

Eighth session

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**Report of the Court on the implications of implementation of the
International Public Sector Accounting Standards*****A. Introduction**

1. At its eleventh session,¹ the Committee on Budget and Finance (hereinafter “the Committee”) noted the recommendation of the United Kingdom’s National Audit Office² that the Court should decide to adopt the International Public Sector Accounting Standards³ (hereinafter “IPSAS”) and develop a strategy for their implementation.

2. In the proposed programme budget for 2009, the Court stated that it had taken the decision to adopt IPSAS in accordance with the recommendations of the External Auditors and in line with the November 2005 decision of the United Nations High-Level Committee on Management to adopt IPSAS.⁴ The Court was therefore seeking the approval of the Assembly of States Parties (hereinafter “the Assembly”) for the implementation of IPSAS.⁵

3. At its eleventh session, the Committee recommended that the Assembly decide that the Court work towards implementation of IPSAS in the medium term. It further recommended that the Court report to the Assembly at its eighth session, through the Committee, on the project plan and next steps towards implementing IPSAS, including the financial implications and necessary amendments to the Financial Regulations and Rules of the Court.⁶

4. In accordance with the above requests of the Committee, the present report provides general guidance on the implications of implementation of IPSAS in the Court, together with a detailed project plan.

* Previously issued as ICC-ASP/8/CBF.2/1.

¹ *Official Records of the Assembly of States Parties to the Rome Statute of the International Criminal Court, Seventh session, The Hague, 14-22 November 2008* (International Criminal Court publication, ICC-ASP/7/20), vol. II.B.2, para. 17.

² The audit of the financial statements of the International Criminal Court for 2008, recommendation 8.

³ IPSAS are a set of high-quality global financial reporting standards for application by public sector entities, prepared by the International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants. IPSAS aims to improve the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of resource allocation decisions, thereby increasing transparency and accountability.

⁴ *Official Records of the Assembly of States Parties to the Rome Statute of the International Criminal Court, Seventh session, The Hague, 14-22 November 2008* (International Criminal Court publication, ICC-ASP/7/20), vol. II.A, para. 66.

⁵ *Ibid.*, vol. II.A, para. 68.

⁶ *Ibid.*, vol. II.B.2, para. 18.

B. Implications

5. The preparation of financial statements can be underlain by the cash basis of accounting or by the accrual basis. The most significant difference between the two accounting systems relates to the time when transactions are recorded. Under a cash accounting system, revenue is not recorded until it is actually received, whereas under an accrual system, revenue is recorded when it is earned, even if it is not received until some future date. Likewise, under a cash system, expenses are not recorded until they are actually paid. In contrast, under the accrual system, expenses are recorded when they are incurred, even if they are not actually paid until a future date. Adoption of IPSAS at the Court will require a change from a cash-based system of accounting to full accrual accounting.

6. Overall, the impact on the Court of IPSAS implementation falls into five categories: the impact on accounting and financial reporting; the impact on budgeting; the impact on IT systems; the financial impact; and the impact on the Financial Regulations and Rules of the Court (hereinafter “FRR”).⁷

Impact on accounting and financial reporting

7. Expenses that are currently recorded in the period in which they are paid out will be recorded in the period in which they are incurred, while revenue that is currently recorded in the period in which it is received will be recorded in the period in which it is earned.

8. Liabilities for employee benefit obligations such as annual leave, vacation accruals, repatriation grants or termination liabilities will have to be fully recorded in the financial statements. Treating these liabilities on an accrual basis would allow the expenses of the Court to be allocated transparently over time.

9. Capital assets such as vehicles, furniture and equipment will be required to be recognized and depreciated in the financial statements. Depreciation expenses for capital assets will spread the acquisition cost of the asset over its useful working life across several years, rather than entering the full cost as an expense in the year of acquisition.

Impact on budgeting

10. IPSAS will require a full statement on budget performance and a reconciliation between the actual expenses in financial reporting and the budget. This may impact the basis of budgeting. The budget process would have to be reviewed to either adopt full accrual budgeting or continue with current budget practices, but with a reconciliation between the actual expenses in financial reporting and the budget. In addition, the Court may have to prepare two budgets i.e. a capital budget for fixed assets and an operating budget for normal operations.

Impact on IT systems

11. Changes will be required to be made to the IT systems in order that they can support IPSAS accounting requirements. In particular, the requirements to recognize and depreciate capital assets and to recognize expenses in the period in which they are incurred can be expected to require IT developments.

⁷ *Official Records of the Assembly of States Parties to the Rome Statute of the International Criminal Court, First session, New York, 3-10 September 2002* (United Nations publication, Sales No. E.03.V.2 and corrigendum), part II.D. Financial Regulations and Rules (as amended by resolution ICC-ASP/4/Res.10).

