SYSTEMATIC EVALUATION OF FINANCIAL MANAGEMENT SYSTEM IN UNITED NATIONS WORLD FOOD PROGRAMME

Submitted by:

NIRAJ SHRESTHA

PATAN MULTILPE CAMPUS

ROLL NO: 19

T.U. Registration No.: 12448-88

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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

Presented by
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And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the Degree of Master in Business Studies (M.B.S.)

Viva-Voce Committee

Chairman, Research Committee: ....

Member (Thesis Supervisor): ....

Member (External):..

Date: ....

RECOMMENDATION

This is to certify that the thesis:

Submitted by

Niraj Shrestha

Entitled

"SYSTEMATIC EVALUATION OF FINANCIAL MANAGEMENT IN UNITED NATIONS WORLD FOOD PROGRAMME"

has been prepared as approved by this department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

____

____

Rakesh C Mishra Associate Professor	Shiva Prasad Pokharel Head of Department Faculty of Management

____

Krishna Badan Nakarmi
Campus Chief

DECLARATION

I hereby declare that the work reported in this thesis entitled ***"Systematic Evaluation of Financial Management in United Nations World Food Programme"*** submitted to office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for the degree of Masters in Business Studies (MBS) under the guidance and supervision of Thesis Supervisor Mr. Rakesh C. Mishra, Associate Professor of Patan Multiple Campus, Tribhuvan University.

Niraj Shrestha
Researcher
Patan Multiple Campus
T.U. Reg. No: 12448-88

Date: November, 2009.

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This report is quite within the range of possible errors and mistakes, in spite of my best efforts. I would be obliged if the reader finds out any such errors and brings them to my notice.

Niraj Shrestha
Researcher
Patan Multiple Campus

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LIST OF ABBREVIATIONS

ACC	Administrative Committee on Co-ordination
ADB	Asian Development Bank
AMD	Assets Management Database
CCAQ	Consultative Committee on Administrative Questions
CEB	Chief Executive Board
EC	European Commission
EOQ	Economic Order Quantity
EPS	Electronic Payment Services
HLCM	High Level Committee on Management
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
JIT	Just in time
MRP	Material Requirement Planning
NGO	Non-government Organisation
OAG	Office of the Auditor General
OECD	Organisation for Economic Co-operation and Development
UNDP	United Nations Development Programme
UNPFA	United Nations Population Fund
UNSAS	United Nations System Accounting Standards
UNWFP	United Nations World Food Programme
USD	United States Dollar
ZBA	Zero Balance Account

EXECUTIVE SUMMARY

For the past decades, United Nations World Food Programme (UNWFP) has been using United Nations System Accounting Standard (UNSAS) as its financial management system. The UNSAS itself explicates that it has to be reviewed in terms of the recent changes in financial management system and slowly replace with a new better financial management system.

The major issue of this research is to evaluate the existing financial management system UNSAS adopted by UNWFP and to propose a more effective financial management system. The research was mainly focused on evaluating the gap of UNSAS system and its components mainly on the cash and fund management, inventory management and financial reporting with respect to the newly evolved financial management system called International Public Sector Accounting Standard (IPSAS).

Contained by the major three areas identified – cash and fund management, inventory management and financial reporting part, the research recommends adapting slowly to the IPSAS system by changing the financial reporting system prepared in accordance with IPSAS, should therefore include a statement of financial position, a statement of financial performance, a statement of changes in net assets/ equity, a statement of cash flow, a comparison of budget and actual amounts on the basis of the budget and notes, comprising a summary of significant accounting policies and other explanatory notes. The research also recommends improving on the other aspects of the financial management system such as cash flow management, effective inventory management, treatment of lease agreements, reflecting property, plant and equipments in the financial report, provisions, contingent liabilities and contingent assets, and budget information in financial statements in accordance with the standard of IPSAS system.

In overall, the evaluation demonstrated a qualitative evaluation of financial management system of UNWFP and recommended an improved and more effective financial management system in line with the newly evolved financial management system IPSAS.

CHAPTER 1: INTRODUCTION

1.1 Background of the study:

The United Nations World Food Programme (UNWFP), a UN food agency, is the world's largest international food assistance organization combating hunger in underdeveloped nations with severe food shortages**.** The frontline stretches from sub-Saharan Africa and the Middle East to Latin America and Asia and the Pacific which reached 87.8 million people in 78 countries in 2006, and is leading the fight against the number one risk to global health. Being the largest humanitarian food aid agency, UNWFP has got a good financial management system in place. The existing financial management system is guided by a system called United Nations System Accounting Standards (UNSAS) which is being followed by all the agencies of United Nations so far.

This study carries out a research on the prevailing financial management of United Nations World Food Programme guided by the UNSAS system. The area of this research is to evaluate the system which has been set for financial management in UNWFP from its lower level i.e. recording level to the upper level i.e. producing and reporting of financial statements such as cash flow, balance sheet, income and expenditure reports etc. The research will examine the various steps involved in the course of recording, reporting and preparing financial statements with the view of generally accepted and updated financial rules, regulations and tools and techniques.

1.1.1 Conceptual Framework

The research has covered 3 major sectors of financial management system for evaluation of financial management system of UNWFP:

1. Cash and Fund Management
2. Inventory Management
3. Financial Reporting

1.1.1.1 Cash and Fund Management:

Cash is money that is easily accessible either in the bank or in the business. It is not inventory, it is not accounts receivable, and it is not property. These might be converted to cash at some point in time, but it takes cash on hand or in the bank to pay suppliers, to pay the rent, and to meet the payroll. Profit growth does not always mean more cash.

Profit is the amount of money you expect to make if all customers paid on time and if your expenses were spread out evenly over the time period being measured. However, it is not your day-to-day reality. Cash is what you must have to keep the doors of your business open. Over time, a company's profits are of little value if they are not accompanied by positive net cash flow. You can't spend profit; you can only spend cash.

Cash Flow refers to the flow of cash into and out of a business over a period of time. The outflow of cash is measured by the money you pay every month to salaries, suppliers, and creditors. The inflows are the cash you receive from customers, lenders, and investors.

Positive Cash Flow:

If the cash coming into the business is more than the cash going out of the business, the company has a positive cash flow. A positive cash flow is very good and the only concern here is managing the excess cash prudently.

Negative Cash Flow:

If the cash going out of the business is more than the cash coming into the business, the company has a negative cash flow. A negative cash flow can be caused by a number of problems that result in a shortage of cash, such as too much or obsolete inventory, or poor collections on accounts receivable. If the company doesn't have money in the bank or can't borrow additional cash at this point, it may be in serious trouble.

A Cash Flow Statement is typically divided into three components so that you can see and understand both the internal and external sources and uses of cash.

1. Operating Cash Flow (Internal): Operating cash flow, often referred to as working capital, is the cash flow generated from internal operations. It is the cash generated from sales of the product or service of your business. Because it is generated internally, it is under your control.
2. Investing Cash Flow (Internal): Investing cash flow is generated internally from non-operating activities. This component would include investments in plant and equipment or other fixed assets, nonrecurring gains or losses, or other sources and uses of cash outside of normal operations.
3. Financing Cash Flow (External): Financing cash flow is the cash to and from external sources, such as lenders, investors and shareholders. A new loan, the repayment of a loan, the issuance of stock and the payment of dividend are some of the activities that would be included in this section of the cash flow statement.

Good cash management means:

- Knowing when, where, and how your cash needs will occur,
- Knowing what the best sources are for meeting additional cash needs; and,
- Being prepared to meet these needs when they occur, by keeping good relationships with bankers and other creditors.

The starting point for avoiding a cash crisis is to develop a cash flow projection. Smart business owners know how to develop both short-term (weekly, monthly) cash flow projections to help them manage daily cash, and long-term (annual, 3-5 year) cash flow projections to help them develop the necessary capital strategy to meet their business needs. They also prepare and use historical cash flow statements to gain an understanding about where all the money went.

1.1.1.2 Techniques for Better Cash Flow Management:

It's a challenge for even the biggest firms: sustaining working capital while managing the flow of cash through the business. But there are ways to ensure that your operation makes the best use of its cash on-hand. They combine cash flow budgeting with the use of financial resources from outside your company.

Managing your Working Capital:

Your level of working capital is intimately related to the flow of cash into and out of your business. Simply stated, you need enough working capital to setup the business, pay operating costs, and continue to operate until payment arrives 30, 60 or maybe even 90 days later.

But if you've used a lot of that working capital to pay for fixed assets, you may come up against a crash crunch that prevents you from paying suppliers, buying materials and even paying yourself a salary. It's a good idea then, to maintain a level of working capital that allows you to make it through those crunch times and continue to operate the business.

Short-term financing such as a line of credit (LOC) can be used to make emergency purchases or to bridge the gap between month's-end payables and receivables. An LOC can be negotiated with your financial institution, and this should be done before any need actually arises. It's usually easier to negotiate an LOC when you don't really need one. A good time to go to your financial institution is immediately after the end of a good year or quarter. Bring your financial statements.

In growth situations where you have to suddenly increase inventory that will be sold on credit, you may need to increase your working capital. Shareholders and other investors can sometimes provide this cash injection and BDC can also provide long-term financing for working capital.

Large asset purchases such as equipment and real estate should be financed long-term which allows you to spread the payments over the average life of the assets. Yes, you'll be paying interest but, you'll still have a big portion of your capital on-hand for business operations.

The federal and provincial governments provide loan-guarantee services for the purchase of operating equipment and fixed assets, making it much easier for small businesses to obtain loans from financial institutions. Under programs such as the Canada Small Business Financing Program, the government agrees to pay up to

85% of the value of the loan, back to the financial institution if you the borrower default on that loan.

And it's always a good idea to make a cash flow budget. Your bookkeeper, accountant, accounting software and even spreadsheets downloadable from the Internet can help you anticipate inflows and outflows of money over a period of time. Budgeting allows you to see when a cash crunch is likely to occur.

Manage the Business Risks:

There are many risks involved in running a business, and serious challenges should be expected at some time in the future. You need to consider a number of scenarios such as "What if that big order suddenly comes in?", "What if that big order is cancelled?" or "What if that important client goes under owing me money?" This kind of risk analysis can become part of your cash-flow budgeting process. For instance, if you're using a spreadsheet to enter cash inflows, simply reflect that situation by adding or deleting. The repercussions in the weeks and months to come should be immediately visible, so that you can consider what you would do if that occurred.

You can reduce the risk of cash-crunch due to this type of situation, by planning ahead and having a more diversified client base. If you're not dependent on one large order or client, your livelihood doesn't hinge on the health of someone else's business. Finding new clients will increase revenue, improve your cash flow situation and make you less susceptible to marketplace adversity.

Another risk associated with running a business, especially among startups, is mixups between business and personal bank accounts and credit cards. Since initial financing often comes from the owner's personal savings it's easy to see how that can happen. This situation has a simple remedy which consists of opening a separate bank account and credit card for the business. Your business account should be where you deposit customer cheques, draw your salary, and pay your employees and suppliers. Similarly, get a separate credit card for the business, make business-related purchases on that card, and pay for that card using your company cheques. Some credit cards provide management reports that detail

the types of purchases made over the month and over the past year, and this type of information can then be used in your cash flow budget for next year.

Collect Quickly:

To guard against late payments, bill as early as possible and make those invoices as clear and as detailed as possible. It may also be worth changing other billing practices such as invoice frequency: instead of waiting until the end of the month, generate an invoice as soon as the goods or services are delivered. Make sure those invoices are addressed to the right person in the right department.

For those big orders, you may want to consider progressive invoicing while you manufacture the goods or deliver the service. For example you can ask for a deposit with the order and then a percentage of the payment at various agreed upon milestones.

Keep track of your receivables. It's easy to lose track and then neglect to follow up on an overdue account. Experience shows that the longer you remain out of contact with a customer, the less likely you are to recover the full amount owed, so if you can't take care of it yourself, hire someone to do it for you.

MONITOR YOUR COSTS AND YOUR INVENTORY:

Make sure you're getting the best possible deal from your suppliers. You can do this by shopping around and getting quotes from other suppliers. They may not be able to give a better price, but may be able to offer better payment terms making it easier on your cash flow situation.

Analyze inventory turnover to determine which items are selling and which are duds that are soaking up your working capital. Try to keep inventory levels lean so that your working capital isn't tied-up unproductively and unprofitably. *(Sources BDC Consulting)*

1.1.1.3 Cash Management & its Components:

A. Collection of Cash:

Manage your receivables, customer payments and incoming cash flows with our timely and efficient cash collection services.

1. Electronic Payment Services (EPS)

Improve your cash flow and funds management electronically. EPS lets you collect funds on predetermined dates and eliminates paperwork.

2. Wire Transfer

Move domestic and international funds into your account quickly and easily with same day processing.

3. Cash Concentration

Reduce paperwork and save time. Our Cash Concentration service lets you deposit funds into your account from any local depository bank – a real advantage for companies with multi-locations.

