COUNCIL — 178TH SESSION

Subject No. 18.14: Other finance matters for consideration by Council


(Presented by the Secretary General)

SUMMARY

This working paper presents a summary of the impact of the International Public Sector Accounting Standards (IPSAS) adoption on the Organization, more particularly on the financial statements, and proposes a plan of action for the implementation.

Action by the Council is in paragraph 4.

REFERENCES

* C-WP/12611
* C-WP/12610
* C-WP/12395
* C-WP/12394
* C-DEC 177/14
* C-DEC 176/3
  Doc 9848, Assembly Resolutions in Force (as of 8 October 2004)
  Doc 7515/12, The ICAO Financial Regulations

This working paper relates to Supporting Implementation Strategy 1.

* Principal references

1. INTRODUCTION

1.1 The Council, in C-DEC 176/3, approved the action plan proposed in paragraph 6 of C-WP/12394 for the gradual implementation of the changes to the financial statements, and the inclusion of the Secretary General’s comments on the Report of the External Auditor as an integral part of the financial statements of the Organization. In paragraph 1.4 of the working paper, the Council was also informed that the United Nations System Accounting Standards (UNSAS), which ICAO adopted in the mid-1990s, were currently being revised by the United Nations System’s Chief Executive Board (CEB) with a view to adopting a full set of international accounting standards developed by a recognized accounting body.
1.2 During the preliminary consideration of budget issues in C-WP/12610 (C-DEC 177/14), the Council was informed that the CEB has decided to move to external accounting standards. The UNSAS will be replaced with the independently-developed International Public Sector Accounting Standards (IPSAS). These new standards will have to be applied to the accounts and the financial statements on or before 1 January 2010. In reviewing C-WP/12610, the Council noted that the impact of the adoption of IPSAS and their alignment between the budget and the accounting treatment must be resolved to establish the draft Regular Programme Budget for 2008-2010. During its deliberations of C-WP/12610, the Finance Committee requested in C-WP/12611 that a working paper detailing the impact of IPSAS and accrual accounting would be presented to the Council in the 178th Session.

1.3 The objective of this paper is to inform the Council of the impact of the adoption of IPSAS on the Organization, in particular on the financial statements. This paper provides an up-date of the action plan presented in C-WP/12394 and approved by the Council in C-DEC 176/3 and proposes revisions to the action plan to take into account the adoption of IPSAS.

2. IMPACT ON THE ADOPTION OF IPSAS ON THE ORGANIZATION

2.1 IPSAS adoption will have an impact on several important matters, including the accounting and reporting of transactions and the implementation of a financial management system. It will also have a consequential impact on budgeting, funding and management. Other UN organizations will also have to deal with these important matters. Centralized support and coordination have been put in place by the CEB to efficiently resolve common problems and ensure consistent interpretation and application of IPSAS across the UN system during the implementation and beyond.

2.2 Accounting and reporting. IPSAS adoption will have a significant impact on the financial reporting. Reported assets and liabilities are expected to increase substantially. For ICAO and for many UN system organizations, the full recognition of the Organization’s employee benefits could result in negative overall equity and in an increase in reported expenses. The capitalization of fixed assets and the addition of depreciation expense will spread the acquisition costs of these assets over their useful lives, rather than expensing them in the year of purchase. In applying the accrual basis for accounting, the financial statements will be more in line with those statements prepared for non-profit organizations.

2.3 Financial management system. The adoption of IPSAS influences the selection and configuration of the new financial management and related systems. The new system to be implemented should be compliant with IPSAS and should support accounting for inventories, capital assets, employee benefits and the accrual basis for income and expenses.

2.4 Budgeting and funding. IPSAS adoption changes the basis for accounting and financial reporting from modified accrual to full accrual. In paragraph 5 of C-WP/12610, the key impact of adopting IPSAS on the budget has been brought to the attention of the Council. It was mentioned that the adoption of IPSAS will entail the implementation of full accrual accounting and that the budget will need to be aligned to remain consistent with the accounting treatment. Budgets and reports prepared on the same basis would facilitate the reconciliation between the budgeted and actual results. The preparation of the budget on an accrual basis would also allow a sound approach to results-based budgeting. Draft budget documents for 2008-2010 that will be presented to the Council in the up-coming sessions will reflect, where applicable, the impact of IPSAS adoption thereon.

2.5 Management of IPSAS adoption. IPSAS adoption is a major initiative that will require changes to the financial regulations and rules and management practices. The adoption of IPSAS will require an in-depth review of the ICAO Financial Regulations in order to determine possible amendments needed in order to be in line with IPSAS. The adoption of IPSAS will also require an investment in staff training. Information sessions, workshops and specific training will be delivered to the staff involved in the application of IPSAS pertaining to their areas of responsibility. For efficiency in the implementation and consistency of the applications, the development of relevant policies and guidance, changes to regulations and rules, the resolution of accounting issues and information system development will require a close coordination with other UN organizations and with other Bureaux and Offices within the Secretariat.
2.6 **Coordination with United Nations organizations.** The CEB Task Force has indicated that, in order to implement IPSAS, each organization will have to undertake a number of significant steps urgently. It was also recognized that the actual implementation will require several years and the target date for implementation in 2010 is demanding. For ICAO, the recommendation for IPSAS adoption effective 1 January 2010 would not be practical and efficient. The Finance Branch’s objective is to implement IPSAS in 2008, since it will coincide with the first year of the next triennium and with the implementation of a new financial and related systems.