Financial impact

12. In the proposed programme budget for 2009, the Court stated that implementation of IPSAS would require significant investments in future years in people, information systems, project management, communications, training and testing.⁸

13. IPSAS implementation involves resources required to directly support IPSAS adoption within the Court, and a much smaller amount mainly for travel to participate as an observer organization in the ongoing United Nations meetings relating to IPSAS implementation. Participation in the twice yearly meetings would be an invaluable learning experience for the Court in terms of avoiding pitfalls encountered by early adopters and participating in the ongoing discussion of technical issues and their resolution.

14. Resources required to directly support IPSAS implementation will include investments in staff training, consultant support for the resolution of accounting issues and accounting practice changes, staff costs for the assignment of a full-time project leader and support starting in mid-2010, creation of a detailed accounting manual, analysis and revision of financial rules and regulations, and IT-related expenditures for software upgrades, licences and training.

15. The Court has the advantage of a modern integrated information system SAP, which already includes some of the major IPSAS requirements such as a fixed assets module and an inventory module. However, there will be costs associated with customizing these modules for use in IPSAS implementation. Also, effort will be required for system modification of financial statements structure, charts of accounts, trial balance maintenance and testing and revision of expenditure recognition procedures within the software modules.

Impact on the Financial Regulations and Rules

16. IPSAS adoption is expected to require changes to be made to the FRR of the Court. The detailed revisions to the FRR will be reviewed with expert IPSAS consultants when funding has been approved. These revisions would then be submitted for formal approval to the Assembly through the Committee. The current IPSAS task force has conducted a preliminary review and would note the following projected changes:

- a) Regulation 4.⁹ With expenditure being shown on the basis of delivery rather than legal commitment, regular budget appropriations not fully expended by the end of the year could be seen as reverting to donors in the form of surplus, even if the funds had been legally committed. In order not to disrupt or cancel work in progress, adequate regular budget funds would have to be carried forward from one year to the next for activities that had started but were not completed. However, IPSAS permits expense recognition in financial reporting to be different from the budget appropriation basis. Therefore, it is recommended that this regulation remains unchanged, and that reconciliation between budgeting and financial reporting be undertaken in the financial statements, as allowed under IPSAS 24.¹⁰

⁸ *Official Records of the Assembly of States Parties to the Rome Statute of the International Criminal Court, Seventh session, The Hague, 14-22 November 2008* (International Criminal Court publication, ICC-ASP/7/20), vol. II.A, para. 67.

⁹ *Official Records of the Assembly of States Parties to the Rome Statute of the International Criminal Court, First session, New York, 3-10 September 2002* (United Nations publication, Sales No. E.03.V.2 and corrigendum), part II.D. Financial Regulations and Rules (as amended by resolution ICC-ASP/4/Res.10).

¹⁰ International Public Sector Accounting Standards Board. IPSAS 24: Presentation of Budget Information in Financial Statements, issued December 2006. Standard 24 requires a comparison of

- b) Regulation 10, rule 110.20 (b)¹¹ will be modified to take into account the fact that fixed assets will become part of the formal financial statements and, as such, will be audited by the External Auditors.
- c) Regulation 11, rule 111.2 (a) (iv)¹² will be modified to reflect the fact that expenditures will include payments, other disbursements and accrued expenditures. Unliquidated obligations will be removed from this paragraph, as such obligations will no longer be considered expenditure under IPSAS.
- d) Regulation 11, rule 111.8 (b) (i)-(iii).¹³ The names of the relevant financial statements will become: (i) “statement of financial performance”; (ii) “statement of financial position”; (iii) “cash flow statement”; and a new statement will be added, entitled “statement of changes in net assets/equity”.

C. Project Plan

17. The Court’s project team has determined that the transition to IPSAS will require a significant amount of planning and accounting process review, together with the formulation of policies and procedural guidance. These changes will require a major customization of existing SAP software and new customization for currently unused fixed assets and inventory modules. Some of the changes include the following: existing software will require customization to accommodate the recognition of expenses on the basis of goods and services delivery. The current software is configured to recognize expense when an internal purchase order has been placed rather than when goods have been delivered. New software customization will be required for the fixed assets and inventory modules of SAP. This customization effort will require significant consultant time to accurately blueprint processes, incorporate accurate processes into the software configuration, and subsequently for testing and final acceptance.

18. As recommended by the Committee at its eleventh session,¹⁴ the Court intends to move steadily rather than rapidly towards implementation of IPSAS. This will allow the Court to take advantage of lessons learned during implementation by other international organizations, and to prepare the Court’s SAP system for change in the accounting standards.

19. Table 1 shows the planned timetable for the transition to IPSAS if funding can be approved as of the 2010 budget year for commencement of this effort.

budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities which are required to, or elect to, make publicly available their approval budget(s) for which they are, therefore, held publicly accountable.

