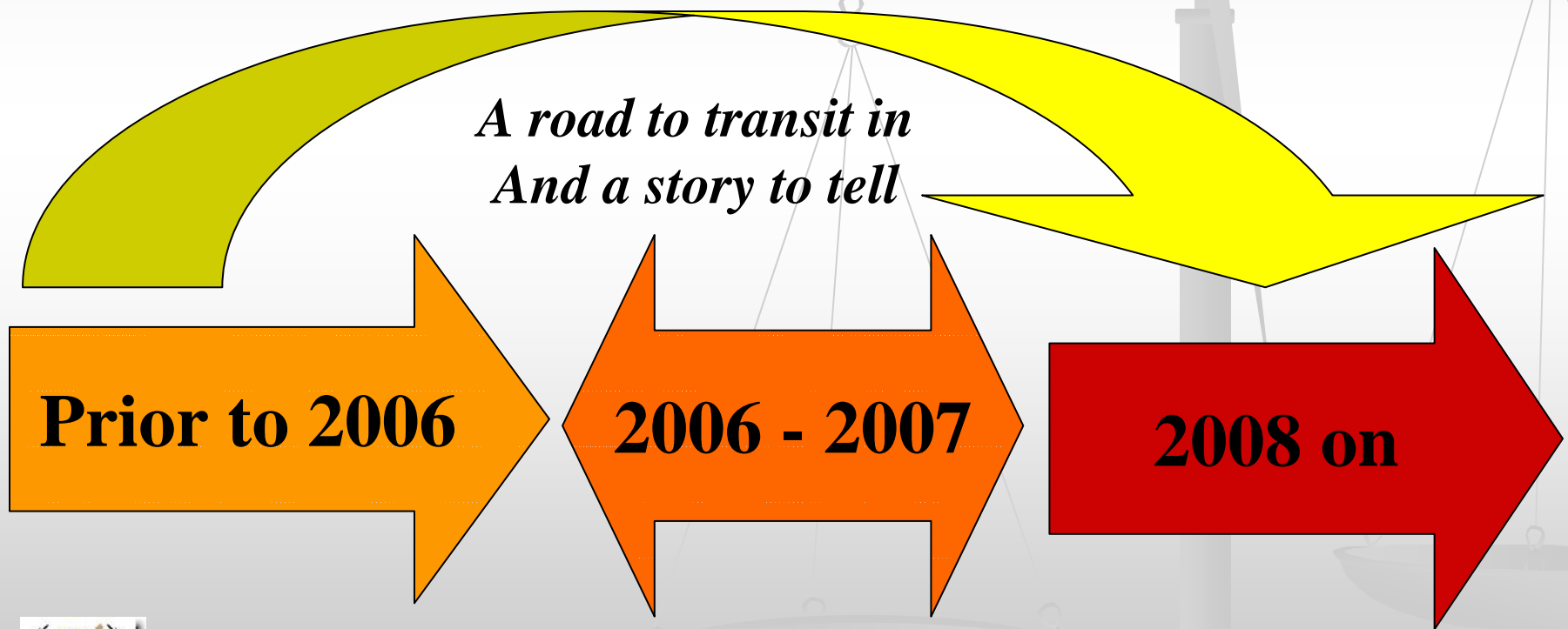




**Executive Board
Finance Seminar
16 May 2007
WFP HQ Rome**



The Road to IPSAS implementation



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□ **Prior to 2006:**

- UNSAS and WFP
- UN Reform and Accounting Standards
- Action Taken by WFP Prior to 2006
- IPSAS vs. IFRS
- Cash or Accrual Basis



UNSAS and WFP

UNSAS (United Nations System Accounting Standards) have been developed and modified over a number of years and are based on:

- Generally Accepted Accounting Principles (GAAP)
- External standards
- Accounting practices specific to UN organizations
- Modified Accruals

WFP has been using UNSAS as its financial reporting and accounting standards for over a decade





UN Reform and Accounting Standards

- ❑ The Secretary-General, in his report “Investing in the UN for a Stronger Organization Worldwide” in 2006, proposed a number of measures for improving financial management practices to be approved by the General Assembly
- ❑ One of the proposals, related to the continuous improvement of the UN Organization, was: The adoption of International Public Sector Accounting Standards (IPSAS) to improve: Transparency, Efficiency, Comparability and Accountability within the UN
- ❑ Earlier, in 2004, the High Level Committee on Management (HLCM) approved the Accounting Standards Development Project, and embarked on a project:
 - to determine whether the UN system should align itself with IFRS/ IPSAS, other external standards, accepted practice or a combination thereof
 - to select high quality, internationally-recognized accounting standards with a public sector / governmental / non-for-profit orientation





