United Nations

Corporate Guidance

for

International Public Sector Accounting Standards

Events After The Reporting Date

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Corporate Guidance to Support the Adoption of International Public Sector Accounting Standards (IPSAS) by the United Nations

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<u>Corporate Guidance # 16 – Events after the reporting date (IPSAS 14)</u>

This corporate guidance will cover the following topics with respect to events after the reporting date

- Overview/foundational principles about events after the reporting date; **see caption** 1**;**
- Defining adjusting items; **see caption** 0**;**
- Determining and treatment of adjusting items; **see captions 3.1 and 4.1;**
- Example of adjusting items; **see caption 3.1;**
- Defining non-adjusting items; **see caption** 0**;**
- Determining and treatment of non-adjusting items; **see caption 3.2 and 4.2;**
- Example of non-adjusting items **see caption 3.2;**
- Data gathering process considerations; **see caption** 6**;**
- Process;
    - Checklist of guideline: What sort of information is required at what time; **see caption** 6**;**
    - Enhancement of current process including currently incorporated in Closing instructions and Memo communication to OLA for litigation cases, thresholds/materiality considerations for events; **see caption** 6**;**
    - Decisions to be made at local and at central (UNHQ) levels; **see caption** 6**;**
    - Flowcharts/decision trees to be used to illustrate processes; **see caption** 8**;**
- Case studies and pro forma disclosures for adjusting and non-adjusting items e.g., Earth quakes in Haiti and Santiago (ECLAC), Peacekeeping abandonment of UN sites due to hostilities or through being asked to leave by the host government, Damage to P&E due to flooding (printing & publication in the CMP building) by Hurricane Sandy; **see caption** 7**.**

Content table

1 Introduction

After the end of the financial year (i.e. after the "reporting date"), there is often a period of time lasting three months during which the financial statements are prepared by the United Nations Secretariat (United Nations), certified by the Controller and then authorised for issue to the Board of Auditors (BoA) by the Secretary General.

During this period, further events may occur which may merit disclosure or even adjustment in the financial statements before they are authorised for issue by the Secretary General. For example, there may be an earthquake at the location of a field office, the settlement of a court case against the United Nations, or a significant crash in the global property market. Such events will need to be reviewed by the United Nations in order to determine the impact, if any, upon the financial statements being prepared for the previous reporting period.

Following the authorisation for issue to the BoA and the completion of the audit, the BoA issues its audit opinion to the President of the General Assembly for a resolution to accept the financial statements, approve the BoA recommendations and endorse the ACABQ recommendations. IPSAS 14 defines the **date of authorization** for issue as *"the date on which the financial statements have received approval from the individual or body with the authority to finalise those financial statements for issue"*. In the context of the United Nations, this date is deemed to be the date that the Secretary General authorises the financial statements for issue to the BoA, and therefore "events after the reporting date" should be considered up to this point only (any adjustments raised as a result of the audit should be considered separately).

Events after the reporting date may be split between **adjusting events** (where changes are recognised in the financial statements) and **non-adjusting events** (where events are only disclosed in the notes).

The objective of this paper is to provide guidance on the identification of events after the reporting date, and how and when they should be accounted for, including practical examples and guidance on how information may be gathered. This topic is relatively short and concise when compared to other, more complex areas of IPSAS and although it represents an important area, most financial reporting requirements should be able to be met through the enhancement of existing internal year-end reporting.

It should also be noted that only very significant events after the reporting date will result in adjustments or disclosures in the financial statements**.** The objective of considering events after the reporting date should not be to list every single event that has occurred since the reporting date, but to identify those that would lead the user of the accounts to form a different conclusion were the information to be excluded from the financial statements.

2 Definitions:

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorized for issue**.**

The **reporting date** is the last day of the reporting period to which the financial statements relate.

The **date of authorization** for issue is the date on which the financial statements have received approval from the individual or body with the authority to finalise those financial statements for issue.

Adjusting events after the reporting date are those that provide evidence of conditions that existed at the reporting date.

Non adjusting events after the reporting date are those that are indicative of conditions that arose after the reporting date.

