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THIRD 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.

Chief Financial Officer, CFO: Ms G. Casar tel.: 066513-2885

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

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 document proposes amendments to WFP's General Regulations, General Rules and Financial Regulations required to permit the implementation of International Public Sector Accounting Standards from 1 January 2008.

Some of these basic text amendments require a lengthy approval process. To implement the amendments concurrently with the adoption of International Public Sector Accounting Standards by WFP on 1 January 2008, relevant changes to General Regulations and corresponding General Rules and Financial Regulations are being presented to the Board for approval at the current session.

The main amendment is the change from biennial financial reporting and presentation of financial statements to annual financial reporting and presentation of financial statements.

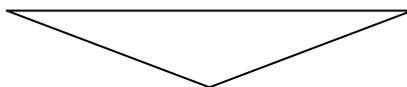
Other changes to the General Rules and Financial Regulations will be proposed to the Board as their need is determined, based on International Public Sector Accounting Standards requirements and WFP accounting policies being developed in coordination with United Nations system organizations.

This document presents a progress report informing the Board of action taken 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 the adoption of International Public Sector Accounting Standards as WFP's financial reporting and accounting standards. The General Assembly approved the adoption of the same standards by the United Nations system in July 2006.

Coordination and harmonization are taking place among all United Nations organizations through inter-agency bodies with a view to achieving uniformity in adopting International Public Sector Accounting Standards. Early adopters of the standards, such as WFP, are receiving guidance and assistance from the United Nations Accounting Standards Project.

DRAFT DECISION*



The Board:

- i) approves the changes to the General Regulations in Annex I, effective 1 January 2008, and recommends their approval by designated United Nations, ECOSOC and FAO bodies;
- ii) approves, pursuant to approval of the changes to the General Regulations in (i) above, the changes to the General Rules in Annex II, effective 1 January 2008, and submits them for information to ECOSOC and the FAO Council;
- iii) approves, pursuant to approval of the changes to the General Regulations in (i) above, the changes proposed to the Financial Regulations in Annex III, effective 1 January 2008;
- iv) takes note of the United Nations General Assembly approval of the adoption of IPSAS; and
- v) takes note of the action taken by the United Nations and WFP in preparation for the implementation of IPSAS.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.

BACKGROUND AND INTRODUCTION

1. During the Executive Board's First Regular Session of 2005, the United Kingdom National Audit Office (NAO), External Auditors of WFP, presented its review of WFP's financial reporting standards¹ to the Board, inviting the Board and the Secretariat to consider the adoption of improved, independent and universally accepted standards to enhance the usability, integrity, transparency and effectiveness of the organization's financial reporting.
2. Following the Board's request, the Secretariat presented at the Second Regular Session of 2005 a report² on action taken by the United Nations system and WFP regarding the move towards international accounting standards. Several improvements to the financial reporting standards were also noted by the Board.
3. A first progress report on WFP's implementation of international accounting standards³ was presented at the Board's First Regular Session of 2006. This informed the Board that the United Nations High-Level Committee on Management (HLCM) had endorsed the recommendation that United Nations system organizations adopt International Public Sector Accounting Standards (IPSAS); it also informed the Board of WFP's corresponding plans and actions.
4. At the Board's Annual Session of 2006, a second progress report⁴ presented the progress achieved on IPSAS implementation and the necessary funding required for implementation. The Board approved WFP's adoption of IPSAS with effect from 1 January 2008.
5. In the context of the Update on the WFP Management Plan 2006–2007,⁵ presented at the Annual Session of 2006, the Board approved the funding of WFP's plan to implement IPSAS.

PURPOSE AND OBJECTIVE

6. To keep the Board abreast of all developments related to the subject, this document presents a third progress report on action taken by the United Nations system and the Secretariat regarding IPSAS implementation.
7. The document proposes amendments to WFP's General Regulations and Rules and Financial Regulations. These amendments are preliminary and may be followed by further changes once further impacts of IPSAS implementation on WFP's Rules and Regulations have been identified.

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 Progress Report on the Implementation of International Accounting Standards (WFP/EB.1/2006/6-E/1).

⁴ Second Progress Report on the Implementation of International Accounting Standards (WFP/EB.A/2006/6-I/1).

⁵ Update on the WFP Management Plan (2006–2007) (WFP/EB.A/2006/6-K/1).



