

Administrative Instruction

Date: 19 December 2011
To: All UNOPS personnel
From: Kerstin Speer-Bockelmann
CFO/Comptroller
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Subject: **IPSAS compliant Accounting Policies**



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Introduction

The CFO/Comptroller of UNOPS is responsible for the content of this Administrative Instruction ("AI"). The United Nations General Assembly, through its resolution 60/283 of July 2006, approved the adoption by the United Nations of the International Public Sector Accounting Standards (IPSAS) to replace the United Nations System Accounting Standards (UNSAS). Subsequent to adoption of the Assembly resolution and decision 2009/4 of the Executive Board, the Executive Director proposed changes to align UNOPS Financial Regulations Rules with IPSAS.

With effect from 1 January 2012, UNOPS is implementing IPSAS.

This AI provides further guidance to Organizational Directives: OD 3 – UNOPS' Financial Regulations and Rules.

Purpose and Scope of the AI

The purpose of this Administrative Instruction (AI) is to establish UNOPS' new accounting policies under IPSAS for the corporate Financial Statements. The scope of this AI provides specific guidance on each respective accounting policy based on IPSAS, indicating the resultant accounting treatment and considerations for all UNOPS assets, liabilities, revenue and expenses.

Since professional accounting judgment is necessary in attaining IPSAS compliance, this AI does not seek to replace or supplant IPSAS. The final authority for any IPSAS area remains with the respective standard (or Exposure Draft), issued by the IPSAS Board, and other accompanying implementation guidance. Where a difference arises between this AI and the relevant IPSAS standard, the respective text of the standard prevails.

The Instruction also indicates where additional guidance on UNOPS' interpretation and application of the standards can be found.

Implementation:

In order to provide the most up to date and effective guidance, this AI directs personnel to the following Finance Practice PQMS site for supporting information relating to IPSAS compliant Accounting Policies: <https://intra.unops.org/ToolsResources/KnowledgeSystem/finance/Pages/IPSAS%20Accounting%20Policies.aspx>

The information provided on this site includes definitions, principles and additional guidance on each IPSAS standard.

Effective Date:

This AI is effective **1 January 2012**.

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IPSAS 1. Presentation of financial statements

UNOPS prepares its financial statements on an accrual and going concern basis in compliance with the requirements of International Public Sector Accounting Standards (IPSAS). These financial statements include a complete set of notes as part of the overall integrity.

All items of revenue and expense recognized in a financial period are included in the UNOPS statement of financial performance unless a specific IPSAS standard requires otherwise.

An example of UNOPS' model financial statements can be viewed on the Knowledge management system.

IPSAS 2. Cash flow statements

UNOPS shall disclose the components of cash and cash equivalents in a cash flow statement classified by operating, investing and financing activities, which is prepared using the indirect method. The net surplus or deficit of UNOPS will be adjusted for the effects of non-cash transactions (i.e. accruals, provisions, amortization and depreciation, etc.) and items of revenue or expense associated with investing or financing activities. UNOPS will present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the statement of financial position.

UNOPS shall disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash equivalent balances held by UNOPS that are not available for use (e.g. funds whose usage is constrained as they are held in a country where exchange controls or other restrictions apply).

The Organization performs activities on behalf of its clients (e.g. cash held on behalf of clients) and cash and cash equivalent put at the disposal of UNOPS may be restricted to specific use. The nature and total of all such amounts shall be included in the financial statements.

IPSAS 3. Fundamental errors and changing accounting policies

Accounting policies:

UNOPS shall disclose changes in accounting policies:

- (a) the nature of the change in accounting policy;
- (b) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
- (c) the amounts of adjustments related to prior periods; and
- (d) reasons for impracticability to make a certain adjustment, if any.

Accounting estimate:

UNOPS shall disclose the nature and amount of a change in accounting estimate that has a significant effect in the current and, if applicable, the future financial periods. If it is impracticable to estimate and disclose the amount of the effect in future periods, UNOPS shall disclose that fact and the reasons for such impracticability.

Prior period errors:

UNOPS shall disclose:

- (a) the nature of the error;
- (b) the amount of correction for each financial statement line item affected;
- (c) the amount of correction at the beginning of the earliest prior period presented;
- (d) if retrospective application is impracticable, the reason.

IPSAS 4. The effect of changes in foreign exchange rates

UNOPS shall disclose:

- (a) the amount of exchange differences recognized in annual surplus or deficit (excluding differences arising on financial instruments);
- (b) net exchange differences classified in a separate component of net assets/equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period;
- (c) if there is a change in the functional currency or a significant foreign operation, that fact and the reason for the change in functional currency will be disclosed.

