

PAPER SUBMITTED TO UNBOA (AND SUBSEQUENTLY OG) REGARDING PROPOSED APPROACH TO DATA GATHERING FOR THE IPSAS OPENING BALANCE SHEET

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PURPOSE

The purpose of this paper is to set out UNDP's proposed approach to gathering data on property, plant & equipment (PP&E) for purposes of the opening balance sheet (OBS) prepared in connection with the adoption of International Public Sector Accounting Standards (IPSAS).

This paper outlines the requirements of IPSAS 17, *Property, Plant & Equipment* (IPSAS 17), and the consideration given to the various issues associated with gathering data on PP&E, including what is to be gathered and when and how the exercise will be accomplished.

The discussion leads to the overall conclusion that UNDP will use a "transition period" to gather data on development project assets.

EXECUTIVE SUMMARY

Adoption of IPSAS

UNDP currently uses United Nations System Accounting Standards (UNSAS) to account for PP&E but, effective January 1, 2012, will adopt IPSAS, necessitating significant changes in how UNDP will account for its PP&E.

IPSAS 17 sets out the requirements related to how entities should convert to IPSAS and requires that PP&E be capitalised with effect from the adoption date of 1 January, 2012. IPSAS 17 does allow, under certain circumstances, for a "transition period" to be invoked that would allow additional time to begin the IPSAS 17-required accounting. In effect, IPSAS 17 is applied separately to:

- i) assets purchased prospectively from adoption date – i.e., new purchases made after the new IPSAS 17-specific policy is in place;
- ii) OBS assets – i.e., PP&E in existence at the date of adoption that have not been capitalised under UNSAS but must now be capitalised under IPSAS.

The attached discussion does not deal with assets purchased, prospectively, after adoption date as such assets will be immediately capitalised, a process that is controlled by the use of a new procurement catalogue. With respect to the OBS assets, however, there are numerous difficulties involved in gathering data, the most significant of which are that:

- i) the data may not be complete and,
- ii) the data may not be accompanied by correct or up to date chart field data.

Managing the burden that would be involved in correcting the data has led to the consideration of the use of the transition period allowed in IPSAS 17.

Management vs. Development Project Assets

UNDP's PP&E falls into one of two broad categories based on the purpose for which the asset was acquired. The two broad categories are:

- Management; management assets are those funded from Biennium Support budget funding sources and are used exclusively for the conduct of management operations.
- Development projects; development project assets are those funded from project resources and that are used exclusively on development projects.

Situational Analysis of OBS Data for Management and Development Project Assets

Based on the review and analysis performed, including the Pilot Study of 10 Country offices, the following conclusions were drawn on the quality of the data to be used for the OBS:

- **Management assets** – a large amount of, but potentially not all, management assets currently exist in Atlas. UNDP currently has systems and procedures in place to track and accurately record these assets within Atlas. Much of the data is currently required to be certified and, thus, the data is believed to be of relatively good quality for IPSAS adoption purposes. Further effort on this data is needed to ensure its completeness, and to formulate processes for systematically updating and maintaining COA records for OBS and ongoing IPSAS processes.
- **Development project assets** – the volume and complexity of development project assets is significantly greater than for management assets. Many of the assets are not currently included in Atlas and there are currently no formal systems and procedures in place to track and maintain such data in Atlas for IPSAS purposes. Development project asset data was not required to be included in Atlas (see policy extract in section B1); even where data is included in Atlas, the data is not expected to be complete from an accounting perspective, up to date or correct in all cases. Furthermore, the certification process for the development project assets did not require all assets to be certified. (Although it did require certification on a sample basis). It is believed that the data on development project assets would require significant additional effort and verification to get it ready for recording in Atlas and, ultimately, for IPSAS adoption.

Notwithstanding the difficulties in gathering data, especially data on cost, UNDP proposes to focus initially on the need to gather data on all development project assets for tracking purposes, even if the account specific information (such as cost) is not readily available. The objective to track assets forms a key part of the Transition Plan.

The Pilot Study of 10 Country offices was designed to assess what potential issues might arise in a more formal process to gather data on OBS assets, from both a management and development project perspective.

