

United Nations  Nations Unies

BOARD OF AUDITORS
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Opening statement to the Fifth Committee

**Introduction to the United Nations Board of Auditors third annual progress report
on the implementation of the International Public Sector Accounting Standards
(A/68/161).**

11 October 2013

Dear Chairman,

Distinguished delegates,

On behalf of the Chairman, Mr. Amyas Morse, and the other Board members, Mr Liu Jiayi and Mr Ludovick Utouh, I have the honour to introduce the Board's third annual progress report on implementation of the International Public Sector Accounting Standards (IPSAS) (A/68/161).

The report covers the outcome of the first year of IPSAS implementation at nine funds and programmes within the Board's portfolio. It also provides an update on progress at the UN and its peacekeeping operations.

On the nine funds and programmes: as stated earlier, in 2012 the nine entities successfully and for the first time produced IPSAS-compliant financial statements, a key risk area in 2012 that required considerable Board attention. Each entity achieved an unqualified audit opinion. This was a significant achievement and a positive step towards modernising UN entities business administration.

For many of the entities IPSAS implementation has to date largely been a technical exercise, although there is some evidence of more fundamental changes in underlying businesses processes. These improvements need to be embedded and processes for

producing financial information streamlined and enhanced to further improve the timeliness and quality of financial reporting.

The Board highlights that IPSAS is a platform for generating new information. It is how this information is used that is crucial to realising the potential benefit. Despite previous Board recommendations only one entity (UNJSPF) had completed and implemented its IPSAS benefits realisation plan. Understandably entities prioritised the technical implementation of the new accounting framework, although the Board acknowledges the progress made in planning for benefits.

While some early benefits have been highlighted by the Board (paragraph 15), work needs to be expedited to realise the benefits that IPSAS adoption can deliver. For example, with some exceptions, the Board notes limited progress on the production of new management accounting data and in improving financial reporting for management so that it has regular and on-going in-year information on financial performance to aid timely decision making.

The new financial statements provide new insights about entities' financial health and operational and financial performance. The Board has included some limited ratio analysis in most of the entity reports, which indicates that the entities concerned appear to be in a healthy financial position. The financial statements also for the first time provide, for example:

- More complete and accurate assessments of entities running costs (by matching income and expenditure exactly to the period to which they relate);
- Important information on the costs of delivering the entities programmes, through segmental reporting relating income, expenditure, assets and liabilities to the delivery of entity objectives;
- More complete information on the net worth of each entity; and
- Better information on significant future liabilities;

More needs to be done by management to draw out the insights from the financial statements, and the Board will also play its advisory role. As time progresses, transitional provisions are worked through, data is further improved, and as comparative

data over time becomes available, the value of the new financial statements will become increasingly apparent.

Entities must now use the financial information under IPSAS as a platform for improved accountability, control and financial sustainability, as well as more cost-effective decision making and delivery of vital services. We also consider that IPSAS adoption represents an opportunity to enhance the role and profile of financial management in general and finance functions in particular. We have called for entities to demonstrate how they might do this. In the meantime, the Board will continue to advise management and report to the General Assembly on benefits as they emerge.

On the UN and its peacekeeping operations, the first full year of IPSAS in peacekeeping operations started on 1 July 2013; and the UN will follow on 1 January 2014. Overall, the Board considers that the implementation of IPSAS in the UN and peacekeeping operations using legacy systems rather than Umoja is now based on a pragmatic and practical plan. This represents good progress since we last reported. It remains, however, inherently complex and high risk, because of the scale and fragmented nature of the organisation and the absence of a functional enterprise resource planning system.

In terms of implementation milestones and risks, the key points of note are as follows:

- The Administration needs to commit to and hit important milestones, such as opening balances and interim financial statement production, and to undertake more work to test and validate data being produced by the field. This was a key lesson from implementation at the funds and programmes.
- While noting the good progress in enhancing and testing the functionality of IMIS and legacy systems, and clarifying the transitional arrangements up to full Umoja implementation, we continue to note the increased risks to data completeness and accuracy inherent in the transitional strategy, and the need for ongoing and active management of complex systems interfaces.
- While acknowledging the guidance and training already provided to the field, there remains a concern that staff in the field may have had insufficient time to

familiarise themselves with new instructions and processes, especially given other demands such as Umoja implementation.

- We highlight continuing risks to implementation (paragraphs 56-58 of the report), including those identified by peacekeeping missions and offices away from headquarters. Progress on asset data cleansing, the readiness of accounting guidance and systems, and the absence of dedicated local resource, are the main concerns.
- We note the enhanced governance of the project, including the strengthening of the Steering Committee and the appointment of a Project Assurance Officer. We stress the need to urgently address deficiencies identified by the Project Assurance Officer in the accuracy of project progress reports from the field.

Finally, I can assure you Chair that the Board remains fully committed to actively supporting and advising the UN on all aspects of IPSAS implementation.

Chair, this concludes my introduction. The Audit Operations Committee will as ever be available to answer any questions during the informal session of the Committee.

Thank you.

Hugh O'Farrell
Director of External Audit (UK)
Chair of the Audit Operations Committee