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Report of the Secretary-General

Part II: Administrative and statutory matters

(a) Financial situation of the Organization

Addendum 1: IPSAS progress report

I. Introduction

1. The present document updates the Executive Council (EC) on the progress made in the implementation of International Public Sector Accounting Standards (IPSAS) in UNWTO and is a follow-up to the reports submitted in 2007 (CBF/48/2), 2009 (CBF/50/1), 2010 (CE/88/5(a)), 2011 (CE/90/5(a) add.1), 2012 (CE/93/5(b) Add.1), 2013 (CE/95/3(II)(a) Add.1) and 2014 (CE/98/3(II)(b) Add.1 and CE/99/5(c))
2. In 2005, the United Nations High Level Committee on Management (HLCM) decided that all United Nations (UN) system organizations would adopt IPSAS for financial reporting (CEB/2005/HCLM/R.24).
3. The UNWTO EC and General Assembly (GA) approved the adoption of IPSAS in 2006 (CE/81/DEC). In its decision CE/DEC/7(LXXXV) the EC approved the progressive adoption of the standards in 2010-2011, agreed to the utilization of the reserve fund for the replacement of fixed assets to finance the implementation and further agreed that the UNWTO should take steps aimed at ensuring that these new accounting standards would be adopted as soon as possible. The UNWTO, in the 2010 report submitted to the Committee on Budget and Finance (CBF)/EC (CE/88/5(a)) and supported by the EC in its decision CE/DEC/88, outlined the strategy, the structure, the work plan and the major impact areas and the revised plan to be IPSAS-compliant in the biennium 2013-2014.
4. In accordance with the timelines set out in the report, UNWTO implemented IPSAS at 1 January 2014 and prepared **the first UNWTO Financial Statements compliant with IPSAS for the year ended 2014 receiving an unqualified (clean) opinion by the External Auditors (CE/100/5(b))**.
5. The present progress report describes developments in the UN system, the progress made by UNWTO since the progress reports in 2014 (CE/98/3(II)(b) Add.1 and CE/99/5(c)), outlines the main



implementation activities for 2015, and includes an annex on the development phases and modules of the new IT system (Athena).

II. UNWTO and UN Task Force on Accounting Standards

6. The UN Task Force on Accounting Standards (UNTFAS) under the authority of the Finance and Budget Network (UNFBN) of the Chief Executives Board (CEB) is critical to support the IPSAS implementation of UN system organizations. UNTFAS strategic orientations and activities are: (a) facilitation and communication, (b) monitoring of the IPSAS Board activities, (c) coordination of accounting diversity, and (d) guidance and support. The recent focus of the UNTFAS has been on: (a) system-wide collaboration to address unresolved and evolving common technical issues, (b) implications and challenges of sustaining IPSAS compliance, and, (c) addressing changes resulting from pronouncements by the IPSAS Board. The objective of the UNTFAS, of which UNWTO is an active member, is to ensure that UN system organizations will be IPSAS-compliant with a consistent interpretation and application of IPSAS amongst UN system organizations.

7. At 31 December 2013, out of the 24 UN system organizations, 21 were IPSAS compliant with three organizations (UN, FAO and UNWTO) intending to implement IPSAS in 2014 for the first time. At the time of writing this report, UNWTO has completed its IPSAS implementation successfully and UN and FAO's IPSAS implementation is on track.

8. IPSAS implementation presented formidable challenges in introducing required changes to policies, procedures and systems and required a considerable investment of time and resources in all organizations of the UN system irrespective of size. UNWTO, being the smallest agency in the UN system, set a realistic date for implementation of 1 January 2014. This took account of the resource constraints and the recognition by management of the need for UNWTO to upgrade its IT, administrative and accounting processes and internal controls as an essential prerequisite to implementing IPSAS.

9. The implementation of IPSAS represents a major reform initiative in UNWTO and the UN with the issuance of credible financial reports prepared based on internationally accepted standards. However, further work is required to maximize the expected post-implementation benefits of IPSAS in governance, operational and financial management and comparability with other UN system organizations. UNWTO will make every effort to ensure that the full benefits of IPSAS flow to the Organization.

III. UNWTO IPSAS project

10. The UNWTO project for IPSAS implementation comprised three distinct phases: pre, main and post phases (CE/88/5(a)).

11. The pre-phase of the project (2009-2010) involved the introduction of a new financial model at UNWTO establishing a separation of financial administration roles.