IPSAS 9. Revenue from exchange transactions

UNOPS shall disclose:

- The accounting policies adopted for the recognition of revenue including the methods adopted to determine the cost to completion of transactions involving the rendering of services.
- A breakdown by significant category of revenue recognized during the financial period for each of the categories.
- The amount of revenue arising from exchanges (barter transactions) of goods or services included in each significant category of revenue.

In the situation of an onerous contract, for each provision the following should be disclosed:

- A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.
- An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, UNOPS shall disclose the major assumptions made concerning future events.
- The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

IPSAS 11. Construction contracts

UNOPS shall make the following general disclosures:

- The methods used to determine the contract revenue recognized in the period; and
- The methods used to determine the stage of completion of contracts in progress.

- The gross amount of construction contract revenue recognized as revenue in the period will be presented on the face of the Statement of Financial Performance;
- With respect to contracts in progress at the end of the financial period UNOPS will present:
 - (a) The aggregate amount of costs incurred and recognized surpluses (less recognized deficits) to date;
 - (b) The amount of advances received; and
 - (c) The amount of retentions.
- UNOPS will also present:
 - (d) The gross amount due from clients/customers for contract work as an asset; and
 - (e) The gross amount due to clients/ customers for contract work as a liability.

IPSAS 12. Inventories

UNOPS' financial statements shall disclose:

- (a) The accounting policies adopted to measure the inventory, including the cost formula used.
- (b) The amount of any reversal of any write-down that is recognized in the statement of financial performance in the period;
- (c) Circumstances or events that led to the reversal of a writedown of inventories if any; and
- (d) The cost of inventories recognized as an expense during the period.

IPSAS 13. Leases

UNOPS as a lessee shall disclose the following for operating leases:

- (a) the total of future minimum lease payments under non-cancelable operating leases broken down according to payable terms: within one year; one to five years; and greater than five years;
- (b) the total of future minimum sublease payments expected to be received under non-cancelable subleases at the reporting date;
- (c) lease and sublease payments recognized as an expense in the financial period, with separate amounts for minimum lease payments, contingent rents, and sublease payments; and
- (d) a general description of the lessee's significant leasing arrangements, including:
 - a. the basis on which contingent rent payments are determined;
 - b. the existence and terms of renewal or purchase options and escalation clauses, and
 - c. restrictions imposed by lease arrangements, such as those concerning return of surplus, return of capital contributions, dividends or similar distributions, additional debt and further leasing.

UNOPS as a lessor shall disclose the following for operating leases:

- (a) the future minimum lease payments under non-cancelable operating leases in the aggregate and for each of the following periods: within one year; one to five years; and greater than five years; and
- (b) total contingent rents recognized in the statement of financial performance in the period; and
- (c) a general description of the lessor's leasing arrangements.

UNOPS as a lessee shall disclose the following for finance leases:

- (a) for each class of asset, the net carrying amount at the reporting date;

- (b) the total of future minimum lease payments at the reporting date, and their present value, broken down according to payable terms: within one year; one to five years; and greater than five years;
- (c) contingent rents recognized as an expense in the period;
- (d) the total of future minimum sublease payments expected to be received under non-cancelable subleases at the reporting date, and
- (e) a general description of the lessee's material leasing arrangements, including:
 - a. the basis on which contingent rent payable is determined;
 - b. the existence and terms of renewal or purchase options and escalation clauses, and
 - c. restrictions imposed by lease arrangements.

UNOPS as a lessor shall disclose the following for finance leases:

- (a) reconciliation between the total gross investment in the lease at the reporting date, and the present value of minimum lease payments receivable at the reporting date. In addition, the entity shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the reporting date, broken down according to payable terms: within one year; one to five years; and greater than five years; and
- (b) unearned finance revenue;
- (c) the unguaranteed residual values accruing to the benefit of the lessor;
- (d) the accumulated allowance for uncollectible minimum lease payments receivable;
- (e) contingent rents recognized in the statement of financial performance; and
- (f) a general description of the lessor's material leasing arrangements.

IPSAS 14. Events after the reporting date

Disclosure of date of authorization for Issue

The date when the financial statements were authorized for issue, and the name and identity of the person giving that authorization will be disclosed. If another body has the power to amend the financial statements after issuance, this fact will be disclosed as well.

UNOPS reporting date: 31 December of each year.

The date of authorization for issue is when the financial statements shall be approved by the Executive Director, for submittal to the Executive Board in preparation for its session.

The "events after the reporting date" period spans between the 1st of January and as a maximum the date of approval by the Executive Director for submission to the Executive Board.

Events after the reporting date

UNOPS will adjust, when necessary, the amounts recognized in its financial statements to reflect material adjusting events after the reporting date.

