



**Organization of  
American States**

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# **INTRODUCTION TO INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)**

An overview of IPSAS and the impact of adoption on key financial areas and accounting practices of the Organization. Also included is a progress report and the way forward.

# CONTENT

This an informative document on the International Public Sector Accounting Standards (IPSAS) and the viability of their implementation at the GS/OAS. It also contains a brief analysis of the impact of adoption on key financial areas of the Organization, the status of progress, and the steps to be taken in the upcoming months. This report is structured as follows:

<b>I. INTRODUCTION</b>	<b>3</b>
<b>II. IPSAS EXPLAINED</b>	<b>3</b>
<b>III. KEY IMPACTED AREAS</b>	<b>4</b>
Expenses	
Employee Liabilities	
Fixed Assets	
Quota/Pledge Revenue	
Financial Instruments	
<b>IV. PROJECT IMPLEMENTATION</b>	<b>6</b>
<b>V. TARGET TIMELINE</b>	<b>6</b>
<b>VI. IMPLEMENTATION PATH 2009-2012</b>	<b>7</b>

## I. INTRODUCTION

1. Within the international community, there has been a growing consensus around the need to harmonize international accounting practices in order to create a homogenous basis for financial reporting, facilitate accounting processes, and generate information that accurately reflects the financial position of public sector and non-profit organizations.
2. Following a United Nations system-wide review, the UN General Assembly accepted a proposal to adopt the widely accepted IPSAS by no later than reporting periods starting in 2010.
3. As part of its own review process, the GS/OAS intends to follow suit by collaborating with early adopters such as the UN and the Pan American Health Organization (PAHO) and in doing so, translate their experiences and lessons learned into a smooth transition from the GS/OAS accounting system to IPSAS-compliant accounting practices.
4. The GS/OAS current accounting standards have fallen out of step with standards of best practice and financial reports do not fully reflect the operational cost and liabilities of the Organization. The GS/OAS translates mandates into initiatives, projects and programs. The implementation of IPSAS will further enable the Organization to demonstrate to Member States and donors the sound and prudent management of its resources, and tangible results through financial reports that meet international standards.
5. The implementation of IPSAS is especially relevant for the GS/OAS as it strives to maintain and enhance its key role in the Americas. Transparency, accountability, and good governance are important objectives for our Member States and those objectives need to be reflected in how the GS/OAS manages its resources. Adopting an independent, widely accepted and comprehensive basis of accounting will aid in strengthening donor confidence in the GS/OAS as there will be a comparable basis with which to measure performance.

## II. IPSAS EXPLAINED

6. IPSAS are the public sector accounting standards of choice for many countries around the world. **They set out recognition, measurement, presentation, and disclosure requirements dealing with transactions and events in general purpose financial statements of public entities.** They are tailored to specific transactions of public entities and non profit organizations and are the only international accounting standards applicable to both sectors.
7. Reporting requirements stipulated by IPSAS though exhaustive and prescriptive, are intended to leave enough room for professional consultation so as to ensure that the information provided truly reflects the financial position of the Organization.
8. The implementation of IPSAS would require a migration from the current accounting system (modified cash) to accrual accounting. IPSAS provide a shift in focus from cash inputs, to outputs and outcomes, and thereby stimulate better management efficiencies. The transition seeks to facilitate the availability of accurate information and the rendering of quality services from the GS/OAS to its diverse client base. Although the main differences are highlighted below, this is not meant to be an exhaustive review of both systems.

### Modified Cash Accounting (GS/OAS)

- ◇ Transactions recognized only when cash is received/paid.
- ◇ Revenue recognized when cash from contributions is actually received.
- ◇ Expenses recognized when disbursement is made to supplier/vendor irrespective of receipt of good/service.

### Accrual accounting (IPSAS)

- ◇ Transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid), in the period to which they relate.
- ◇ Revenue recognized when contributions are confirmed by donors.
- ◇ Expenses recognized upon delivery of goods/services.