12. The main phase of the project (2011- early 2015) covers the preparatory work required to achieve IPSAS compliant Financial Statements and comprises accounting policy and procedures, rules and regulations, IT systems and training and awareness activities as well as the actual preparation of the Financial Statements.

13. With the completion of the first IPSAS-compliant Financial Statements, UNWTO is engaged in a range of post-implementation activities, aimed at sustaining IPSAS-compliance and maximizing the

benefits of IPSAS. This phase also includes the enhancement of the IT system and the development of a gap analysis on internal control systems. These activities comprise the IPSAS post-implementation phase (from end of 2014 onwards) as described below.

A. Progress made in 2014 - 1st quarter 2015 (main-phase)

1. Accounting policy and procedures

14. Accounting. Based on the UNWTO IPSAS Policy Guidance Manual (PGM) and the UNWTO IPSAS Accounting Manual, during 2014 a periodical accounting review of UNWTO's books was carried out and necessary interpretations on accounting treatment were disseminated.

15. Procedures. Based on the UNWTO IPSAS-Related Procedures Manual, during the year 2014 some procedures were adapted and clarified including a complete review of publications procedures and the development and implementation of the UNWTO-RSOAP action plan to get RSOAP (UNWTO Regional Support Office of Asia and the Pacific) compliant with IPSAS.

16. Actuarial valuation of after-service employee benefits liabilities. As required by IPSAS, UNWTO recognized the full liability for employee after-service benefits for the first time in the restated Statement of Financial Position at 1 January 2014. It is noteworthy that the recognition of liabilities under IPSAS is not dependent on the provision of budgetary resources for the full funding of the liability. Nevertheless, in the interests of sound financial management, the Organization should develop a plan to ensure funding in the future. These liabilities are calculated by a professional firm of actuaries. The most recent actuarial valuation carried out by UNWTO is dated 31 December 2014. The UNWTO financial report of the Secretary-General (CE/100/5(b)) provides information on the increase in and the funding of these liabilities.

17. The after-service employee benefits liabilities have to be calculated by external actuaries periodically, so this activity will continue to be part of the IPSAS post-implementation phase.

18. UNWTO restated Statement of Financial Position compliant with IPSAS as at 1 January 2014 (CE/99/5(c) approved by decision CE/DEC/12(XCIX)). One of the main activities of the IPSAS work plan (CE/88/5(a)) was the calculation, definition and documentation of the restated financial position of the UNWTO including IPSAS adjustments at 1 January 2014. This preparatory work included an internal review to Themis' accounts to produce its restated Statement of Financial Position compliant with IPSAS as at 1 January 2014. In May 2014, the External Auditors (EAs) of UNWTO (Germany, India and Spain) audited the UNWTO restated opening balance compliant with IPSAS as at 1 January 2014 (A/RES/627(XX)).

19. The UNWTO restated Financial Position compliant with IPSAS at 1 January 2014 **received an unqualified (clean) opinion by the External Auditors** as shown in the "Report on the audit of the restated Statement of Financial Position as at 1 January 2014 of the World Tourism Organization (UNWTO)" included in document CE/99/5(c) whose paragraph 7 reads: "In our opinion, the restated statement of financial position presents fairly, in all material respects, the financial position of the UNWTO as at 1st January 2014 in compliance with International Public Sector Accounting Standards."

20. Also, paragraph 6 of the said report highlights the work done by the Secretariat: "Overall, the External Auditors have been impressed with the level of enthusiasm and energy with which the UNWTO tackled the implementation project of IPSAS..."

21. UNWTO interim Financial Statements for the period ended 30 September 2014. As a control measure, the Secretariat issued an interim set of Financial Statements and notes of disclosures at 30 September 2014 which were reviewed (A/RES/627(XX)) by the EAs of the Organization in December 2014.

22. These statements **received a favourable opinion by the EAs** as shown in the “Report on the review of the pilot (interim) Financial Statements as at 30 September 2014 of the World Tourism Organization (UNWTO)” of 19 December 2014 which paragraph 23 reads: “The review of the financial statements did not reveal any significant weaknesses with regard to the IPSAS requirements. In particular, the financial statements contain all the elements which are necessary under IPSAS...” Furthermore, the EAs gave a special recognition to the work done in the implementation of the IPSAS project by the Secretariat as stated in paragraph 2 of the same report.