UN Reform and Accounting Standards – continued

- ❑ The UN project's first progress report was issued and discussed by the Finance and Budget Network in July 2005
- ❑ The report highlighted that some UN organizations would require major changes to their regulations, rules and policies before they could adopt international accounting standards
- ❑ Most of UN Organizations would require changes to their ERP systems, mostly major





Action Taken by WFP Prior to 2006

- ❑ In 2005 External Auditor recommended that WFP considers the adoption of independent, internationally developed and recognized standards (WFP/EB.1/2005/5-E)
- ❑ Pursuant to the presentation of the External Auditor's report to the Board, the Executive Director established a Steering Committee (SC) and a Task Force (TF) to analyze, assess and recommend on the transition to International Accounting Standards
- ❑ The SC and TF have made a preliminary review of those WFP regulations and rules that may require revision before WFP can fully adopt international accounting standards. Also they have reviewed major impacts resulting from such a transition on WFP. A report was prepared to the EB in this regard (November 2005)



IPSAS vs. IFRS

- ❑ **IPSAS** - International Public Sector Accounting Standards
 - international accounting standards less widely known than IFRS, recently developed with a public sector not for profit orientation

- ❑ **IFRS** - International Financial Reporting Standards
 - international accounting standards used mainly in the private sector. IFRS represents the basis for IPSAS & is used as alternative guidance when no IPSAS exists



Cash or Accrual Basis

- ❑ **Cash basis:** Recognition of transactions and other events only when cash is received/ paid:
 - Revenue is recognised when cash related to contributions is received, not when contributions are confirmed
 - Expenses are recognised when the disbursement is made to the supplier/ vendor not when goods/ services are received

- ❑ **Accrual basis:** Transactions and other events are recognized when they occur (not only when cash is received/ paid). Transactions and events are recorded in the accounting records at the periods to which they relate



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□ 2006 – 2007:

- Action by the UN
- Action by WFP
- 2007 Ongoing Actions
- Risks and Dependencies
- Mitigation of the Risks and Dependencies



Action Taken by UN

- Establishment of accounting standards working group to implement IPSAS on a UN wide basis
- In July 2006, UN General Assembly approved the United Nations' adoption and implementation of IPSAS, by 2010
- Working group led by accounting experts to provide technical assistance to individual entities; harmonization efforts top the list enhancing the implementation the new standards
- Recognition that some UN organizations would require major changes to their regulations, rules and policies before they could adopt international accounting standards
- All UN Organizations will need Enterprise Resources Plan (ERP) overhaul



Action Taken by WFP

- ❑ **WFP to adopt Accruals basis:** WFP's Executive Board, in its 2006 annual session, approved IPSAS adoption effective from 1 January 2008; several General Rules & Regulations and Financial Regulations amended in November 2006. One further General Rule will be submitted to the EB for amendment in June 2007





Action Taken by WFP – continued

- ❑ Resource funding of US\$3.7 million received from the EB together with the adoption approval
- ❑ Team on board:
 - Liaison with all WFP divisions
 - Development of Business Plan, detailed work plan, gap analysis
 - IPSAS intranet website
 - Wings II coordination
- ❑ On-going coordination with and participation in:
 - UN Task Force, Steering Committee, Finance and Budget network
 - HLCM, UN accounting workforce team
 - Internal and external auditors & consultants
 - Workshops: EC, OECD, other UN Agencies & Entities



Action Taken by WFP – continued

- ❑ Intranet site developed
- ❑ Policy papers developed “PGRs”
- ❑ Bulletins issued to field staff
- ❑ WINGS II (WFP Information Network & Global System):
 - steering committee presentation
 - high level issue papers
 - participation in stakeholders validation and other workshops (inventory, Fixed Assets and Employee Benefits)
 - detailed design changes
 - go live date established





2007 Planned and Ongoing Actions

- Implementation
- Follow up: WINGS II and Business Units
- System Ready
- Change General Rule XIII. 6 – In-kind Valuation
- Internal Audit
- External Audit
- Training across WFP
- EB Documents and approval
- Risks





2007 Planned and Ongoing Actions – continued

- UN Team Review
- Quality Control
- Opening Balances
- Financial Statements
- Data Migration
- Go Live Date
- Enterprise Resource Planning IPSAS compliant
- Roll out
- Full IPSAS implementation
- Close out project