3 Determining between adjusting and non-adjusting events

The key principle to note regarding events occurring after the reporting date is that they will only be recognised in the financial statements (i.e. qualify as an "adjusting event") where they relate to a condition that existed at the reporting date. By contrast, if the event relates to a condition that was not present at the reporting date but occurred later, it is considered "non-adjusting".

In other words, it should be determined whether the event in question offers more information about something that existed at the reporting date, or whether the event relates to something new that was not present at the reporting date.

There are two key considerations in assessing whether an event is "adjusting" or "non-adjusting". First it is critical to determine which condition the "event" refers to; this allows the identification of whether the condition was present at the reporting date. Secondly, the impact of the event upon that condition should be assessed to determine whether the "event" would change the opinion of the readers of the financial statements were it to be excluded (i.e. whether the change is sufficiently material to warrant adjustment or disclosure).

3.1 Adjusting events

As noted above, **adjusting events** after the reporting date are those that provide additional evidence of conditions that existed at the reporting date.

Examples of adjusting events include:

- Settlement of a court case after the reporting date which confirms that the United Nations had an obligation at the reporting date;

- The receipt of information after the reporting date which indicates that an asset was impaired as at the reporting date. This includes for example the bankruptcy of a debtor after the reporting date who owed money to the United Nations at the reporting date;
- The determination of the proceeds of assets sold, or cost of assets purchased before the reporting date;
- The discovery of fraud or errors; and
- The determination by management that a United Nations reporting entity is no longer a going concern.

3.2 Non-adjusting events

As noted above, **non-adjusting events** after the reporting date are those that are indicative of conditions that arose after the reporting date.

Examples of non-adjusting events include:

- A decline in the fair value of a financial instrument between the reporting date and the date of authorisation of the financial statements;
- The destruction of significant plant, property & equipment or inventory after the reporting date (e.g. through an earthquake, fire or flood);
- A major restructuring announced or started after the reporting date;
- A major purchase of assets;
- Large changes in asset prices or foreign exchange rates;
- Significant commitments or contingent liabilities entered into; and
- Commencement of major litigation arising solely from events that occurred after the reporting date.

4 Recognition

4.1 Adjusting events

Where a material **adjusting event** is identified, the amounts in the financial statements for the reporting period should be adjusted to reflect the adjusting event. Adjusting events are therefore recognised in the financial statements in line with the IPSAS guidance applicable to the issue.

4.2 Non-adjusting events

Where a material **non-adjusting event** is identified, the amounts in the financial statements for the reporting should not be adjusted to reflect the event. Material non-adjusting events are instead disclosed in the notes to the financial statements.

5 Disclosure requirements

The following general disclosures should be made regarding events after the reporting date:

a) The date of authorisation for issue of the financial statements (events after this date will not be reflected in the financial statements);

b) The individual or body who approved the financial statements for issue (i.e. the Secretary General in most cases);

c) Significant information (financial and non-financial) received after the reporting date but before the date of authorisation for issue of the financial statements which relates to conditions present at the reporting date (e.g. relevant developments in a contingent liability). In such cases, the United Nations should update the disclosures that relate to these conditions in the light of the new information;

d) For material non-adjusting events, the nature and estimated financial impact of the event (or statement that such an estimate cannot be made).

Disclosures relating to **adjusting events** should be made in line with the relevant IPSAS governing the event.

6 Data gathering process considerations

Above all, the process for obtaining the necessary information to enable assessment of the impact of events after the reporting period must be implemented by the enhancement of existing internal year-end reporting.

It is therefore important that the year-end closing process, which currently involves the reporting of year-end activities from OAHs, field offices, and the Office of Legal Affairs (OLA) to the Office of Programme Planning, Budgeting and Accounts (OPPBA) is sufficiently adapted to incorporate details on events after the reporting date.

One important consideration is the need to view events after the reporting date in the context of the financial statements as a whole. The preparer of the financial statements (the OPPBA) is in this position and should be best placed to determine the overall impact of an event upon the financial statements, as one event which is significant to one field office may not be material in the wider context of the financial statements. It is key however that the OPPBA receives all necessary information in a timely and structured manner such that they are able to make an informed and balanced decision regarding the impact of the events. Such information may be provided as part of the year-end closing process.

