



United Nations
Educational, Scientific and
Cultural Organization

Organisation
des Nations Unies
pour l'éducation,
la science et la culture

Organización
de las Naciones Unidas
para la Educación,
la Ciencia y la Cultura

Организация
Объединенных Наций по
вопросам образования,
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منظمة الأمم المتحدة
للتربية والعلم والثقافة

联合国教育、
科学及文化组织

**Internal Oversight Service
Audit Section**

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Status Review of the IPSAS Conversion Project

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EXECUTIVE SUMMARY

Key Results of the Review

While IPSAS standards have been correctly applied in arriving at the opening balances as at January 1, 2010, some contract advances were not recorded. Implementation Partnership agreements for approximately \$19.5 million have been signed as at end 2009 and in addition, \$8.6 million have been disbursed under the Participation Programmes in 2009. Further analysis of these contracts is required to determine the appropriate amounts to be recorded as advance in the IPSAS opening balances.

Modifications are underway in the IT system to improve the quality of financial information under IPSAS. These include making SharePoint fully functional and completing FABS roll out to all Field Offices and category I Institutes.

1. Background, Scope and Objective

1. The General Conference at its 34th session approved UNESCO's adoption of the International Public Sector Accounting Standards (IPSAS) from January 2010. The aim of IPSAS adoption is to improve comparability, transparency and accountability across the United Nations system.
2. IPSAS are issued by the International Public Sector Accounting Standards Board (IPSASB), which is a standing committee of the International Federation of Accountants (IFAC), representing over 160 member bodies in 120 countries.
3. The key benefits of the adoption of IPSAS include:
 - improved internal control and transparency with respect to all assets and liabilities;
 - more comprehensive and consistent information about costs and income, which will better support governance of the organization;
 - Improved consistency and comparability of financial statements over time and across different organizations.
4. UNESCO's adoption of the new accounting standards has led to several changes in the IT environment bringing substantial modifications to the organization of work processes.
5. The first phase of the UNESCO IPSAS tri-phase project ended in December 2009 and consisted mainly of the development of policy papers, training and roll out of FI, MM, AM and Travel modules of SAP. In addition, UNESCO Category I Institutes were provided training on the preparation of their financial statements. A specialized consultancy firm (Cabinet Roux) was contracted to perform an inventory and valuation of Property, Plant and Equipment.
6. Currently the second phase is underway, which consists of preparing IPSAS compliant opening balances as at January 1, 2010. The significantly affected accounting areas identified by BFM include:
 - Property, Plant and Equipment;

- Accrual for expenditures/incomes;
- Revenue recognition;
- Employee benefits;
- Provisions

7. The transition to new accounting standards has required UNESCO to undertake a detailed mapping and migration exercise. In parallel, the significant changes in the IT system generate additional risks which need to be managed.

IPSAS project costs as at December 31.2009 in US Dollars.

Headings	Expenses (\$)
Consultants/Experts	371,260
Support Personnel GS	154,913
Sub contract	194,720
Training	8,247
Equipment	130,883
Miscellaneous	173,774
Other personnel cost	295,327
Total	1,329,124

8. In order to determine the status of the second phase of UNESCO's IPSAS conversion process, IOS reviewed the IPSAS generated opening balances to (1) determine that sound interpretations of IPSAS standards have been applied in arriving at the opening balances and (2) verify that significant data used in preparing opening balances are derived from reliable sources.

9. This review was performed in accordance with the International Standards for the Professional Practice of Internal Auditing. The methodology was based on a risk assessment conducted during the planning phase and included verifying the alignment of IPSAS standards to opening balances and the mapping and migration process developed by the project management team. The auditors interviewed process owners and examined documentation through walkthroughs.

The following accounting areas were examined:

- Tangible assets;
- Intangible assets;
- Accrual for expenditures/incomes;
- Revenue recognition;
- Employee benefits;
- Stock valuation;
- Provisions.

