IPSAS requirements in a manner appropriate for WFP's business processes. Full coordination and discussions have been taking place with the business units affected in WFP, ensuring that their business processes take into account IPSAS requirements.
18. Detailed implementation plans for each area of accounting link implementation documents to the practical adoption of IPSAS, including the establishment of opening balances for 1 January 2008 for inventories, employee benefits and property, plant and equipment, and the accounting of revenue under IPSAS.
19. An implementation manual will be developed for business units and finance professionals.
20. An IPSAS project intranet Web site, much used by WFP staff, provides information on United Nations System Accounting Standards (UNSAS), International Accounting Standards, IPSAS and the IPSAS adoption process. It serves as a one-stop information source for users seeking information or guidance on IPSAS.
21. As part of the communications strategy, regular bulletins are distributed to finance officers and other staff members, mainly to inform field staff members about the project's progress. IPSAS and financial experts with experience of IPSAS implementation projects in other organizations hold workshops to familiarize WFP staff with the nature of IPSAS implementation.
22. The implementation team participates in activities of the United Nations Task Force on Accounting Standards, especially its Rome focus group. As an early adopter, WFP's perspectives and experience of IPSAS implementation will be very relevant to other United Nations system organizations.
23. Regular communications with WFP's External Auditors apprise them of the status of IPSAS implementation and policy and guidance development. In turn, the auditors provide advice and support.
24. During the latter half of 2006 and in early 2007, workshops were held at all regional bureaux to brief regional directors, country directors and finance officers about IPSAS implementation activities and major impacts on WFP. Additional training workshops and sessions will be arranged as IPSAS-compliant processes become available.



INVENTORY

25. The most significant effect on the financial statements will be the recognition of inventories on hand as an asset in the Statement of Financial Position and the expending of inventory only at the point of distribution rather than at the point of receipt. This includes food inventories and, where appropriate, non-food items. Fund balances will also be affected by the recognition of inventory.
26. It is essential for IPSAS compliance to establish the opening balances for inventories at the beginning of the 2008 financial year. Extensive planning for this is being undertaken by the Operations Department (OD), regional bureaux and country offices in conjunction with the IPSAS project teams and WINGS II.
27. Discussions on the accounting treatment for inventories have taken place with the United Nations Task Force and agreement reached on how inventories may be most appropriately accounted for.

FIXED ASSETS: PROPERTY, PLANT AND EQUIPMENT

28. Issues with the implementation of IPSAS for property, plant and equipment – fixed assets – were identified. These assets do not appear on WFP's current statements of financial position, but are instead expensed on purchase, in accordance with UNSAS.
29. Under UNSAS – because fixed assets are expensed at acquisition and receipt – depreciation is not taken into consideration. Fixed assets for projects are funded through donors' contributions; those for Headquarters and regional bureaux are funded by Programme Support and Administrative (PSA) funds, and expensed when acquired and received, although their useful lives may extend beyond one year.
30. Fixed assets are recorded in WFP's Assets Management Database, mainly for tracking and custodianship purposes. Financial information in this system is not recorded in the books of accounts, but these assets are disclosed in the notes to the financial statements, with estimated overall cost value.
31. Under IPSAS, fixed assets will be recognized at their cost. Those whose cost is above a predetermined capitalization threshold will be capitalized and depreciated over their estimated useful lives. Different classes of fixed assets have been identified, and estimated useful lives have been set according to IPSAS principles and best business practice, following research by WFP and the United Nations. All fixed assets below the capitalization threshold will be expensed on acquisition, but will be tracked for control and stewardship purposes. WFP's capitalization threshold will be US\$5,000 or its equivalent in foreign currency.
32. IPSAS transitional arrangements allow adopters initially to capitalize only those existing fixed assets with at least five years of remaining useful life, and to capitalize all newly acquired fixed assets above the capitalization threshold from the date of IPSAS implementation.
33. The challenges facing fixed assets include project accounting and donor reporting, as well as the need to set up a new accounting system and processes through the WINGS II project. These challenges are faced throughout the United Nations system, which is discussing resolutions appropriate to the funding models within each agency.

EMPLOYEE BENEFITS

34. For employee benefits, the main issue arising from IPSAS implementation is recognition. Employee liabilities accumulate over many years, and some of these were not recognized under UNSAS or by United Nations organizations and many governments. Under UNSAS, certain liabilities are partially recognized and funded, others are only disclosed in the financial statements, and others are neither recognized nor disclosed. The United Nations decided in March 2007, separate from the issue of IPSAS adoption, that it is appropriate to recognize all end-of-service accrued benefit liabilities in United Nations organizations financial statements through to 31 December 2006 and for subsequent financial periods.
35. Currently, some liabilities to employees are paid out on a “pay-as-you-go” basis, with any unfunded portion being met from resources available in the period during which the payment is made. This means that later accounting periods generally bear some costs incurred in earlier periods for liabilities that had not been previously recognized and accrued for.
36. Employee benefit liabilities include those for annual leave, end-of-service benefits, post-retirement benefits and after-service medical benefits, compensation for work-related death, injury or illness, repatriation grants and repatriation travel.
37. The main employee benefit liabilities, their funding status and the unaudited estimates at 31 December 2006 are shown in the table below.