4. Zero Balance Account (ZBA)

Maximize your investment opportunities by pooling funds. Consolidate the net balances from multiple checking accounts into a single operating account.

5. Remittance Processing

- Wholesale lockbox – Through the use of a post office box, remittance payments made to your company are processed and deposited into your account daily by the bank. Deposit reports can be delivered via transmission, fax or U.S. mail.
- Retail lockbox – If you have a business with high-volume invoicing, we'll process payment documents with scan lines through optical character recognition (OCR) equipment. Daily deposit reports can be delivered via transmission, diskette or mail.

6. Deposit Reconciliation

Track your multi-location business with a single report. We provide reconciled deposit information, including date, amount and total deposits by location when you deposit funds into a single concentration account.

B. Disbursement:

Get all the products and services you need to manage your company's payables and cash outflow.

1. Electronic Payment Services (EPS)

Improve your cash flow and funds management electronically. EPS lets you disburse funds on predetermined dates and eliminates paperwork.

2. Controlled Disbursements

Plan ahead. We provide daily notification by fax or WebExpress℠ of the cumulative dollar amount of all checks being presented against your disbursement account, so you can manage your funds accordingly.

3. Zero Balance Account (ZBA)

Maximize your investment opportunities by pooling funds. Consolidate the net balances from multiple checking accounts into a single operating account.

4. Check Reconciliation

Our Account Reconciliation service provides significant time savings. We can provide a variety of reports and media processing options to meet your needs. Two types of reconciliation services are available:

- *Partial Reconciliation* provides a listing of paid checks in numerical order.
- *Full Reconciliation* requires you to provide issue data on checks written. We match the checks paid. You can send data via electronic transmission.

5. Positive Pay

Guard against fraud and loss. Our Positive Pay system matches checks issued against checks presented for payment. If the amount or check number does not match the check issued data, we'll notify you immediately.

1.1.2. Funds Management

Build a solid foundation for your business that keeps your cash working. Choose from several sweep options that can help you maximize your earnings while retaining liquidity.

1. Cash Management Sweep Account

Maximize your earnings. After all your checks and deposits are processed, the collected balances are automatically transferred into an overnight repurchase agreement.* You earn interest on the excess cash and maintain a balance that lets you reduce or eliminate service fees.

2. Line of Credit Sweep

Keep your cash working and minimize your credit debt. Count on us to allocate funds to or from your line of credit daily, and receive a confirmation summarizing your daily cash position.

3. Commercial Money Market Account

Put your earnings to work for you by opening a Commercial Money Market Account. By maintaining a minimum daily balance of $2,500, you earn our premium tiered interest rates – the more you save the higher your return.

4. Short-Term Repurchase

Take advantage of short-term investment opportunities. Our Short-term Repurchase Agreement[*] supports near term investments (typically less than 30 days) so you can add interest income to your bottom line.

5. Account Analysis

Make informed business decisions. We provide a monthly statement that reports average balances, earnings credit allowance, current earnings credit rate and all activity fees.

(Sources: Banknorth Article)

1.1.3 Inventory Management:

Inventory is one of the more visible and tangible aspects of doing business. Raw materials, goods in process and finished goods all represent various forms of inventory. Each type represents money tied up until the inventory leaves the company as purchased products. Likewise, merchandise stocks in a retail store contribute to profits only when their sale puts money into the cash register. In a literal sense, inventory refers to stocks of anything necessary to do business. These stocks represent a large portion of the business investment and must be well managed in order to maximize profits. In fact, many small businesses cannot absorb the types of losses arising from poor inventory management. Unless inventories are controlled, they are unreliable, inefficient and costly.

Successful Inventory Management:

Successful inventory management involves balancing the costs of inventory with the benefits of inventory. Many small business owners fail to appreciate fully the true costs of carrying inventory, which include not only direct costs of storage, insurance and taxes, but also the cost of money tied up in inventory. This fine line between keeping too much inventory and not enough is not the manager's only concern. Others include:

- Maintaining a wide assortment of stock -- but not spreading the rapidly moving ones too thin;
- Increasing inventory turnover -- but not sacrificing the service level;
- Keeping stock low -- but not sacrificing service or performance;

- Obtaining lower prices by making volume purchases -- but not ending up with slow-moving inventory; and
- Having an adequate inventory on hand -- but not getting caught with obsolete items.

The degree of success in addressing these concerns is easier to gauge for some than for others. For example, computing the inventory turnover ratio is a simple measure of managerial performance. This value gives a rough guideline by which managers can set goals and evaluate performance, but it must be realized that the turnover rate varies with the function of inventory, the type of business and how the ratio is calculated (whether on sales or cost of goods sold). Average inventory turnover ratios for individual industries can be obtained from trade associations.

The Purchasing Plan

One of the most important aspects of inventory control is to have the items in stock at the moment they are needed. This includes going into the market to buy the goods early enough to ensure delivery at the proper time. Thus, buying requires advance planning to determine inventory needs for each time period and then making the commitments without procrastination.

For retailers, planning ahead is very crucial. Since they offer new items for sale months before the actual calendar date for the beginning of the new season, it is imperative that buying plans be formulated early enough to allow for intelligent buying without any last minute panic purchases. The main reason for this early offering for sale of new items is that the retailer regards the calendar date for the beginning of the new season as the merchandise date for the end of the old season. For example, many retailers view March 21 as the end of the spring season, June 21 as the end of summer and December 21 as the end of winter.

Part of your purchasing plan must include accounting for the depletion of the inventory. Before a decision can be made as to the level of inventory to order, you must determine how long the inventory you have in stock will last.

For instance, a retail firm must formulate a plan to ensure the sale of the greatest number of units. Likewise, a manufacturing business must formulate a plan to ensure enough inventory is on hand for production of a finished product.

In summary, the purchasing plans details:

- When commitments should be placed;
- When the first delivery should be received;
- When the inventory should be peaked;
- When reorders should no longer be placed; and
- When the item should no longer be in stock.

Well planned purchases affect the price, delivery and availability of products for sale.

Controlling Inventory:

To maintain an in-stock position of wanted items and to dispose of unwanted items, it is necessary to establish adequate controls over inventory on order and inventory in stock. There are several proven methods for inventory control. They are listed below, from simplest to most complex.

- *Visual control* enables the manager to examine the inventory visually to determine if additional inventory is required. In very small businesses where this method is used, records may not be needed at all or only for slow moving or expensive items.
- *Tickler control* enables the manager to physically count a small portion of the inventory each day so that each segment of the inventory is counted every so many days on a regular basis.
- *Click sheet control* enables the manager to record the item as it is used on a sheet of paper. Such information is then used for reorder purposes.

- *Stub control* (used by retailers) enables the manager to retain a portion of the price ticket when the item is sold. The manager can then use the stub to record the item that was sold.

As a business grows, it may find a need for a more sophisticated and technical form of inventory control. Today, the use of computer systems to control inventory is far more feasible for small business than ever before, both through the widespread existence of computer service organizations and the decreasing cost of small-sized computers. Often the justification for such a computer-based system is enhanced by the fact that company accounting and billing procedures can also be handled on the computer.

- *Point-of-sale terminals* relay information on each item used or sold. The manager receives information printouts at regular intervals for review and action.
- *Off-line point-of-sale* terminals relay information directly to the supplier's computer who uses the information to ship additional items automatically to the buyer/inventory manager.

The final method for inventory control is done by an outside agency. A manufacturer's representative visits the large retailer on a scheduled basis, takes the stock count and writes the reorder. Unwanted merchandise is removed from stock and returned to the manufacturer through a predetermined, authorized procedure.

A principal goal for many of the methods described above is to determine the minimum possible annual cost of ordering and stocking each item. Two major control values are used: 1) the order quantity, that is, the size and frequency of orders; and 2) the reorder point, that is, the minimum stock level at which additional quantities are ordered. The Economic Order Quantity (EOQ) formula is one widely used method of computing the minimum annual cost for ordering and stocking each item. The EOQ computation takes into account the cost of placing

an order, the annual sales rate, the unit cost, and the cost of carrying inventory. Many books on management practices describe the EOQ model in detail.

Developments in Inventory Management

In recent years, two approaches have had a major impact on inventory management: Material Requirements Planning (MRP) and Just-In-Time (JIT and Kanban). Their application is primarily within manufacturing but suppliers might find new requirements placed on them and sometimes buyers of manufactured items will experience a difference in delivery.

Material requirements planning is basically an information system in which sales are converted directly into loads on the facility by sub-unit and time period. Materials are scheduled more closely, thereby reducing inventories, and delivery times become shorter and more predictable. Its primary use is with products composed of many components. MRP systems are practical for smaller firms. The computer system is only one part of the total project which is usually long-term, taking one to three years to develop.

Just-in-time inventory management is an approach which works to eliminate inventories rather than optimize them. The inventory of raw materials and work-in-process falls to that needed in a single day. This is accomplished by reducing set-up times and lead times so that small lots may be ordered. Suppliers may have to make several deliveries a day or move close to the user plants to support this plan.

Tips for Better Inventory Management

At time of delivery:

- Verify count -- Make sure you are receiving as many cartons as are listed on the delivery receipt.
- Carefully examine each carton for visible damage -- If damage is visible, note it on the delivery receipt and have the driver sign your copy.

After delivery:

- Immediately open all cartons and inspect for merchandise damage.

When damage is discovered:

- Retain damaged items -- All damaged materials must be held at the point received.
- Call carrier to report damage and request inspection.
- Confirm call in writing--This is not mandatory but it is one way to protect yourself.

Carrier inspection of damaged items:

- Have all damaged items in the receiving area -- Make certain the damaged items have not moved from the receiving area prior to inspection by carrier.
- After carrier/inspector prepares damage report, carefully read before signing.

After inspection:

- Keep damaged materials -- Damaged materials should not be used or disposed of without permission by the carrier.
- Do not return damaged items without written authorization from shipper/supplier.

Source (An article by Floyd D. Hedrick, Library of Congress, Washington, D.C. Frank C. Barnes, P.E., Ph.D., University of North Carolina at Charlotte Edward W. Davis, University of Virginia, Charlottesville D. Clay Whybark, Indiana University, Bloomington Murray Krieger)

1.1.4 Financial Reporting:

1.1.4.1 United Nations System Accounting Standard (UNSAS):

The common inter-organization accounting standards set out in this document have been approved by the Administrative Committee on Coordination (ACC) in response to a request by the United Nations General Assembly, in its decision 46/445 of 20 December 1991, that the Secretary- General should "propose a set of accounting standards for common application to the United Nations system". The standards have been developed by accounting specialists of organizations of the system under the auspices of ACC's Consultative Committee on Administrative Questions (CCAQ), in consultation with the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency, for presentation to the General Assembly at its forty-eighth session. CCAQ has since been replaced by the High Level Committee on Management (HLCM) under the auspices of the Chief Executives Board for Coordination (CEB). The primary objective of the standards is to provide a framework for accounting and financial reporting in the United Nations system which reflects generally accepted accounting principles, while taking account of the specific characteristics and needs of the system. A further objective is to promote consistent accounting and financial reporting practice between the organizations. Underlying these objectives are needs for governments and other contributors to the organizations to have the means to judge the manner in which resources made available by them are used, and for the management of each organization to demonstrate that it has fulfilled its responsibility for stewardship and accountability in respect of such resources. Accounting and financial reporting in accordance with the standards should among other things assist those concerned:

- To ensure consistent and transparent treatment and disclosure of financial transactions;
- To assess the financial position and its evolution over time;
- To ascertain the sources from which income has been derived and the ways in which
- it has been used; and

- To judge financial performance under approved budgets.

It is the intention of CEB that the standards should be applied throughout the system. In conjunction with organizations' financial regulations and relevant decisions of their legislative authorities, the standards should form the basis for the accounting policies of each organization, and thereby guide its accounting practice in all matters of material significance. Given the wide range of mandates of the organizations, their structures and methods of operation are very diverse. Their individual legislative authorities have ultimate responsibility for deciding on the orientation and conduct of their work and the related financial arrangements. In these circumstances the regulations, rules and decisions adopted may in some cases involve variations from common approaches as exemplified in the standards. CEB has included a provision in the standards specifying that attention will be drawn to any such variations in the financial statements of the organizations concerned.

The accounting standards agreed for application in organizations of the United Nations system are based to a large extent on relevant International Accounting Standards promulgated by the International Accounting Standards Committee, to which appreciation is expressed for its permission to draw upon its texts.

Where differences from the International Accounting Standards exist, it is mainly because of the essentially non-commercial nature of the organizations' activities. Further important factors are the primacy of the regulations, and the central place of approved budgets in the organizations' operations, which make it necessary to focus the accounting within the framework of these mechanisms.