9. Some of the benefits of adopting IPSAS include:

- ⇒ The alignment of the GS/OAS with best accounting practices through the application of credible, independent, and internationally recognized accounting standards.
- ⇒ Improved internal controls stemming from a better understanding of the assets/liabilities and resources available to the Organization.
- ⇒ More comprehensive financial information will provide for a more accurate assessment of the financial resilience of the Organization.
- ⇒ Increased transparency resulting from the adoption of IPSAS will allow for better informed decisions and management of assets and support a results-based management framework.
- ⇒ Consistency and comparability of financial statements can better assist the GS/OAS in keeping its clients abreast of the latest financial developments within the Organization.

### III. KEY IMPACTED AREAS

#### Expenses

10. Under current GS/OAS practice, commitments (obligations) to disburse monies in future periods are fully expensed when entered into. Recording of these expenses is not dependent on the good/service actually being received or delivered. The full expense is recorded in the financial period in which the agreement is entered into (i.e, signed) irrespective of the period of service extending into another financial period. For example, contracts issued to CPRs are fully expensed at the time of issuance. This fails to reflect the unexpended portion of the contract (the compensation that the consultant has not yet earned).
11. IPSAS stipulates the recording of an expense only after the underlying good or service has actually been received/delivered and only the amount applicable to that period should be recognized. This is called the “delivery principle” and it ensures that only the relevant portion of expenses is recognized in the given period.

#### Employee Liabilities

12. Under the current GS/OAS financial rules, employee costs (benefits accrued during employee’s service life) are fully expensed when they are paid. Although an estimate of the total employee liability is disclosed in a separate schedule, it is not included as part of the financial statements.
13. IPSAS stipulates that contingent liabilities should be recognized if a past event creates a legal obligation and the outflow of resources is certain and can be reliably estimated. Since these benefits are laid out in the contract and therefore become legally binding at the agreed date or upon termination of service, the Organization should accrue for them and reflect it as a contingent liability in the financial statements.
14. Under IPSAS, employee entitlements will be accrued in the financial accounts in the period when they are earned. Benefits such as repatriation grant, annual leave, education allowance, etc., will be charged to the employee’s post each month.

#### Fixed Assets

15. GS/OAS currently follows the practice of charging the full cost incurred in acquiring property/equipment through expenses at the time of purchase. In other words, the Organization expenses the full value of the purchase in the pertinent account and a depreciation schedule is applied to it. At the time of reporting, these assets are not reported at their market value but rather at book value (cost less depreciation). IPSAS allows these assets to be reported at market value, and requires

that the recorded cost be spread over the useful life of the asset.

16. Financial statements prepared according to IPSAS will identify GS/OAS fixed assets in greater detail than they are currently registered under current standards. Under IPSAS, the value of acquisition will be distributed over the asset's useful life. That is to say, the financial statements will reflect the annual cost of using the asset rather than the full cost of acquiring it.

### Quota/Pledge Revenue

17. The recording of income is currently done mainly under the cash basis of accounting. Annual quotas from Member States, miscellaneous income<sup>(1)</sup>, and FEMCIDI pledges are all recorded when the cash is received.
18. IPSAS stipulates that to the extent that income revenue can be estimated reliably, it must be recorded when the contractual obligation arises, rather than when the payment materializes. In the case of GS/OAS, quotas will be recognized in the relevant period when the Budget Resolution is approved and contributions will be recognized when donor agreements are signed.
19. The same principle should be consistently applied to Specific and Trust funds, for which current expenditures cannot exceed the cash levels in those funds. Once the inflow of resources can be estimated reliably, the funds can be expensed.