8. The need for these amendments was discussed in previous reports to the Board. The Board requested the Secretariat to report back with the changes that the Secretariat proposed to ensure that Regulations and Rules are in line with IPSAS requirements from 1 January 2008.
9. The Secretariat's overall goal and guiding principle in this context is the successful implementation of IPSAS and the receipt of a clean audit opinion on the first issued IPSAS-compliant financial statements.

ACTION TAKEN BY THE UNITED NATIONS SYSTEM

10. At its Sixtieth Session in July 2006, the General Assembly of the United Nations approved the United Nations' adoption of IPSAS.
11. In his report to the General Assembly requesting the adoption of IPSAS, the Secretary-General stated that adoption would be made by 2010. The report described IPSAS adoption as a major reform measure that supports the efficient use of resources and represents a vital component of the United Nations drive to excel as a modern, progressive organization; adoption of IPSAS will improve the quality of United Nations system financial reporting, resulting in benefits for governance, accountability and transparency.
12. The same report noted that the United Nations Board of Auditors and Panel of External Auditors, the specialized agencies and the International Atomic Energy Agency (IAEA) consider that adopting IPSAS would be a significant step forward in achieving quality, consistency and comparability of United Nations system financial reporting.
13. Under the auspices of the United Nations Chief Executives Board for Coordination Finance and Budget Network, the Task Force on Accounting Standards provides the forum for United Nations system organizations to discuss and decide on issues related to adopting IPSAS. As part of the United Nations Accounting Standards Project, an IPSAS adoption steering committee has been established that meets to deliberate on issues such as policies and guidance.
14. Through their governing bodies, United Nations system organizations are coordinating their IPSAS implementation activities. The United Nations Accounting Standards Project provides timely and expert assistance to early adopters of IPSAS, such as WFP. Agencies are encouraged to share knowledge and experience to ensure a uniform approach to the development of accounting policies.

ACTION TAKEN BY WFP

15. The Secretariat has embarked on the implementation of IPSAS in line with the business plan presented to the Board during its 2006 Annual Session; suitably qualified staff members have been recruited. The project team participates in the United Nations Task Force on Accounting Standards and is represented on the IPSAS Project Steering Committee comprising senior finance officials from United Nations system organizations. Accounting policies are being drafted in coordination with other United Nations system organizations.
16. WFP organizational units are receiving information and guidance on the implications of IPSAS on WFP business processes, particularly in the context of the WFP Information Network and Global System (WINGS) II project. Field offices are also being informed of progress made at WFP regional bureau meetings.



17. With a view to positioning WFP for the introduction of IPSAS, the Secretariat is preparing – for the first time at WFP – a full set of annual financial statements for 2006. Other changes noted by the Board, such as expenditure accruals based on delivery of goods and services and market value of investments reporting, are also being implemented in 2006.
18. Informal meetings and other communications have kept the External Auditors informed of WFP's efforts and the status of changes planned for IPSAS implementation. The External Auditors have provided ad hoc advice and guidance.
19. An IPSAS Project Implementation site has been created for WFP intranet users, providing information on United Nations accounting standards, international accounting standards, IPSAS and the process of adopting IPSAS; it includes all relevant WFP and General Assembly documents and provides internet links to the United Nations Accounting Standards section of the Chief Executives Board for Coordination Finance and Budget Network Web site and other related websites. It is a one-stop information source for users seeking information or guidance on IPSAS.
20. The project team has identified the General Regulations, General Rules and Financial Regulations that require amendment as a result of the implementation of IPSAS. This initial assessment of changes will be re-evaluated throughout the project to ensure that the necessary amendments are made to render WFP's Rules and Regulations IPSAS-compliant.

AMENDMENTS TO GENERAL REGULATIONS AND RELATED

AMENDMENTS TO GENERAL RULES AND FINANCIAL REGULATIONS

21. Amendments to the General Regulations, General Rules and Financial Regulations are approved via the following processes:
 - i) **General Regulations.** In accordance with Article XV of the General Regulations, amendments to the General Regulations shall be approved by the General Assembly of the United Nations and the FAO Conference. The Board may recommend amendments to these General Regulations through the ECOSOC Council and the Council of FAO.
 - ii) **General Rules.** General Rule XV.1 states that amendments to General Rules shall be approved by the Board and submitted for information to the ECOSOC Council and the Council of FAO.
 - iii) **Financial Regulations.** Changes to Financial Regulations are governed by Article XIV of the General Regulations, which states that the Board shall, after receiving advice from the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the FAO Finance Committee, establish Financial Regulations to govern the management of the WFP Fund. Inherent in this article is the Board's authority to amend the Financial Regulations it has established, following the same process used to establish them.
22. As explained in the June 2006 second progress report on WFP's implementation of IPSAS, the main change affecting the General Regulations is the move to annual financial reporting. The impacts of this change extend to the General Rules and Financial Regulations, which also require amendments.