By their nature, the standards have to be open to modification, development and refinement as accounting principles evolve and new needs emerge in the system itself. They will accordingly continue to be reviewed on a periodic basis through the same procedures as those through which they have been established. Where individual organizations find it necessary to depart from the practice set out in the standards they should disclose the reasons for doing so in the statement of significant accounting policies included in their financial statements. Where an organization departs from the practices set out below in order to apply:

- An IPSAS standard(s); and/or
- An IFRS/IAS standard(s) applicable to a topic, when no IPSAS exists for a topic, the organization is deemed to comply with UNSAS, so long as the organization complies with:
    - The IPSAS individual standard(s) in its entirety; and/or IFRS/IAS individual
    - standard(s) in its entirety; and
    - All remaining UNSAS requirements.

This allows organizations to gradually adopt IPSAS by 2010.

General framework for UNSAS would be as discussed below:

Going concern, consistency and accrual are fundamental accounting assumptions, which are described below as they apply in the United Nations system. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If these fundamental accounting assumptions are not followed, that fact should be disclosed together with the reasons.

Going concern - The organization is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the organization has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operations;

Consistency - It is assumed that accounting policies are consistent from one financial period to another;

Accrual - The accrual basis of accounting for revenue in each financial period means that income is recognized when it is due and not when it is received. Accrual of expenditure in each financial period means that costs are recognized when obligations arise or liabilities are incurred and not when payments are made.

Prudence, substance over form and materiality, as described below, should govern the selection and application of accounting policies:

Prudence - Uncertainties inevitably surround many transactions. This should be recognized by exercising prudence in preparing financial statements. Prudence does not, however, justify the creation of secret or hidden reserves;

Substance over form - Transactions and other events should be accounted for and presented in accordance with their substance and financial reality and not merely with their legal form;

Materiality - Financial statements should disclose all items which are material enough to affect evaluations or decisions and all material information which is necessary to make the statements clear and understandable.

Where an organization has activities which are of a commercial nature, it may be appropriate to apply international accounting standards (e.g. IAS 18, on income recognition), in which case that should be specified.

Financial Statement under UNSAS:

The objective of financial statements is to provide information about the financial position and performance of the organization, changes in its financial position, and compliance with legislative and other authorities. Notes to the financial statements are an integral part thereof and should be grouped together in one place. A complete set of financial statements1 subject to audit should in all cases include: a statement of income and expenditure and changes in reserves and fund balances (Statement I), a statement of assets, liabilities, and reserves and fund balances (Statement II), a statement of cash flow, (Statement III), using either the indirect (Option A) or direct (Option B) method. Note 1 to the financial statements comprising a statement of the organization's objectives, and Note 2 to the financial statements comprising a statement of significant accounting policies. For organizations with assessed budgets, the audited financial statements should also include a statement or schedule of appropriations (Statement IV or Schedule 1.1)

and a detailed schedule of assessed contributions outstanding for the regular budget. Individual organizations might wish to present additional information in the financial statements or schedules or in information annexes, but should maintain the principle that information subject to audit should be presented in statements or schedules while information not subject to audit should be presented in annexes.

The complete set of financial statements referred as above has been presented in the formats shown in:

- Annex 1 (statement of income and expenditure and changes in reserves and fund balances - Statement I);
- Annex 2 (statement of assets, liabilities, and reserves and fund balances - Statement II);
- Annex 3 (statement of cash flow - Statement III);
- Annex 4 (statement or schedule of appropriations - Statement IV or Schedule 1.1).

Where organizations feel it inappropriate to present combined data, Statements I and II should be presented in the columnar format shown in appendices IIA and IIIA. Where combined data is presented, organizations should use the format in appendices IIB and IIIB. These columnar formats are designed to distinguish the different types of funds which are managed by the organization. In presenting data in the columns, organizations should show clearly which funds are at the disposal of the member States of the organization (e.g. regular budget, working capital funds, etc.), and which are not (e.g. funds received from donors to finance projects). Further guidance on the use and degree of disclosure of each of the line items in these statements/schedules is given in the explanations attached to each format. Financial statements should have the qualitative characteristics required to make the information provided useful to readers. The four principal qualitative characteristics are understandability, relevance, reliability (accuracy, neutrality and completeness), and comparability over time. Compliance with the principal qualitative characteristics and appropriate accounting standards normally results in financial statements that convey what is generally understood as a true and fair

view of, or as presenting fairly, the financial position of the organization at the end of the financial period, the results of its operations for that period, and changes in its financial position. In the interests of comparability, line descriptions in the financial statements and in annexes thereto, which have not already been defined, should preferably use the terms contained in the CCAQ Glossary of financial and budgetary terms. Financial statements may be presented in thousands or millions of the currency of account, whichever is appropriate. Financial statements should include as Note 1 a statement of the organization's objectives. Financial statements should include clear and concise disclosure of all significant accounting policies which have been used.

The disclosure of the significant accounting policies used is an integral part of the financial statements. The policies should be disclosed in Note 2 to the financial statements, with cross-references as necessary to individual statements. Wrong or inappropriate treatment of items in the financial statements is not rectified either by disclosure of accounting policies used or by notes or explanatory material. Unusual items or prior period items should be disclosed if they have a material effect on the financial statements or schedules. Such items should be either:

(i) Reported by adjusting opening balances in the financial statements for the current period and amending the comparative information in respect of prior years which is included in the financial statements; or

(ii) Separately disclosed in the current financial statements.

In either case the disclosure relating to these items should be adequate to facilitate comparisons of the figures for the periods presented. A change in accounting policy should be made only if the adoption of a different accounting policy is required by resolution of the competent legislative authority or by the present accounting standards (endorsed as necessary by legislative authority), or if it is considered that the changes would result in a more appropriate presentation of the financial statements. If there is a change in accounting policy that has a material effect in the current period, or may have a material effect in subsequent periods, the effect of the changes should be disclosed and quantified, together with the

reason for the changes. A change in an accounting estimate should be accounted for as part of income or expenditure relating to the ordinary activities of the organization in

(i) The period of change if the change affects that period only; or
(ii) The period of change and future periods if the change affects both.

Revision of an estimate that relates to an item that was treated as an unusual item should itself be reported as unusual. Contingent gains or losses, or events occurring after the end of the financial period, should be disclosed in the financial statements if they are considered to be of such importance that non-disclosure would affect the ability of users of the financial statements to make proper evaluations and decisions. For this purpose events after the balance sheet date are those that occur between the balance sheet date and the date when the financial statements are authorized for issue and should be considered as either adjusting events or non-adjusting events.

Adjusting events:
An organization should adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting date, i.e. those events that provide evidence of conditions that existed at the reporting date. An example of an adjusting event after the reporting date would be the resolution of a court case which, because it confirms that an organization had an obligation at the reporting date, requires the organization, to the extent required by its financial policies, to make a provision or recognize a contingent liability or to adjust a provision or contingent liability already recognized.

Non-adjusting events:
An organization should not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the reporting date, i.e. those events that are indicative of conditions that arose after the reporting date. An example of a non-adjusting event after the reporting date would be the decline in market value of an investment between the reporting date and the date when the financial statements are authorized for issue. The fall in market value does not normally

relate to the condition of investments at the reporting date but reflects circumstances that have arisen in the following period. If disclosure is necessary, the following information should be provided:

(i) The nature of the contingency or event and factors that may affect any future outcome;

(ii) An estimate of the financial effect, or a statement that such an estimate cannot be made. For organizations with assessed budgets, the statement or schedule of appropriations

(Statement IV or Schedule 1.1) should relate actual expenditure to budgeted expenditure for the period. At the summary level, the statement of income and expenditure and changes in reserves and fund balances (Statement I), the statement of assets, liabilities, and reserves and fund balances (Statement II), and the statement of cash flow (Statement III) should show corresponding figures for the preceding period. The name of the organization, the date of the end of the financial period, and the period covered by financial statements and the currency in terms of which they are expressed, should be stated. The amounts and classifications of items should be supplemented by any additional information required to make their meanings clear. Significant items should not be included with, or offset against, other items, without separate identification (see also the further explanations attached to the formats in appendices II to V, for guidance on disclosure). All income and expenditure of the organization, whatever the source of funds, should be reported. The extent of combination, whatever the source of funds, should be reported. The extent of combination of income and expenditure in respect of different sources of funds (regular budget, extrabudgetary and any other resources) is a matter of judgement and depends on the extent to which it is meaningful and useful.

The accounts of the organizations are maintained, and their financial statements are presented, in the currency or currencies best suited to their operations. Where a transaction occurs in a currency other than the currency of account, it should be recorded in the organization's accounts and reflected in its financial statements in the currency of account. A transaction in a currency other than the organization's currency of account should be recorded in the currency of account by applying (i) the United Nations operational rate of exchange, (ii) the budget rate of exchange

or other rate of exchange approved by the legislative authority of the organization, or (iii) the actual rate of exchange yielded at the time of the transaction. The United Nations operational rate of exchange should be the benchmark rate of exchange for the determination of exchange gains and losses. Where organizations enter into forward contracts or other financial instruments for hedging against currency fluctuations, they should disclose in their financial statements:

(i) the organization's risk management objective and strategy for undertaking the hedge;

(ii) the value of outstanding contracts;

(iii) the basis used for measuring and reporting the transactions.

Differences on exchange relating to forward exchange contracts or other financial instruments should be:

(i) recorded in a separate component of reserves, if the hedging instrument has not been sold, terminated or exercised;

(ii) cleared to income or expenditure in the financial period in which the hedged firm commitment or forecasted transaction affects net income or expenditure;

(iii) cleared to income or expenditure in the financial period in which the hedge is sold, terminated or exercised.

In the statement of assets, liabilities and reserves and fund balances (Statement II), for the purpose of reporting items denominated in currencies other than the currency of account:

(i) Monetary items (that is, money held and assets and liabilities and reserves and fund balances to be received or paid in fixed or determinable amounts of money) should be reported using the United Nations operational rate of exchange in effect at the reporting date. Where changes in market rates of exchange are such that the use of this rate would cause a material discrepancy in the valuation of such items, the operational rate of exchange for the subsequent month (reflecting the market rate at the end of the financial period) may be used, subject to disclosure;

(ii) Non-monetary items which are carried in terms of historical cost should be reported using the United Nations operational rate of exchange at the date of the transaction; and (iii) Non-monetary items which are carried at fair

value should be reported using the United Nations operational rate of exchange in effect at the reporting date in determining their value.

Exchange differences arising on the settlement of monetary items or on reporting an organization's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as revenue or as expenses in the period in which they arise.

Income and Expenses under UNSAS:

Income

Income for a financial period is defined in the United Nations system as money or money equivalent received or accrued during the financial period which increases existing net assets.

The following are the main types of income received by the organizations:

(i) Contributions assessed under
- regular budgets, or
- special accounts;

(ii) Voluntary contributions formally pledged
in cash, or
in kind;

(iii) Voluntary contributions received under arrangements other than (ii) above

(iv) Other/miscellaneous income.

Income from assessed contributions based on legislative resolutions represents a legal obligation of contributors to the organization as from the date when it becomes due payable. Such income shall be accordingly recognized as at that date. Based on its policy the organization may make a provision for delays in the collection of the outstanding contributions. The policy regarding provision for delays in the collection of the outstanding contributions shall be stated in the notes to the financial statements. Voluntary contributions formally pledged represent a good-faith commitment of the contributor for the period and/or programme to which they relate. Such income should accordingly be recognized in that period. However, in the interests of prudent financial management, provision may be made as appropriate where the collection of the income so recognized is

considered doubtful. In specific cases, where the pledge is deemed uncollectible, write-off action will be required. Alternatively, the income may be recognized only when funds are received.

Significant voluntary contributions in kind, which can be used in the normal course of an organization's programme activity, and provided that a fair value can be reasonably estimated, should be reported in the organization's financial statements. An organization may choose to recognize these contributions on the face of the statements or disclose them as a Note. Such contributions should be valued at a fair value, including donor's valuation if appropriate, as best determined by the organization and the basis for such valuation should be disclosed. Voluntary contributions not formally pledged are recorded only when received. Other/miscellaneous income is defined in the United Nations system as income other than:

(i) the value of assessed or voluntary contributions and

(ii) such other income items as may be excluded under the organization's financial regulations and rules.

Other/miscellaneous income includes inter alia those items shown under that title in appendix II (statement of income and expenditure and changes in reserves and fund balances-Statement I). Other/miscellaneous income should be recorded on an accrual basis.