### Financial Instruments

20. The GS/OAS does not follow the practice of including its various investment vehicles valued at fair market (price dictated by current demand) but rather at historical cost (price at which it was purchased). Consequently, there is no system in place wherein the Organization can account for the unrealized gains/losses derived from these financial instruments. The current method only recognizes the gain/loss once the investment vehicle is sold and the financial statements fail to reflect the potential gains/losses from price fluctuations.
21. IPSAS requires the classification and disclosure of the different types of financial instruments. Additionally, interest, dividends, and losses/gains relating to the financial instrument should be reported in the statement of financial performance as expense or revenue. Also, information about exposure to credit and interest rate risk must also be included along with fair values for each class of financial assets.
22. Required information must be compiled to value the financial instruments and their value capitalized in the income statement for the relevant period as these represent a potential income stream. This assumes that the fair market values for all of these investments can be objectively measured. If that is not the case this fact should be disclosed. This assessment is of utmost importance given the latest developments in the financial markets as they could affect the value of these investments.

### Unexpended Advances

23. GS/OAS follows the practice of advancing funds for the completion of certain programs prior to the actual incurrence of expense. This is done to ensure the timely completion of these programs. For example, certain projects may be carried out in remote locations where access to banking facilities is limited. In order to avoid delays funds are advanced which, in some instances are not fully utilized.
24. IPSAS defines expenses as "decreases in economic benefits or service potential ... in the form of outflows or consumption of assets or decreases in assets/equity other than those relating to distributions to owners."
25. GS/OAS would book a receivable and only recognize the expenditures as they materialize (as the funds are expended), with an offsetting asset representing the unexpended portion. If there is no outflow of funds, they should not be recognized as expenditures.

(1) This includes contributions to specific and trust funds, gifts, investment income, and contributions to the Organization in the form of physical goods [Budgetary and Financial Rules III.5, b]

## Financial Statements

26. Under IPSAS the structure of the financial statements will change in several ways:

- ⇒ More robust disclosure notes of financial liabilities, accounting policies and any information that will better assist general users of these statements to make a sound assessment about the financial position of the Organization.
- ⇒ Inclusion of a cash flow statement which is currently lacking from the set of financial statements. IPSAS requires a cash flow statement and a comparison of the budget and actual expenditures. A cash flow statement will enable users to assess the impact of the Organization's operations and to estimate future cash flows.
- ⇒ Presentation of budget information in addition to the basic financial statements will demonstrate compliance with the budget and allow for an assessment of the Organization's stewardship of its assets and distribution of resources.

## IV. PROJECT IMPLEMENTATION

27. In 2007, the public accounting firm SB & Company carried out an exhaustive review of the General Standards and analyzed the potential impact of the adoption of IPSAS on the Organization's recording of transactions. The findings from this study were used as the foundation for the IPSAS Implementation Project Plan.

28. As stated above, GS/OAS is seeking collaboration with PAHO and other early adopters in order to use their experiences as building blocks of a successful GS/OAS migration to IPSAS. Following from this, several senior managers attended a three day IPSAS workshop at PAHO conducted by a member of the IPSAS Board. The sessions were designed to familiarize managers and finance staff with IPSAS related issues and to start promoting a culture of change within PAHO. The presentations were shared internally with other GS/OAS finance staff with a special focus paid to IPSAS applicability to GS/OAS.

29. Initial work has been done in quantifying the existing employee liabilities as part of the standardization of human resource hiring and contracting mechanisms. This is especially relevant to the finances of the Organization as the impact of these liabilities will be significant once incorporated into the books.

30. Existing business processes have been documented in order to identify potential areas of change and the requirements needed leading to the transition to IPSAS and accrual accounting.

## V. TARGET TIMELINE

31. In March 2010, SAF intends to provide CAAP with a second progress report on the status of activities which will include a cost estimate for the implementation of IPSAS. In the meantime, special attention will be paid to the following activities:

- ⇒ The 2009 Annual Report will incorporate certain IPSAS reporting requirements and disclosures. This is likely to impact the items (headings) and structure of the financial statements. As stipulated by IPSAS however, the GS/OAS will not be considered IPSAS compliant until all the relevant IPSAS have been applied.
- ⇒ The existing ERP system (Oracle) will undergo a gap evaluation in order to assess the necessary changes to support IPSAS requirements.
- ⇒ A second review of the General Standards will be necessary to enable qualified personnel to recommend changes by June 2011.

