



Governing Body

310th Session, Geneva, March 2011

GB.310/PFA/5/4

Programme, Financial and Administrative Committee

PFA

FOR INFORMATION

FIFTH ITEM ON THE AGENDA

Audit questions

International Public Sector Accounting Standards (IPSAS): Update

Overview

Issues covered

This paper provides an update on the status of IPSAS compliance in the Office.

Policy implications

None.

Financial implications

None.

Action required

The Committee is invited to take note of the information provided in the paper.

References to other Governing Body documents and ILO instruments

GB.297/PFA/6; GB.306/PFA/7; GB.307bis/PFA/1.

1. At its 297th Session (November 2006), the Governing Body adopted the International Public Sector Accounting Standards (IPSAS) for financial reporting purposes for the ILO. The decision 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). The current document provides the Programme, Financial and Administrative Committee with an update on the readiness of the Office for full IPSAS compliance.
2. The initial goal for IPSAS adoption across the UN system was full compliance for the financial period commencing 1 January 2010. The estimated date for full compliance has subsequently been amended by most of the larger UN organizations. In total, nine organizations indicated that full compliance would be achieved by 2010, a further ten by 2012, and three more by 2014.
3. At its 306th Session (November 2009), the Governing Body took note of a revised IPSAS implementation plan providing for the phased adoption of IPSAS standards beginning with the 2008–09 Financial Statements with full IPSAS compliance scheduled for 2012. Like most large UN organizations, the full scope of IPSAS was found to be complex and to require further analysis and extended system and business process development. In particular, full IPSAS readiness in the ILO was dependent on the configuration and testing of a reconciliation ledger within its accounting system (IRIS); the implementation of a fixed-asset accounting system; and the existence of adequate tools in the field to accurately capture and analyse complete accounting data in accordance with IPSAS requirements.
4. In 2009, the ILO Financial Regulations¹ and Financial Rules² were amended, by the 98th Session of the International Labour Conference (June 2009) and the Governing Body respectively, to incorporate changes required for the adoption of IPSAS.
5. The ILO's 2008–09 Financial Statements included major changes in presentation and content as a first step in the phased implementation of IPSAS. The changes implemented included:
 - full adoption of four IPSAS standards, namely: IPSAS 19, 20, 24 and 25;
 - financial statements presented in the IPSAS format;
 - valuations of investments and derivatives at market value;
 - valuation of land and buildings at fair value;
 - consolidated financial reporting of the International Occupational Safety and Health Information Centre (CIS), the Inter-American Centre for Knowledge Development and Vocational Training (CINTERFOR), the International Institute for Labour Studies (IILS) and the Administrative Tribunal;
 - disclosure of complementary information relating to provisions for the non-collection of assessed contributions;
 - deferral of conditional non-exchange revenue.

¹ ILO: *Provisional Record* No. 12, International Labour Conference, 98th Session, Geneva, June 2009.

² GB.306/PFA/8(&Corr.).

