



AGREEMENT ON THE CONSERVATION OF  
AFRICAN-EURASIAN MIGRATORY WATERBIRDS

AEWA/StC Inf. 12.6  
Agenda item 4d  
17 December 2016

**12<sup>th</sup> MEETING OF THE STANDING COMMITTEE**

*31 January – 01 February 2017, Paris, France*

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**BUDGETARY IMPLICATIONS OF IMPLEMENTATION OF INTERNATIONAL PUBLIC  
SECTOR ACCOUNTING STANDARDS ON MULTILATERAL  
ENVIRONMENTAL AGREEMENTS**

*Prepared by the Office for Operations and Corporate Services (OFO) of UNEP*



09 December 2016

## **Budgetary Implications of implementation of International Public Sector Accounting Standards on Multilateral Environmental Agreements**

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### **Background**

1. International Public Sector Accounting Standards (IPSAS) are a set of accounting principles and standards, recommended as best practice in the preparation of financial statements for public sector entities including governments, city and municipal authorities, non-profit organizations and UN system organizations. IPSAS replaces the United Nations System Accounting Standards (UNSAS), which were the accounting standards previously used by the UN system organizations.
2. The General Assembly in its Resolution 60/283 of July 2006, requested United Nations entities to adopt International Public Sector Accounting Standards (IPSAS). In 2014, UN Environment Programme successfully implemented IPSAS for the first time in the preparation of 2014 and 2015 financial statements. The the UN Board of Auditors issued a clean audit opinion on these statements, which was a significant milestone in IPSAS implementation.

### **Umoja & IPSAS**

3. As part of the major UN administrative reforms, a new Enterprise Resource Planning (“ERP”) system, Umoja, was implemented by UN secretariat entities. This system is designed to support IPSAS.
4. IPSAS standards provide better quality general purpose financial reports through better disclosure, more transparency, more consistency and comparability between entities. More information is available in the additional disclosures contained in the notes to the financial report by the External Auditors’ report and their recommendations. The financial information contained in the financial statements contributes to informed decision-making and amplifies accountability for the use of resources and management of assets. IPSAS-based financial information provides a vast amount of information on the resources of the organization and its future obligations.



## Budgetary implications of IPSAS

5. *Umoja costs:* Although the deployment costs of Umoja were initially absorbed by UN Headquarters and UN Environment Programme centrally, the future operating costs, including license fees, will be passed on to user entities. The estimated costs per year have not yet been confirmed, but UN Environment Programme, including Multilateral Environment Agencies (MEAs), Conventions and Regional Seas, will be required to contribute to these expenses costs based on a defined formula yet to be announced.

6. *Unfunded liabilities:* IPSAS is based on accrual accounting which fully discloses future obligations of the organizations in terms of accrued liabilities, including the unfunded portions of those liabilities. The United Nations partially accrue for some longer term benefits such as pension, workers compensation under Appendix D of the Staff Rules, and repatriation grant by setting aside the respective costs each month to ensure sufficient funds are available in the future to pay for the respective benefits. However, under the old UNSAS system, UN does not provide for most of the unpaid after service and health entitlements. As at 31 December 2015, UN Environment Programme had unfunded liabilities in this category of \$109 million. This obligation will have to be shared by different budget centres of UN Environment, including all MEAs, Conventions and Regional Seas. Guidance is expected from UNHQ on the budgetary implications for these provisions.

7. *Audit fees:* Under UNSAS, audited financial statements were produced biennially. Under IPSAS, they must be produced annually. This has a budgetary implication on audit fees and related expenses. Therefore this implies an increase in the share that will be contributed by MEAs, Conventions and Regional Seas to the audit budgets.

8. *Audit Opinion:* Financial statements of all funds relating to MEAs, Conventions, Protocols and the multilateral fund are consolidated. Any deficiencies leading to an adverse audit opinion on any one of them will imply that the consolidated set of financial statements would suffer the same adverse opinion. Such a scenario would have far reaching implications on the organizations and could lead to reduced contributions and strain strategic relationships with donors and partners.

9. *Liquidity management:* IPSAS supported by Umoja, operates a very stringent liquidity management regime, where inter-project/inter-fund cash borrowing is highly restricted. This is consistent with the financial rules in as far as adherence to the requirement that “funds are utilized for intended purpose”. While there are legitimate mechanisms that facilitate inter-project or inter-fund cash borrowing, MEAs, Conventions and Regional Seas have specific mandates and therefore do not readily have access to the broader liquidity pool of other general funds. This has a critical



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implication not only on the level of contributions, but on the **timing of when the contributions are made**. Parties will therefore be urged to make contributions in a timely manner and avoid arrears.

10. *Operating Reserves Requirements:* In view of the liquidity management concerns as highlighted in paragraph 9 above, the UN Board of Auditors recommended that all MEAs, Conventions and Regional Seas, establish a funded operative reserve of 15% to cushion uneven cash flows as well as unanticipated programme budget fluctuations, within limited thresholds set by the governing bodies. The secretariats of the respective MEAs have or will propose time schedules within which this requirement will be met.

### Summary

11. IPAS has far reaching budgetary implications, not only in terms of the required level of contributions to factor in 15% for operating reserves, but also timely payments of the pledged contributions is important to support the strict liquidity management regime. Additional resources will be required to fund Umoja operating costs, unfunded liabilities (including ASHI) as well as increased audit fees due to the increased frequency from once every two years to annual audits by the United Nations Board of Auditors. The actual budget implications will be known once the respective bodies within the United Nations complete the reviews and assessments of the rates to be used in accruing the liabilities or when the actual additional amounts required are determined.