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**Executive Board  
Annual Session**

**Rome, 12–16 June 2006**

# **RESOURCE, FINANCIAL AND BUDGETARY MATTERS**

**Agenda item 6**

*For approval*



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## **SECOND PROGRESS REPORT ON THE IMPLEMENTATION OF INTERNATIONAL ACCOUNTING STANDARDS**



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 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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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).



## EXECUTIVE SUMMARY

This second progress report updates the Board on developments in WFP and the United Nations system regarding the transition to international accounting standards for financial statement reporting. It recommends that the Board approve the adoption of International Public Sector Accounting Standards by WFP.

The document contains information on the business plan, including timelines, milestones, coordination with the WFP Information Network and Global System II project and the estimated costs, budget and funding options to enable WFP to implement International Public Sector Accounting Standards from 2008.

The document also provides preliminary information on changes to WFP rules and regulations and describes the process the Secretariat intends to follow to change the rules and regulations that require amendment to support International Public Sector Accounting Standards compliance.

## DRAFT DECISION\*

The Board:

- takes note of the High-Level Committee on Management approval of the recommendations of the United Nations Task Force on Accounting Standards, endorsed by the Finance and Budget Network, proposing that the United Nations system adopt International Public Sector Accounting Standards;
- approves the adoption of International Public Sector Accounting Standards by WFP for its financial statements, with a planned implementation date of 2008; and
- takes note of the estimated costs of implementation of International Public Sector Accounting Standards in WFP of US\$3.7 million.

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\* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations (document WFP/EB.A/2006/16) issued at the end of the session.



## INTRODUCTION

1. At its Second Regular Session of 2005, the Executive Board endorsed WFP's proposed move to international accounting standards. The Board also took note of the changes to accounting policies and reporting to take place in 2006, comprising reporting of annual audited financial statements, expenditure recognition on the delivery principle and reporting of market value investments.
2. During the same session, the Board requested the Secretariat to report back in 2006 with: (i) a progress report on the transition to international accounting standards, including cost estimates and funding proposals; (ii) proposed changes to the General Regulations, General Rules and Financial Regulations; and (iii) a recommendation of the most appropriate external standard for adoption by WFP.
3. The Secretariat presented a progress report to the Executive Board's First Regular Session of 2006, informing the Board that the United Nations High-Level Committee on Management (HLCM) has decided that United Nations system organizations would adopt International Public Sector Accounting Standards (IPSAS). The Secretariat also informed the Board that a comprehensive plan had been developed with corresponding estimated costs and that continuous consultations were being held with the External Auditors on improving financial reporting standards. The Secretariat informed the Board that funding options for the costs to WFP of the transition to international accounting standards would be developed, and submitted to the Board's Annual Session in June 2006.
4. This document represents a second progress report on the implementation of international accounting standards informing the Board of United Nations system and WFP actions in this regard, proposing the adoption of IPSAS by WFP and requesting the Board's approval of funding for the implementation project.

### Action Taken by the United Nations System

5. In 2004, HLCM approved the United Nations Accounting Standards Project to address accounting standards issues including the move to international accounting standards. In 2005, the Task Force on Accounting Standards provided HLCM with a report endorsed by the Finance and Budget network, recommending that the United Nations system organizations adopt IPSAS.
6. On 30 November 2005, HLCM approved the recommendations of the United Nations Task Force on Accounting Standards and requested that support and coordination be continued among United Nations system organizations. HLCM also recommended that the United Nations Accounting Standards Project continue — ensuring coordination among United Nations system organizations in the implementation of IPSAS — under the auspices of the Finance and Budget Network (see Annex I — CEB/2005/HLCM/R.25).
7. The United Nations Accounting Standards Project extends until the end of 2009 and United Nations system organizations are expected to adopt IPSAS from 1 January 2010. The project will be implemented under the guidance of a steering committee, which will review its progress against the planned delivery of activities.
8. The Task Force on Accounting Standards has underlined that adoption of IPSAS will have major implications on the accounting, financial reporting and associated information technology (IT) systems of United Nations system organizations. It will also have important implications on the budgeting, funding and management systems of the



organizations. Organizations may need major investments, and changes to organizations' rules and regulations might be warranted.