2.7 **Early adapters.** By implementing the new standards two years before the due date in 2010, ICAO is considered to be one of the early adapters of IPSAS in the UN system. ICAO will be part of an Accounting Policy Group that will review the policy and guidance related to IPSAS implementation. ICAO’s participation in this Group will provide a better understanding of policy development and will allow the recommendation of policies that will take into consideration ICAO’s specific needs. The Finance Branch will coordinate with other early adapters to share information and to benefit from lessons learnt and experience gained.

2.8 **Estimated costs of implementation.** System wide support, coordination and leadership within the UN system are provided through the Task Force on Accounting Standards, under the auspices of the CEB Finance and Budget Network, to ensure consistent interpretation and application of IPSAS across the system. ICAO will have to contribute its share of the UN common costs estimated at $3.7 million for the 2006-2007 biennium. Applying the 2006-2007 cost apportionment formula, ICAO would have to contribute 1.3 per cent of the external costs of the project, representing an amount of $50 000 for these two years. Additional resources will be required to implement IPSAS, to attend CEB meetings and perform training. ICAO will need external assistance to participate in the implementation of IPSAS considering its magnitude and the tight deadline. A preliminary estimate of $150 000 has been established to cover these costs for 2006 and 2007. The estimated costs for the next triennium will be established in consultation with the CEB.

2.9 **Expected benefits.** IPSAS adoption will improve the quality, comparability and credibility of United Nations system financial reporting with consequential improvements anticipated with respect to accountability, transparency and governance. More comprehensive information about costs will better support results-based budgeting.

2.10 To reap the full benefits of IPSAS adoption, the implementation process must recognize the magnitude of the change and include sufficient time and resources to work through its potentially far-reaching implications. For this process, UN organizations, including ICAO, will require the full support from their respective governing bodies in order to seek approval for, *inter alia*, consequential changes to financial regulations and rules and additional resources required for implementation.

3. **ACTION PLAN**

3.1 **Action Plan for the year 2005.** In paragraph 6.1 of C-WP/12394, changes were proposed to simplify the presentation of the accounts in the financial statements for 2005. All items will be applied for 2005 except the recording of the sales of publications on full accrual basis that would also imply the recording of the inventory of publications as an asset to comply with IPSAS. In the future, the inventory of publications will need to be taken, valuated and recorded at the date of the financial statements. It was agreed with the External Auditor that the recording of sales and inventory on an accrual basis should take place simultaneously at the time of the implementation of IPSAS.

3.2 **Action Plan beyond 2005.** Considering the numerous issues to be addressed and the tight deadline for the implementation of IPSAS, it is proposed to prioritize the analysis and the implementation of the new standards on the following timeframe:

3.2.1 In 2006, consideration as a matter of priority of those standards that will have a direct impact on:

   a) the preparation of the Regular Programme and the Ancillary Revenue Generation Fund (ARGF) budgets for the 2008-2010 triennium;
   b) the implementation of a new financial management and related systems;
c) accounting and reporting of income and expenditure for the Technical Co-operation Programme, and the related impact on the income and expenses of the AOSC Fund;
d) amendments to Financial Regulations and Rules; and
e) preparation of a training plan for staff members.

3.2.2 In 2007, consideration of those standards that will need to be applied effective 1 January 2008 so that the opening balances for the year 2008 will be compliant with IPSAS:

a) valuation of non-expendable property for recording as capital assets;
b) valuation of inventories of stocks of publications for sales and supplies for recording as assets on the balance sheet;
c) revaluation of land and building currently presented in the balance sheet;
d) valuation and recording full liability for employee end-of-service benefits and consideration of the establishment of a specific Fund to finance the liability; and
e) consideration of the establishment of a Capital Assets Fund.

Revision of management practices, establishment of accounting policies, workshops, information sessions and specific training of staff will also be performed in 2007, and beyond if necessary.

3.2.3 In 2008, application of standards that can be implemented more efficiently with the implementation of a new financial and related systems:

a) recording inventories, fixed assets and depreciation;
b) full recording of employee end-of-service benefits on an accrual basis;
c) recognition of revenue from contribution on an accrual basis;
d) recognition of expenses based on the delivery principle; and
e) application of IPSAS in any other areas.

3.2.4 Considering the complexity of IPSAS adoption, it is possible that the resolution of issues by the UN System go beyond 2008. In these cases, ICAO might implement interim measures or decide to postpone further action until decisions are taken at the UN level. Possible matters that might be considered beyond 2008 include the accounting treatment of arrears of contributions and the funding of the liability for end-of service benefits.

3.2.5 The Office for Programme Evaluation, Audit and Management Review and the External Auditor will be involved in all steps of the implementation process of IPSAS.

4. ACTION BY THE COUNCIL

The Council is invited to:

a) note this paper;
b) approve the revision in paragraph 3.1 to the Action Plan for the year 2005; and
c) approve the Action Plan beyond 2005 as proposed in paragraph 3.2 for the gradual implementation of IPSAS.

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