23. In this document, two amendments are proposed to the General Regulations. The first is related to periodic reporting on inspections and investigations, the second to the frequency of preparation of financial statements as set out in Annex I of this document.
24. These changes are time-sensitive, and Board approval is sought at this session because of the lengthy process of amending General Regulations. The following schedule summarizes the time line for General Regulations amendments.

Stage	United Nations Body	Time line
1	FAO Finance Committee	October 2006
2	ACABQ	October 2006
3	WFP Executive Board	November 2006
4	ECOSOC Council	April–June 2007
5	132nd FAO Council	June 2007
6	United Nations General Assembly	September–November 2007
7	34th FAO Conference	November 2007
8	IPSAS implementation	1 January 2008

25. Amendments to the General Rules set out in Annex II address the frequency of preparation of the Strategic Plan and the duration of the availability of resources.
26. The related Financial Regulations amendments are set out in Annex III and mainly propose the change of the Financial period from its current two years to one year, as mandated by IPSAS.
27. The three annexes to this document detail the proposed basic text amendments to the Regulations and Rules. To make it easier to follow the proposed amendments, the original text is presented first, followed by the proposed amended text. The three annexes are:
- Annex I: Proposed changes to WFP's General Regulations;
 - Annex II: Proposed changes to WFP's General Rules;
 - Annex III: Proposed changes to WFP's Financial Regulations.
28. Amendments in this document are proposed for Board approval, for effect from 1 January 2008, concurrent with the adoption of IPSAS.
29. Other changes to the General Rules and Financial Regulations will be proposed to the Board once their need has been determined, based on IPSAS requirements and WFP accounting policies that are being developed in coordination with United Nations system organizations.
30. Adoption of IPSAS does not require a move to an annual budget cycle. As indicated in the main change to the Financial Regulations, the current biennial budget cycle will be retained. The Secretariat considers that moving to an annual budget cycle may introduce further volatility to core organizational structure, and a two- to four-year planning horizon ensures greater continuity, stability and support for field operations and projects. To ensure IPSAS compliance and enhance transparency, the biennial budget will include an annual breakdown for each of the two annual Financial periods it covers to facilitate comparison of actual results with budgeted amounts. This issue will be kept under close review during implementation of IPSAS to ensure coordination with other United Nations system organizations.



ANNEX I

**PROPOSED CHANGES TO WFP'S GENERAL REGULATIONS
(WITH EFFECT FROM 1 JANUARY 2008)**

Reason: According to IPSAS Standard no. 1, Presentation of Financial Statements, paragraph 71, "Financial statements should be prepared at least annually". As WFP's current financial reporting period is two years, amendments to the General Regulations are required.

Format: The proposed textual changes are set out below, with language to be changed highlighted in **bold font**.

Article VI: Powers and Functions of the Board

Current Text:

"(b) The Board ... shall in particular:

...

(viii) consider **the biennial report on inspections and investigations**, and take such action thereon as it considers appropriate."

Amended Text:

"(b) The Board ... shall in particular:

...

(viii) consider **the annual report of the Inspector General**, and take such action thereon as it considers appropriate."

Article XIV: Financial Arrangements

Current Text:

"6. The Executive Director will submit the following to the Executive Board for approval:

...

(b) **biennial financial statements** of WFP, together with the report of the External Auditor; "

Amended Text:

"6. The Executive Director will submit the following to the Executive Board for approval:

...

(b) **annual financial statements** of WFP, together with the report of the External Auditor; "



ANNEX II

PROPOSED CHANGES TO WFP'S GENERAL RULES (WITH EFFECT FROM 1 JANUARY 2008)

(pursuant to approval of the General Regulations amendments in Annex I)

Reason: According to IPSAS Standard no. 1, Presentation of Financial Statements, paragraph 71, "Financial statements should be prepared at least annually". As WFP's current financial reporting period is two years, amendments to the General Rules are required.

Format: The proposed textual changes are set out below with languages to be changed highlighted in **bold font**.