Expenditure:

Expenditure for a financial period is the sum of the disbursements and valid unliquidated obligations made against the appropriation/allocation of the period. The main types of expenditure incurred by the organizations are (i) expenditure under assessed regular or special budgets, which is governed by organizations' financial regulations, and (ii) expenditure under voluntary contributions, which may be governed either by the organizations' financial regulations or by separate rules established in accordance with those regulations. Obligations are amounts of orders placed, contracts awarded, services received and other transactions which involve a charge against the resources of the current financial period and which

will require payment during the same or a future period. Obligations under assessed regular or special budgets are maintained for the period specified in the organizations' financial regulations. Obligations charged to voluntary contributions may be maintained either for that period or until liquidated or cancelled. Obligations may be increased during the financial period to which they relate according to the same rules as those applying to their establishment. During their period of validity they should be reduced as soon as they come to represent a decreased charge against the resources of the organization, and cancelled as soon as they no longer represent such a charge; in these cases the accounts should be adjusted in accordance with the organization's financial regulations and rules. Obligations unliquidated at the end of a financial period which continue to represent a charge against the resources of the organization should be maintained if the relevant regulations or rules so permit, and shown as a liability in the accounts. Any other remaining unliquidated obligations should be cancelled. Where obligations remain a valid charge but are required to be cancelled because of time limits under the relevant regulations or rules, corresponding new obligations should be established against the resources of the current financial period.

Where commitments are incurred against future financial periods, they should be recorded in the organization's accounts or disclosed in a note to the financial statements. Disbursements against such commitments should be recorded as deferred expenditure. The costs of non-expendable equipment, furniture and motor vehicles should be charged to expenditure on purchase. Losses represent other items that meet the definition of expenses and may, or may not, arise in the course of the ordinary activities of the organization. Losses, which include for example losses or thefts of cash, stores or other assets, are not different in nature from other expenses. Transfers to reserve accounts should be fully disclosed.

Assets, Liabilities and Reserves & Fund Balances under UNSAS:

Assets, liabilities, and reserves and fund balances are the elements directly related to the measurement of organizations' financial position. They are defined as follows:

(i) An asset is a resource owned by or due to the organization as a result of past events.
(ii) A liability is a present obligation of the organization arising from past events, the settlement of which is expected to result in an outflow of resources from the organization.
(iii) Reserves and fund balances represent the difference between the assets and liabilities of the organization.

A financial asset and a financial liability should be offset and the net amount reported in the financial statements when an organization: has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The statement of assets, liabilities and reserves and fund balances (Statement II) presents the financial position of the organization at a given moment in time. Information to be disclosed in the statement is set out in the following paragraphs.

Assets:

Assets to be disclosed include, amongst others, the items mentioned below. They should be listed in descending order of liquidity and any restrictions on title should be indicated:

(i) Cash and term deposits including cash on hand, current and call accounts and term deposits with banks. Separate disclosure should be made of material amounts held in non-convertible currencies;
(ii) Investments. The market value should be disclosed if it is different from the carrying amount in the financial statements;
(iii) Accounts receivable, including contributions receivable from Member States, interfund balances receivable, and other debit balances and advances under other accounts (excluding those shown under other assets). An aged analysis of outstanding contributions shall be made in the financial statements or the notes thereto;
(iv) Other assets, including *inter alia* inventories (other than non-expendable equipment, furniture and motor vehicles), and deferred charges;

(v) Land and buildings. The value of such property should be disclosed, and the method of valuation (cost, valuation or nominal) should be clearly stated.
At the end of the financial period the inventory value at the beginning and end of the financial period of non-expendable equipment, furniture and motor vehicles should be disclosed and the method of valuation (cost or valuation) should be clearly stated in a note to the financial statements. Where possible and to the extent required by the financial policies of the organization, additions and disposals made during the financial period should also be disclosed. The costs incurred during construction or major long-term acquisitions which extend over more than one financial period should be accumulated and disclosed in a separate account. The sources of financing of the operation should be disclosed separately. On completion the construction or acquisition should be brought to account at final cost, and any remaining liability for the financing thereof should be separately shown. Separate disclosure should be made of the amounts and timing of commitments for acquisition of land or buildings.

Liabilities

Liabilities to be disclosed include, amongst others, the items mentioned below. They should be listed in the order of increasingly distant due dates, and any security given in respect of them should be disclosed.

(i) Contributions or payments received in advance;
(ii) Borrowings payable within one year;
(iii) Unliquidated obligations;
(iv) Accounts payable including inter-fund balances payable and other accounts payable;
(v) Other funds and special accounts;
(vi) Other liabilities;
(vii) Borrowings payable after one year.

Separate disclosure should be made of any secured or unsecured borrowings, and a summary of the interest rates and repayment terms should be provided.
Reserves and Fund Balances

Reserves and fund balances

Reserve and fund balances include, amongst others, the following items:

(i) Operating reserves;

(ii) Other reserves;

(iii) Balances relating to projects funded by donors;

(iv) Working capital funds;

(v) Capital funds relating to land and buildings;

(vi) Surpluses and deficits.

The nature of each capital fund and reserve account, the authority for establishing it, its authorized level, its source of funding, and movements in its constituent funds should be separately disclosed. The value of any accumulated surplus or deficit should be separately disclosed. Surpluses under assessed regular budgets should be disclosed in such a manner as to enable users of the organization's financial statements to ascertain the amounts actually available for distribution under the provisions of its financial regulations which relate to the surrender of such surpluses. Liabilities for annual leave, end-of-service benefits and post-retirement benefits, including after-service medical benefits, should be provided for in the financial statements to the extent required by the financial policies of the organization. In so far as such liabilities are not fully provided for, appropriate disclosure should be made in the notes to the financial statements and estimated liabilities quantified where possible, showing the basis of valuation. As far as after-service medical benefits are concerned, such liability should normally be determined by actuarial evaluation.
(Source: UNSAS Accounting Policy)

1.1.4.2 International Public Sector Accounting Standard (IPSAS):

The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent

and comparable financial information across jurisdictions and it believes that the IPSASs will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts. The IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB) where the requirements of those Standards are applicable to the public. They also deal with public sector specific financial reporting issues that are not dealt with in IFRSs. The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standardsetters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

Financial Statement under IPSAS:

Financial statements are a structured representation of the financial position of and the transactions undertaken by an entity. The objectives of general purpose financial statements are to provide information about the financial position, performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it by:

(a) Providing information about the sources, allocation and uses of financial resources;

(b) Providing information about how the entity financed its activities and met its cash requirements;

(c) Providing information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments;

(d) Providing information about the financial condition of the entity and changes in it; and

(e) Providing aggregate information useful in evaluating the entity's performance in terms of service costs, efficiency and accomplishments.

General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:

(a) Indicating whether resources were obtained and used in accordance with the legally adopted budget; and

(b) Indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.

To meet these objectives, the financial statements provide information about an entity's:

(a) Assets;

(b) Liabilities;

(c) Net assets/equity;

(d) Revenue;

(e) Expenses; and

(f) Cash flows.

Whilst the information contained in financial statements can be relevant for the purpose of meeting the objectives in paragraph 13, it is unlikely to enable all these objectives to be met. This is likely to be particularly so in respect of entities whose primary objective may not be to make a profit, as managers are likely to be accountable for the achievement of service delivery as well as financial objectives. Supplementary information, including non-financial statements, may be reported alongside the financial statements in order to provide a more comprehensive picture of the entity's activities during the period. The responsibility for the

preparation and presentation of financial statements varies within and across jurisdictions. In addition, a jurisdiction may draw a distinction between who is responsible for preparing the financial statements and who is responsible for approving or presenting the financial statements. Examples of people or positions who may be responsible for the preparation of the financial statements of individual entities (such as government departments or their equivalent) include the individual who heads the entity (the permanent head or chief executive) and the head of the central finance agency (or the senior finance official, such as the controller or accountant-general). The responsibility for the preparation of the consolidated financial statements of the government as a whole usually rests jointly with the head of the central finance agency (or the senior finance official, such as the controller or accountant-general) and the finance minister (or equivalent).

Components of Financial Statements under IPSAS:

A complete set of financial statements includes the following components:

(a) Statement of financial position;
(b) Statement of financial performance;
(c) Statement of changes in net assets/equity;
(d) Cash flow statement; and
(e) Accounting policies and notes to the financial statements.

The components listed above are referred to by a variety of names both within and across jurisdictions. The statement of financial position may also be referred to as a balance sheet or statement of assets and liabilities. The statement of financial performance may also be referred to as a statement of revenues and expenses, an income statement, an operating statement, or a profit and loss statement. The notes to the financial statements may include items referred to as "schedules" in some jurisdictions. The financial statements provide users with information about an entity's resources and obligations at the reporting date and the flow of resources between reporting dates. This information is useful for users making assessments of an entity's ability to continue to provide goods and services at a given level,

and the level of resources that may need to be provided to the entity in the future so that it can continue to meet its service delivery obligations.

Public sector entities are typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which may be given effect through authorizing legislation. General purpose financial reporting by public sector entities may provide information on whether resources were obtained and used in accordance with the legally adopted budget. Where the financial statements and the budget are on the same basis of accounting, this Standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period. Reporting against budgets may be presented in various different ways, including:

(a) The use of a columnar format for the financial statements, with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented, for completeness; and

(b) A statement by the individual(s) responsible for the preparation of the financial statements that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of footnote to the relevant item in the financial statements.

Entities are encouraged to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources. This additional information may include details about the entity's outputs and outcomes in the form of performance indicators, statements of service performance, program reviews and other reports by management about the entity's achievements over the reporting period. Entities are also encouraged to disclose information about compliance with legislative, regulatory or other externally-imposed regulations. When information about compliance is not included in the financial statements, it may be useful for a note to refer to any documents that include that information. Knowledge of non-compliance is likely to be relevant for accountability purposes

and may affect a user's assessment of the entity's performance and direction of future operations. It may also influence decisions about resources to be allocated to the entity in the future.

Statement of Financial Position under IPSAS:

The Current/Non-current Distinction:

Each entity should determine, based on the nature of its operations, whether or not to present current and non-current assets and current and non-current liabilities as separate classifications on the face of the statement of financial position. Paragraphs 79 to 88 of this Standard apply when this distinction is made. When an entity chooses not to make this classification, assets and liabilities should be presented broadly in order of their liquidity. Whichever method of presentation is adopted, an entity should disclose for each asset and liability item that combines amounts expected to be recovered or settled both before and after twelve months from the reporting date, the amount expected to be recovered or settled after more than twelve months. When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period. Information about the maturity dates of assets and liabilities is useful in assessing the liquidity and solvency of an entity. Guidance on the disclosure of the maturity dates of financial assets and financial liabilities can be found in International Accounting Standard (IAS) 32, "Financial Instruments: Disclosure and Presentation." Financial assets include trade and other receivables and financial liabilities include trade and other payables. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful whether or not assets and liabilities are classified between current and non-current.

Statement of Financial Performance under IPSAS:

As a minimum, the face of the statement of financial performance should include line items which present the following amounts:

(a) Revenue from operating activities;
(b) Surplus or deficit from operating activities;
(c) Finance costs;
(d) Share of net surpluses or deficits of associates and joint ventures accounted for using the equity method;
(e) Surplus or deficit from ordinary activities;
(f) Extraordinary items;
(g) Minority interest share of net surplus or deficit; and
(h) Net surplus or deficit for the period.

Additional line items, headings and sub-totals should be presented on the face of the statement of financial performance when required by an International Public Sector Accounting Standard, or when such presentation is necessary to present fairly the entity's financial performance.

In the context of the statement of financial performance, operating activities refers to those activities which an entity carries out in order to achieve its primary objectives. Revenues and expenses arising from operating activities are distinguished from those arising from holding assets or financing an entity's operations. For example, a local government's operations may include the generation of revenue from property taxes and the incurrence of expenses such as wages, depreciation and consumables. Other items such as finance costs and gains and losses on the sale of property, plant and equipment are generally incidental to the local government's primary objectives and therefore outside its operating activities. The effects of an entity's various activities, transactions and other events differ in terms of their impact on its ability to meet its service delivery obligations, and the disclosure of the elements of performance assists in an understanding of the performance achieved and in predicting future results. Additional line items are included on the face of the statement of financial

performance and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of performance. Factors to be taken into consideration include materiality and the nature and function of the various components of revenue and expenses.