9. In the light of the HLCM decision, and with regard to the Board decision endorsing the proposed move to international accounting standards (2005/EB.2/11), the Board is requested to approve the adoption of IPSAS for WFP's financial statements, with a planned implementation date of 1 January 2008.

### **Action Taken by WFP**

10. In 2006, the Secretariat introduced changes in financial reporting designed to bring WFP more in line with international accounting standards. Expenditure recognition for goods and services is now based on the delivery principle rather than the commitment principle. The Secretariat is also preparing for the presentation of annual audited accounts for 2006, which will be presented to the Board at its Annual Session in 2007.
11. The Secretariat participates in the United Nations Task Force on Accounting Standards and is represented on the IPSAS Project Steering Committee of senior finance officials from United Nations system organizations.
12. Through reviewing Board documents on the progress of international accounting standards implementation, the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the Food and Agriculture Organization of the United Nations (FAO) Finance Committee are kept informed of developments.
13. The Secretariat has kept the External Auditor informed of developments in WFP, and financial reporting has been improved in the audited biennial accounts for 2004–2005.
14. During the first quarter of 2006, the Secretariat finalized a business plan for the implementation of international accounting standards over a two-year period and prepared budgetary estimates of implementation costs. These are discussed in the following section.

### **Business Plan and Budget – IPSAS Implementation Project**

15. The WFP business plan envisages that the ultimate outcome of the project will be to render WFP compliant with IPSAS from 1 January 2008. This will be the culmination of systematic and harmonized efforts in WFP and externally in cooperation with the United Nations system.
16. The plan details the objectives, outputs, outcomes, tasks, milestones, risks and budgetary requirements for WFP's transition to IPSAS by 2008.
17. A project manager has been identified to lead the project, which will draw on in-house expertise, specialist staff and specially recruited consultants to ensure that WFP has the capacity to make a successful transition to IPSAS. Specialist expertise working with WFP staff will develop and implement accounting policies and procedures for full accrual accounting in those areas requiring major system/business process changes, such as staff benefit accruals, asset valuation and depreciation, and valuation of inventories/commodities. The format of the financial statements and corresponding notes will require complete revision under IPSAS.
18. The WFP Information Network and Global System II (WINGS II) project team and the IPSAS Implementation Project team are coordinating their activities. Synergy and continuous interaction to identify and initiate new and improved business processes are essential to avoid the duplication of efforts or the omission of processes that are necessary to ensure compliance with IPSAS. Economies of scale will be achieved where IT system



solutions required by the IPSAS Implementation Project are identified and included in the WINGS II project.

19. Although it is planned to implement IPSAS from 1 January 2008, it is anticipated that certain IPSAS-related implementation, maintenance and support activities will continue during 2008; the first IPSAS-compliant financial statements will be prepared for the 2008 financial period.
20. A summary of the main project activities and milestones is presented in Annex II of this document.
21. Costs for design and implementation of the WFP IPSAS Implementation Project are estimated at US\$3.7 million over a two-year period. Table 1 provides a breakdown of this funding.

<b>TABLE 1. IPSAS IMPLEMENTATION PROJECT</b>		
<b>Cost component</b>	<b>Details</b>	<b>US\$ (million)</b>
Staff costs	1 P-5 project manager 3 P-4 professional posts 1 G-5 administrative support	1.3
Consultants	Specialist services, expertise in international accounting standards/IPSAS	0.5
Equipment	Computers	0.1
Travel	Country offices, United Nations system meetings	0.8
Training	Roll-out of new procedures	0.8
Other	Includes United Nations system-coordinated activities	0.2
<b>Total</b>		<b>3.7</b>

## **Project Funding**

22. The Secretariat considered a number of options for funding the IPSAS Implementation Project. These included donor funding through a trust fund or special account mechanism and funding from the Programme Support and Administrative (PSA) Equalization Account. The conclusion reached was that the activity and associated costs are clearly of PSA nature. The project outcome benefits have impacts throughout the organization, and the activities do not correspond to any other existing activity or operation.
23. When the 2006–2007 biennium management plan was being prepared, the Board had made no decision regarding endorsement of the move to international accounting standards. Therefore, no budgetary provision was made at that time.
24. The Secretariat is requesting the Board to approve funding of the IPSAS Implementation Project from an allocation of US\$3.7 million from resources in the PSA equalization account. The request is contained in the document on the update of the Management Plan, which is being considered by the Board at this Annual Session.



