INTERNATIONAL LABOUR OFFICE

Governing Body

GB.306/PFA/7
306th Session

Geneva, November 2009

Programme, Financial and Administrative Committee **PFA**

FOR DECISION

SEVENTH ITEM ON THE AGENDA

International Public Sector Accounting Standards: Status

1. At its 297th Session (November 2006) the Governing Body approved the adoption by the ILO of the International Public Sector Accounting Standards (IPSAS) for the financial period beginning 1 January 2010. [1] At its 304th Session (March 2009), the Governing Body proposed to the International Labour Conference a draft resolution amending the Financial Regulations to incorporate various changes to financial reporting appropriate to the adoption of IPSAS. [2] The International Labour Conference adopted the proposed changes at its 98th Session (June 2009).

2. The decision by the ILO to adopt IPSAS was based on a UN system-wide initiative approved by the General Assembly of the United Nations at its 60th Session (2005–06). All specialized agencies and other organizations within the UN system have taken action to initiate the process of IPSAS implementation.

3. A UN system-wide Task Force on Accounting Standards was established by the High-level Committee on Management of the Chief Executives Board. The jointly funded task force has issued accounting policies and guidance to help harmonize the approaches taken to adopt IPSAS by the different organizations. It has also developed materials to be utilized by agencies in training and orientation of staff and other stakeholders with an interest in IPSAS implementation. The ILO has been an active participant in all activities of the task force.

4. The original objective was for all UN organizations to achieve full compliance with IPSAS for the financial period commencing 1 January 2010. The World Food Programme, through the commitment of significant resources and associating an enterprise resource planning (ERP) system upgrade with IPSAS implementation, was able to achieve an earlier adoption of IPSAS, obtaining full compliance for its 2008 financial period. Most other large UN organizations have rescheduled their planned implementation due to the extent of changes and training that has now been determined to be required, phasing the implementation of different IPSAS elements over the next three years.

[1] GB.297/PV, para. 212.

[2] GB.304/PV, para. 190.

5. The changes in schedule are based upon an assessment by each organization of the time required to put in place the many changes in accounting policies and procedures necessary to ensure full compliance with IPSAS. The primary problem most agencies face relates to system modifications required to convert existing ERP systems to full IPSAS compliance or implement new IT systems to full accrual accounting as mandated by IPSAS. These changes concern, inter alia, the introduction of fixed-asset accounting which was not required by the existing UN System Accounting Standards; the implementation of systems that will enable agencies to continue to account for budgetary purposes in accordance with existing financial regulations and, at the same time, produce financial statements based on full accrual accounting; and the need to ensure that all subsidiary accounting systems, such as those used in field offices, capture data in accordance with IPSAS requirements.

6. The ILO has made substantial progress towards IPSAS implementation. A full assessment of the requirements for IPSAS implementation has been completed, including the requirements for reconfiguration of IRIS and a workplan has been developed accordingly. Accounting policies and procedures have been documented. Training programmes for field and headquarters staff involved in financial reporting have been prepared and training sessions for staff directly involved in recording transactions or collecting the data required by IPSAS are under way. Procedures to facilitate the various disclosures required by IPSAS have been designed and an independent valuation of all real property owned by the ILO is scheduled for completion this autumn. In June of this year the Financial Regulations were amended by the International Labour Conference and changes in the Financial Rules required by IPSAS are being submitted to the current session of the Governing Body. The fundamental requirement of IPSAS to report expenditure on a delivery basis has been an ILO policy for its regular budget since the 1998–99 biennium.

7. Full IPSAS readiness in the ILO is dependent on three key developments:

(a) existence of adequate tools in the field to accurately capture and analyse accounting data in accordance with IPSAS requirements;

(b) the implementation of a fixed-asset system to value and depreciate property, plant and equipment; and

(c) the configuration and testing of a reconciliation ledger.

8. While progress is being made on these major projects, it is now unlikely that all required system and procedural changes will be fully operational in time to meet the planned IPSAS implementation date of 1 January 2010. The alternatives of using manual workarounds are expensive, less efficient and less reliable leading to doubts as to whether audit attestation of IPSAS compliance could be obtained.

9. The deployment of IRIS functionality to the field is a critical requirement for the full adoption of IPSAS. The possibility of implementing manual procedures to capture the IPSAS required data from the field until the full completion of the IRIS deployment [3] was explored. However, the work effort required to collect such data manually in a comprehensive and accurate manner, would be extremely labour intensive and has raised concerns about overwhelming external offices, with their limited staffing, and the Financial Services Department, which would be responsible for the analysis and reconciliation of the data. With over 40 per cent of ILO expenses recorded in external offices, accuracy, timeliness and completeness of the data is essential.

[3] See GB.306/PFA/ICTS/2.

10. It is therefore intended to continue a phased approach to the implementation of IPSAS. Such an approach is foreseen under the existing UN System Accounting Standards and, as mentioned above, is the prudent approach being followed by other large United Nations organizations. This approach would be as follows:

1999	–	Regular budget and related expenditure recognized on the delivery principle.
	–	Interest income recognized on an accrual basis.
2007	–	Accrued staff liabilities disclosed using IPSAS definitions.
2009	–	Full balance sheet accounting for land and buildings, after-service health insurance and other staff liabilities.
	–	Disclosure of related-party transactions.
	–	Extra-budgetary expenditure recognized on an accrual basis for financial reporting purposes.
	–	Financial statements amended to IPSAS format.
	–	Revised disclosure of any financial instruments (this mainly relates to currency hedging).
2010	–	Annual financial statements and annual audit.
	–	Disclosure of complementary information relating to provisions for the non-collection of assessed contributions.
	–	Consolidated financial reporting of CIS, CINTERFOR, and the Institute (but not the Turin Centre).
	–	Valuation and disclosure of inventories of publications and other printed materials.
	–	In-kind contributions received.
	–	Disclosure of lease commitments.
2011	–	Establishment of closing balances under IPSAS.
	–	Balance sheet accounting for furniture and equipment.
	–	Consolidated financial reporting of the Turin Centre.
2012	–	Full IPSAS-compliant and audited financial statements.

11. Based on this approach, the ILO should be compliant with all except seven of the 26 IPSAS standards by the end of 2010 and should be able to comply with all standards by the end of 2012. This approach would avoid the need to seek additional financial resources to ensure full IPSAS implementation by 2010. It would reduce the impact of simultaneous initiatives, such as IRIS field deployment. This in turn would improve the readiness for IPSAS throughout the Office and enable it to spread the existing resources and work effort more evenly. It would also limit the need to engage temporary project staff for IPSAS implementation, as has been the case in many other organizations. The first financial statements and external audit fully based on IPSAS would be in 2012.

12. ***The Committee may wish to recommend that the Governing Body take note of the revised implementation plan for the adoption of the International Public Sector Accounting Standards.***

Geneva, 28 August 2009.

Point for decision: Paragraph 12.