(Source: website www.ipsas.org : institute for international public sector accounting standard)

1.2 Statement of the Problem:

The UNSAS policy also encourages the UN offices to slowly move into a better financial management system by 2010 as stated in the literature review. It has now been a time to review and revise the existing system of financial management that is being in practice since long in United Nations World Food Programme. There have been many new developments in accounting standards and financial system in the globe in the recent times. The International Public Accounting Standard (IPSAS), which is one of the new developments in the sector of financial management, has already been in practice in many humanitarian organizations and which is claimed to be one of the efficient financial management systems. With the above literature survey findings we can see the following issues to be solved by a better financial management system called IPSAS:

i. Set of Financial Statements:

The UNSAS produces the financial statements like assets, liabilities and reserves and fund balances, income and expenditure changes in fund balances, cash flow and some notes. However the new evolved trend has been to present the financial statements as financial positions, financial performance, changes in net assets/equity, cash flow statement, comparison of budget vs actual amounts etc.

ii. Financial Position of UNWFP:

The UNSAS presents the financial position according to liquidity positions. The assets under UNSAS represent cash, receivable and investments only. The liabilities under UNSAS show current liabilities payables, fund and long term loans only

however the newly evolved financial management system requires the financial position to be presented as showing the assets as current/non-current presentation with attention to liquidity and exchange/non-exchange (account receivables/account payables). The better way to show the financial position also comprises to include inventory in the assets, property plant and equipments and intangible assets also. Similarly in employees' benefits, provisions and received advances should be presented as financial position which UNSAS seemed to have overlooked.

iii. Financial Performance of UNWFP:

UNWFP deals with food commodity in huge amounts. Major chunk of its budget is spent on the commodity. The UNSAS treats all amount spent under the commodity as expenses immediately after the commodities are purchased or distributed or transferred. The UNSAS also records all the amounts of assets purchased as expenses. This is a big problem with UNSAS which is against the rule of capitalizing the commodities purchased which as not been not distributed. Such commodities should be kept as inventory and reflected under assets. The assets should also be capitalized and depreciated as per the newly evolved accounting standard. The financial performance should also exhibit the accruals and provisions, depreciation and amortization charge for the financial period which UNSAS does not take into account.

iv. Net Assets/Equity:

The UNSAS takes the net assets/equity by including funds contribution, adjustments and reserves only however it should also include adjustments for initial recognition of property, plant and equipments and inventories.

v. Budget vs Actual Comparison:

The UNSAS does not present budget vs actual comparison however there should be a system to present a separate statement and provide reconciliation of actual amounts on a comparable basis and actual amounts in the financial statements.

1.3 Objective of the Study:

After having outlined the problem, the major objectives of this research work are outlined as bellow:

- To examine existing financial management system with the view of IPSAS;
- To compare UNSAS and IPSAS regarding cash management, inventory management and financial reporting system; and
- To recommend improvement on existing financial management system.

1.4 Significance of the Study:

The study is expected to fill the research gap on the study the financial management system adopted by UNWFP and newly evolved financial management system IPSAS. The study is likely to provide a useful feed back to the management of UNWFP, Finance Managers and other finance employees and stake holders of the financial management system, and will be a useful reference other UN humanitarian agencies of. This study will evaluate the financial management system of UN and try to find loopholes which will significantly contribute to bring about an improved financial management system in UNWFP.

1.5 Limitations of the Study:

i) This research is done for the partial fulfillment of the requirements for the Degree of Masters in Business Studies.

ii) The research will be mainly based on the secondary data collected on the financial management system, which may not be far from limitation due to its inherent characters.

iii) The study was carried out within limited time and resource availability for the study.

iv) The study exclusively focuses on the financial management system of United Nations World Food Programme only.

1.6 Research Methodology

This chapter describes the methods and process applied during this study. This chapter deals with the overall research method on the theoretical and practical aspects of collection and analysis of data. The study mainly covers the qualitative methodology to a greater extent as the subject evaluation of financial management is based on the descriptive aspects. The chapter, in brief, includes research design, nature of information, information gathering procedure, and information processing and analysis.

1.6.1 Research Design

As a research design, the major part of this research is carried out on the basis of qualitative aspect of the financial management. The research paper doesn't use much of quantitative analysis as it mainly focuses on the evaluation of financial management and examine the gap between the existing financial management system and a newly evolved financial management technique in United Nations World Food Programme.

1.6.2 Nature and Source of Data

The sources of data have mainly been the secondary data. The required data have been collected about financial management, UNSAS and IPSAS. Data used in this study is gathered from the various publications. Similarly data are also derived from different websites. The major sources of secondary information are as follows:

- UNSAS policy;
- Institute of IPSAS policies;
- Books and research papers and thesis ;
- Newspapers, articles and journals; and
- Websites etc.

1.7 Organization of the Study:

The research paper contains major five chapters. The chapters in the research paper are introduction, literature review, research methodology, presentation and analysis of information and recommendation:

- Chapter one deals with the introduction of UNWFP and introduction of major fundamental review of the financial management system namely: cash and fund management, inventory management and financial reporting.

- Chapter two has the literature survey that is related to the study for evaluation of financial management system of UNWFP. The review gives a fundamental base for the further study of data.

- Chapter three has the research methodology which is related to the research methods that have been planned to conduct this research. The chapter mainly deals with the research design, nature and sources of data, selection of organization, method of analysis, limitation of the study and definition of key terms.

- Chapter four contains the presentation and detail analysis of information on the financial management for evaluation of financial management system of UNWFP.

- Chapter five deals with the recommendations provided for the effective and better financial management system for UNWFP.

CHAPTER 2: LITERATURE REVIEW

The chapter literature review is primarily outlined with the review of literature relevant to financial management system of different organizations. The review of past knowledge in the form of literature is essential for the foundation of the present study therefore the literature review here works as a backbone for this research. Below are the gist of some of the articles, journals and research papers regarding the evaluation of financial management system.

With fierce global competition and decreasing profit margins companies are faced with the need to find ways to reduce their operational costs. This also puts financial management under the pressure to continuously improve financial processes by streamlining existing and developing new financial practices. This can be a tempting task which gets even more complex if the financial management has to deal with the heterogeneous environments of a multinational corporation. In this case the deployment of modern information systems and technology that help reducing the complexity of integration-, communication-, coordination- and collaboration challenges is inevitable. Thus financial management is in search for the equivalent of the global information system postulated by *Chou (Chou 1999).*

According to an article published by Tererai Mafukidze, Accountability for performance is critical for a Public Service that is charged with the important responsibilities of implementing government policies and managing public resources. Mechanisms such as annual reports, performance management and development systems were put in place precisely to ensure that the Public service is accountable.

In brief, accountability requires a relationship of conferring responsibility and reporting back on the expected and agreed performance and on the manner in which the responsibility was fulfilled. The rendering of account, whether obligatory or on a voluntary basis, establishes the relationship of accountability. The report on performance on the agreed expectations lends a sort of flexibility that increases the emphasis on accountability for results. The agreement about expected performance could be explicit or implicit between superiors and subordinates. A robust framework of accountability, thus, moves away from the traditional outlook of blameworthiness

or 'catching a thief' toward reporting on results achieved as compared to agreed expectations, highlighting practical constraints and willingness to improve in the light of experience.

According to the document prepared by the Secretariat of World Intellectual Property Organization on the Assemblies of the Member States of WIPO, IPSAS are issued by the International Public Sector Accounting Standards Board (IPSASB), which is itself a standing committee of the International Federation of Accountants (IFAC), representing over 160 member bodies in 120 countries. IPSAS are credible, high quality, independently produced accounting standards, underpinned by a strong due process and supported by governments, professional accounting bodies, and international development organizations such as the World Bank, the Asian Development Bank (ADB), the Organization for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF), the International Accounting Standards Board (IASB), and the International Organization of Supreme Audit Institutions (INTOSAI). They represent best practice for governments and not-for-profit organizations. The OECD, European Commission (EC) and NATO have recently adopted IPSAS for their financial reporting.

According to "An Assessment of the Public Financial Management Performance Measurement Framework (As of FY2005/06)", Current cash-based accounting practices are generally well-established and accounts are frequently reconciled (with the exception of revenue accounts). However, incomplete computerization has weakened the timeliness and quality of accounting.

Annual reporting and financial statements are timely and of acceptable quality (although there are some gaps in content). Within-year reporting is weak and is not publicized. There is no national Public Sector Accounting Standard. The audited consolidated financial statements and annual revenues and expenditure statements do not include accounting policies and explanatory notes as required by International Public Sector Accounting Standard (IPSAS). However, the consolidated financial statements issued by FCGO for government use include basic accounting principles and assumptions. The financial statements prepared by the line ministries, FCGO and Office of the Auditor General (OAG) do not reconcile since the accounting system

does not allow recording noncash transactions (direct payments and commodity grant or aid or turnkey projects) due to which FCGO faces difficulties in providing true and fair picture of such transactions.

According to "Report on the implementation of the International Public Sector Accounting Standards" published by the Executive Board of UNDP and UNPFA, When the United Nations system accounting standards were first developed, international accounting standards for not-for-profit organizations did not exist. Because of this gap, the United Nations Board of Auditors recommended that the United Nations system develop its own accounting standards. Since then, the International Public Sector Accounting Standards (IPSAS) have been developed for not-for-profit public sector organizations. IPSAS are a set of high-quality, independently developed accounting standards that require accounting on a 'full accrual" basis, which is considered the best accounting practice by international organizations for the public sector. IPSAS also includes requirements and guidance for financial statement consistency and comparability.

The benefits of adoption of IPSAS are:

(a) Improved internal control and transparency with respect to assets and liabilities generally;
(b) The alignment of United Nations accounting with best accounting practices through the application of credible, independent accounting standards on a full accrual basis;
(c) More comprehensive information about costs that will better support results-based management;
(d) The integration of non-expendable equipment into the accounting system, with resulting improvements in the accuracy and completeness of non-expendable equipment records; and
(e) Improved consistency and comparability of financial statements as a result of the detailed requirements and guidance provided in each standard.

Robert Simons ("Control in an age of empowerment", Harvard Business Review, March-April 1995) proposed that the senior managers in an empowered organisation should seek to retain control using four tools: diagnostic control systems (detailed

operational performance data); interactive control systems (strategic monitoring); boundary systems (limits to empowerment); and belief systems (core values/culture). Management accountants have a particular role to play in designing diagnostic systems and boundary parameters through the budgeting and capital appraisal processes. While such systems might seem to reflect the centralised, bureaucratic approach, participative planning sets out a framework within which workers can then work on their own without constantly having to seek authorisation from above.

Rodney Coyte (The Role of Management Accounting in the Emerging Approach to Teamwork, IFAC, 1995) suggested that management accountants can help to develop self-directed work teams by providing "resource consciousness" including:

- More timely measures and different communication media, together with the interpersonal skills needed to aid the transfer of key performance information to front-line employees.
- The facilitation of direct data collection and its use by operations managers and staff, rather than responses to requests for information. (Note that improvements in enterprise resource planning systems since the mid-nineties have greatly helped operational employees to take ownership of their data.)

CHAPTER 3: RESEARCH METHODOLOGY

This chapter describes the methods and process applied during this study. This chapter deals with the overall research method on the theoretical and practical aspects of collection and analysis of data. The study mainly covers the qualitative methodology to a greater extent as the subject evaluation of financial management is based on the descriptive aspects. The chapter, in brief, includes research design, nature of information, information gathering procedure, and information processing and analysis.

3.1 Research Design

As a research design, the major part of this research is carried out on the basis of qualitative aspect of the financial management. The research paper doesn't use much of quantitative analysis as it mainly focuses on the evaluation of financial management and examine the gap between the existing financial management system and a newly evolved financial management technique in United Nations World Food Programme.

3. 2 Nature and Source of Data

The sources of data have mainly been the secondary data. The required data have been collected about financial management, UNSAS and IPSAS. Data used in this study is gathered from the various publications. Similarly data are also derived from different websites. The major sources of secondary information are as follows:

- UNSAS policy;
- Institute of IPSAS policies;
- Books and research papers and thesis ;
- Newspapers, articles and journals; and
- Websites etc.

3.3 Information analysis tools

Since the information for the study was mainly descriptive and qualitative nature, the study was mainly focused on evaluating the information and finding out the gap

between the existing system and newly evolved financial management system. Therefore no new quantitative tools and techniques were used for the study.

CHAPTER 4: DATA PRESENTATIONS AND ANALYSIS

The collection of information revealed the deficiencies in UNSAS system with compare to IPSAS as following:

Financial Statement	UNSAS	IPSAS
Set of Financial Statements	- Assets, liabilities, and reserves and fund balances - Income and expenditure and changes in fund balances - Cash flow - Notes	- Financial position - Financial performance - Changes in net assets/equity - Cash flow statements - Comparison of budget vs actual amounts - Notes (to include summary of IPSAS accounting policies)
Financial Position	- Presented according to liquidity - Assets show cash, receivables, investments only - Liabilities show current liabilities payables, funds and long term loans only	- Current/Non-current presentation with attention to liquidity - Exchange/Non-exchange (account receivable/account payable) - Assets also include inventory, property plant and equipment, intangible assets - Liabilities also include employee benefits, provisions, advances received
Financial Performance	- Expense commodities purchased and distributed/transferred - Expense asset purchased	- Capitalize commodities purchased, expense those distributed/transferred - Capitalize assets purchases - Accruals and provisions - Depreciation and amortization charge for the financial period

Net Assets/Equity	Includes funds, contribution adjustments, reserves	Also includes adjustment for initial recognition of property, plant and equipments and inventories
Budget and Actual Comparison	Not applicable	Present as a separate statement. Provide reconciliation of actual amounts on a comparable basis and actual amounts in the financial statements.
Notes	Narrative description of transactions, summary of significant accounting policies	Disclosure according to IPSAS requirements. Notes are an integral part of the financial statements.