## Changes to General Rules and Regulations and Financial Regulations

25. During the Second Regular Session of the Board in 2006, the Secretariat will propose changes to Article XIV of the General Regulations regarding the change from biennial to annual audited financial statements. Subject to the Board's approval, this recommendation will be forwarded through the Economic and Social Council and the Council of FAO for final approval by the General Assembly of the United Nations and the FAO Conference.
26. It was originally envisaged that Financial Regulation 13.1 would have to be amended to reflect compliance with IPSAS rather than with United Nations System Accounting Standards (UNSAS). HLCM approved recommendations on the rewording of UNSAS to provide that "where an organization departs from the practices set out below in order to apply an IPSAS standard or IPSAS standards, the organization is deemed to comply with UNSAS". It will therefore not be necessary to change Financial Regulation 13.1 in the foreseeable future.
27. Prior to full implementation of IPSAS in 2008, the Board will be informed of the review of rules and regulations that require amendment. Proposals will be submitted for Board and higher-level approval, as provided for in the General Regulations, General Rules and Financial Regulations.



## ANNEX I



UNITED NATIONS SYSTEM

CEB

**Chief Executives Board  
for Co-ordination**

CEB/2005/HLCM/R.25

30 November 2005

HIGH-LEVEL COMMITTEE ON MANAGEMENT (HLCM)  
Ad-hoc meeting (video conference) - 30 November 2005

**Recommendation of the Task Force on Accounting Standards**

1. The video conference was convened in response to the HLCM request at its 10<sup>th</sup> Session (October 2005) that the Committee, after receiving a recommendation of its Task Force on Accounting Standards, as endorsed by the Finance and Budget Network, would make a decision on the adoption of external accounting standards by the organizations of the UN System.
2. The meeting was chaired by Ms. Thoraya Obaid, Executive Director of UNFPA. Annex I provides the list of participants.
3. The document of the HLCM Task Force on Accounting Standards (CEB/2005/HLCM/R.24 attached as Annex II), which had been endorsed by the FB Network at its meeting of 21 November 2005, was introduced by the Chairman of the Task Force (UN).
4. In its document, the Task Force had outlined the main benefits connected to the recommended adoption of International Public Sector Accounting Standards (IPSAS), and had underlined that such adoption would have major implications on the accounting, financial reporting and associated IT systems of the organizations; it would also have important implications for the budgeting, funding and management systems of organizations.
5. At the same time, IPSAS adoption would have a positive impact on the quality, comparability and credibility of United Nations System financial reporting, with consequential improvements with respect to accountability, transparency and governance. IPSAS would also better support results based management.
6. The Committee acknowledged the magnitude of the implications of IPSAS adoption, as outlined in document CEB/2005/HLCM/R.24 and, in particular, the impact of a full recognition of liabilities for employee benefit obligations, such as After Service Health Insurance (ASHI), annual leave, and the repatriation grant; indeed, it was noted that, although IPSAS would only require *recognition and reporting* of such liabilities, the issue of *funding* would have to be addressed with concurrent and similarly urgent attention.
7. The Committee noted that the adoption of IPSAS would be a major exercise that would require changes to financial regulations and rules and a significant investment in the management of their introduction in each organization including staff training, development of relevant guidelines, resolution of accounting issues and information systems development (e.g. modification of ERPs). The necessary investment would vary among organizations. Each organization would need to review the implications and project requirements and reflect these appropriately with respect to the need for additional funding.



CEB/2005/HLCM/R.25  
page 2

8. The Committee also recognized that centralized support, coordination, leadership and senior management commitment would be crucial in order to resolve common problems and ensure consistent interpretation and application of IPSAS requirements across the system. The Committee expressed unanimous support for the continuation of the project resources necessary for inter-agency coordination and support.