General Rule VI.1: Strategic Plan

Current Text:

"The Executive Director shall submit to the Annual Session of the Board, **in the second year of each financial period**, a Strategic Plan that will cover **a four year period**, be prepared every two years on a rolling basis and will highlight the main features of the proposed programme of work **for the ensuing financial period**."

Amended Text:

"The Executive Director shall submit to the Annual Session of the Board, **in the second year of each Biennium**, a Strategic Plan that will cover **two successive Biennia**. **The Strategic Plan shall** be prepared every two years on a rolling basis and will highlight the main features of the proposed programme of work **for the first Biennium**."

General Rule X.8: Availability of Resources

Current Text:

"The Executive Director shall ensure that development projects submitted to the Board for approval, and development projects and Country Programme activities approved under the Executive Director's delegated authority, can be implemented within estimated available resources. Resource availability shall take into account pledges and contributions expected for the current **financial period**, as well as resources which can reasonably be expected to be contributed during the **two subsequent financial periods** including resources which could be made available by the recipient government itself or by bilateral donors."

Amended Text:

"The Executive Director shall ensure that development projects submitted to the Board for approval, and development projects and Country Programme activities approved under the Executive Director's delegated authority, can be implemented within estimated available resources. Resource availability shall take into account pledges and contributions expected for the current **Biennium**, as well as resources which can reasonably be expected to be contributed during the **two subsequent Biennia** including resources which could be made available by the recipient government itself or by bilateral donors."



ANNEX III

PROPOSED CHANGES TO WFP'S FINANCIAL REGULATIONS (WITH EFFECT FROM 1 JANUARY 2008)

(pursuant to approval of the General Regulations Amendments in Annex I)

Reason: According to IPSAS Standard no. 1, Presentation of Financial Statements, paragraph 71, "Financial statements should be prepared at least annually". As WFP's current financial reporting period is two years, amendments to the Financial Regulations are required.

Format: The proposed textual changes are set out below, with language to be changed highlighted in **bold font**.

Financial Regulation 1.1: Definitions

Current Text:

"**Financial period** shall mean a **two-year period** starting on **1 January** of each **even-numbered year**."

Amended Text:

"**Financial period** shall mean **one calendar year** starting on **1 January**.

Biennium shall mean **two Financial periods** starting on **1 January** of each **even-numbered year**."

Current Text:

"**Appropriation** shall mean the amount approved by the Board for specified purposes in the programme support and administrative budget for a **financial period**, against which obligations up to the amount approved may be incurred for those purposes."

Amended Text:

"**Appropriation** shall mean the amount approved by the Board for specified purposes in the programme support and administrative budget for a **Biennium**, against which obligations up to the amount approved may be incurred for those purposes."

Financial Regulation 9.1

Current Text:

"The Executive Director shall propose a Management Plan, including a WFP budget, **for each financial period**, and submit it to the ACABQ and the Finance Committee in accordance with the General Regulations of WFP."

Amended Text:

"The Executive Director shall propose a Management Plan, including a WFP budget, **for each Biennium**, and submit it to the ACABQ and the Finance Committee in accordance with the General Regulations of WFP."



Financial Regulation 9.2

Current Text:

"The Executive Director shall submit the proposed Management Plan, as well as the reports thereon of the ACABQ and Finance Committee, to the Board at its last regular session in **the second year of each financial period**. The proposed Management Plan shall be circulated to members of the Board not later than 60 days before the session."

Amended Text:

"The Executive Director shall submit the proposed Management Plan of the ACABQ and Finance Committee and the reports thereon to the Board at its last regular session **in the second year of each Biennium**. The proposed Management Plan shall be circulated to members of the Board not later than 60 days before the session."

Financial Regulation 9.4

Current Text:

"The proposed Management Plan will include:

...

(b) comparative tables setting out the proposals for the following **Financial period**, the approved WFP Budget for the current **Financial period** and the approved WFP Budget for the current **Financial period** as modified in the light of actual receipts and expenditures; and ..."

Amended Text:

"The proposed Management Plan will include:

...

(b) comparative tables setting out the proposals for the following **Biennium**, the approved WFP Budget for the current **Biennium** and the approved WFP Budget for the current **Biennium** as modified in the light of actual receipts and expenditures; and ..."

Financial Regulation 9.5

Current Text:

"The Board shall consider the proposed Management Plan, and the related reports of the ACABQ and the Finance Committee, and shall approve the Management Plan, including the Budget, prior to the **financial period** covered by the Management Plan."