23. UNWTO financial report and audited Financial Statements (FS) for the year ended 2014 (CE/100/5(b)). These FS are prepared in accordance with the UNWTO Financial Regulations and Rules (FRR) and are the first prepared by UNWTO under IPSAS. The financial report presents the Secretary-General’s discussion and analysis of UNWTO’s financial position and financial and budgetary performance for the financial year 2014. The preparatory work also included an internal review to the Themis Financial Statements to make them compliant with IPSAS at 31 December 2014.

24. In March 2015, in accordance with the UNWTO FRR **the 2014 FS were submitted to the EAs for audit. These statements received an unqualified (clean) opinion** from the External Auditors as described more in detail below under the section External Auditors’ comments.

2. Management and other changes

25. Financial Regulations and Rules. The amended Financial Regulations and Rules took effect from 1 January 2014. The FRR were published and disseminated to the Members during 2013 in its English version. The Secretariat is currently working on the Spanish and French versions.

26. New IT system (Athena, previously known as ISIS). After a successful data migration, Athena, based on Oracle, went live on 1 January 2014. Athena is composed of the following modules: (a) reference data, (b) budget, (c) financial accounting general ledger, (d) assets, (e) payroll, and (f) reports. The new system compiles budgetary and accounting data in order to generate UNWTO financial statements compliant with IPSAS and other reports for the financial and budgetary management of the Organization.

27. The development of Athena and the migration of data to the new system was one of the key and more costly activities of the IPSAS project. During the first three quarters of 2014, the Secretariat continued working on the reports module and on other refinement activities, e.g., more than 100 new reports and processes went live, including online access to budgetary and financial data to programme managers of the Secretariat.

28. The enhancement of Athena is one of the main outputs of the IPSAS post-implementation phase as described below.

29. Education and training. During 2014, the development and dissemination of IPSAS and IT training course materials continued. The Secretariat delivered more than 20 courses to staff for awareness and on technical issues. In order to assist staff, a help desk for continuous support was available during 2014.

30. The Secretariat has planned to conduct an IPSAS information workshop for UNWTO delegates taking advantage of the 100th session of the EC.

31. Communication strategy. UNWTO continues to carry out its external communication strategy which comprises issuing regular progress reports on the implementation status of IPSAS to UNWTO Governing Bodies, reporting to UNTFAS and UN HLCM as well as engaging EAs on IPSAS-related issues. For internal communication, the Secretariat continues to maintain an intranet site dedicated to information concerning IPSAS, and undertook other awareness steps during 2014. These communication activities will continue as part of the post-implementation phase.

3. Completion of the IPSAS project main phase

32. All the outputs and activities contained in the main phase of the IPSAS work plan (CE/88/5(a)) were directed to getting the UNWTO Financial Statements compliant with IPSAS. With the preparation, submission and audit of the 2014 UNWTO FS, UNWTO has now completed its IPSAS implementation successfully.

33. Therefore, the main phase of the IPSAS work plan could be considered effectively completed.

B. External Auditors' comments

34. During the external audit of the 2014 Financial Statements of the Organization carried out in March 2015, the Secretariat made available to the EAs (Germany, India and Spain) the UNWTO financial report and Financial Statements for the year ended 2014 (CE/100/5(b)) together with all documentation and information within the IPSAS project.

35. In their report "Report on the audit of the Financial Statements of the World Tourism Organization (UNWTO) for the year ended 31 December 2014" dated 27 March 2015 (included in CE/100/5(b)), the EAs noted in particular that:

Paragraph 2: "Overall, the External Auditors have been impressed with the level of enthusiasm and energy with which the UNWTO tackled the implementation project of IPSAS, even with the limited staff of the IPSAS team..."

Paragraph 3: "As a result of the audit, the External Auditors are of the opinion that the Financial Statements present fairly, in all material respects, the financial position as at 31 December 2014, that they were prepared in accordance with the UNWTO's stated accounting policies, and that the transactions were in accordance with the Financial Regulations and Rules..."

Paragraph 4: "The Financial Statements provided by the Organization fulfil the structural requirements of IPSAS,"

Paragraph 32: "...the External Auditors' examination revealed no weakness or errors which they considered material for the accuracy, completeness and validity of the Financial Statements as a whole... On this base the External Auditors have placed an unqualified opinion on the UNWTO's Financial Statements for 2014..."