Key revisions to the existing year-end closing process may include:

- Adaptation of internal sign-off documentation to include wording that all significant events after the reporting date have been communicated by management;

- Expanding request of information from OLA to include status on all open cases as at the reporting date, and an additional column to note any events in the case following the reporting date;
- Including an addendum of examples of typical events after the reporting date within the closing instructions to assist local staff in identifying events at a local level;
- Inclusion of reporting template for completion by local staff, including (but not limited to):
  - Nature and date of event (s);
  - Details of principal assets or (contingent) liabilities associated with the event (s);
  - Details of financial impact (if known); and
  - Any further useful narrative (such as the details and timing of any future events which will assist the narrative description).

7 Worked examples of events after the reporting date

All of the events described below took place after the reporting date (i.e. the financial year-end; 30 June for United Nations Peacekeeping and 31 December for United Nations Volume I financial statements[1]) but before the date on which the financial statements are authorised for issue. In each case, the United Nations must consider the correct accounting treatment in line with IPSAS 14.

7.1 Earthquakes in Haiti and Chile (2010)

The United Nations has Peacekeeping operations field offices based in Port-au-Prince, Haiti and an ECLAC Regional Commission based in Santiago, Chile. On 12 January 2010 (Haiti) and 27 February 2010 (Chile), massive earthquakes hit both countries, resulting in widespread damage to United Nations buildings and equipment, and also resulting in numerous casualties amongst United Nations staff (Chile) and Peacekeeping troops and police (Haiti).

The financial statements for United Nations Peacekeeping Operations for the year ended 30 June 2009 and the United Nations Volume I financial statements for the year ended 31 December 2009 are due to be authorised for issue on 1 February 2010 and 31 March 2010 respectively. The United Nations wishes to determine the correct accounting treatment regarding the impact of the earthquakes.

Conclusion on accounting for events after the reporting date

In both cases, the earthquakes are **non-adjusting events**, as they took place after the reporting dates (i.e. the end of the financial year) and therefore do not reflect a condition that was present at the reporting date. The valuation of the buildings at the reporting date in the

[1] **Note** – several of the examples included in this section include real cases with the actual dates of events, which in some cases occur up to nine months after the reporting date. In reality it is likely that the financial statements for United Nations for the year ended 30 June or 31 December will have been authorised for issue prior to events described, but for the purposes of these examples, the events are assumed to have occurred after the reporting date but before the date the financial statements were authorised for issue.

financial statements should not therefore change as a result of the earthquake, and no provision should be recognised for any potential death or disability claims resulting from the earthquake.

Given the potential impact of these events however, <u>disclosure</u> should be made in the financial statements regarding the <u>nature and estimated financial impact</u> of the earthquakes. The disclosure for Haiti could for example contain the following information.

"On 12 January 2010, a large earthquake near the town of Léogâne, 25 km west of Port-au-Prince, Haiti resulted in severe damage to United Nations property and equipment in Port-au-Prince, as well as a large number of casualties, including United Nations Peacekeeping troops and police.

The financial impact of the earthquake is currently unknown. In line with IPSAS 14, this event has been treated as a non-adjusting event after the reporting date of 30 June 2009, and as such no adjustments to balances have been made in these financial statements."

7.2 <u>Requests from Government to leave country (Chad)</u>

On 25 September 2007, in consultation with the authorities of Chad and the Central African Republic (CAR), the United Nations Security Council authorized the deployment of a United Nations civilian and police operation, MINURCAT, and a European Union military force (EUFOR) This was followed on 14 January 2009 by the authorisation of the deployment of a military component of MINURCAT to follow up EUFOR in both Chad and the CAR at the end of EUFOR's mandate in March 2009.

On 15 January 2010, the Government of Chad informed the Secretary-General through a "note verbale" that it wished MINURCAT to withdraw from Chad as of 15 March 2010. This was followed by several rounds of intensive consultations between the Government of Chad and the United Nations Secretariat which resulted in an agreement providing for the extension of MINURCAT, with a revised mandate, until the end of 2010

As a result of the "note verbale" and subsequent discussions with the Government of Chad, the Security Council, by its resolution 1923 (2010), revised the mandate of the Mission on 25 May 2010.