¹¹ *Official Records of the Assembly of States Parties to the Rome Statute of the International Criminal Court, First session, New York, 3-10 September 2002* (United Nations publication, Sales No. E.03.V.2 and corrigendum), part II.D. Financial Regulations and Rules (as amended by resolution ICC-ASP/4/Res.10).

¹² *Ibid.*

¹³ *Ibid.*

¹⁴ *Official Records of the Assembly of States Parties to the Rome Statute of the International Criminal Court, Seventh session, The Hague, 14-22 November 2008* (International Criminal Court publication, ICC-ASP/7/20), vol. II.B.2, para. 18.

Table 1: Timeline for transition to IPSAS

TASK	2009	2010	2011	2012	2013	2014
IPSAS task force established.						
Project plan prepared.						
IPSAS training conducted for key IPSAS participants (Budget & Finance, Procurement, Internal Audit, IT).						
Budget estimate for launching project in 2010 prepared.						
IPSAS Task Force blueprints all accounting process changes for subsequent review with IPSAS consultants and later implementation by SAP consultants.						
IPSAS expert consultants to review and revise process blueprints and assist with accounting manual preparation. Work will include detailed analysis of IPSAS impact on the Court.						
Prepare "mock" financial statements based on IPSAS.						
SAP-IPSAS consultants in cooperation with procurement, IT and accounting staff to customize fixed assets and inventory modules.						
Financial consultant to review accounting for employee benefits to ensure IPSAS compliance.						
SAP-IPSAS consultants in cooperation with procurement, IT and accounting staff to customize existing procurement and accounting modules to incorporate full accrual accounting.						
Attend meetings of United Nations implementing bodies to keep abreast of lessons learned.						
Prepare capital assets and inventory detailed implementation plan.						
Address budget effects to include capital budget, operating budget issues and need to either use a common basis of accounting between budget and financial statements or reconcile them.						
Finalize FRR changes required and submit to Committee at its April session for approval.						
Begin implementation in a phased approach by starting full accrual accounting in the procurement of goods and services.						
Complete development, testing and evaluation of new processes, policies, manuals and other procedural guidance.						
Review and decide on final new budget procedures: either full accrual or continue on modified accrual (near cash) basis.						
Implementation of new accounting policies and procedures to include adding fixed assets, depreciation, inventory, vacation accruals and after-service benefits to the financial statements.						
Implement new budget procedures determined in 2012-2013.						
Go live in all aspects of IPSAS.						
Produce IPSAS-compliant financial statements for 2014 financial year.						

D. Budget

20. The budget estimate for IPSAS implementation at the Court over the next five years is provided in table 2 below. This is in addition to the estimated 30 work-months of Court staff time that will be required to be absorbed during this same period.

Table 2: Budget estimate for IPSAS implementation

Item	Amount €	Year of expected expenditure				
		2010	2011	2012	2013	2014
<i>Staff resources:</i>						
IPSAS financial experts	150,000	50,000	50,000	50,000		
SAP expert consultants – customization	300,000		150,000	150,000		
Modifications to existing reports	565,000	140,000	200,000	225,000		
Changes to system for capital projects expenditure tracking & reporting	130,000	43,333	43,333	43,333		
P-3 project leader (4.5 years)	484,502	107,667	107,667	107,667	107,667	53,835
GS-OL project assistant (3.5 years)	233,800	33,400	66,800	66,800	66,800	
<i>Training:</i>						
IPSAS and SAP	75,000	25,000	25,000	25,000		
<i>Travel:</i>						
CEB and SAP networks	30,000	10,000	10,000	10,000		
Total estimated €	1,968,302	409,400	652,800	677,800	174,467	53,835

E. Conclusions

21. The Court has taken the decision to adopt IPSAS in accordance with the recommendations of the External Auditors¹⁵ and as recommended by the Committee at its eleventh session.¹⁶ In accordance with these recommendations, the Court has developed a project plan and a strategy to implement IPSAS in the medium term, which provides an overview of the potential implications and amendments to the Financial Regulations and Rules of the Court.

22. The Court's financial statements are prepared in accordance with United Nations System Accounting Standards. As stated by the External Auditors,¹⁷ once the United Nations system has adopted IPSAS, the current standards will cease to represent an accounting framework against which it will remain appropriate for international organizations to report their financial results, or on which it would be appropriate for external auditors to express an opinion. Furthermore, the Court recognizes that the adoption of IPSAS will improve the quality of its financial reporting, which will lead to better informed assessments of resource allocation decisions, thus increasing transparency and accountability.

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¹⁵ Ibid., para. 17.

¹⁶ Ibid., para. 18.

¹⁷ The audit of the financial statements of the International Criminal Court for 2008, para. 52.