Paragraph 33: "The efforts of UNWTO in moving to an internationally recognized accounting framework will provide Member States and management with better financial information to use in managing the day to day business of the Organization. The benefits that IPSAS can now bring should be utilized to ensure that the efforts made contribute towards more efficient and effective use of resources as a result of the improved management information."

36. Throughout 2014 the Secretariat has worked closely with the EAs, particularly in respect of the opening balances and interim Financial Statements for the period ended 30 September 2014 to ensure that issues were dealt with in advance of the 31 December 2014 closure and external audit.

C. The UNWTO IPSAS project as seen by the JIU

37. In 2014, the Joint Inspection Unit (JIU) conducted an inspection on the management and administration in the UNWTO. It is worth mentioning the special recognition given by the JIU to the work done by the UNWTO IPSAS project team in the implementation of IPSAS at UNWTO. In its report "Follow-Up Inspection of the 2009 Review of Management and Administration in the World Tourism Organization (JIU/REP/2014/5)" it states:

Paragraph 82: "...the human and financial resources to be dedicated to the IPSAS project **were calculated at such a low level that serious risks were taken** for a possible success, (...) In this regard, the secretariat highlights its transparency vis-à-vis Member States which have always been informed through the IPSAS progress reports on possible identified risk issues..."

Paragraph 83: "...lack of financial and human resources had delayed its effective undertaking. **Until 2010 only one staff at professional level was in charge of accounting and IPSAS, besides other tasks; she remained the only staff member at the professional level, leading from her P3 post an IPSAS team constituted of herself and completed with the progressive arrival of three collaborators recruited as accounting specialists.** In the Inspector's view, such a small number and such a grade level are clearly under-rated in comparison with the qualification requirements and the responsibilities incurred by the team and its leader. (...) The project took advantage of the JIU report on IPSAS and, above all, of the guidance and working papers provided by the United Nations Task Force on Accounting Standards (UNTFAS)..."

Paragraph 85: "The Inspector (...) concludes favourably on the reporting to the UNWTO governing bodies, observing, however, that their political support was not accompanied by a level of staffing and funding commensurate with the amount and complexity of the related requirements; consequently, in the absence of a risk analysis and mitigation, the very committed but too small IPSAS team was clearly overstretched putting serious risks for a successful, effective and timely transition to IPSAS. The Inspector considers that these risks did not materialize so far due to the exceptional dedication and skills of the secretariat at all levels; he underlines that converging and continuous miracles cannot be factored in any project. However, the close management support and control of the project ensured that problem issues were dealt with expeditiously until now..."

Paragraph 88: "Without preempting the External Auditors' conclusions in 2015 and taking into account the financial and human resources limitations imposed on IPSAS project and the limited time span resulting from the announcement of 2014 compliance (...) This was done **at an extraordinary modest cost.** (...) **The Inspector regrets that such a huge programme was not timely taken into account at the last review of the generic job profiles conducted in March and May 2011,**¹ precisely because he supports the principle that "the criteria [...] with all jobs be defined by the work of the programme."²"

¹ CE/90/5(a) Add.3, Annex, par. 1

² Ibid, par. 16

IV. IPSAS post-implementation phase

38. Now that UNWTO has completed the IPSAS implementation successfully and received an unqualified audit opinion for 2014, the main challenge will be continuing this trend consolidating IPSAS requirements within the Organization. To comply with these more stringent requirements, additional resources, particularly under the area of Budget and Finance, would be required for successful mainstreaming of tasks.

39. As experienced by other UN organizations, UNWTO will encounter post-implementation challenges in the area of accounting, procedures and management change. Furthermore, the IPSAS post-implementation phase at UNWTO also addresses the enhancement of Athena and the development of a gap analysis on UNWTO's internal control framework.

A. Accounting, procedures and management change challenges

40. Based on the experience of other UN organization which have implemented IPSAS before UNWTO, the main challenges are experienced in areas such as: (a) assessing impacts of evolving IPSAS Board standards and pronouncements which may impact on accounting policies, (b) a continued need for training and communication to finance and non-finance staff, (c) follow-up and implementation of EAs recommendations, and (d) other issues such as: long-outstanding receivables, auditor's concerns on inter-organization balances, flow of information between field offices and headquarters, certification of inventories, tracking of intangibles, time consuming processes for asset impairment, manual work regarding the capitalization of construction in progress, physical counts of property, manual processes for donor reporting, etc.