The financial statements for United Nations Peacekeeping Operations for the year ended 30 June 2009 are due to be authorised for issue on 1 February 2010. The United Nations wishes to determine the correct accounting treatment regarding the "note verbale" received from the Chad Government.

Conclusion on accounting for event after the reporting date

The receipt of the "note verbale" from the Government of Chad is a **non-adjusting event**, as the "note" does not relate to a condition that was present at the reporting date, but instead to a decision that was communicated after the reporting date. On the 30 June 2009 the United Nations would not have had a valid expectation that the Chad Government would request the departure of troops, and in any case, the actual Security Council resolution to leave Chad was not agreed until 25 May 2010 (after the financial statements were authorised for issue).

The United Nations should not therefore recognise any provisions for potential costs of liquidating the mission in Chad in the statement of financial performance at 30 June 2009.

It is also debatable whether a disclosure is required in the financial statements regarding the receipt of the note; whilst the request may lead to potential large-scale changes to the operation, no decisions or resolutions had been made by United Nations at the point of the authorisation of the financial statements for issue. Judgement will be required in determining whether disclosure should be made; however the note itself may not be sufficient to warrant a disclosure of the events after the reporting date.

7.3 Hurricane damage to United Nations Publications department

On 29 October 2012, Hurricane Sandy caused widespread damage and destruction to many parts of New York City, USA, including United Nations buildings. The United Nations Publications department was particularly badly affected by flooding, causing the destruction of publications held as inventory, as well as damage to buildings owned by the United Nations. This required the United Nations to vacate the premises and to lease additional offices to continue the activities of the Publication Office whilst the damage was repaired.

The United Nations Volume I financial statements for the year ended 31 December 2011 are due to be authorised for issue on 15 November 2012. The United Nations wishes to determine the correct accounting treatment regarding the impact of the hurricane damage (i.e. whether the damage will result in impairment of the inventory and buildings, and whether a provision should be recognised for the cost of the new leases) for the year ended 31 December 2011.

Conclusion on accounting for event after the reporting date

The damage caused by Hurricane Sandy to the United Nations Publications department is a **non-adjusting event**, as it represents a new impairment indicator (for both the inventory and building) arising after the reporting date. The event itself was not indicative of a condition present at the reporting date. Impairment of the buildings and inventory should instead be considered in the next reporting period (the year ended 31 December 2012).

Equally, the requirement to lease new buildings was not present at the reporting date, and in any case would be unlikely to meet the provisions recognition criteria as the lease is an executory contract which is excluded from the scope of IPSAS 19 (Provisions, Contingent Liabilities and Contingent Assets) and relates to ongoing United Nations activities. No provision should thus be recognised for the lease of the new offices in the financial statements for the year ended 31 December 2011.

However, the United Nations should <u>disclose the nature of the event and an estimate of its financial effect</u> should it be significant in the overall context of the financial statements. Again, it <u>may be debatable whether such damage would require disclosure</u> and <u>judgement should be used</u> in considering whether the nature or financial impact of the damage is material to the financial statements.

7.4 *<u>Security Council decision to liquidate missions (consideration of restructuring)</u>*

In the case of some peacekeeping missions, the United Nations Security Council may take the decision to liquidate a mission at an earlier stage than originally anticipated. When this decision is taken, consideration should be given to whether this qualifies as a "restructuring" where a provision may need to be recognised. We refer to Corporate Guidance #7 for further guidance on the recognition of a restructuring provision.

In the vast majority of cases however, the liquidation of a mission will not be significant enough of a change in the structure of the United Nations to meet the provisions recognition criteria, and therefore a restructuring provision will not be recognised.

<u>Example where mission liquidation does not qualify as a "restructuring"</u>

In April 2012, the United Nations has two Peacekeeping missions which are in progress in Country A and Country B. The United Nations has plans to liquidate both missions in the near future, much sooner than was originally planned. In both cases, the United Nations has detailed internal plans to liquidate the missions in place by April 2012; however the resolutions to formally adopt and announce the plans for each country are made at different times by the Security Council.