EMPLOYEE BENEFIT LIABILITIES			
Liability	Liability recognized in financial statements	Estimated liability at 31 December 2006 (unaudited) (US\$ million)	Funded at 31 December 2006 (US\$ million)
After-service medical coverage	Liabilities, estimated by actuarial study	111.6	In total US\$94.9
Separation payments scheme		16.9	
Compensation plan reserve fund		3.7	
Repatriation grants	To be recognized	9.6	Unfunded
Repatriation travel and removal costs	To be recognized	3.4	Unfunded
Annual leave	To be recognized	26.7	Unfunded
Death grants	To be recognized	1.4	Unfunded

38. The 2006 annual financial statements estimate the funding required at 31 December 2006 for annual leave at US\$26.7 million. Combining this with the estimated funding shortfall of US\$37.2 million for after-service medical coverage, the separation payments scheme and the compensation plan reserve fund, the estimated funding required at 31 December 2006 was approximately US\$64 million. Starting from 2006, actuarial estimates are made for repatriation grants, repatriation travel and removal costs and death grants. The total additional funding required for employee benefits at 31 December 2006 was about US\$80 million; this figure may increase in future years.

39. Several alternatives for funding these liabilities are being explored. These include applying a phased approach, whereby the charge necessary to cover the liabilities in full is spread over several years, full funding through direct donor contributions, and/or using other funds and reserves. However, these liabilities can be recognized in full without funding, which would result in negative equity under the corresponding fund. Thereafter, funding of these liabilities will still need to be addressed.
40. As already mentioned, the United Nations is starting to recognize all end-of-service accrued staff liabilities from 31 December 2006. The United Nations Secretariat has submitted a proposal to the General Assembly for funding after-service medical coverage under the umbrella of ASHI, which amounts to approximately US\$2 billion. The General Assembly has requested further information on this proposal, but has already agreed to recognize the liabilities.

AMENDMENTS TO GENERAL RULES

41. Amendments to the General Rules are made through the process established by General Rule XV.1, which states that such amendments shall be approved by the Board and submitted for information to the Economic and Social Council and the FAO Council.
42. This document proposes one amendment to the General Rules, which relates to the valuation of donations of goods and services, including food commodities, as set out below. The original text is presented first, followed by the proposed amended text.
43. The amendment in this document is proposed for approval by the Board with effect from 1 January 2008, concurrent with the adoption of IPSAS.

PROPOSED CHANGES TO WFP'S GENERAL RULES

Reason: According to IPSAS No. 23, Revenue from Non-Exchange Transactions (Taxes and Transfers), paragraph 42, "An asset acquired through a non-exchange transaction shall initially be measured at its **fair value** as at the date of acquisition", and paragraph 48, "Revenue from non-exchange transactions shall be measured at the amount of the increase in net assets recognized by the entity." According to IPSAS No. 12, Inventories, paragraph 16, "Where inventories are acquired through a non-exchange transaction, their cost shall be measured at the **fair value** as at the date of acquisition".

According to IPSAS No. 23, paragraph 97, such valuation may be ascertained by reference to an active market or by professional appraisal, particularly where an active market does not exist. Given the expense of using professional appraisal, internal WFP approaches could be explored whereby fair value would be determined independently.

At present, most in-kind donations of commodities come from donors purchasing them on the open market through transparent tendering processes. The valuation of these in-kind donations is therefore considered fair, and thus IPSAS-compliant. For in-kind contributions where there is no such basis for arriving at fair value, professional appraisal of fair value could be sought or reference made to independently published prices.



GENERAL RULE XIII.6: VALUATION OF COMMODITY PLEDGES AND SERVICES

Current Text:

“In respect of quantity pledges or where a pledge made in monetary terms is subsequently translated into commodities, in whole or in part, these shall be recorded both at the time when the commodities are pledged, as well as at the time when commodities are received by WFP at a value based on the world market prices, at the Food Aid Convention (FAC) price or at the donor’s invoice price as may be applicable. Contributions of acceptable services shall be valued either at world market prices, or, where the service is of a local character, at the price contracted for by the Executive Director. Contributions in personnel services shall be valued at WFP’s standard cost.”

Amended Text:

General Rule XIII.6: Valuation of Commodity Contributions and Services

“In respect of **commodity contributions**, in whole or in part, these shall be recorded at the time when the commodity contributions are confirmed to WFP at **fair** value. Indicators of fair value include *inter alia* world market prices, the Food Aid Convention (FAC) price and the donor’s invoice price. **Contributions of acceptable non-food items and services** shall be valued at fair value either based on world market prices or, where the service is of a local character, at the price contracted for by the Executive Director. **Contributions in personnel services** shall be valued at WFP’s standard cost when these reflect fair value.”

ACRONYMS USED IN THE DOCUMENT

ASHI	after-service health insurance (United Nations)
CFO	Division of the Chief Financial Officer
CFOA	Office of Financial Accounting (CFO Division)
CFOAI	IPSAS Implementation Project
FAC	Food Aid Convention
FAO	Food and Agriculture Organization of the United Nations
HLCM	High-Level Committee on Management (United Nations)
ICAO	International Civil Aviation Organization
IMO	International Maritime Organization
IPSAS	International Public Sector Accounting Standards
NAO	National Audit Office (United Kingdom)
OD	Operations Department
PSA	Programme Support and Administrative
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNOPS	United Nations Office for Project Services
UNSAS	United Nations System Accounting Standards
UNWTO	World Tourism Organization
WHO	World Health Organization
WINGS	WFP Information Network and Global System