Proposal Related to the Transition Period

As noted above, a transition period is available to be used to allow an extended period for all or a portion of the data required for the OBS to be gathered. UNDP's assessment of how the transition period will be used is as follows:

- **Management assets** – although certain chart field data is currently inaccurate or not up to date from an IPSAS perspective, such data can be corrected with a reasonable amount of effort by 2012. Accordingly, it is expected that the OBS for IPSAS, as of 1 January 2012, will outline the steps to ensure that the OBS contains all management assets and that the accompanying chart fields will be correct and up to date. Thus, the transition period will not be used for management assets. (Note – all classes, except for leasehold improvements will be recorded in the OBS.)
- **Development project assets** – given the lack of existing processes to track and maintain this data in Atlas (notwithstanding the data tracked outside Atlas), the level of effort involved in gathering data for the OBS is expected to be significant. Furthermore, the burden is likely to fall on crisis countries as such countries tend to have higher concentrations of development project assets. In order to allow an appropriate amount of time to gather information and verify data on development project assets, UNDP proposes to gather data over a three year period focusing, separately on:
 - i) data for asset tracking; and,
 - ii) data for OBS purposes (i.e. cost).

Building upon the lessons learned in preparing the OBS for management assets, the data gathering for existing development project assets will begin in January 2012, and will be focused on data required for tracking. The data required for OBS purposes will be gathered over 3 years and recorded in one “Big Bang” adjustment, currently anticipated to be made as of 1 January 2015. The use of a “Big Bang” approach is important to allow enough time to collect and verify the data, and to avoid confusion in donor reporting that would be accompanied by attempting to record “piece meal” capitalisation entries.

Note – the plan proposed by UNDP would allow an appropriate period of time to gather data in a way that will enable UNDP to begin to more rigourously track and maintain the asset data, even if cost data is not immediately available, whilst not being overly burdensome to Country Offices.

The analysis comprises the following:

- A. Background
- B. Situational Analysis
- C. IPSAS 17 Transition Clause
- D. Outline of Transition Plan

A. BACKGROUND

IPSAS adoption

UNDP is on track to adopt IPSAS and had determined that its date of adoption will be 1 January 2012.

UNDP Policy Elections under IPSAS 17

In connection with the adoption of IPSAS, extensive work has taken place regarding setting policy as applicable to UNDP and to ensure all required IPSAS 17 policies and elections have been agreed and documented.

In evaluating and deciding upon the policy, it was taken into account that assets meeting the definition of PP&E would fall into one of two broad categories based on the purpose for which the asset was acquired and which have formed the key differentiation in how PP&E has historically been managed. The two broad categories are:

- Management; management assets are those funded from Biennium Support budget funding sources and are used exclusively for the conduct of management operations.
- Development projects; development project assets are those funded from project resources and that are used exclusively on development projects.

Note that the policy clearly sets out which development project assets are to be capitalised and, in general, assets will be eligible for capitalisation where UNDP has “use and control” of the asset. The use of these criteria will lead to the fact that, generally, the following development project assets will be capitalised;

- Those procured for use on DIM projects, and;
- Those procured for use on Full Country Office Support to NIM projects,

And that the following development project assets will not be capitalised;

- Those procured for delivery to Govts, and;
- Assets procured and/or used by others including Govts (under NIM projects) and implementing agents.

Based on the analysis and the decisions taken, there will be seven classes of assets. The classes of assets and their expected applicability to the management and project categories, is as follows:

<u>Class</u>	<u>Management assets</u>	<u>Development project assets</u>
1.Land	Y	n/a (note 1)
2.Buildings	Y	n/a (note 1)
3.Vehicles	Y	Y
4.Furniture and fixtures	Y	Y

5.Communications and IT equipment	Y	Y
6.Heavy Machinery and other equipment	Y	Y
7.Leasehold improvements	Y (note2)	n/a (notes1 and 2)

Notes:

1. Based on the nature of development projects it is not expected that there will be amounts to capitalise in respect of land, buildings and leasehold improvements.
2. Leasehold improvements – UNDP management has analysed the data and had determined that it will not be practicable to record data on leasehold improvements. See separate analysis.

Chartfield

As discussed below, a key consideration in determining the approach to be taken to data gathering is the quality of the data populated in the chart field. The chart field data that is captured in Atlas is as follows:

- i. Fund code
- ii. Operating unit
- iii. Donor
- iv. Project (if applicable)
- v. Implementing agent (if applicable)
- vi. Dept id

B. SITUATIONAL ANALYSIS

1. Existing, pre-IPSAS, records

As UNDP developed its approach to the gathering and recording of PP&E to be capitalised in accordance with its IPSAS PP&E Policy, the initial step in the analysis focused on the quality, nature and extent of existing data that had been captured under:

- UNSAS;
- existing Financial Rules and Regulations (FRR); and,
- existing Programme and Operations Policies and Procedures (POPP).