The resolution to liquidate the mission in Country A is made and communicated on 6 June 2012, whilst the resolution to liquidate the mission in Country B is not made or communicated until 17 August 2012. The reporting date is 30 June 2012 and the financial statements are due to be authorised for issue on 30 September 2012. For the purposes of this example, <u>the plans to liquidate the missions do not meet IPSAS 19 requirements for restructuring plans, and neither plans both involve material changes to United Nations Peacekeeping operations</u>.

The United Nations wishes to determine the impact of the formation and/or announcement of the plans, and the Security Council resolution upon the financial statements for the year ended 30 June 2012.

Conclusion on accounting for events

Liquidation of mission in Country A

The formalisation of the plan to liquidate the mission, the Security Council resolution to adopt it and its subsequent announcement do no classify as events after the reporting date, as all three events took place before the reporting date.

Any expenses relating to the liquidation which are incurred up to 30 June 2012 should be recognised as incurred, and provisions for any onerous leases recognised where necessary in line with IPSAS 19 (Provisions, Contingent Liabilities and Contingent Assets). In addition, the carrying value of any assets used in the mission should be reviewed at the reporting date to determine whether any impairment is noted in line with IPSAS 17 – Property, Plant and Equipment.

However, a further provision for the future costs of liquidation should not be made, as the recognition criteria for a "restructuring" provision have not been met, and provisions should not be made for "future operating losses".

Liquidation of mission in Country B

The Security Council resolution and announcement to liquidate the mission in Country B is a **non-adjusting event** after the reporting date. This is because the decision to liquidate the mission was not taken until after the reporting date and the "event" does not indicate conditions that were present on the reporting date.

Any expenses relating to the planning of the liquidation which are incurred up to 30 June 2012 should be recognised as incurred, however provisions should not be recognised for any onerous leases nor should the carrying value of any assets used in the mission be adjusted.

However, as the United Nations has commenced the "liquidation" after the **reporting date** but prior to the **date of authorisation for issue** of the financial statements, disclosure of the liquidation may be required, including an estimate of the financial impact of the liquidation and a description of its nature. Again, it may be debatable whether such liquidation would require disclosure and judgement should be used in considering whether the nature or financial impact of the damage is material to the financial statements.

Example where mission liquidation qualifies as a "restructuring"

In April 2012, the United Nations has two Peacekeeping missions which are in progress in Country A and Country B. The United Nations has plans to liquidate both missions in the near future, much sooner than was originally planned. In both cases, the United Nations has detailed internal plans to liquidate the missions in place by April 2012; however the resolutions to formally adopt and announce the plans for each country are made at different times by the Security Council.

The resolution to liquidate the mission in Country A is made and communicated on 6 June 2012, whilst the resolution to liquidate the mission in Country B is not made or communicated until 17 August 2012. The reporting date is 30 June 2012 and the financial statements are due to be authorised for issue on 30 September 2012. For the purposes of this example, the plans to liquidate the missions meet IPSAS 19 requirements for restructuring plans, and the plans both involve material changes to United Nations Peacekeeping operations. (In reality, a detailed assessment would have to be made to determine whether the liquidation of a mission qualifies as a restructuring under IPSAS 19, based in the individual facts and circumstances of the mission liquidation).

The United Nations wishes to determine the impact of the formation and/or announcement of the plans, and the Security Council resolution upon the financial statements for the year ended 30 June 2012.

Conclusion on accounting for events

Liquidation of mission in Country A

The formalisation of the plan to liquidate the mission, the Security Council resolution to adopt it and its subsequent announcement do not classify as events after the reporting date, as all three events took place before the reporting date.

The events should instead be reviewed in line IPSAS 19 (Provisions, Contingent Liabilities and Contingent Assets) to determine whether the three recognition criteria for a provision have been met. In this example, the criteria are assumed to have been met and a provision should be recognised as at 30 June 2012 for the eligible "restructuring" costs anticipated as part of the mission liquidation.