41. During this phase, UNWTO will have to address the mentioned challenges and will continue to actively participate in the UNTFAS which has proved to be an essential forum where UN organizations share their experiences in dealing with such challenges.

B. Enhancement of Athena

42. The introduction of new and enhanced IT systems which integrate part or most of the administrative processes of an organization is not solely intended to support IPSAS financial and management reporting over the longer term. Enhanced IT systems reduce manual intervention and increase the efficiency of the Organization's processes, extending well beyond accounting and finance matters and affecting all operations.

43. At UNWTO, the further development of IT systems was planned as part of the IPSAS post-phase activities subsequent to IPSAS implementation as was reported in CE/88/5(a). In 2013, the Secretary-General, based on an internal analysis, concluded that the most suitable option to meet the future needs of UNWTO is to enhance Athena.

44. This upgrade started in the last quarter of 2014 and will continue for several years contingent on resources (CE/98/3(II)(b) Add.1). The enhancement is planned to be done module by module having regard to resource availability and UNWTO staff capacity. The first modules to be developed, the so-called Athena II plan, are: (a) purchase management, and (b) accounts payable. Once Athena II goes live, the modules to develop under Athena III will comprise: (a) sales & distribution, (b) stock, and (c) accounts receivable.

45. A detailed work plan is prepared per module based on CMMI³ methodology. Before a module goes live, the following phases have to be carried out: (a) requirements, (b) functional analysis, (c) acceptance, (d) programming, (e) testing, and (f) data uploading. Since the 3rd quarter of 2014, the Secretariat has been working on the requirements and functional analysis of Athena II. It is planned that the programming of Athena II will start in late 2015.

46. Annex I to this document shows an illustrative figure with the different modules and plans.

47. In order to support the change management due to the introduction of Athena II, an in-house user's group has been created comprising staff of different areas of the Secretariat. This user's group will be involved in the functional analysis and testing phases of specific sub-modules within Athena II. Their involvement will help also in the areas of training and communication.

C. Internal control system gap analysis

48. Internal Control Systems (ICS) are established to ensure that an organization meets its operational goals, has reliable financial management and reporting systems and ensures compliance with its statutes and governing rules and regulations.

49. Within the scope of the IPSAS project post-implementation phase, in 2014 the Secretariat requested the Universal Postal Union (UPU), a UN sister agency, to conduct a gap analysis aimed at determining which actions would be needed to align UNWTO's internal control system to main components of internationally accepted standards based on COSO⁴ standard (the world's most widely recognized authority on internal control).

50. The conclusion of the "UNWTO ICS Gap Analysis – Final Report" of December 2014 reads as follows:

"As this report showed, in spite of significant improvements made since 2009-2010, UNWTO is still far from having a robust internal control system. True, implementing the recommendations set forth in the second chapter of this report will undoubtedly require more resources and/or strain existing ones. But there is no alternative available if the Organization's management is seeking an external certification to attest the existence and/or effectiveness of its ICS (...)

Indeed, optimizing UNWTO's ICS will not be only about setting up an internal audit function; it will encompass modifications in the inner working of the whole Organization. This caveat needs to be clearly conveyed to Secretariat staff, member countries and other key stakeholders, in order to avoid misunderstandings that could prove costly and delay the improvement of internal controls."

51. On the basis of this analysis and in view of the significant resources required to operate an ICS, its implementation will be delayed until a further stage. This would allow the Secretary-General to consider options for its funding before presenting specific operational targets for an ICS.

³ Capability maturity model integration

⁴ The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a non-profit-making committee which, in 1992, established a definition of internal control and created a framework for evaluating its effectiveness. This standard is also known, by extension, as "COSO".

V. Actions to be taken by the Executive Council

52. The Executive Council is invited:

- (a) To take note that UNWTO has completed the IPSAS implementation successfully and received an unqualified audit opinion for the 2014 Financial Statements;
- (b) To take note of the special recognition given by the External Auditors and the JIU to the work done in the IPSAS project;
- (c) To encourage the Secretary-General to continue to advance in the IPSAS post-implementation phase project and to continue reporting its progress to the EC; and
- (d) To take note of the development of an ICS gap analysis and that effective implementation of an ICS will only be undertaken once financial means can be secured for such purpose.

Annex I. Athena modules and plans