Based on a review of existing pre-IPSAS conditions it was noted that:

- UNDP's policies had differentiated "management" assets from "development project" assets;
- UNDP's policies had mandated that management assets be recorded in the Asset Management (AM) Module in Atlas but had not required similar procedures for development project assets;

Further detail on the quality, nature and extent of existing assets based on the differentiation that UNDP has historically used, is as follows;

Management assets

- As noted above, existing FRR and POPP requires that:
 - o management assets be recorded in AM, and

- management assets (principally electrical equipment, furniture, heavy equipment and vehicles) be subjected (since 2006) to biannual certification of existence, accuracy and completeness;
- the results of the certifications indicate that there is a high level of accuracy related to the management assets.
- Management assets have been monitored by UNDP's Administrative Services Division (ASD) and compliance with policies is, further, validated by UNDP's Internal Audit Group.
- Under IPSAS, a determination is required as to whether or not UNDP "uses and controls" the asset. Such a determination will be relatively easy to make for management assets given that they are used and controlled exclusively by UNDP personnel.

Project assets

- As noted above, existing FRR and POPP did not require that development project assets be recorded in Atlas; any assets recorded in AM were on a purely optional basis. Specifically, the policy states that:

"All project assets acquired through various implementing modalities should be recorded and tracked outside the Atlas assets module and such records should be maintained as project supporting documents."

- Additionally, there has been, historically, no complete certification of such assets to certify existence, accuracy and completeness. (Note, however, that the existing development project monitoring requirements do require physical verification on a sample basis.)
- Under IPSAS, the determination as to whether or not UNDP "uses and controls" the asset is significantly more complex than for management assets and will require careful consideration given the existence of assets that UNDP does not "use and control."

2. Additional Factors in Determining Approach to Development Project Assets

The following additional factors were taken into account in determining the manner in which development project assets would be gathered:

- project assets that would be "used and controlled" by UNDP will be very prevalent in "crisis countries" (such as Afghanistan, Liberia, Sudan, Mali and Congo) where, historically, there have been limited resources to track assets and little likelihood that such tracking had been occurring when UNDP policy did not mandate it.
- Given the limited resources available, the quality of data that would have been recorded (for instance, the correct classification of expenses) would not have been of the required standard for immediate IPSAS adoption and would require significant effort to remediate.
- The amount of work to remediate the data quality issues would be a significant burden on the country office unless the effort were to be allowed to occur over a reasonable period of time.

3. Country Office Pilot Study

Pilot study performed

In order to get a clearer sense of the quality of management and development project data that exists at the Country Office level, UNDP undertook a “pilot study” of 10 country offices. The locations were selected to provide a representative sample of country office by region and by complexity and size. Additionally, the Country offices were given approximately one month to provide the data.

The results of the survey were expected to provide additional insight on:

- The quality of data at the Country Office level;
- The timeliness of receipt of the data; and
- The level of effort involved in producing the data.

Each of the ten country offices was requested to complete a template that listed:

- All management assets;
- All assets on one, representative, DIM project
- All assets on one, representative, Full Country Office Support to NIM project.

The template required to be filled in included columns for asset details (description, date of acquisition, etc.), cost and chart field.

Results of 10 CO Pilot study

The results of the study can be summarised as follows:

	<i>Country Surveyed</i>	<i>Rec'd</i>	<i>Completeness</i>	<i>Timeliness</i>
1.	Nigeria	Yes	All 3 requirements submitted	Extension granted for development project assets
2.	Tajikistan	Yes	All 3 submitted	Extension granted
3.	Somalia	Yes	Only 2 applicable	Received on due date
4.	Egypt	Yes	Only 1 applicable	Received on due date
5.	Solomon Islands	No	No submission	N/A
6.	Burkina Faso	Yes	All 3 submitted	Received c. 2 weeks after due date
7.	Honduras	Yes	All 3 submitted	Extension granted
8.	Moldova	Yes	All 3 submitted	Received on due date
9.	Maldives	No	No submission	N/A
10.	Bangladesh	Yes	Only 2 applicable	Received on due date

Summary of overall performance

- a. 8 out of 10 countries responded;
- b. Some offices requested, and were granted, additional time to complete due to competing priorities;
- c. In most cases, the data on management assets was, as expected, readily available, but data on development projects required additional effort to accumulate and report;

- d. Chartfield inaccuracies (i.e. incomplete or incorrect data) were prevalent;
 - i. approx. one third of data submitted was inaccurate;
 - ii. almost all submissions had at least one error;
 - iii. See Appendix 3 for greater detail.

