



منظمة الأغذية  
والزراعة  
للأمم المتحدة

联合国  
粮食及  
农业组织

Food  
and  
Agriculture  
Organization  
of  
the  
United  
Nations

Organisation  
des  
Nations  
Unies  
pour  
l'alimentation  
et  
l'agriculture

Organización  
de las  
Naciones  
Unidas  
para la  
Agricultura  
y la  
Alimentación

## FINANCE COMMITTEE

### Hundred and Nineteenth Session

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### Progress Report on Adoption of International Public Sector Accounting Standards

#### Introduction

1. As approved by the General Assembly, the UN system is adopting International Public Sector Accounting Standards (IPSAS). The implementation effort at FAO is in the detailed planning phase in accordance with the project timetable. A three-day meeting of the Task Force on Accounting Standards (the UN system-wide body charged with developing an IPSAS compliant accounting policy to be applied by all the UN entities) took place in June 2007. Good progress continues to be made in the development of the UN system-wide financial accounting policy which will form the basis of the accounting policy to be applied by FAO.

2. This document has been prepared to illustrate to the Committee the effect of two important changes in accounting policy which will be introduced in the financial statements of the Organization as a result of the implementation of IPSAS. Such changes in policy affect both assets and liabilities of the Organization and relate to (i) the full recognition of past service liabilities payable after staff separate and (ii) the provision to reduce assets due to unpaid Members' contributions. These changes in accounting policy are key steps in moving FAO towards full compliance with IPSAS by 2010. The changes are consistent with recent United Nations System Accounting Standards (UNSAS) guidance that IPSAS be adopted progressively before 2010, and reflect steps already being taken by other UN organizations to introduce such changes for the current biennium's official financial reporting. Following consultation with the Organization's External Auditor, FAO will reflect these changes in accounting policy in its official financial statements for the biennium ending 31 December 2007. The Committee is invited to provide any observations on the matter.

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## Summary of Changes in Accounting Policy

3. UNSAS has recently been amended to allow the adoption of individual IPSAS standards any time before 1 January 2010 in order to encourage UN organizations to progressively adopt IPSAS.
4. Progressive adoption of IPSAS standards is underway at the United Nations, where the General Assembly in 2006 instructed that the full liability for after-service employee benefits be recognized in the Statement of Assets, Liabilities, Reserves and Fund Balances for the year ended 31 December 2006. The UN Controller wrote to all funds and programmes informing them of the UN's action and asking that they take steps to reflect such changes within the same time frame in their respective financial statements. Several specialized agencies (including ICAO, UNESCO, WHO) are preparing to record such liabilities in full at the end of 2007.
5. The changes in FAO accounting policy for after service staff-related liabilities and in the Provision for Unpaid Assessed Contributions as a result of progressive adoption of IPSAS are summarised in Table 1 below and described in more detail in the paragraphs thereafter:

**Table 1**

Policy Area	Current policy under UNSAS as applied by FAO	New policy as required by IPSAS
After Service Benefits	Full disclosure of the liability in the notes to the Financial Statements.  Partial recognition of the liability on the Statement of Assets, Liabilities, Reserves and Fund Balances reflecting the amortization of past service cost since 1998. Balance is being gradually recorded through biennial amortization. UNSAS policy is not prescriptive.	Full recognition of the liability on the Statement of Assets, Liabilities, Reserves and Fund Balances.
Provision for Unpaid Assessed Contributions	UNSAS policy is not prescriptive. Policy in UN System ranges from 0% to 100%. FAO policy is 100% provision.	Economic assessment of collectability.

### Full Recognition of Staff-related After Service Liabilities

6. After service liabilities represent the entitlements staff members earn during their service but which become payable by FAO at the end of their service. In FAO, these have been reported to Governing Bodies in several past documents (FC 118/11, FC 113/9, FC 110/16, FC 109/17, FC 108/11a, FC 104/10, FC 97/9, FC 96/12, FC 90/9, FC 89/14).
7. The Organization's liability for after-service benefits represents the present value of estimated future payments that the Organization will be required to make in respect of after service benefits that the employees have earned up to the date at which the liability was calculated. It is commonly referred to as a Past Service Liability as it represents the cost to the

Organization of past service of both active and retired employees. The total liability increases as active employees earn more after-service benefits. The cost of the after-service benefit earned in the current year is referred to as the Current Service Cost. The liability is reduced by the value of benefits paid out to separated and retired employees.

8. The liability reported in the official financial statements is based on periodic actuarial valuations performed by specialized firms. The firms analyze latest actual claim costs, payments of benefits and salary scales, and apply economic and demographic assumptions, including discount rate, inflation, medical inflation, mortality rates and retirement ages to calculate the liability. Since 2005, actuarial valuations at FAO are being carried out annually; previously (since 1998) these were carried out at the close of each biennium.