10. This was not an audit of the financial position of UNESCO and, as such, we did not seek to give an opinion on the opening balances.

2. Achievements

- In general, IPSAS standards were correctly applied in the determination of the opening

balances

- Inventory of Property Plant and Equipment has been performed and successfully uploaded into the Asset Management module for a total of USD 639 million.
- Initial training on IPSAS has been conducted and was well received by participants.
- The Sales and Distribution module of FABS used to record contributions and income from sales of publications for example, was successfully configured to record revenue under IPSAS.
- The after service health insurance accrual was correctly recognized for a total of USD 649 million.
- Un-liquidated liabilities were successfully analyzed to identify and record un-billed deliveries at the end of the reporting period.
- Receivables and associated allowances for doubtful debts were analyzed in conformity with IPSAS directives.

3. Challenges and Opportunities

- Advances paid to third parties, for instance Implementation partnerships and Participation Programmes, need to be recorded in conformity with IPSAS requirements.
- UNESCO publication process needs to be analyzed and assets and liabilities recorded in compliance with IPSAS standards.
- The Property Plant and Equipment should be further reviewed to ensure completeness and correct evaluation and recording of assets from field offices.
- A cost benefit analysis should be performed to evaluate the potential cost of gathering and maintaining data (11,986 items) recorded in the fixed assets register.
- The accounting knowledge of Administrative officers should be strengthened.
- The reserves and funds balances include balances which need to be clarified and appropriately recorded under IPSAS.
- BFM should recognize the software purchased by BPI as intangible assets in the IPSAS opening balance.
- DIT should develop an appropriate project management tool to capture software development costs.
- SharePoint should be fully functional, FABS roll-out should be completed and roll-out difficulties experienced by ICTP be addressed.

4. Table of recommendations

Recommendation 1: We recommend that BFM:

1. Harmonize the accounting treatment for advances made under Financing Activity Contracts, Participation Programmes and Implementation Partnerships agreements.
2. Complete analyses of Participation Programmes and Implementation Partnerships assistance and determine appropriate advances for recording in the IPSAS opening balances.

Recommendation 2: We recommend that BFM, in collaboration with BPI, perform analyses of publication processes and determine the appropriate IPSAS compliant approach to recording royalties and inventories.

Recommendation 3: We recommend that BFM:

1. Request explanations from field offices with significant variations in assets values between 2008 and 2009, and consider revalidating the inventories of abovementioned offices.
2. Consider how Villa Ocampo (building and land) should be valued in the balance sheet.
3. Perform additional analyses of assets to reconsider the threshold for capitalized assets.

Recommendation 4: We recommend that BFM perform the analyses of certain reserves accounts balances identified in this report to determine appropriate treatment under IPSAS.

Recommendation 5: We recommend that BFM consider advantages and disadvantages noted in the report and take a decision regarding disclosure of the works of Art in the notes to the financial statement at the last appraised total value.

Recommendation 6: We recommend that DIT:

1. Develop and maintain a catalogue for all software used within the Organization.
2. Adopt an appropriate project management tool to capture costs in future software development projects.

Recommendation 7: We recommend that BFM together with the Cairo office, identify the accounting treatment required to correctly reflect the ICDL program transactions under IPSAS.

Recommendation 8: We recommend that BFM in collaboration with HRM perform a review of Administrative Officer's accounting profiles and identify additional training needs.

Recommendation 9: We recommend that DIT in collaboration with BFM:

1. Prepare a proposal to complete all outstanding issues concerning SharePoint and the associated resource requirement.
2. Integrate the approvers monitoring mechanism into SharePoint.

Recommendation 10:

We recommend that DIT in collaboration with BFM establish a timetable for rollout of outstanding FABS components to field offices and Category I Institutes.

Recommendation 11:

We recommend that BFM liaise with ICTP to identify the difficulties experienced by the Institute and develop a realistic plan to help increase capacity and resources to enable the Institute to go live with IPSAS by year end 2010.