Based on the results of the survey, management concluded that:

- a. COs had, and will have, competing priorities;
- b. In addition to the data on assets being incomplete, chartfield data, especially for development projects, cannot be assumed to be accurate and up to date;
- c. For management assets, although the records of assets is largely complete, the data for chartfield was found to be also out of date in many cases;
- d. HQ review is possible to identify and correct inaccuracies but such review is intricate and time consuming.

4. Risks and challenges

Based on the above, it is clear that, with respect to the OBS, the data for management assets is available and is capable of being converted into OBS entries with a reasonable amount of effort. With respect to the development project assets, however, the transition plan to be developed must take into account that:

- The requirement to track and record assets in Atlas is new;
- No systems and procedures currently exist for recording in Atlas;
- The accounting for development project assets is complex based on the need to ensure compliance with the criteria related to “use and control”;
- A significant portion of the development project assets would be located in countries with the additional challenge that such locations are “crisis countries”;
- There are limited resources available at Country Offices and it is likely that attempting to gather data for recording as of 1 January 2012 would be both overly burdensome and, ultimately, unsuccessful.

C. **IPSAS 17 TRANSITION CLAUSE**

UNDP has considered the applicability of the Transition Clause provided in IPSAS 17. As noted in IPSAS 17, entities are “encouraged to comply in full with the provisions of (IPSAS 17) as soon as possible” (para. 102) but that “entities are not required to recognize property, plant, and equipment for reporting periods beginning on a date within five years following the date of first adoption of accrual accounting in accordance with IPSASs. (para. 95)”

As noted in para. 101 of IPSAS 17;

“The transitional provisions..... are intended to give relief in situations where an entity is seeking to comply with the provisions of this Standard, in the context of implementing accrual accounting for the first time in accordance with IPSASs.....When entities adopt accrual accounting in accordance with IPSASs for

the first time, there are often difficulties in compiling comprehensive information on the existence and valuation of assets. For this reason, for a five-year period following the date of first adoption of accrual accounting in accordance with IPSASs, entities are not required to comply fully with the requirements of (IPSAS 17).”

See Appendix 1 for extract of IPSAS 17.

Given the feasibility, as well as the burden that would be imposed on Country offices if an attempt were made to record substantially all project assets as of 1 January 2012, UNDP has determined that, for OBS development project assets only, the transition period will be invoked.

The following summarises the extent to which UNDP has, and has not, used the relief provided by the transition clause;

	<u>Use transition Clause?</u>
<u>Management assets:</u>	
1. Use transition clause re adoption for all assets acquired after 1 January 2012?	No
2. Use transition clause re adoption for all assets existing on OBS date?	No
<u>Development project assets:</u>	
3. Use transition clause re adoption for all assets acquired after 1 January 2012?	No
4. Use transition clause re adoption for all assets existing on OBS date?	Yes – for up to 3 years.

D. OUTLINE OF TRANSITION PLAN

Considerations

The following items were considered in connection with developing the plan for development project assets;

Plan should focus on:	
<u>Principle</u>	<u>Comment</u>
1. Focus on custodianship and gathering detail on all development project assets, even if, initially, the data on cost is not available.	<ul style="list-style-type: none"> - The quality of the data required to record the OBS entries for projects is not currently complete. Accordingly, there will be a focus on gathering details on the assets without, initially, gathering cost if cost is not available. - The transition period will provide a period of up to several years to gather and validate the cost data. - As the data is gathered, it will be subject to a new procedure for twice

	annual certifications.
2. Gather data on cost of assets over a reasonable "transition period"	<ul style="list-style-type: none"> - A risk based plan will be developed to gather required data that would envisage recording all assets that: i) have original cost of more than \$1,000, and will still be in existence as of 1 January 2015.
3. Record development project assets in one "Big Bang" adjustment.	<ul style="list-style-type: none"> - Recording the OBS adjustment for development project assets at one time, as opposed to staggering them in over a period, will reduce the confusion amongst donors; - Furthermore, development project assets procured before 1 January 2012 would have been reported to donors as expense and overhead would have been calculated on such expenses. Capitalisation of such assets now will be confusing; - IPSAS 17 allows for a period of up to 5 years to record PP&E. - UNDP would propose to record the assets, at the latest, as of 1 January 2015, after a 3 year transition period. - The plan will be periodically evaluated to assess if an earlier adoption date is possible.

The following sets out the plan with regard to the gathering and recording of OBS PP&E.