Risks and Dependencies: WFP – Internal

- Tight timeline
- Systems dependent on WINGS II (go-live date behind schedule):
 - need to plan for part year accounting in 2 different systems using different accounting methods but full year results under IPSAS
 - data migration and conversion to be planned and implemented
 - reliable opening balances to be determined
 - no Logistic Execution System (LES) for inventory at go live date
- Business processes being amended / established, dry runs to be conducted, system testing and training to be delivered
- Updates to procedures/ manuals to be conducted
- Change management & awareness
- The team consists of a handful of specialized experts





Risks and Dependencies: UN – External

- WFP is an early adopter in 2008 while other UN in 2010
- Dependency on UN working groups which are yet to develop detailed policies for certain key areas in restricted timeframe, mainly for WFP
- No prior experience in IPSAS from other UN organizations hence breaking new ground.
- Other UN entities may develop principles differently with more lead time





Risks and Dependencies: IPSAS Board – External

- No IPSAS standards exist (although potentially under development) for a few areas:
 - Employee Benefits
 - Intangible Assets
 - Financial Instruments
- Lack of clear IPSAS guidance as to how to apply certain standards. IPSAS is principles based:
 - Inventory Valuation
 - Intangible and Fixed Assets – project related
 - Comparison to budget – reconciling and disclosing the impact





Other Risks and Dependencies: Mainly External

- External Auditor sign off on 2008 IPSAS accounts dependent on satisfactory new policies, processes and related application to data
- Key stakeholders (e.g.: member states, EB) informed to achieve timely decision making
- Budgetary funding for changes in principles in certain areas is yet to be determined (e.g. employee benefits)





Mitigation of Risks and Dependencies

- WFP Internal
 - Close cooperation with WINGS II and business progress
 - Open and sharing communications within WFP
 - Documentation, including formalisation of project management process and issue of new accounting guidance
 - Detailed planning for go-live
 - Develop & roll out training
- UN External/ IPSASB External
 - Coordination with the UN team and technical agreement
- Other
 - Regular communication with principal stakeholders (EB, donors)
 - Cooperation with auditors and quick decision making turnaround



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- **WFP Impacted Areas:**
 - Inventories
 - Fixed and Intangible Assets
 - In kind Contributions Valuation
 - Revenue Recognition
 - Employee Benefits
 - Expenditures
 - Budget Information in the Financial Statements

Inventories

- Opening balances
- New system to be implemented (Logistic Execution System)
- Change in valuation basis for in-kind contributions
- Physical count
- All on board





Inventories

- ❑ Food Items Commodities include stocks:
 - With suppliers if ownership is already transferred to WFP
 - On board ships and at receiving ports
 - At strategic logistic & field warehouses
 - In-transit overland

- ❑ Non Food items include those in:
 - Vehicle workshops
 - NFIs required for food-for-work projects
 - Shelter materials, cooking fuel,
 - Cooking and eating utensils, etc
 - Educational materials, essential medical supplies
 - Information & Communication Technology facilities



Fixed and Intangible Assets

- Definition of accounting policy
- New system to be used (SAP)
- Fixed and intangible assets above threshold limit to be capitalized and depreciated/ amortized over their useful lives
- Implementation plan in place to ensure accurate opening balances and smooth transition to new system





In Kind Contribution – Valuation

- Enhanced clear methodology
- More accurate
- Change to General Rule XIII.6; EB Document for approval
- Move to fair value. Indications include but not limited to donor's invoice, market price, FAC price (Fair value means: *the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal*)
- EB approval required





Revenue Recognition

- Accruals – control, enforceability and past experience
- Foreign exchange effect
- Trust Funds and Bilaterals
- TPAs (Third Party Agreements), decreased use
- Non exchange and exchange revenue
- Clearer recognition of in kind contributions



Employee Benefits

- Liabilities for employee benefits are to be fully accrued for
- Funding issue identified but not resolved. In better position than many other UN agencies
- UN already recognised with negative equity
- Implementation plan in place to ensure accurate opening balances and smooth transition to new system
- Use of actuaries for estimate of certain liabilities
- Standard versus actual – to be determined





Expenditures

- Budget comparability
- Expense recognised at point of Service Entry Sheet (SES) or Goods Received Note (GRN)
- Better recognition in the period of occurrence
- New line items
- Similar to majority of global and international organizations





Budget Information in the Financial Statements

- Annual breakdown
- Budget to Actual Comparative Statement Disclosure
- Presentation of comparison data
- Variance disclosure: actuals to budget; original budget to final budget
- Reconciliation requirements



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- **Financial Statements Presentation:**
 - **Statement of Financial Position**
 - Assets
 - Liabilities
 - Net Assets/ Equity
 - **Statement of Financial Performance**
 - Revenue
 - Expenses
 - **Cash Flow Statement**
 - **Statement of Changes in Net Assets/Equity**