United Nations World Food Programme

APPENDIX IIA (option A)
STATEMENT OF INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES (Statement I)
for the period ending 31 December, 2007

(Expressed in US$ Millions)

References		Heading	Schedule or Note Reference	General Fund (and related funds)		Other Activities					
Accounting Standards	Comments & Further Disclosures			Financial Period		WTW		TPAs		Trust Funds	
				(Current)	(Prior)	(Current)	(Prior)	(Current)	(Prior)	(Current)	(Prior)
32(i), 33		INCOME:									
32(ii),(iii), 34 - 36	1	Assessed contributions		720	642	55	40	60	52	120	89
32(iv), 37	2	Voluntary contributions		3,620	2,983	120	112	185	171	272	186
	3	Other/Miscellaneous income		65	49	-	-	-	-	-	-
	4	Revenue producing activities		-	-	-	-	-	-	-	-
	5	Funds recvd under inter-org^{n} arrangements		-	-	-	-	-	-	-	-
	6	Allocations from other funds		-	-	-	-	-	-	-	-
	7	Jointly-financed activities		-	-	-	-	-	-	-	-
	8	Income for services rendered		-	-	-	-	-	-	-	-
		Interest income		21	18	-	-	-	-	-	-
	9	Currency exchange adjustments		5	7	-	-	-	-	-	-
		Other/Miscellaneous									
		TOTAL INCOME		4,431	3,699	175	152	245	223	392	275
38 - 41,		**EXPENDITURE**									
43 - 44											
45	10	Expenditure		3,822	2,682	120	140	228	198	348	222
		TOTAL EXPENDITURE		3,822	2,682	120	140	228	198	348	222
		EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE		609	1,017	55	12	17	25	44	53
	11	Prior period adjustments		-	-	-	-	-	-	-	-
	12	Provision for delays in the collection of contributions		181	149	6	6	9	9	14	9
		NET EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE		**428**	**868**	**49**	**6**	**8**	**16**	**30**	**44**
	13	Savings on prior periods' obligations		-	-	-	-	-	-	-	-
	14	Transfers to reserves		220	698	28	4	6	12	24	32
		Transfers from reserves		-	-	-	-	-	-	-	-
		Transfers to/from other funds		-	-	-	-	-	-	-	-
		Credits to member States		-	-	-	-	-	-	-	-
	15	Other adjustments to reserves and fund balances		-	-	-	-	-	-	-	-
		Reserves & fund balances, beginning of period		-	-	-	-	-	-	-	-
		RESERVES AND FUND BALANCES, END OF PERIOD		**228**	**640**	**21**	**2**	**2**	**4**	**6**	**12**

United Nations World Food Programme

APPENDIX IIIA (option A)
STATEMENT OF ASSETS, LIABILITIES, AND RESERVES AND FUND BALANCES (Statement II)
as at 31 December 2007

(Expressed in US$ Millions)

References		Heading	Schedule or Note Reference	General Fund (and related funds)	Other Activities			Eliminations	Total	
Accounting Standards	Comments & Further Disclosures				WTW	TPAs	Trust Funds		(Financial Period) (Current)	(Prior)
		ASSETS								
49(ii)	1	Cash and term deposits		682	15	14	8	-	719	520
49(ii)	2	Investments		358	4	6	5	-	373	285
49(iii)	3	Accounts receivable		520	3	1	3	-	527	325
33	4	Assessed contributions rec^{v} from member States		-	-	-	-	-	-	-
34		Voluntary contributions receivable		2,122	6	3	2	-	2,133	1,675
		Other contributions receivable		-	-	-	-	-	-	-
	5	Less provision for delays in coll^{n} of contributions		181	6	9	14	-	210	173
	6	Inter-fund balances		-	-	-	-	-	-	-
49(iv)	7	Other		-	-	-	-	-	-	-
49(v), 51	8	Other assets		1,520	-	-	-	-	1,520	-
		Land and buildings		300	-	-	-	-	300	-
50	9	[Note to the accounts concerning non-expendable equipment, etc.]								
		TOTAL ASSETS		**5,683**	**34**	**33**	**32**	**-**	**5,782**	**2,978**
53, 58, 59		**LIABILITIES**								
	10	Contributions or payments received in advance		-	-	-	-	-	-	-
54	11	Borrowings payable within one year		1,620	2	1	1	-	1,624	1,420
	12	Unliquidated obligations		-	-	-	-	-	-	-
	3	Accounts payable		2,210	5	2	1	-	2,218	1,318
	13	Inter-fund balances		-	-	-	-	-	-	-
	14	Other		-	-	-	-	-	-	-
	15	Other funds and special accounts		-	-	-	-	-	-	-
	16	Other liabilities		350	3	2	1	-	356	124
54	17	Borrowings payable after one year		-	-	-	-	-	-	-
		TOTAL LIABILITIES		**4,180**	**10**	**5**	**3**	**-**	**4,198**	**2,862**
		RESERVES AND FUND BALANCES								
55 - 57	18	Operating reserves		-	-	-	-	-	-	-
		Other reserves		1,200	10	16	17	-	1,243	116
		Balances relating to projects funded by donors		303	14	12	12	-	341	-
		Working Capital Funds		-	-	-	-	-	-	-
		Capital funds relating to land and buildings		-	-	-	-	-	-	-
		Surplus (deficit)								
		TOTAL RESERVES AND FUND BALANCES		**1,503**	**24**	**28**	**29**	**-**	**1,584**	**116**
		TOTAL LIABILITIES, RESERVES AND FUND BALANCES		**5,683**	**34**	**33**	**32**	**-**	**5,782**	**2,978**

UNSAS FINANCIAL STATEMENT

United Nations World Food Programme

STATEMENT OF CASH FLOW (Statement III)
for the period ending 31 December, 2007
(Expressed in US$ Million)

	Financial Period 2007	
	Current	Prior
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts	955	823
Assessed Contributions	4,197	3,452
Voluntary Contributions	65	49
Revenue producing activities	21	18
Interest received	5	7
Miscellaneous income	-	-
Other receipts	-	-
Transfers from operating reserves		
Payments	1,580	1,322
Staff costs	-	-
Pension & Other termination/Retirement Benefits	2,894	18,60
Acquisitions –furniture and equipment	-	-
Operating expenses	44	60
Payments to suppliers (for revenue producing activities)	-	-
Other payments	-	-
Transfer to operating reserves	-	-
Payments to Member States relating to Contributions		
Payments with respect to prior periods		
NET CASH FROM OPERATING ACTIVITIES	**725**	**1,107**
CASH FLOWS FROM INVESTING ACTIVITIES:	300	-
Purchase of land and buildings	-	-
Proceeds from sale of land and buildings	1,520	1,332
Purchase of investments	-	-
Proceeds from sale of investments		
Investment income		
CASH FLOWS FROM FINANCING	-	-
ACTIVITIES	-	-
Proceeds from borrowings	1,294	320
Repayment of borrowings	-	-
Settlement of inter-fund balances		
Interest paid		
NET CASH FROM INVESTING AND FINANCING ACTIVITIES	**(526)**	**(1,012)**
NET INCREASE (DECREASE) IN CASH AND TERM DEPOSITS	**199**	**95**
CASH AND TERM DEPOSITS, BEGINNING OF PERIOD	**520**	**425**
CASH AND TERM DEPOSITS, END OF PERIOD	**719**	**520**

IPSAS FINANCIAL STATEMENT

United Nations WORLD FOOD PROGRAMME
STATEMENT I
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2008
(US$ millions)

	Note	2008	Opening Balances 01.01.2008 (Restated)
ASSETS			
Current Assets			
Cash and cash equivalents	2.1	972.3	548.7
Short-term investments	2.2	460.1	673.1
Contributions receivable	2.3	1,991.2	1,185.5
Inventories	2.4	1,021.8	515.9
Other receivables	2.5	127.9	162.5
		4,573.3	**3,085.7**
Non-current assets			
Contributions receivable	2.3	39.1	57.5
Long-term investments	2.6	186.6	177.4
Property, plant and equipment	2.7	18.7	2.1
Intangible assets	2.8	30.9	14.0
		275.3	**251.0**
TOTAL ASSETS		**4,848.6**	**3,336.7**
LIABILITIES			
Current Liabilities			
Payables and accruals	2.9	567.8	462.6
Provisions	2.10	29.0	19.4
Employee benefits	2.11	16.2	20.8
		613.0	**502.8**
Non-current liabilities			
Employee benefits	2.11	224.3	207.3
Long-term loan	2.12	111.2	110.6
		335.5	**317.9**
TOTAL LIABILITIES		**948.5**	**820.7**
NET ASSETS		**3,900.1**	**2,516.0**
FUND BALANCE AND RESERVES			
Fund balances	7	3,621.6	2,375.9
Reserves	2.13	278.5	140.1
TOTAL FUND BALANCES AND RESERVES		**3,900.1**	**2,516.0**

The accompanying notes form an integral part of these financial statements.

IPSAS FINANCIAL STATEMENT

UNITED NATIONS WORLD FOOD PROGRAMME
STATEMENT II
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2008
(US$ millions)

	Note	2008
REVENUE		
Monetary contributions	3.1	4,150.9
In-kind contributions	3.2	887.1
Other revenue	3.3	76.7
TOTAL REVENUE		**5,114.7**
EXPENSES		
Commodities distributed	4.1	2,198.1
Distribution and related services	4.2	551.1
Wages, salaries and employee benefits	4.3	555.1
Supplies, consumables and other running costs	4.4	114.6
Contracted services	4.5	237.4
Currency exchange differences	4.6	21.9
Negative return on investments	4.7	9.6
Finance costs	4.8	2.7
Depreciation	4.9	2.4
Other expenses	4.10	32.1
TOTAL EXPENSES		**3,725.0**
SURPLUS FOR THE YEAR		**1,389.7**

Revenue is recognized when contributions are confirmed in writing by donors and expenses are recognized upon delivery of goods and provision of services. The nature of WFP's business model results in a time lag between the confirmation of a contribution and its utilization. Inventories are no longer recognized as expenses when received. The surplus of US$1,389.7 million is presented by segment in Note 7.2.

The accompanying notes form an integral part of these financial statements.

IPSAS FINANCIAL STATEMENT

UNITED NATIONS WORLD FOOD PROGRAMME
STATEMENT III
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 DECEMBER 2008
(US$ millions)

	Note	Accumulated Surpluses/ Fund Balances	Surplus	Reserves	Total Net Assets
31 December, 2007	11	**1,761.7**	**119.5**	**140.1**	**2,021.3**
Allocation of surplus for 2007	11	119.5	(119.5)	-	**-**
Change in accounting policy and other adjustments to net assets					
Initial recognition of property, plant and equipment	11	2.1	-	-	**2.1**
Initial recognition of intangible assets	11	14.0	-	-	**14.0**
Initial recognition of inventories net of impairment	11	515.9	-	-	**515.9**
Other adjustments to fund balances	11.1	(37.3)	-	-	**(37.3)**
Total recogniszed changes in net assets since last published accounts		**494.7**	**-**	**-**	**494.7**
Adjusted opening balance 01 January 2008	11	**2,375.9**	**-**	**140.1**	**2,516.0**
Movements in fund balances and reserves in 2008					**-**
Transfer from/to reserves	2.13	(138.4)	-	138.4	**-**
Unrealized losses on long-term investment charged directly against fund balance	2.6/2.13	(5.6)	-	-	**(5.6)**
Surplus for the period	7.2	-	1,389.7	-	**1,389.7**
Total movement during the year		**(144.0)**	**1,389.7**	**138.4**	**1,384.1**
TOTAL NET ASSETS		**2,231.9**	**1,389.7**	**278.5**	**3,900.1**

The accompanying notes form an integral part of these financial statements.

IPSAS FINANCIAL STATEMENT

UNITED NATIONS WORLD FOOD PROGRAMME
STATEMENT IV
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2008
(US$ millions)

		2008
Cash Flows from operating activities:		
Surplus for the period		1,389.7
(Increase) in inventories	2.4	(505.9)
Unrealized loss on short-term investments	2.2	51.4
(Increase) in contributions receivable	2.3	(787.3)
Decrease in other receivables	2.5	34.5
Depreciation	2.7	2.4
(Increase) in property, plant and equiment (donated in kind)	2.7	(0.5)
Increase in payables and accruals	2.9	105.2
Increase in provision for refunds	2.10	9.6
Increase in employee benefits	2.11	12.4
Increase in the amortised value of long-term loan	2.12	0.6
Interest expense on long-term loan	2.12	2.1
Net cash flows from operating activities		**314.2**
Cash flows from investing activities:		
Decrease in short-term investments	2.2	161.6
Decrease in accrued interest receivables	2.5	0.1
(Increase) in long-term investments	2.6	(14.8)
(Increase) in property, plant and equipment	2.7	(18.5)
(Increase) in intangible assets	2.8	(16.9)
Net cash flows from investing activities		**111.5**
Cash flows from financing activities:		
Interest expense on long-term loan	2.12	**(2.1)**
Net cash flows from financing activities		**(2.1)**
Net increase in cash and cash equivalents		**423.6**
Cash and cash equivalents at the beginning of the yea	2.1	**548.7**
Cash and cash equivalents at end of the year	2.1	**972.3**

The accompanying notes form an integral part of these financial statements.