6. The implementation of 16 additional IPSAS standards with the 2010 Financial Statements is proceeding on schedule. In addition, the 2010 Financial Statements will be the first annual audited financial statements for the Office since 1969. The major changes in the financial statements scheduled for 2010 include:
 - consolidation of the accounts of the International Training Centre, Turin, into the ILO financial statements;
 - full accrual accounting of revenue from sales of goods and services including publications, rental of space and charges for services provided to other entities;
 - disclosure of potential risks related to investments, currency holdings, forward purchase agreements and outstanding receivables;
 - full accrual accounting for voluntary contributions to technical cooperation projects.
7. Planning for adoption of the remaining standards in 2011 and 2012 is also proceeding on schedule. This will include:
 - valuation and disclosure of inventories of publications and other printed materials;
 - balance sheet accounting for furniture and equipment;
 - recognition of in-kind contributions of goods received;
 - disclosure of lease commitments.
8. A detailed schedule of the adoption of each IPSAS standard is presented in the attached appendix.
9. The ILO remains committed to full IPSAS compliance for the calendar year commencing 1 January 2012. Following the progress made with the 2008–09 Financial Statements, the successful implementation of an IRIS reconciliation ledger in November 2010 has represented a further major milestone towards the achievement of this goal.
10. The implementation of a fixed-asset system to value and depreciate property, plant and equipment is scheduled for completion by mid-2011.
11. Progress is also being made on the rollout of IRIS to external offices. As the current field accounting system, FISEXT, was not designed to be IPSAS compliant, the rollout of IRIS would significantly facilitate the capturing and consolidation of transactions originating in external offices. Until FISEXT is replaced by IRIS or upgraded, manual workarounds are being implemented to overcome its limitations. Such workarounds are labour-intensive for external office and headquarters finance staff. Reliance on manual processes also constitutes one of the main risk factors as regards full IPSAS compliance for 2012 and the Office's ability to maintain IPSAS compliance to the satisfaction of the External Auditor in subsequent years. These risks have been mitigated through training workshops with field staff and communications to ensure that the requirements are understood.
12. The Office has achieved its current state of IPSAS readiness with a one-off supplementary budget allocation of US\$395,000 over the 2006–07 and 2008–09 biennia. Other work has been re-prioritized in order to accommodate the demands of IPSAS. As indicated by the External Auditor in her report to the Governing Body in June 2010, the adoption of IPSAS is a major undertaking and, given the current resources allocated to this project, it will be a challenge for the ILO to be fully compliant by 2012. However, the Office continues its

preparations and phased implementation within existing resource levels and remains optimistic that full compliance will be achieved in 2012.

- 13.** The Committee should note that the challenges associated with IPSAS will not be limited to first-time compliance but also to the maintenance in future financial periods of the ILO financial reporting systems in accordance with the more comprehensive, sophisticated and dynamic accounting standards. The IPSAS Board continues to revise existing standards and to issue new standards to meet emerging needs. As noted in the appendix, the Office will be required in 2013 to comply with three new standards. The standards are living documents and it can be expected that additions and amendments will be a permanent feature of the IPSAS environment.
- 14.** The implementation of IPSAS will harmonize reporting standards across the UN system. They are independently established, rigorously reviewed by international accounting experts and are recognized as providing a more transparent basis for UN financial reporting to governance bodies and external parties. The Office has worked closely with the External Auditor on its preparations for full IPSAS compliance with the 2012 Financial Statements and has appreciated the continuing collaborative support provided.

Geneva, 14 January 2011

Submitted for information

Appendix

IPSAS adoption schedule – ILO

IPSAS adopted in the 2008–09 Financial Statements

IPSAS	Description
19	Provisions, contingent liabilities and contingent assets
20	Related party disclosures
24	Presentation of budget information in financial statements
25	Employee benefits

Other IPSAS-related tasks completed in the same reporting period:

- preparation of financial statements in IPSAS format based on partial IPSAS/partial UNSAS compliance;
- valuation of investments and derivatives at market value;
- valuation of land and buildings as assets at fair value; and
- deferral of conditional non-exchange revenue.

IPSAS to be adopted in the 2010 Financial Statements

IPSAS	Description
4	The effects of changes in foreign exchange rates
5	Borrowing costs
6	Consolidated and separate financial statements
7	Investments in associates
8	Interests in joint ventures
9	Revenue from exchange transactions
10	Financial reporting in hyperinflationary economies
11	Construction contracts
14	Events after the reporting date
15	Financial instruments: Disclosure and presentation
16	Investment property
18	Segment reporting
22	Disclosure of information about the general government sector
23	Revenue from non-exchange transactions
26	Impairment of cash-generating assets
27	Agriculture

Other IPSAS-related tasks to be completed in the same reporting period:

- recognition of voluntary contributions on accrual basis; and
- recognition of extra-budgetary expenditure on delivery basis.

IPSAS to be adopted in the 2011 Financial Statements

IPSAS	Description
2	Cash flow statements
3	Accounting policies, changes in accounting estimates and errors
12	Inventories
13	Leases

IPSAS to be adopted in the 2012 Financial Statements

IPSAS	Description
1	Presentation of financial statements
17	Property, plant and equipment
21	Impairment of non-cash-generating assets
31	Intangible assets

IPSAS coming into effect in 2013

IPSAS	Description
28	Financial instruments: Presentation
29	Financial instruments: Recognition and measurement
30	Financial instruments: Disclosures