UNSAS
BALANCE SHEET

ASSETS

- Cash and short-term investments
- Cash in trust in country offices
- Contributions receivable
- Accounts receivable
- Long-term investments

Total Assets



IPSAS
STATUS OF FINANCIAL POSITION

ASSETS

Current Assets

- Cash and cash equivalents
- Investments
- Accounts receivable (non-exchange transactions)
- Accounts receivable from exchange transactions
- Inventories
- Other current assets

Total current assets

Non-current assets

- Investments
- Accounts receivable (on-exchange transactions)
- Other financial assets
- Property, plant & equipment
- Intangible assets
- Other non-current assets

Total non-current assets

Total Assets

UNSAS

BALANCE SHEET

LIABILITIES

Current liabilities

- Accounts payable
- Outstanding obligations
- Funds held in trust in Country Offices

Total current liabilities

- Long-Term Loan

Total liabilities

Reserves and fund balances

- Reserves
- Fund balances

Total reserves and fund balances

Total liabilities, reserves & fund balances

IPSAS

STATEMENT OF FINANCIAL POSITION

LIABILITIES

Current liabilities

- Accounts payable (exchange transactions)
- Employee benefits
- Current portion of borrowings
- Provisions
- Other current and financial liabilities

Total current liabilities

Non-current liabilities

- Transfers payable
- Employee benefits
- Borrowings
- Provisions
- Other non-current liabilities

Total non-current liabilities

Total liabilities

Net Assets/Equity

- Accumulated surpluses (deficits)
- Other reserves

Total net assets/equity

Total liabilities, and net assets/equity





UNSAS

INCOME STATEMENT

INCOME

- Commodity in-kind contributions
- Services-in-kind contributions
- Other contributions
- Government cash contributions for local costs
- Interests
- Currency exchange adjustments
- Miscellaneous income
- Transfer of indirect support cost
- Contributions to General Fund

Total Income Including Transfers

IPSAS

STATEMENT OF FINANCIAL PERFORMANCE

REVENUE

- Voluntary contributions
- Other transfers
- Investment revenue
- Other revenue producing activities
- Material items
- Other/miscellaneous revenue (eg foreign exchange gains)

Total Revenue



UNSAS INCOME STATEMENT

EXPENDITURE

- Commodities in-kind
- Commodities purchased
- Ocean transport and related costs
- Landside transport storage & handling
- Other direct operational costs
- Director support costs
- Programme support & administration

Total expenditure

- Excess (shortfall) of income over expenditure
- Fund balances, beginning of period
contributions adjustments
- Write-off of accounts receivables
- Prior period adjustments
- Savings on cancellation of prior period obligations
- Transfers between funds and accounts
- Transfers to reserves