UNITED NATIONS WORLD FOOD PROGRAMME
STATEMENT V
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2008

(US$ millions)

	Note	Budget Amount		Actual on comparable basis	Differences: final budget and actual
		Original Budget	Final Budget		
Cost componets	6				
Food		1,284.7	2,815.2	2,332.6	482.6
External transport		316.5	586.5	383.2	203.3
Landside transport, storage and handling		800.3	1,088.7	811.5	277.2
Other direct operational costs		163.7	406.1	296.3	109.8
Direct support costs		337.7	528.5	373.2	155.3
Subtotal direct costs		**2,902.9**	**5,425.0**	**4,196.8**	**1,228.2**
Regular programme support and administrative costs		175.4	188.7	174.9	13.8
Capital and capacity funds		23.9	28.9	15.0	13.9
Subtotal indirect costs		**199.3**	**217.6**	**189.9**	**27.7**
TOTAL		**3,102.2**	**5,642.6**	**4,386.7**	**1,255.9**

The accompanying notes form an integral part of these financial statements.

Discussion on the gaps and deficiencies of UNSAS system with respect to the IPSAS has been presented as below:

4.1 Presentation of Financial Statements:

The UNSAS does not present the financial statements in the manner to reflect financial position, financial performance, statement of changes in net assets/equity and comparison of budget and actual. Where as with the IPSAS system, the standard prescribes the manner in which general purpose financial statements present to ensure comparability with previous financial periods and with the financial statement of other entries, and set out guidance for the structure of and minimum requirements for financial statements prepared under the accrual basis of accounting.

The major highlights of financial statements guided by IPSAS are as follows:

- a statement of financial position;
- a statement of financial performance;
- a statement of changes in net assets/ equity;
- a statement of cash flow;
- a comparison of budget and actual amounts on the basis of the budget; and
- notes, comprising a summary of significant accounting policies and other explanatory notes.

An entity whose financial statements comply with IPSAS discloses such compliance. Financial statements under IPSAS are not described as complying with IPSAS unless they comply with all the requirements of IPSAS. The presentation and classification of items in the financial statements are to be retained from one financial period to the next unless another presentation is found more appropriate or a standard requires such change. Each material class of similar items will be presented separately in the financial statements. Assets and liabilities, and revenue and expenses can not be offset unless required or permitted by a standard. Except when a standard permits or requires otherwise, comparative information should be disclosed in respect of the previous financial period for all amounts reported in the financial statements, including narrative and descriptive information. When the presentation or

classification of items in the financial statements is amended, comparative amounts should be reclassified unless the reclassification is impracticable.

- *Statement of Financial Position:* The current and non-current classification of asset when preparing financial statements where the term "current" applies to financial period within 12 months following the reporting date (i.e. 12 months following at the end of previous year).
- *Statement of Financial Performance:* All items of revenue and expense recognized in a financial period are included in surplus or deficit unless a standard requires otherwise. UNWFP should present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on nature.
- *Statement of Changes in Net Assets/Equity:* Statement of change in net assets/equity showing all the changes in the net assets/equity during that financial period.
- *Statement of Cash Flow:* Cash flow information provides users of financial statement with basis to assess the ability to generate cash and cash equivalents from operating, investing and financing activities.
- *Statement of Comparison of Budget and Actual Amounts*: Since the method of the budget preparation differs from the preparation of actual amounts as part of the financial statements, the reports are to include a comparison schedule between budgeted amounts and actual amounts prepared on a budget basis as an additional financial statement. IPSAS guides its budget based on commitment accounting, whereas the actual amounts presented as part of the financial statements are prepared on a full accrual accounting basis. IPSAS presents the comparison schedule as explained above.
- *Notes:* The note should present information on the basis of preparation of the financial statements and the specific accounting policies used. The note discloses the information required by IPSAS that is not presented on the face of the financial statements; and provide additional information that is not presented on the face of the financial statements, but that is relevant to an understanding of any of them.

4.2 Cash Flow Statements:

UNSAS does have cash flow statements however it does not clearly states how investing and financing activities should be reflected in the cash flow statement. As most of the investing activities under the UNSAS are treated as operational expenditure, the UNSAS cash flow doesn't clearly outlines as to how we can reflect the investing and financing activities in the cash flow statements.

However, IPSAS prescribes how to present changes in cash and non-cash equivalents by means of a cash flow statement that classifies cash flows during the financial period according to operating, investing and financing activities.

- Cash flows exclude movements between items that make up cash or cash equivalents and investment of excess cash in cash equivalents because these components are part of the cash management rather than part of its operating, investing and financing activities.
- Cash flow statements can be prepared using direct or indirect method.
- In using indirect method, the net surplus or (deficit) IPSAS prescribes to adjust the effects of non-cash transactions (i.e. accruals, provisions, deferrals, amortization and depreciation, etc.) and items of revenue or expense associated with investing or financing activities.
- The cash flow statement reports the cash flows during the financial period classified by operating, investing and financing activities.
- There might be the cases where one transaction includes cash flows that fall into several different activities. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.
- Transactions that do no require the use of cash or cash equivalents should be excluded from the cash flow statement. Such transactions should be disclosed elsewhere in the financial statements (i.e. statement of financial position, statement of financial performance or notes to the financial statements) in a

way that provides all the relevant information about these investing and financing activities.

Operating Activities:

The below are some examples of UNWFP cash flows from operating activities but not specific line items in UNWFP's cash flow statement but, in combination with other items, make up the surplus or (deficit) in line item:

- Cash receipts from cash contributions by bank transfers, wire transfers etc.;
- Cash receipts from staff recoveries;
- Cash receipts from other income such as from Air Operations or other common service or interagency logistics operations, and proceeds from sale of non-food commodities such as bags and crates;
- Cash payments to cooperating partners such as governments, non-governmental organization (NGOs) or UN agencies to finance their operations (excluding loans);
- Cash payments to suppliers for goods and services such as food and shipping;
- Cash payments to and on behalf of employees such as remuneration and pensions; and
- Cash receipts and cash payments of the self-insurance fund to and from external insurers for premiums and claims.

Investing Activities:

Some examples of cash flows arising from investing activities in UNWFP could be as follows:

- Cash payments to acquire property, plant and equipment (fleets of vehicles, computers and office furniture), intangible (software license and upgrades) and other long-term assets;
- Cash receipts from sale of property, plant and equipment, intangible and other long-term assets; and
- Cash receipts from interest earned on investments.

Financing Activities:

Some examples of cash flow arising financing activities in UNWFP could be as follows:

- Cash receipts from new borrowings;
- Cash payments to repay loans; and
- Cash payments for interest incurred on loans and other obligations.

IPSAS prescribes that cash flows arising from transactions in a currency other than the USD should be recorded in reporting currency USD by applying to the non-USD currency amount the exchange rate between the reporting currency and the non-USD currency at the date of the cash flow. The exchange rate applied should be the UN operational rate of exchange monthly rate for the month the transaction occurred. It should be noted that unrealized gains and losses arising from changes in currency exchanges raters are not cash flows.

4.3 Inventories:

Under UNSAS, there is no such provision of reflecting inventories as assets in the financial positions and performance. Everything bought are recorded as expenses and there is no provision of treating the balance of inventories as assets.

However the IPSAS prescribes the accounting treatment for inventories, with guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It is also to provide guidance on the cost formulas used to assign costs to inventories.

Measurement of Inventories:

Inventories under the IPSAS are measured at the lower of cost and net realizable value, except where inventories are acquired through a non-exchange transaction, where their cost should be measured at their fair value as at the date of acquisition.

Inventories are measured at the lower of cost and current replacement costs where they are held for: (a) distribution at no charge or for a nominal charge; or (b) consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Cost of Inventories:

- Cost of food commodity inventories includes: (a) all cost of purchase; (b) all other cost incurred in bringing the commodities to their point of first entry into the country where the commodities will be distributed, to the strategic storage depots, or delivered directly to an operation to the recipient country; and (c) any significant costs of the conversion such as milling, transformation or bagging.
- The cost of food commodities is included in expenses once they have been distributed. The point of distribution refers to as the point of the hand-over of custody of the commodities to co-operating partners or, if distributed directly by UNWFP, when it is handed-over to the beneficiary.
- Cost is determined on the weighted average basis. The first-in-first-out method could be used for non-commodity inventories. Transport costs after this point are to be expensed as incurred. Transport costs across a transit country to a landlocked country from a port where the inventory was delivered are to be included in cost and capitalized.
- Cost of external conversion, such as milling of grain into flour or bagging bulk stock into bats, are also to be added to the inventory value.

Recognition of Expense:

When inventories are sold, exchanged or distributed, their carrying amount shall be recognized as an expense in the financial period in which the related revenues should be recognized. If there is no related revenue, the expense is recognized when these inventories are sold, distributed or exchanged, or when related services are rendered. The amount of write-down of inventories and all losses of inventories should be recognized as an expense in the financial period the write-down or loss occurs. Any stock on the high seas, in transit on land between the port in the offloading country and the entry point in the recipient country, or in transit between various warehouses and storage locations is to be counted and valued in the same manner as stock in

warehouses. In cases where food is exchanged with other organizations or between UNWFP projects, no loss should be incurred by the loaning project as a result of the exchange transaction.

4.4 Leases:

The UNSAS doesn't talk about how to treat the leases and reflect in the financial statements.

However the IPSAS prescribes, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases. Currently, UNWFP is only to operating leases and no to any finance leases or sale and lease-back contracts.

Operating Leases:

- Lease payments under an operating lease shall be recognized as an expense or on a straight line basis over the lease term unless another systematic basis is representative of the time pattern of the user's benefit.
- If UNWFP is a lessor, UNWFP can recognize the revenue operating leases as revenue on a straight line basis over the lease term, and all costs, including depreciation, incurred in earning the lease revenue are recognized as an expense.

Finance Leases:

- At the commencement of the lease term, lessees shall recognize assets acquired under finance leases as assets and the associated lease obligations as liabilities in their statements of financial position. Liabilities should not be offset against assets. Lessors, in the mean time, shall recognize lease payments receivable under a finance lease as assets in their statements of financial position.

- The assets and liabilities shall be recognized at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.
- A depreciation expense for depreciable assets as well as finance expense for each accounting period will be recorded. If there is no reasonable certainty that UNWFP will obtain ownership by the end of the lease term, the assets shall be fully depreciated over the shorter of the lease term or its useful life.
- A sale and leaseback transaction involves the sale of an asset by the lessee to the lessor and the leasing back of the same asset by the lessee from the lessor. The accounting treatment of sale and leaseback transaction depends upon the type of lease involved.

4.5 Property, Plant and Equipment:

Under the UNSAS, the property, plant and equipments are not reflected as assets in the financial position and performance. However, UNWFP has a system called asset management database where it records all the property, plat and equipment but which is not directly transferrable to it financial position and performance as property, plant and equipments.

The IPSAS standard describes how to capitalize record, maintain, depreciate, dispose and disclose fixed assets acquired and held by UNWFP. IPSAS clearly distinguished between the fixed assets with inventory.

- Items of property, plant and equipment are recognized as assets when it is probable that the future economic benefits or service potential associated with the item are to flow to UNWFP. UNWFP has control over the assets, and the cost or fair value of the item can be measured reliably.
- Initial recognition of property, plant, and equipment should be measured at cost. Subsequently, property, plant, and equipment will be carried at cost less accumulated depreciation.
- Total cost consists of the asset purchase price, generally the invoice price (less discounts), import duties and non-refundable purchase taxes, and nay directly attributable costs (such as the cost of site preparation, initial delivery and

handling costs or installation costs) of brining the asset to working condition for its intended use. Total cost does not include any refundable taxes or other similar refundable costs.

- Where an asset is acquired at no cost (gifted, contributed or donated) or for a nominal cost, then the fair value of the asset as the date of acquisition is used. Fair value could be determined by a registered appraiser or a Property Survey Board. The market price of a similar can be also used.
- In case of exchange of unlike assets trade-in, the cost is measured at the fair value of the asset received, equivalent to the fair value of the asset given up adjusted by the amount of any cash or cash equivalents transferred.

Capitalization of Assets:

To meet the criteria for capitalization and depreciation, assets are to be owned by UNWFP as a result of past events through purchase, construction or donation. Future economic benefits or service potential should be expected to flow to UNWFP as a result.