9. FAO's unrecorded liability for After Service Employee Benefits as at 31 December 2006 amounted to US\$390.4 million as detailed in Table 2 below:

**Table 2**

**Summary of FAO's Unrecorded Liability for After Service Employee Benefits as at 31 December 2006**

<b>Scheme</b>	<b>Total Liability per 2006 Actuarial Valuation</b>	<b>Liability recorded on the Balance Sheet</b>	<b>Liability not yet recorded on the Balance Sheet</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Compensation Plan Reserve Fund	16,196	16,196	0
Separation Payment Scheme	97,312	87,594	9,718
Termination Payments Fund	27,321	0	27,321
After-Service Medical Coverage	526,324	172,976	353,348
<b>Total</b>	<b>667,153</b>	<b>276,766</b>	<b>390,387</b>

10. Under IPSAS, the total liability for After Service Employee Benefits is required to be recognized in full on the Statement of Assets, Liabilities, Reserves and Fund Balances. IPSAS provides that the first time recognition of the unrecorded liability be recorded through a one-off charge taken against reserves. With reference to amounts reported at 31 December 2006, an additional \$390.4 million would have been recognized as a liability on the Statement of Assets, Liabilities, Reserves and Fund Balances and charged against General Fund reserves. It should be noted that the change in accounting policy is a presentational change; the full liability for After Service Employee Benefits, which was previously reported in the notes to the financial statements, now appears on the face of the financial statements. There is no change in the actual liability or the funding requirements of that liability. The key difference is that a user of the financial statements can now directly see the liability on the face of the financial statements and directly see the impact of that liability on the reserve balances in case the liability is unfunded or only partially funded. Indeed, the long-term funding requirement for FAO's unfunded past service liability is currently being addressed with additional Member assessments via an "amortization" approach.

### **Provision for Members' Unpaid Assessed Contributions**

11. Under UNSAS, several UN organizations, including FAO, maintain a Provision for Members' Unpaid Assessed Contributions representing 100% of the unpaid amount, thereby eliminating the asset. The UN System policy has resulted in some UN organizations choosing a 0% provision while others have chosen 100%, neither of which is acceptable under generally

accepted accounting practices as the choices do not represent an economic view of collectability. The policy required by IPSAS is to make a provision based on an economic assessment of collectability. Details of the existing FAO provision at 31 December 2006 using the 100 % basis under UNSAS and, *for illustrative purposes only*, a provision calculated under an alternative IPSAS compliant basis are presented in Table 3 below:

**Table 3**

**Summary of FAO's Provision Assessed Contributions as at 31 December 2006**

	Existing Position Under UNSAS	Possible Scenario Under IPSAS
	<u>\$'000</u>	<u>\$'000</u>
Total Assessed Contributions Receivable	110,543	110,543
Provision for Assessed Contributions Receivable	(110,543)	(18,321)
Net Assessed Contributions Receivable	0	92,222

12. The IPSAS compliant illustrative basis above for the Provision for Assessed Contributions is based on the period of time that contributions remain unpaid. The above example makes provision for Assessed Contributions, including Working Capital Fund and Special Reserve Account, which have been outstanding for more than 10 years. Under this methodology, FAO's provision for assessed contributions receivable is reduced by \$92.2 million which in turn increases assets and decreases the General Fund deficit by an equivalent amount. It is noted that analysis is on-going within FAO and within the UN system to determine the most appropriate methodology to be used to calculate the Provision for Assessed Contributions under IPSAS.

13. The benefit of reporting the Provision for Assessed Contributions in accordance with IPSAS is improved financial reporting and, for FAO, an immediate increase in the level of the General Fund. The Assessed Contributions to be received from Members will be shown net of a provision which reflects an economic view of collectability. Similarly the General Fund, to which the provision is charged, will reflect an economic view of the collectability of the receivables and the balance of the General Fund will no longer be subject to fluctuations dependent on the date of cash receipts of Members' assessments which occurs with the current policy of provisioning all receivables at a full 100%.

**Illustration of Impact on 31 December 2006 General Fund Balance**

14. For illustrative purposes only, the two changes highlighted above would have a direct effect on the General Fund deficit balance at 31 December 2006 which would increase by \$298.2 million, as detailed in Table 4 below:

**Table 4**

**Summary of FAO's General Fund Balance Restated as at 31 December 2006**

	<u>\$'000</u>	<u>\$'000</u>
General Fund Deficit Balance - Original balance		(95,606)
Provision for Staff Related Liabilities	(390,387)	
Provision for Assessed Contributions Receivable	<u>92,222</u>	<u>(298,165)</u>
General Fund Deficit Balance - Restated balance		(393,771)