⇒ Implementation of IPSAS is expected to commence on January 1, 2012. This will likely affect accounting and reporting practices within the Organization. Approval from the Governing Bodies is critical to adopting a unified strategy, and implementing the standards in the established timeframe.

## VI. IMPLEMENTATION PATH 2009-2012

GENERAL TOPICS	EXPLANATION	STATUS	IMPACT ON GS/OAS
Implementation of IPSAS	AG/RES.2353 (XXXVII-O/07) Recommendation from Board of External Auditors	Diverse working groups are collaborating to bring GS/OAS in line with Standards of Best Practices	STAMP Team with leadership from HR, DFAMS, Procurement, and DOITS is currently working to implement changes
<b>ELEMENTS</b>			
Review Process	It is crucial to gain a thorough understanding of risks, internal controls, and financial transactions.	DFAMS has documented all business processes (AP, AR, National Offices, Payroll, Grants)	DFAMS must carry out a review process to determine the remaining gaps to bring GS/OAS in line with IPSAS.
Education of political bodies	Political bodies must be cognizant of the impact of IPSAS as they approve financing, which will be greatly impacted by the changes.	10 November 2009 Introduction to IPSAS presentation to CAAP  March 2010 Progress Report presentation to CAAP	It is critical for CAAP to be aware of the current/projected financial position of GS/OAS and the impact of IPSAS.
Implementation of new systems	Existing systems need to be analyzed for compatibility with IPSAS. Infrastructure is necessary to support account preparation.	Gap assessment to be carried out in upcoming months.	Oracle will undergo upgrades to support IPSAS changes.
Finance Staff Training	Familiarization with requirements of IPSAS is necessary for a fair & accurate presentation of GS/OAS financial position.	External consultant may be needed to carry out training sessions.	GS/OAS finance staff must keep up with the release of new IPSAS.  Release of training materials by the UN planned for 2009.
Non-Finance Staff Training	All stakeholders in this modernization process must be aware of the changes and their impact on GS/OAS.	The Finance Portal is the primary tool to keep general staff/public abreast of latest developments.	Project Managers must become familiarized with the impact of IPSAS on cash flows & disbursement of funds.
Recommendations issued for changes to General Standards	Current standards are not in line with generally accepted accounting standards.	Findings from a study carried out by the firm SB & Co used as foundation for further analysis. A more detailed review will be necessary.	IPSAS, in addition to management judgment, will be the standard that will dictate accounting treatments .
IPSAS Compliant Annual Reports and Financial Statements	Changes will be introduced to annual reports and general purpose financial statements to comply with the requirements IPSAS.	GS/OAS must comply with all pertinent IPSAS to be able to state that the financial statements are compliant with IPSAS.	More detailed and accurate financial information available to GS/OAS and its stakeholders

GENERAL TOPICS	EXPLANATION	STATUS	IMPACT ON GS/OAS
<b>EXPECTED OUTCOMES</b>			
Migration Plan	Detailed migration plan is crucial for general staff and stakeholders to understand the impact of these changes		The Plan must include new accounting policies that meet the requirements of applicable IPSAS.
Redesign of key processes and information flows	Financial procedures will inevitably change the business processes and organizational culture at GS/OAS.		Procedure manuals will be necessary to guide existing/future staff in conducting business transactions.
Management verification of balances and accounts	Continuous testing of internal controls may be necessary during the preliminary stage of implementation.		Management must work to challenge output data where appropriate when necessary to ensure accuracy.
Internal and External Auditors	As information presented will change, engagement of both external and internal auditors is crucial for a smooth transition.		Auditors need to gain a detailed understanding of the new system and its impact on control procedures.