<u>Management</u>	
1. Download all data from Atlas to SharePoint.	Through December 2011
2. Delete downloaded data from ATLAS.	December 2011
3. "Clean" the data in SharePoint.	September 2011 to March 2012
4. Upload data from SharePoint to Atlas as of 1 January 2012.	March 2012
<u>Project</u>	

1. As above, download all data from Atlas to SharePoint.	Through December 2011
2. As above, delete downloaded data from ATLAS	December 2011
3. As above, “clean” the data in SharePoint	December 2011 to December 2014
4. Keep all data in SharePoint – focus on an accurate count of assets for physical verification purposes. (Cost data to be gathered subsequently)	December 2011 to December 2014
5. Gather data on physical existence by June 2012	Through June 2012
6. Gather data on cost and chart field over a three year period based on a pre-defined plan of which countries will be gathered and when	December 2011 to December 2014
7. Load data from SharePoint to Atlas; a. Data to be uploaded piecemeal – determination to be made on a country by country basis (i.e. not on a project by project basis) b. When uploaded – a “non cap” account will be used.	December 2011 to December 2014
8. As of 1/1/15 (or potentially earlier) – all “non cap” data will be uploaded to the “cap” category for any remaining assets	March 2015
9. The project data (which, depending upon country will be in either Atlas or SharePoint) will be certified biannually and will be updated as items are transferred or otherwise disposed of.	December 2011 to December 2014

See Appendix 2 for timeline.

Appendices

1. Appendix 1 – Extract from IPSAS 17 re transition clause
2. Appendix 2 – Timeline for Transition Plan
3. Appendix 3 – Analysis of types of errors in Country Office pilot study

Extract from IPSAS 17 re transition clause.

Transitional Provisions

95. Entities are not required to recognize property, plant, and equipment for reporting periods beginning on a date within five years following the date of first adoption of accrual accounting in accordance with IPSASs.

96. An entity that adopts accrual accounting for the first time in accordance with IPSASs shall initially recognize property, plant, and equipment at cost or fair value. For items of property, plant, and equipment that were acquired at no cost, or for a nominal cost, cost is the item's fair value as at the date of acquisition.

97. The entity shall recognize the effect of the initial recognition of property, plant, and equipment as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the property, plant, and equipment is initially recognized.

98. Prior to first application of this Standard, an entity may recognize its property, plant, and equipment on a basis other than cost or fair value as defined in this Standard, or may control assets that it has not recognized. This Standard requires entities to initially recognize items of property, plant, and equipment at cost or, fair value as at the date of initial recognition in accordance with this Standard. Where assets are initially recognized at cost and were acquired at no cost, or for a nominal cost, cost will be determined by reference to the asset's fair value as at the date of acquisition. Where the cost of acquisition of an asset is not known, its cost may be estimated by reference to its fair value as at the date of acquisition.

99. IPSAS 3 requires an entity to retrospectively apply accounting policies unless it is impracticable to do so. Therefore, when an entity initially recognizes an item of property, plant, and equipment at cost in accordance with this Standard, it shall also recognize any accumulated depreciation and any accumulated impairment losses that relate to that item, as if it had always applied those accounting policies.

100. Paragraph 14 of this Standard requires the cost of an item of property, plant, and equipment to be recognized as an asset if, and only if:

(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and

(b) The cost or fair value of the item can be measured reliably.

101. The transitional provisions in paragraphs 95 and 96 are intended to give relief in situations where an entity is seeking to comply with the provisions of this Standard, in the context of implementing accrual accounting for the first time in accordance with IPSASs, with effect from the effective date of this Standard or subsequently. When entities adopt accrual accounting in accordance with IPSASs for the first time, there are often difficulties in compiling comprehensive information on the existence and valuation of assets. For this reason, for a five-year period following the date of first adoption of accrual accounting in accordance with IPSASs, entities are not required to comply fully with the requirements of paragraph 14.

102. Notwithstanding the transitional provisions in paragraph 95 and 96, entities that are in the process of adopting accrual accounting are encouraged to comply in full with the provisions of this Standard as soon as possible.

103. The exemption from the requirements of paragraph 14 implies that the associated measurement and disclosure provisions of this Standard do not need to be complied with in respect of those assets or classes of asset that are not recognized under paragraphs 95 and 96.

104. **When an entity takes advantage of the transitional provisions in paragraphs 95 and 96, that fact shall be disclosed. Information on the major classes of asset that have not been recognized by virtue of paragraph 95 shall also be disclosed. When an entity takes advantage of the transitional provisions for a second or subsequent reporting period, details of the assets or classes of asset that were not recognized at the previous reporting date but that are now recognized shall be disclosed.**

105. **For entities that have previously applied IPSAS 17 (2001), the requirements of paragraphs 38–40 regarding the initial measurement of an item of property, plant, and equipment acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.**