Disclosures

In accordance with IPSAS, UNOPS will disclose all material events occurring after the reporting date.

Disclosure about conditions at the reporting date

If UNOPS obtains information after the reporting date, but before the financial statements are authorized for issue, about conditions that existed at the reporting date that has a significant impact on the financial statements, it will update disclosures that relate to these conditions in light of the new information.

Disclosure of non-adjusting Events after the Reporting Date

UNOPS shall disclose the following for each material category of non-adjusting event after the reporting date:

- the nature of the event;
- an estimate of its financial effect, or a statement that such an estimate cannot be made.

IPSAS 15. Financial instruments: disclosure and presentation

UNOPS' funds and investments are administered by UNDP. UNOPS therefore shall match its disclosures and resultant policies on Financial Instruments with those of UNDP.

IPSAS 17. Property, plant and equipment (PP&E)

UNOPS' disclosure with respect to each recognized class of property, plant and equipment shall include:

- Measurement bases for determining gross carrying amount;
- Depreciation methods used;
- Useful lives or depreciation rates used;
- Gross carrying amount and accumulated depreciation at the beginning and end of the period;
- Additions to assets;
- Assets classified as held for sale;
- Increases and decreases arising from revaluation and from impairment losses and reversals thereof;
- Assets in the course of construction (other than work in progress arising under construction contracts);
- Contractual commitments for the acquisition of property, plant and equipment; and
- Compensation for assets impaired, lost, or given up;

For each class of property, plant and equipment recognized reconciliation at the beginning and end of the period must be shown with specified postings.

IPSAS 18. Segment reporting

UNOPS will undertake segment reporting based on its principal activities undertaken across its five Regional Office segments.

The financial statements segmentation is in accordance with UNOPS' classification of activities in its management reporting, and reflects the way information is reported to the governing body and to UNOPS' Executive Director.

IPSAS 19. Provisions, contingent liabilities, contingent assets

For each class of provision UNOPS will provide a reconciliation of the:

- (a) opening balance;
- (b) additions;
- (c) used (amounts charged against the provision);
- (d) released amounts (reversed);
- (e) unwinding of the discount;
- (f) closing balance.

For each class of provision, UNOPS shall also disclose a description of the:

- (a) nature of the provision;
- (b) expected timing of any resulting outflows;
- (c) uncertainties about the amount or timing of outflows;
- (d) major assumptions used concerning future events when necessary; and
- (e) expected reimbursement, if any, and the asset so recognized.

For each class of contingent liability, UNOPS shall disclose a brief description of the:

- (a) nature of the contingency;
- (b) when practicable an estimate of its financial effect;
- (c) uncertainties about the amount or timing of outflows; and
- (d) the possibility of any reimbursement.

For each class of contingent asset, UNOPS shall disclose a brief description of the:

- (a) nature of the contingent asset; and
- (b) when practicable, an estimate of its financial effect.

When it will not be practicable to disclose any of the information above, or it could cause prejudice UNOPS, UNOPS will state that fact. However as a minimum, UNOPS shall provide information on the general nature of disputes together with the fact that, and the reason why information was not disclosed.

IPSAS 20. Related party disclosures

UNOPS shall disclose all of its related parties, including as a minimum:

- (a) its Executive Board, consisting of the body of representatives of Member States responsible for assuring the overall management of UNOPS; and
- (b) its executive management personnel comprising of the Executive Director and the Deputy Executive Director. In addition, other key management personnel include Regional Directors and the Directors/Global Practice Leads at Headquarters.

UNOPS shall also disclose information on the aggregate remuneration paid to its key management personnel.

IPSAS 21. Impairment of non-cash generating assets

UNOPS shall disclose the following for each class of assets:

- (a) the amount of impairment losses recognized in annual surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are included;
- (b) the impairment losses reversed in annual surplus or deficit during the period and the line items of financial performance in which those impairment losses are reversed.

In accordance with IPSAS 18 "Segment Reporting", UNOPS shall also disclose the following:

- (a) the amount of impairment losses recognized in annual surplus or deficit during the period; and
- (b) the amount of reversals of impairment losses recognized in annual surplus or deficit during the period.

For each material impairment loss recognized or reversed during the period UNOPS shall disclose the following:

- (a) the events and circumstances that led to the recognition or reversal of the impairment loss;
- (b) the amount of the impairment loss recognized or reversed;
- (c) the nature of the asset;
- (d) the segment to which the asset belongs,;
- (e) if recoverable service amount is fair value less costs to sell or value in use;
- (f) if recoverable service amount is fair value less costs to sell, the basis used to determine fair value less costs; and
- (g) if the recoverable service amount is value in use, the approach used to determine value in use.