Fund Balance, end of period



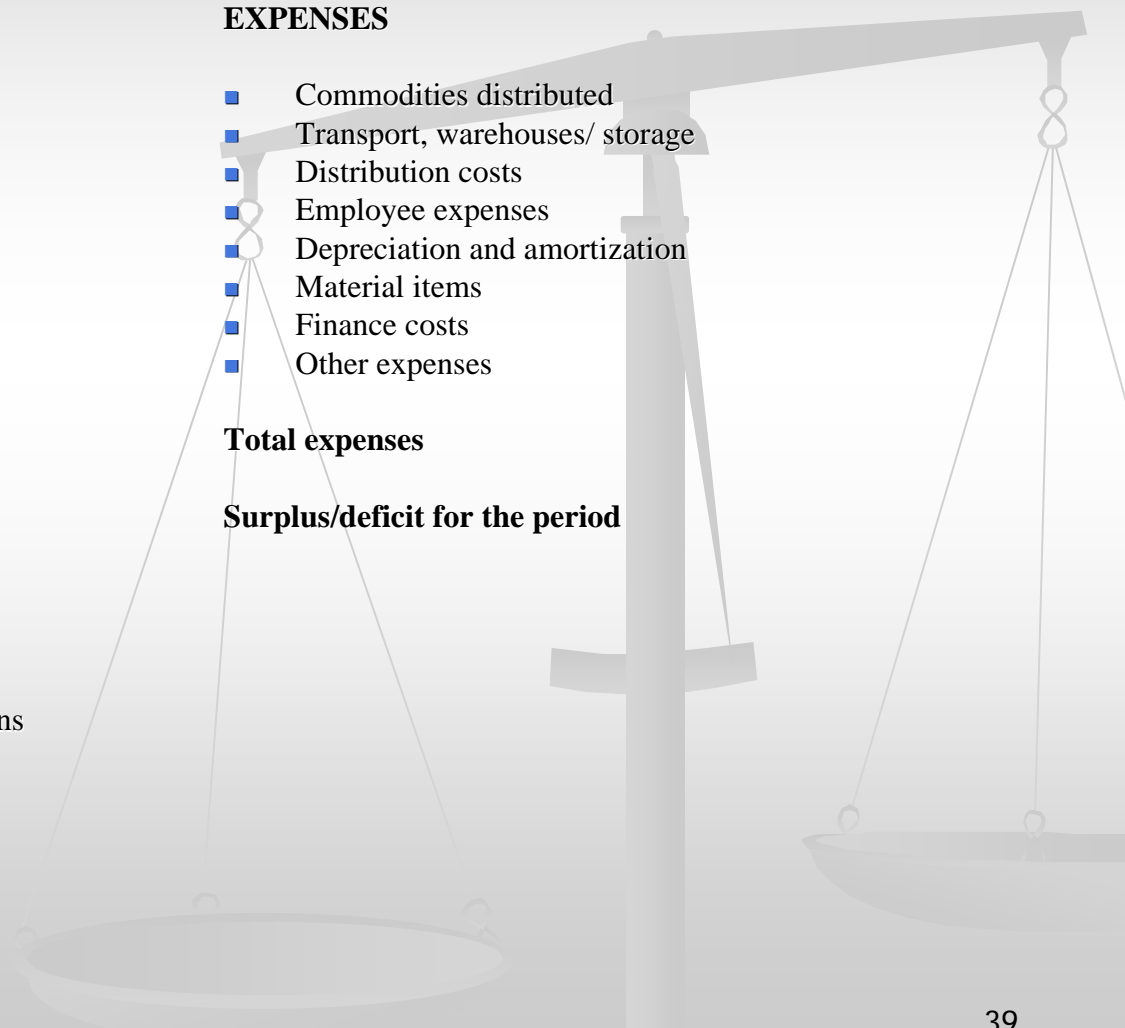
IPSAS STATEMENT OF FINANCIAL PERFORMANCE

EXPENSES

- Commodities distributed
- Transport, warehouses/ storage
- Distribution costs
- Employee expenses
- Depreciation and amortization
- Material items
- Finance costs
- Other expenses

Total expenses

Surplus/deficit for the period



UNSAS

STATEMENT OF CASH FLOW

- Cash inflow (outflow) from operating activities
 Net cash inflow from operating activities
- Cash from investing and financing activities
 Net cash from investing and financing activities
- Cash inflow (outflow) from (to) other Sources
 Net cash inflow (outflow) from (to) other sources
- Net increase (decrease) in cash and term Deposits
- Cash and term deposits at end of period

IPSAS

STATEMENT OF CASH FLOW

- Cash inflow from operating activities
 Net cash inflow from operating activities
- Cash from investing activities
 Net cash from investing activities
- Cash flow from financing activities
 Net cash flow from financing activities
- Net increase (decrease) in cash and cash equivalents
- Cash and cash equivalents, beginning of the period
- Cash and cash equivalents, end of period



UNSAS
**STATEMENT OF CHANGES IN NET
ASSETS/ EQUITY**

None

IPSAS
**STATEMENT OF CHANGES IN NET ASSETS/
EQUITY**

- **Net Assets/Equity at the beginning of the period:**
 - Change in accounting policy
 - Correction of prior period error
 - Adjustment for the initial recognition of property, plant and equipment

- **Restated Balance at the beginning of the period:**
 - Gain on revaluation of investments
 - Exchange differences on certain foreign currency translations
 - Total of items recognized directly in Net Assets/Equity

- Surplus/(deficit) for the period

- Total recognized revenue and expenses for the period

- **Net Assets/Equity at the end of the period**



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 - Mitigation of Risks and Dependencies
 - Future Steps





Mitigation of Risks and Dependencies

- WFP Internal
 - Close cooperation with WINGS II and business progress
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 - Documentation, including formalisation of project management process and issue of new accounting guidance
 - Detailed planning for go-live
 - Develop & roll out training
- UN External/ IPSASB External
 - Coordination with the UN team and technical agreement
- Other
 - Regular communication with principal stakeholders (EB, donors)
 - Cooperation with auditors and quick decision making turnaround



Future Steps

- Adoption of new standards from 1 January 2008
- Mainstreaming of IPSAS in WFP
- Field Training for IPSAS implementation
- Continuous maintenance and support activities



**Questions
and
Answers**

Thank You!

