

IPSAS BENEFITS TO UNAIDS

PCB

Foreword

In keeping with the commitments to harmonize business practices across the United Nations (UN) system, and in response to General Assembly Resolution 60/283 of July 2006 on the adoption of International Public Sector Accounting Standards (IPSAS), the UNAIDS Secretariat, in 2012, successfully implemented IPSAS for financial accounting and reporting.

The issuance of IPSAS compliant audited financial statements for 2012, including a clean audit opinion, represents a significant highlight of financial performance for UNAIDS. Implementation of IPSAS at UNAIDS has improved the comprehensiveness, quality and comparability of the Joint Programme's financial reporting, while increasing accountability and transparency.

An integral part of IPSAS adoption at UNAIDS has been strengthening internal controls and establishing more robust quality assurances to better support corporate efforts towards realizing the strategic goals of UNAIDS. Increased understanding of financial information has contributed to informed decision-making and heightened accountability for the use of resources and management of assets. This has been reflected in the additional disclosures contained in the financial report and supported by the External Auditors' report and their recommendations.

The first IPSAS compliant financial report and statements, together with the External Audit Report, will be presented at the 32nd UNAIDS Programme Committee Board (PCB) meeting in June 2013.

Introduction

This document provides an overview of the adoption and implementation of IPSAS in UNAIDS. It presents a snapshot of how this process has been realized, an update on what has been achieved to date, and the factors that have made it possible for UNAIDS to successfully implement IPSAS in 2012. This report also provides a summary of the benefits derived by becoming IPSAS compliant, the differences in the policies before and after adoption, as well as important considerations for UNAIDS to take into account in continuing to comply with IPSAS in the years ahead.

What is IPSAS?

IPSAS are a set of accounting standards issued by the IPSAS Board to improve the quality of general purpose financial reporting by public sector entities, UN system organizations, governments and other non-profit organizations. These standards, used by public sector entities around the world, and based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), lead to better informed assessments of resource allocation decisions, thereby increasing transparency and accountability. IPSAS replaces the UN System Accounting Standards (UNSAS), which were the accounting standards previously used by UNAIDS.

IPSAS adoption will improve the comprehensiveness, quality and comparability of UNAIDS' financial reporting. It will also lead to greater harmonization of financial reports and statements across the UN system and better comparability of financial statements with other international organizations and national governments.

As IPSAS represent international best practice for the public sector and non-profit organizations, the alignment of UNAIDS' accounting practices according to IPSAS leads to improved confidence and recognition among donors and other key stakeholders.

Adoption of IPSAS at UNAIDS

On 30 November 2005, the High Level Committee on Management (HLCM) recommended that all UN system organizations adopt IPSAS as their accounting standards.

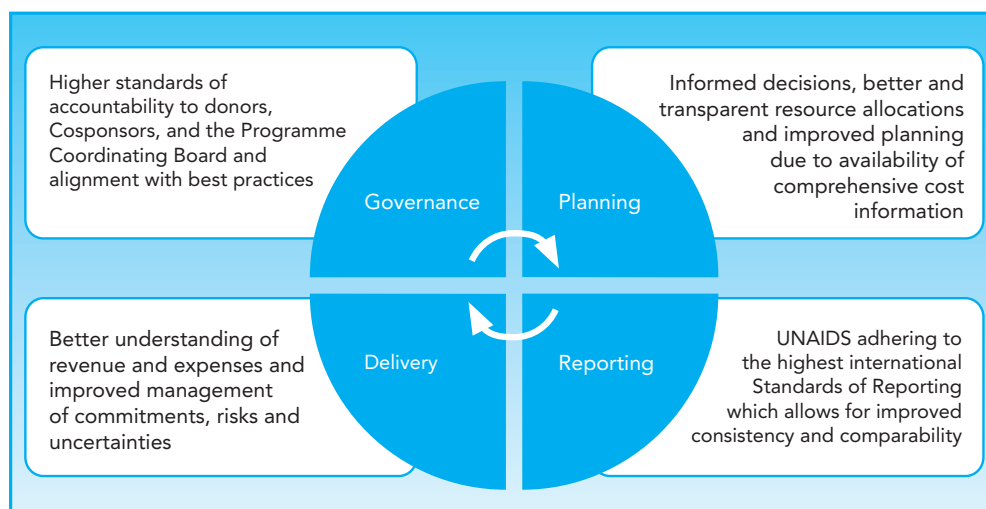
At the 24th PCB meeting (June 2009), the Secretariat reported to the PCB, through its unaudited financial statements for 2008-2009, the process of working towards the adoption and implementation of IPSAS together with WHO. Since that meeting, the Secretariat has periodically updated the PCB on the progress of IPSAS implementation.