And where no information has already otherwise been disclosed, UNOPS shall disclose information for the aggregate of impairment losses and the aggregate reversals of impairment losses recognized during the period:

- (a) the main classes of assets affected by impairment losses and reversals; and
- (b) the main events and circumstances that led to the recognition of these impairment losses and reversals.

IPSAS 23. Revenue from non-exchange transactions

UNOPS shall disclose either on the face of, or in the notes to the financial statements:

- (a) the amount of revenue from non-exchange transactions recognized during the period by major classes showing separately different types of transfer revenue;
- (b) the amount of receivables (particularly goods in kind and donated project assets without restrictions) recognized in respect of non-exchange revenue;
- (c) the amount of liabilities recognized in respect of transferred assets subject to conditions;
- (d) the amount of assets recognized that are subject to restrictions and the nature of those restrictions;
- (e) the amount of any liabilities forgiven;
- (f) the accounting policies adopted for the recognition of revenue from non-exchange transactions;
- (g) the basis on which the fair value of inflowing resources was measured; and

- (h) the nature and type of major classes of gifts, donations, contributions in-kind showing separately major classes of goods in-kind received.

IPSAS 24. Presentation of budget information in financial statements

UNOPS shall disclose and present the following:

- (a) The original and final budget amounts (approved by the Executive Board);
- (b) Actual amounts on a comparable budgetary basis;
- (c) Explanation of material differences between the final budget and actual amounts;
- (d) Explanation of changes between the original and final budget
- (e) Reconciliation of actual amounts on a comparable (budgetary) basis to actual amounts (cash flows) presented in the financial statements.

Furthermore, UNOPS shall explain the budgetary basis and classification basis adopted in the approved budget and the financial period of the approved budget. Any material differences between the final budget and the actual amounts shall be disclosed in the notes to the financial statements or in the financial and budget performance highlights.

IPSAS 25. Employee benefits

Employee benefits

The employee benefits are broadly grouped under three categories:

- Short-term employee benefits which fall due within twelve months after the end of the accounting period in which the employees render the related services;
- Post-employment benefits like after service medical plans, separation payments schemes, pension benefits; and
- Other long term employee benefits like accrued annual leave, repatriation grants, and travel grants on separation. The liabilities under all three groups of accrued liabilities for end-of-service and post-retirement benefits are determined on an actuarial basis.

UNOPS is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF) which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The pension fund is a funded defined benefit plan. The financial obligation of the organization to the UNJSPF consists of its mandated contribution at the rate established by the United Nations General Assembly together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date.

IPSAS 26. Impairment of cash generating assets

UNOPS shall disclose the following for each class of assets:

- (a) the criteria developed to distinguish cash-generating assets from non-cash generating assets;
- (b) the amount of impairment losses recognized in the annual surplus or deficit during the period and the line items of the statement of financial performance in which those impairment losses are included; &
- (c) the amount of reversals of impairment losses recognized in annual surplus or deficit during the period and the line item(s) in the statement of performance in which those impairment losses are reversed.

In accordance with IPSAS 18 “Segment Reporting”, UNOPS shall also disclose the following:

- (a) the amount of impairment losses recognized in annual surplus or deficit during the period; and
- (b) the amount of reversals of impairment losses recognized in surplus or deficit during the period.

UNOPS shall disclose the following for each material impairment loss recognized or reversed during the period:

- (a) the events and circumstances that led to the recognition or reversal of the impairment loss;
- (b) the amount of the impairment loss recognized or reversed;
- (c) the nature of the asset;
- (d) the segment to which the asset belongs, in accordance with IPSAS 18;
- (e) if recoverable amount is fair value less costs to sell or value in use;
- (f) if recoverable amount is fair value less costs to sell, the basis used to determine fair value less costs; and
- (g) if the recoverable amount is value in use, the discount rate used in the current estimate and previous estimate (if any) of value in use.

UNOPS shall disclose the following, if impairment losses recognized (reversed) are material in aggregate to the financial statements as a whole, were not previously disclosed:

- (a) the main classes of assets affected by impairment losses and reversals; and
- (b) the main events and circumstances that led to the recognition of this impairment losses and reversals.

IPSAS 31. Intangible assets

Intangible assets are carried at historical cost less accumulated amortization and any recognized impairment. Amortization is provided over the estimated useful life using the straight-line method.

Where an intangible asset is acquired at no cost (gift, donation) or for nominal cost, the fair value of the asset as of the date of acquisition is used. The following criteria shall also be met for an item to be capitalized and recognized as an intangible asset:

- (a) An estimated useful life of more than 1 year; and
- (b) Cost of the asset exceeding \$2,500, except for internally developed software where a minimum development cost is set at \$100,000, excluding research and maintenance costs, which are expensed when incurred.