Liquidation of mission in Country B

The Security Council resolution and announcement to liquidate the mission in Country B is a **non-adjusting event** after the reporting date.

This is because, in accordance with IPSAS 19, a provision is not made for future restructuring costs, until a legal or constructive obligation to restructure arises. In this case, the United Nations does not have a legal or constructive obligation at 30 June 2012 to implement the restructuring plan as it has not yet started or communicated the plan to those affected by the **reporting date**.

However, as the United Nations has commenced a "restructuring" after the **reporting date** but prior to the **date of authorisation for issue** of the financial statements, and the significance of the liquidation could influence the decisions of users of the financial statements, disclosure of the liquidation is required, including an estimate of the financial impact of the liquidation and a description of its nature.

7.5 Developments in a legal case after the reporting date

At the reporting date of 31 December 2012, the United Nations is involved in an ongoing court case at the European Court of Human Rights (ECHR) over the rights of United Nations employees to receive extended maternity leave[2]. The case has the potential for large retrospective payments to staff who have taken maternity leave in the past 5 years.

On 31 December 2012, the United Nations reviewed the court case against the provisions recognition criteria, and decided (based on advice from OLA) that whilst a reliable estimate could be made of the obligation, an outflow of resources embodying economic benefits or service potential was not probable, and that it was also not certain that the United Nations had a present obligation at the reporting date. As such, no provision was recognised and instead a contingent liability was disclosed. Further details on the recognition criteria are found in Corporate Guidance #7 – Provisions and (contingent) liabilities.

On 26 February 2013, before the date of authorisation for issue of the financial statements, the ECHR rules against the United Nations and orders the United Nations to pay significant (material) compensation to the staff affected. The OLA has recommended appealing the decision but concedes that an outflow of resources embodying economic benefits or service potential is probable, and that it is also probable that the United Nations had a present obligation at the reporting date.

The United Nations wishes to determine the impact of the ECHR decision upon the Volume I financial statements for the year ended 31 December 2012.

Conclusion on accounting for event after the reporting date

The decision taken by the ECHR is an **adjusting event** after the reporting date, and a provision should be recognised at 31 December 2012 for the anticipated costs to settle the court case.

IPSAS 19 (Provisions, Contingent Liabilities and Contingent Assets) requires that the United Nations should re-measure the amount of a provision for an obligation if the result of a court case after the reporting date requires such remeasurement. However, in some cases the result of a court case may also affect the degree of probability of an outflow of resources embodying economic benefits or service potential.

In this example the United Nations did not initially recognise a provision at the reporting date because it considered that it was not probable that an outflow of resources embodying economic benefits or service potential would occur. However, based on the decision of the ECHR, the United Nations should create a new provision as at the reporting date as the outcome of a court case clarifies that such an outflow was probable at the reporting date.

IPSAS 14 therefore requires that the result of the court case after the year end is taken into account, not only in determining whether changes in measurements are required, but also in determining, as at the reporting date, whether a provision should be recognised.

This latter requirement is consistent with the requirement of IPSAS 19 for provisions, which notes that in rare cases, for example in a law suit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such a case, the United Nations must determine whether a present obligation exists at the reporting date by taking account of all available evidence, including, for example, the opinion of experts. The

[2] Note – this case is fictional and for illustrative purposes only.

settlement of a court case after the year end could also provide evidence of conditions existing at the reporting date.

8 Summary table for adjusting and non-adjusting events

	Adjusting events	**Non-adjusting events**
Definition	Those that provide evidence of conditions that existed at the reporting date.	Those that are indicative of conditions that arose after the reporting date.
Accounting treatment	Financial statements are adjusted to reflect those events.	Financial statements are not adjusted to reflect these events (but disclosures may be made).
Examples	• Settlement after the reporting date of a court case that confirms that the entity has a present obligation at the reporting date. • The bankruptcy of debtor that occurs after the reporting date reflecting their insolvency existing at the reporting date.	• A decline in market value of an investment that reflects circumstances that have arisen after the reporting date. • A major restructuring announced or started after the reporting date;

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