



SIXTH ITEM ON THE AGENDA

**International Public Sector
Accounting Standards**

1. At its sixtieth session, the General Assembly of the United Nations approved the adoption of International Public Sector Accounting Standards (IPSAS) for its financial statements. In addition, the governing bodies of four United Nations specialized agencies have approved the adoption of IPSAS. The purpose of this paper is to formally request this Committee to recommend to the Governing Body the adoption of IPSAS by the ILO for its own financial statements and to allocate resources for this purpose.
2. The United Nations System Accounting Standards (UNSAS) have promoted consistent, good quality accounting across the United Nations system for many years, but can no longer be considered to meet the needs of modern financial reporting. United Nations system accountants, managers and auditors have had concerns for several years about the continued viability of the UNSAS and, after an in-depth review, it has been recommended by the Chief Executive Board High-level Committee on Management (HLCM) that the United Nations system adopt IPSAS to replace UNSAS. In his Audit Report for the 69th Financial Period (2004-05), the External Auditor of the ILO also recommended that the ILO adopt IPSAS as the basis for the preparation of annually audited financial statements.
3. The adoption of high quality accounting standards is essential for transparent financial reporting, strong accountability and good governance. The credibility of ILO financial statements depends on the accounting standards that regulate them and is important to ensure the confidence of all ILO constituents. IPSAS are credible, high quality, independently produced accounting standards, underpinned by a strong due process and supported by governments, professional accounting bodies and international organizations.
4. The major benefits of the adoption of IPSAS include:
 - (a) the alignment of ILO accounting with best accounting practices through the application of credible, independent accounting standards on a full accruals basis;
 - (b) improved internal control and transparency with respect to assets and liabilities;
 - (c) more comprehensive information about costs that will better support results-based management;

- (d) more comprehensive information produced and disclosed under IPSAS facilitates improved management and stewardship of resources, the effectiveness of operational delivery and the achievement of results; and
 - (e) improved consistency and comparability of financial statements as a result of the detailed requirements and guidance provided in each standard.
5. Adopting IPSAS would require a change from a modified accrual system of accounting to full accruals. Other required changes would include the full recognition of liabilities for employee benefit obligations such as after service health insurance, annual leave and repatriation grants; recognition and depreciation of fixed assets such as buildings, vehicles, furniture and equipment; and the preparation of audited annual financial statements. These accounting changes will have a material impact on the format and content of the financial statements. Reported assets and liabilities are expected to increase substantially. The full recognition of liabilities for employee benefit obligations may result in negative overall equity. Consideration will also be required as to the manner in which biennial budgetary information is reported to the Governing Body.
6. The Office has already determined that the transition to IPSAS would require a significant amount of planning and accounting processes review, together with the formulation of policies and procedure guidance, some modification of existing system functionalities, as well as the installation of an additional ORACLE module for fixed assets. Most United Nations organizations are aiming for a complete adoption of IPSAS for the financial period commencing 1 January 2010. With effect from the current financial period, the ILO will progressively implement key IPSAS requirements as procedures are developed and data becomes available. This will ensure policy and procedural changes are introduced with minimal disruption to the day-to-day operations.
7. The following is the proposed timetable for the transition to IPSAS:
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| Ongoing: | Consultation with United Nations system and others. |
| December 2006: | Establishment of internal task force.
Preparation of gap analysis and initial implementation plan. |
| December 2007: | Drafts of key accounting policies, process changes and procedural guidance.
Preparation of fixed asset inventory for conversion to IRIS.
Development of methodologies to value assets and liabilities. |
| December 2009: | Maintenance of accounts in parallel using IPSAS in order to prepare for full implementation. |
8. IPSAS implementation involves two levels of resource requirements: the first level is to contribute resources at the system-wide level. The resources are required to provide system-wide IPSAS adoption support, coordination and leadership, and ensure the consistent and efficient resolution of common implementation issues and representation of the United Nations on the International Public Sector Accounting Standards Board. The total budget for the four years 2006-09 is US\$4,427,000 and the ILO share is estimated at 4.8 per cent or \$212,000. The ILO contribution is covered for the current biennium from resources earmarked for Jointly Funded Activities.

9. The second level is the resources required directly by the ILO. IPSAS adoption is a major change that: may require changes to financial regulations and rules; will require changes to accounting practices; a significant investment in staff training; development of relevant guidance; and resolution of accounting issues. In addition, commencing with the 2010-11 biennium, annual audits may be required which would result in an increase in the audit fee.
10. The ILO has the advantage of a modern integrated information system, IRIS, which can be easily configured to permit full compliance with IPSAS. The Office has applied a full accrual system for accounting for regular budget income and expenditure since the 1998-99 biennium, which already meets one of the fundamental IPSAS requirements and therefore reduces the magnitude of the change. The module for fixed assets was included as part of the initial purchase of ORACLE applications so no additional acquisition cost is required.
11. The budget estimate for IPSAS implementation at the ILO over the next three and a half years is provided below. This is in addition to the estimated 60 work months of ILO professional staff time that will be required to be absorbed during this same period:

Staff resources:	IPSAS/ Financial experts	\$220,000
	ORACLE experts	\$150,000
	Junior accountant 50 per cent	Associate Expert agreement concluded with German Government
	High-level consultancy (6 weeks)	In-kind contribution from Australian Government
Training:		Priority use of existing staff development funds earmarked for technical upgrading of officials in the Financial Services Department
Participation in UN working groups that cannot be accommodated through telephone and video conferences in 2007:		\$25,000
Additional audit fee:		Not required until 2010-11 and subject to final discussions on IPSAS/UN audit requirements

12. Of the total budget estimated of \$395,000, it is expected that \$205,000 will be required in the current biennium, with the balance of \$190,000 being required in 2008-09.
13. As no resources were foreseen in the Programme and Budget for 2006-07 for this activity, it is proposed that the additional resources required in 2006-07 that cannot be covered from further extra-budgetary contributions or savings elsewhere in Part I of the budget, be provided from the Provision for unforeseen expenditure (Part II).
14. *The Committee may wish to recommend that the Governing Body approve:*
- (a) *the adoption of the International Public Sector Accounting Standards by the ILO for its financial statements, as part of a United Nations system-wide adoption of IPSAS for the reporting period beginning 1 January 2010; and*

- (b) the additional costs estimated at \$205,000 relating to the implementation of International Public Sector Accounting Standards in 2006-07 and that these costs be financed in the first instance from further fund raising of extra-budgetary resources or, failing that, from savings in Part I of the budget or, failing that, through Part II.*

Geneva, 25 September 2006.

Point for decision: Paragraph 14.