IPSAS Benefits for UNAIDS

The implementation of IPSAS has resulted in the following key benefits for UNAIDS:

- **Strengthened accountability** towards all stakeholders;
- **Strengthened support for results-based management** through the provision of comprehensive information on costs;
- **Improved management and planning** across the Joint Programme due to better accounting practices for income and expenditure;
- **Better understanding of revenue and expenses** and improved management of commitments, risks and uncertainties;
- **Increased transparency and harmonization** of financial reports and statements across the UN system;
- **Enhanced prediction** of future asset and cash-flow needs; and
- **Adherence to the highest international standards of financing reporting**—aligned with best practices—that allow for improved consistency and comparability.

Benefits of IPSAS to UNAIDS



Impact of IPSAS adoption

Applying IPSAS require the introduction of the full accrual basis of accounting, a significant change from the modified cash basis of accounting applied under UNSAS. Accrual accounting recognizes a financial event when the underlying economic event has actually occurred—in other words, transactions are recorded when they occur and not when cash or its equivalent is paid or received, which was the practice followed under UNSAS.



Expense: Accrual basis accounting entails the recognition of expenses when they occur and when goods and services are delivered and not when disbursements are made.

Revenue: IPSAS stipulate that revenue be recognized on the basis of signed contractual agreements rather than when cash is received.

Fixed assets: IPSAS require the cost of assets to be disclosed and capitalized when acquired, including property and equipment, and depreciated over their estimated life.

Staff-related liabilities: A significant change is the recording of the value of future staff-related liabilities (i.e. accumulated annual leave, termination repatriation grants, after-service health insurance, etc.) that UNAIDS staff have accrued over the period of their service and have not been paid out. In previous financial statements, these types of benefits were shown as an expense only when paid, and the liabilities were only disclosed in the notes.

Budget: The implementation of IPSAS does not currently impact the preparation of the UNAIDS 2012-2015 Unified Budget, Results and Accountability Framework (UBRAF), which continues to be presented on a modified cash basis. As this basis differs from the accrual basis applied to the financial statements, reconciliation between the budget and the principal financial statements is provided in accordance with the requirements of IPSAS.

Policies and practices before and after IPSAS

Before IPSAS	After IPSAS
Transactions were recorded on cash basis or modified cash basis as and when paid or received.	Transactions are recorded on accrual basis, i.e. when goods and services are recorded.
Expenditures are recorded as disbursement and unliquidated obligations.	Expense recognized on the basis of receipt of goods and services under the delivery principle of IPSAS.
Contributions were recorded as income only on basis of cash received.	Contributions are recorded on the basis of signed agreements. Contributions received with certain stipulations are recorded as per the agreement.
Property, plant and equipment were expended and no provision was made for depreciation.	Property, plant and equipment are not charged as expense but are capitalized, and depreciation is charged over their useful lives.
Staff-related benefits, i.e. terminal payments including annual leave, repatriation benefits, etc., were charged as expenditure as and when incurred.	Staff-related benefits, i.e. terminal payments including annual leave, repatriation benefits, etc., are recognized at the actuarial value, which are current costs payable at a potential future date.
Staff health insurance liabilities were not reflected in the financial statements and were only disclosed in the notes in UNAIDS' financial statements.	Staff health insurance liabilities are now fully recognized in the financial statements impacting the net deficit or surplus of UNAIDS funds.
Audited Financial Statements were prepared on a biennial basis.	Audited Financial Statements are prepared annually.

Factors facilitating smooth adoption of IPSAS

The process of adopting IPSAS was facilitated by the following key factors:

- Consultation and acceptance by the PCB
- Participation in the HLCM and Finance and Budget Network for harmonizing adoption of IPSAS
- Joint development for the interpretation of IPSAS standards
- Support and oversight by senior management
- Support from external auditors
- Support from donors
- Robust audit process
- Comprehensive management training
- Appropriate cultural approach
- Awareness and willingness of staff to adopt change and adapt to the timelines
- IT capacity and ERP implementation
- Accrual-based approach by identifying best practices and developing policies and processes to support IPSAS

The way forward

The move to IPSAS has resulted in benefits for UNAIDS—first and foremost, improving the quality, comparability and credibility of the Joint Programme’s financial reporting. However, as the impact of IPSAS implementation goes far beyond accounting, there are specific areas where continued work will be required in order for UNAIDS to reap the full benefits of IPSAS adoption.

One area is IPSAS-related staff training and upgrading of skills. Given the regular release of upgrades and revisions to existing standards, as well as the issuance of new ones, it will be imperative that staff receive training and capacity building on a continual basis in order to stay abreast of new and emerging IPSAS developments.

IPSAS adoption and ERP implementation have also led to greater emphasis on responsibility and accountability through the delegation of authority for effective internal controls and prudent financial management. In order to keep up-to-date with the changing dynamics of IPSAS, the Secretariat’s accountability framework and internal controls—along with risk management—will need to be reviewed on an on-going basis.



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