Amended Text:

"The Board shall consider the proposed Management Plan and the related reports of the ACABQ and the Finance Committee, and shall approve the Management Plan, including the Budget, prior to the **Biennium** covered by the Management Plan."



Financial Regulation 9.6

Current Text:

"The Board's approval of the Management Plan, including the Budget, shall constitute:

(a) acceptance of the WFP programme of work for the following **financial period** and an authorization to the Executive Director to proceed with the implementation of the programme of work; and ..."

Amended Text:

"The Board's approval of the Management Plan, including the Budget, shall constitute:

(a) acceptance of the WFP programme of work for the following **Biennium** and an authorization to the Executive Director to proceed with the implementation of the programme of work; and ..."

Financial Regulation 9.8

Current Text:

"The Executive Director may propose a revision in the Management Plan, including a supplementary budget, for a **financial period** in a form and manner consistent with the Management Plan."

Amended Text:

"The Executive Director may propose a revision in the Management Plan, including a supplementary budget, for a **Biennium** in a form and manner consistent with the Management Plan."

Financial Regulation 9.9

Current Text:

"Appropriations for programme support and administrative services shall remain available for twelve months following the end of the **financial period** to which they relate, to the extent they are required to discharge any outstanding legal obligations. At the end of that twelve-month period, the remaining balance of any appropriation shall revert to the General Fund. Any unliquidated obligations shall at that time be cancelled or, where the obligations remain a valid charge, transferred to an obligation against current appropriations."

Amended Text:

"Appropriations for programme support and administrative services shall remain available for twelve months following the end of the **Biennium** to which they relate, to the extent they are required to discharge any outstanding legal obligations. At the end of that twelve-month period, the remaining balance of any appropriation shall revert to the General Fund. Any unliquidated obligations shall at that time be cancelled or, where the obligations remain a valid charge, transferred to an obligation against current appropriations."

Financial Regulation 10.6

Current Text:

"Drawdowns from the operational reserve shall be restored as soon as possible from the contributions made for the purpose for which the drawdown was made. At the end of each Financial period, the Executive Director should determine any such contributions that are uncollectable and for which expenditure was incurred and request the Board to approve the replenishment of the operational reserve from the unearmarked portion of the General Fund. Such requests shall be made at the time of the presentation of the **audited biennial accounts.**"

Amended Text:

"Drawdowns from the operational reserve shall be restored as soon as possible from the contributions made for the purpose for which the drawdown was made. At the end of each Financial period, the Executive Director should determine any such contributions that are uncollectable and for which expenditure was incurred and request the Board to approve the replenishment of the operational reserve from the unearmarked portion of the General Fund. Such requests shall be made at the time of the presentation of the **audited annual accounts.**"

Financial Regulation 13.1

Current Text:

"The Executive Director shall submit to the Board for its approval **biennial financial statements** in respect of the WFP Fund, including its funds and accounts. These financial statements shall be prepared in accordance with the United Nations Common Accounting Standards except when the nature of WFP's operation requires different internationally accepted accounting standards. The format of the financial statements shall be such as may be appropriate to clearly show the financial position of WFP and meet the managerial requirements of the Board and of the Executive Director."

Amended Text:

"The Executive Director shall submit to the Board for its approval **annual financial statements** in respect of the WFP Fund, including its funds and accounts. These financial statements shall be prepared in accordance with United Nations Common Accounting Standards, except when the nature of WFP's operations requires different internationally accepted accounting standards. The format of the financial statements shall be such as may be appropriate to clearly show the financial position of WFP and meet the managerial requirements of the Board and of the Executive Director."

Financial Regulation 14.2

Current Text:

"The External Auditor shall be appointed for a four-year period covering **two Financial periods**. He or she may be reappointed for only one further four-year term."

Amended Text:

"The External Auditor shall be appointed for a four-year period covering **four Financial periods**. He or she may be reappointed for only one further four-year term."



ACRONYMS USED IN THE DOCUMENT

ACABQ	Advisory Committee on Administrative and Budgetary Questions
CFO	Division of the Chief Financial Officer
CFOA	Office of Financial Accounting (CFO Division)
ECOSOC	Economic and Social Council (of the United Nations)
FAO	Food and Agriculture Organization of the United Nations
HLCM	High-Level Committee on Management (United Nations)
IAEA	International Atomic Energy Agency
IPSAS	International Public Sector Accounting Standards
NAO	National Audit Office (United Kingdom)
WINGS	WFP Information Network and Global System