9. The United Nations informed the Committee that they were in the process of establishing a Task Force for evaluating the issues on harmonization of ERP Systems in the UN Common System. This was in line with the recommendations made by JIU. Organizations interested in being represented in the Task Force were requested to provide nominees by e-mail.

10. Finally, the Committee thanked the members of the Task Force on Accounting Standards, its Chairman, and the Accounting Standards Specialist for having brought to a successful completion such a longstanding and difficult project.

11. Having considered the above, the Committee unanimously approved the recommendations set out in paragraph 25 (a) through (e) of CEB/2005/HLCM/R.24, as follows:

- (a) United Nations System organizations adopt International Public Sector Accounting Standards (IPSAS).
- (b) United Nations System organizations develop their implementation timetables, taking into account the impact described above, with all organizations adopting IPSAS effective no later than reporting periods beginning on 1 January 2010, and 1 July 2010 for the United Nations Peacekeeping Operations.
- (c) Support, coordination and leadership for this system-wide change should continue to be provided through the Task Force on Accounting Standards, under the auspices of the Finance and Budget Network, together with continuation of project resources to ensure consistent interpretation and application of IPSAS requirements across the System.
- (d) The following sentence would be added to UNSAS at the end of paragraph 3:  
*'Where an organization departs from the practices set out below in order to apply an IPSAS standard or IPSAS standards the organization is deemed to comply with UNSAS.'*
- (e) Inter-agency funding and other support would continue to be provided to ensure effective United Nations System representation on the International Public Sector Accounting Standards Board.



## ANNEX II

WFP IPSAS IMPLEMENTATION PROJECT ACTIVITIES AND MILESTONES					
No.	Activities and milestones	Description	Who	Scheduled start	Scheduled finish
1	Project start	Milestone		01/01/2006	
2	2(a ) Set up project team 2(b) Obtain Executive Board approval of funding		ADF ADF/Executive Board	01/01/2006	31/03/2006 20/06/2006
3	Prepare new accounting policies, process changes and procedural guidelines		Project team	01/02/2006	31/08/2006
4	Management confirmation of revised regulations, rules, accounting policies and processes	Milestone	Project owner		30/09/2006
5	Coordinate process description with WINGS II process team		Project team/ WINGS II process team	01/03/2006	31/07/2006
6	Prepare detailed project plan for implementation phase		Project manager	01/05/2006	30/09/2006
7	Finalize system design (blueprint for WINGS II project)	Milestone	Project team, WINGS II process team		31/08/2006
8	Obtain EB approval on new policies	Milestone	Project owner		30/11/2006
9	System development (based on blueprint)	Assets and inventory	ADIC, WINGS II*	01/12/2006	28/02/2007
10	Test phase	User test and system update	Project team, ADF, ADIC*	01/03/2007	31/05/2007
11	Final user acceptance test	Milestone	*		31/05/2007
12	Prepare training manuals and guidelines		Project team	01/04/2007	30/06/2007
13	Prepare physical inventory	Assets and stock	Project team	01/07/2006	30/09/2006
14	Staff training (all locations)	New systems, new policies, procedures	Project team, external consultants	01/07/2007	31/12/2007
15	Physical inventory	Assets and stock	Local staff with external consultants	01/10/2007	31/12/2007
16	Adoption of IPSAS	Milestone			01/01/2008
17	Restatement of financial statements from 31 December 2007	Financial reporting	Project team, ADF	01/01/2008	31/03/2008
18	Close-out of the IPSAS Project	Milestone			30/06/2008

\* Requires confirmation pending WINGS II prioritization decision.



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## ACRONYMS USED IN THE DOCUMENT

ACABQ	Advisory Committee on Administrative and Budgetary Questions
AD	Administration Department
ADF	Finance Division
FAO	Food and Agriculture Organization of the United Nations
HLCM	High-Level Committee on Management (United Nations)
IPSAS	International Public Sector Accounting Standards
IT	information technology
PSA	Programme Support and Administrative
UNSAS	United Nations System Accounting Standards
WINGS	WFP Information Network and Global System