Non-Capitalized Fixed Assets:

If an asset does not meet the capitalization criteria, it should be fully expensed in the financial period in which it was acquired. However, all assets should still be recorded in the Asset Management Database (AMD) for control purposes.

Subsequent Expenses:

Subsequent expenses are major renovations and improvements to fixed assets. They are considered to increase the future economic benefits or service potential of the fixed assets. Subsequent expenses should improve the condition of the fixed asset, measured over its estimated useful life, beyond its most recently assessed standard of performance.

To capitalize subsequent expenses, they must meet both the following conditions:

- The relevant fixed asset must have a remaining estimated useful life of more than one year after the completion of the expense, and
- The cost of subsequent expense must exceed the cost threshold applicable to the class of assets.

Infrastructure Assets:

Infrastructure assets such as roads, water treatment plants, port equipment and similar assets are not movable, and in general, the control over them (together with ownership) is already with the host country. Therefore, no capitalization or depreciation is accounted for such infrastructure assets and their total cost is expensed at the time of construction or acquisition.

Depreciation:

- UNWFP can use the straight-line depreciation methods as per UN Task Force agreement. Straight-line depreciation is calculated by dividing the cost over the asset's estimated useful life.
- Depreciation is charge on the annual basis. However, in the year when an asset is acquired, a pro-rated calculation is to be used in calculating the depreciation charge (for example, an item acquired in September shall be depreciated for four months rather than a full year during the first year).
- Depreciation expenses commence, to the nearest month, when UNWFP receives the asset and puts into use.
- In case of material change in market prices for a particular fixed asset or group of fixed assets, revaluation is needed when material for the assets value. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession, who holds a relevant professional qualification.
- After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.
- If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.
- If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus under

net assets/equity. However, the increase shall be recognized in the statement of financial performance to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.

Impairment:

An impairment loss is recognized whenever the recoverable amount falls materially below the carrying amount of the asset (book value). The impairment loss is considered an expense in the statement of financial performance. At each statement of financial position date, a review of all assets for any indication that asset may be impaired should be done.

Asset Retirement, Disposal and Donation:

An item of property, plant and equipment is removed from the financial statements on disposal or when no future economic benefits or service potential is expected from its use. A disposal can be through transfer, donation, sale, scrapping or write-off. Gains or losses arising from the retirement or disposal of an item of property, plant and equipment should be determined as the difference between the actual net disposal proceeds and the carrying amount of the asset. The gain or loss should be included in the statement of financial performance as an item of revenue or expense, as appropriate.

4.6 Provisions, Contingent Liabilities and Contingent Assets:

The UNSAS doesn’t clearly states as to how the provisions, contingent liabilities and assets are to be recorded and reflected in the financial statements.

However, IPSAS clearly states the objective of this standard to identify the circumstances in which provisions, contingent liabilities and contingent assets can be recognized and be measured:

Provisions:

A provision is recognized when an entity has present obligation (legal or constructive) as a result of past event or it is probable that an outflow of resource embodying

economic benefits or service potential will be required to settle the obligation; or a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the expense required to settle the present obligation at the reporting date. Provisions is reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision should be reversed.

A provision is used only for expenses for which the provision was originally recognized. Examples of provisions may include onerous contracts, restructuring provisions, warranties, refunds and site restoration. A restructuring provision should include only the direct expenses arising from the restructuring, which are those that are both necessary entailed by the restructuring or not associated with the ongoing activities of the entity.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract should b recognized and measured as a provision. No provisions are to be recognized for net deficits from future operating activities. Provisions that are in the nature of allowances, to more accurately value current and non-current assets, are generally dealt with separately in the respective areas of this manual that address those particular assets. Such provisions include, but are not necessarily limited to, provisions for impairment on inventory and investments, provisions for doubtful debts on accounts receivable and contributions receivable, and write-downs and write-offs against contributions receivable.

Contingent Liabilities:

A contingent liability, requiring disclosure only and no recognition in the statement of financial position, is a possible obligation that arises from past events but whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of UNWFP or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Unless the possibility of any outflow in settlement in

remote, UNWFP should disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability.

Contingent Assets:

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of UNWFP. Contingent assets require disclosure only if the inflow of economic benefits or service potential is probable. Contingent assets are never recognized in the statement of financial position.

4.7 Presentation of Budget Information in Financial Statements:

The UNSAS doesn't have the budget and actual comparison provision.

However as per the IPSAS, the standard requires comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s) and for which they are, therefore, held publicly accountable, as well as reconciliation of a budget cash flow and a financial statement cash flow.

An entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSAS.

Comparable basis:

The comparison of budget and actual amounts shall present separately, for each level:

- The original and final budget amounts;
- The actual amounts on a comparable basis; and
- By way of note disclosure, an explanation of material differences between the budget and actual amounts.

All relevant information for the comparison of budget and actual amounts will be based on the budgetary accounting system. The two sets of figure (budget and actual amounts) must be presented using the same classification basis, for the same entities and for the same financial period. The comparison of budget and actual amounts will

be presented in a separate financial statement (statement of comparison of budget and actual amounts) included in the complete set of financial statements.

Aggregation:

In some cases, the detailed financial information included in approved budgets may need to be aggregated for presentation in financial statements. Determining the level of aggregation will involve professional judgment.

Changes from Original to Final Budget:

WFP can present an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors:

- By way of note disclosure in the financial statements; or
- In a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements.

Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements:

The actual amounts presented in the statement of comparison of budget and actual amounts have to be reconciled to the actual amounts of the cash flow statement, identifying separately any basis, timing and entity differences.

As UNWFP's accounting basis for the financial statement is different than the budgetary accounting basis, total expenses of the statement of comparison of budget and actual amounts and net cash flows (cash flow statement) form operating activities, investing activities and financing activities will be reconciled. The reconciliation should be disclosed in the notes to the financial statements.

For comparison purpose, the biennial budget should be broken down into annual components in order to fulfill the requirements for the preparation of annual financial statements. A two-year comparison schedule should be prepared at the end of the biennial budget as per the United Nations taskforce recommendation.

CHAPTER 5: RECOMMENDATION

On the basis of the above analysis, UNWFP is recommended to adopt the financial management system called IPSAS which can bring about the major improvements in its financial management system. The following are the major areas of recommendations:

5.1. Presentation Financial Statements:

UNWFP should make publicly available the management plan. UNWFP financial statements, prepared in accordance with IPSAS, should therefore include all the below six items:

- a statement of financial position;
- a statement of financial performance;
- a statement of changes in net assets/ equity;
- a statement of cash flow;
- a comparison of budget and actual amounts on the basis of the budget; and
- notes, comprising a summary of significant accounting policies and other explanatory notes.

5.2. Cash Flow Statements:

UNWFP should prepare its cash flow statements with the standard prescribes by IPSAS to present changes in UNWFP's cash and non-cash equivalents by means of a cash flow statement that classifies cash flows during the financial period according to operating, investing and financing activities. Cash flows arising from transactions in a currency other than the USD should be recorded in UNWFP's reporting currency USD by applying to the non-USD currency amount the exchange rate between the reporting currency and the non-USD currency at the date of the cash flow. The exchange rate applied should be the UN operational rate of exchange monthly rate for the month the transaction occurred. It should be noted that unrealized gains and losses arising from changes in currency exchanges raters are not cash flows.

5.3. Inventories:

UNWFP should use the guidelines of IPSAS on the standard prescribed for the accounting treatment for inventories, with guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. IPSAS would also provide guidance on the measurement of inventories, cost of inventories and recognition of expenses for the inventories.

5.4. Leases:

UNWFP should use the IPSAS standard prescribed for lessees and lessors and the appropriate accounting policies and disclosures to apply in relation to finance and operating leases. Currently, UNWFP is only to operating leases and no to any finance leases or sale and lease-back contracts.

5.5. Property, Plant and Equipments:

UNWFP should use the standard prescribed by IPSAS on how to capitalize record, maintain, depreciate, dispose and disclose fixed assets acquired and held by UNWFP. The capitalization of assets, non-capitalized fixed assets, subsequent expenses, infrastructure assets, depreciation methods, impairments and assets retirement, disposal and duration should be based on the IPSAS guidelines.

5.6 Provisions, Contingent Liabilities and Contingent assets:

UNWFP should follow the IPSAS standard to identify the circumstances in which provisions, contingent liabilities and contingent assets should be recognized, how they should be measured and the discloses that should be made.

5.7 Presentation of Budget Information n Financial Statements:

UNWFP should adhere to the IPSAS standard which requires comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s) and for which they are, therefore, held publicly accountable, as well as reconciliation of a budget cash flow and a financial statement cash flow.

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ANNEXES

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 200X

	Notes	Total WFP	Prior Period
ASSETS			
Current Assets			
Cash and cash equivalents			
Short-term investments			
Inventories			
Account receivables			
Receivable from exchange transactions			
Other current assets			
Total Current Assets			
Non Current Assets			
Long-term investments			
Account receivable			
Other financial assets			
Property, plant and equipment			
Intangible assets			
Other non-current assets			
Total non-current assets			
TOTAL ASSETS			
LIBAILITIES			
Current Liabilities			
Account payable			
Employee benefits			
Transfers payable			
Advance receipts			
Short-term loans			
Provisions			
Other current and financial liabilities			
Total Current Liabilities			
Non-Current Liabilities			
Transfers payable			
Employee benefits			
Long-term loans			
Provisions			
Other non-current liabilities			
Total non-current liabilities			
TOTAL LIABILITIES			
NET ASSET/EQUITY			
Accumulated surpluses/(deficits) – fund balances			
Initial recognition PP & E			
Initial recognition of Inventories			
Reserves			
TOTAL NET ASSETS/EQUITY			
TOTAL LIABILITIES AND NET ASSETS/EQUITY			

STATEMENT OF FINANCIAL PERFORMANCE FOR YEAR ENDED 31ST DECEMBER 200X

	Notes	Total WFP	Prior Period
INCOME/REVENUS			
Cash Contributions			
In-kind Contributions			
Government Contributions for local costs			
Other revenue-producing activities			
Other revenue-producing activities			
Currency exchange adjustments			
Investment revenue			
Other Material Gains			
TOTAL INCOME INCLUDING TRANSFER			
EXPENDITURE			
Cost of Commodities distributed/transferred			
Distribution cost and services			
Wages, salaried and employee benefits			
Supplies and Consumable used			
Other services			
Depreciation and amortization			
Provisions			
Finance Costs			
Other material losses			
Other expenses			
TOTAL EXPENDTIURE			
SURPLUS OR (DEFICIT) FOR THE FINANCIAL PERIOD			

STATEMENT OF CHANGES IN NET ASSETS/EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 200X

	Notes	Total WFP	Prior Period
Net assets/equity at the beginning of the year		**0**	**0**
Changes in accounting policy			
Correction of prior period error			
Restated balance at the beginning of the year:		**0**	**0**
Transfers from/to reserves			
Gain on revaluation of PP&E (Revaluation reserve)			
Total of items (revenue/expenses) recognized directly in Net Assets/Equity		**0**	**0**
Surplus/(deficit) for the year		**0**	**0**
Total recognized revenue and expense for the year		**0**	**0**
Net assets/equity at the end of the year		**0**	**0**

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31ST DECEMBER 200X

	Notes	Total WFP	Prior Period
Cash flows from Operating Activities: Surplus (deficit) for the period Depreciation and amortization Increase in provision for doubtful debts (Increase) decrease in inventories (Increase) decrease in receivables (Increase) decrease in other advances Increase (decrease) in advance receipts Increase (decrease) in accounts payables Increase (decrease) in other liabilities (Gains) losses on sale of property, plant and equipment (Gains) losses on sale of investments Less investment income		**0**	**0**
Net cash flows from operating activities		**0**	**0**
Cash flows from Investing Activities: Purchases of property, plant and equipment (PP&E) -ve Purchase of intangible assets -ve Purchase of investments -ve Proceeds from sale of PP&E +ve Proceeds from sale of Investments +ve Cash flow from investments interest +ve			
Net cash flows from Investing activities		**0**	**0**
Cash flows from Financing Activities: Net increase (decrease) in cash and cash equivalents Cash and term deposits at beginning of financial period			
Cash and cash equivalent, end of financial period		**-**	**-**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 200X

	Notes	**Budgeted Amount**		**Actual Amounts on Comparable Basis**	**Difference: Final Budget and Actual**
		Original	**Final**		
Cost Components					
Food					
External Transport					
Landside Transport		**0**	**0**	**0**	**0**
Shipment & Handling Cost					
Other Direct Operational Cost		**0**	**0**	**0**	**0**
Direct Support Cost					
Sub-total direct costs					
Regular PSA					
Capital and capacity funds					
Sub-total indirect expenditure					
Total budget/actual		**0**	**0**	**0**	**0**

(Sources BDC Consulting)