

**Tenth session**

New York, 12-21 December 2011

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

1. At its eleventh session, the Committee on Budget and Finance (hereinafter “the Committee”) noted the recommendation of the External Auditor that the International Criminal Court (hereinafter “the Court”) should decide to adopt the International Public Sector Accounting Standards (IPSAS) and develop a strategy for implementation.¹ The Committee recommended that the Court report on the project plan and next steps towards implementing IPSAS, including the financial implications and necessary amendments to the Financial Regulations and Rules. The Committee further suggested that implementation in 2011 or 2012 might be a target for the Court.²

2. In addressing the request of the Committee, the Court provided guidance on the implications of implementation of IPSAS, together with a detailed project plan and budget estimate for the years 2010-2014.³ The Committee was of the view that the Court could safely defer implementation in order to assess the outcome of the system’s implementation in other organizations and requested the Court to provide an updated report on its assessment.⁴

3. In its report to the fourteenth session of the Committee, the Court took stock of the experience of other international organizations with regard to the adoption of IPSAS and informed the Committee on some of the major impacts and milestones of IPSAS adoption.⁵ The Committee considered the report and recommended that the Court review its cost estimate for IPSAS implementation following further consideration of the experience of other organizations, and provide a more comprehensive report, to include a proposed implementation schedule along with its budget proposal.⁶

*Previously issued as CBF/16/3.

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* (ICC-ASP/7/20), vol. II, part B.2, para.17.

² *Ibid.*, para.18.

³ ICC-ASP/8/26.

⁴ *Official Records ... Eighth session ... 2009* (ICC-ASP/8/20), vol. II, part B.2, para.13.

⁵ ICC-ASP/9/3.

⁶ *Official Records ... Ninth session ... 2010* (ICC-ASP/9/20), vol. II, part B.1, para.42.

4. At its fifteenth session, the Committee considered the report of the Court on its proposed schedule and budget for the implementation of IPSAS⁷ and recommended that €32,600 be added to the 2011 proposed programme budget to allow for the commencement of IPSAS implementation.⁸ The Committee further recommended that the Court develop an overarching plan for implementation, including identifying sections of the Financial Regulations and Rules that may require amendment, and report to the Committee at its next session.⁹

5. In the present report, the Court outlines its effort and initiatives taken to move forward the project according to the proposed implementation schedule.¹⁰

II. Recent developments

6. The Court has become a member, with observer status, of the Task Force on Accounting Standards of the UN High Level Committee on Management (HLCM). Observer status will allow participation in the Task Force's meetings, registration on its website and access to all documentation, communications and training materials produced by it.

7. The Court has also contacted other comparable organizations in the Netherlands and elsewhere to learn from the experiences of early adopters of IPSAS. Areas in which such contacts can benefit the Court include cost saving and knowledge sharing, sharing of training and training materials, customization of ERP systems, harmonization of accounting policies and coordination with oversight bodies.

8. The Court has elected to commence IPSAS implementation with effect from 1 July 2011, which will allow it to make a full consideration of the organizational impact and to make the necessary preparatory investment, and to learn from the experience of early adopters.

9. The vacancy for IPSAS Project Coordinator, a P-4 post, has already been advertised. It is expected that a suitable candidate will have been recruited by mid- 2011. UN System organizations staff and private sector candidates with IPSAS or IFRS implementation experience are encouraged to apply. UN staff with expertise may be considered on secondment. Without a suitable team leader in place, significant risks are posed to the overall implementation of the project. Further, two GS-OL staff will also be recruited to become the direct project support team. Once the Project Coordinator is in place, efforts will be made to speed up the recruitment of a P-2 Associate Officer. The IPSAS Coordinator will be responsible for developing a more detailed, comprehensive plan for implementation of the Project, including the indication of milestones.

10. Consultations have been held with the External Auditor on the problems of transition to an IPSAS compliance regime from the present UNSAS accounting standards followed by the Court. It has been agreed that the best way forward is to commence implementing accounting policies and procedures that satisfy both UNSAS and IPSAS with immediate effect. This is also in line with the last amendment to UNSAS standards, which recognises that such efforts will be encouraged and also be considered to be in compliance with UNSAS standards. Efforts are underway to obtain guidance from the Audit Committee of the Court, which will in turn be kept regularly informed of progress with IPSAS implementation, and of any problems arising.

III. Implementation schedule

11. Implementation status and milestones for 2010 and 2011 are shown in the table below. The plan is in line with the initial proposed IPSAS implementation timeframe in the last report of the court on IPSAS to the Committee.

⁷ ICC-ASP/9/18.

⁸ *Official Records ... Ninth session ... 2010* (ICC-ASP/9/20), vol. II, part B.2, para. 64.

⁹ *Ibid.*, para. 65.

¹⁰ ICC-ASP/9/18.

Table 1: IPSAS implementation Plan for 2011 and actual for 2010

<i>Task</i>	<i>2010</i>	<i>2011</i>
IPSAS Proposal and Budget to CBF	√	
IPSAS Budget for 2011 approved by the Assembly	√	
Prepare TOR for IPSAS Project Coordinator		√
Prepare TOR for IPSAS Project team staff		√
Advertise Vacancy Notice for Project Coordinator		√
Match vacancies against roster of candidates for Project team staff		√
ICC membership of UN IPSAS Task Force		√
Prepare Preliminary Project plan		√
Prepare IPSAS training plan		
Develop IPSAS training material		
Review chart of accounts and existing policies with a view to formulating the necessary changes		
Prepare detailed gap analysis		
SAP-IPSAS consultants in cooperation with procurement, IT and accounting staff to review and prepare blueprint for asset management SAP modules		
Review accounting for employee benefits to ensure IPSAS compliance		
SAP-IPSAS consultants in cooperation with procurement, IT and accounting to customize existing procurement and accounting modules to incorporate full accrual accounting		
Prepare list of existing capital assets and inventories in HQ and field		
Attend meetings of UN implementing bodies to keep abreast of lessons learned		
Consultations with auditors on various applications of IPSAS standards to financial policies and procedures		√

IV. IPSAS impact and gap analysis

12. IPSAS adoption will represent major organisational challenges that will require significant investment in staff, communication, training, and information systems.¹¹ For this purpose, a broad initial effort has been made to identify the potential impact of IPSAS adoption on the Court, and to identify gaps in terms of IPSAS compliance requirements in relations to the present status of the Court. An analysis of the potential impact is given below.

A. Impact on accounting issues

13. IPSAS will require accounting policies to be compliant with relevant standards, and this exercise is a key stage of any implementation plan. It will require the Court to systematically assess its business processes, consider the appropriateness of existing accounting treatments and identify where they need amendment.

14. In terms of issues relating to recognition of income, expenditure, assets and liabilities of the Court, there are indications that IPSAS may have the following impact:

(a) A substantial part of the Court's income in respect of the general fund arises from assessed contributions and should not be affected by IPSAS; other income will be recognised when it is due to the Court rather than when it is received.

¹¹ E/ICEF/2007/AB/L.12.

(b) Expenditure will no longer be recorded when committed, but will instead be accrued when goods and services have been received. IPSAS will require the Court to match the use of resources to the period of activity, and it is likely that this change will have a significant impact on expenditure profiles. For example, expenditure on property, plant and equipment will no longer be entered as such on acquisition. Instead, costs will be capitalised and depreciated as they are consumed over the life of the asset. This is likely to be significant in respect of the capitalisation of costs relating to the new court premises, providing a more accurate measure that will aid the assessment of trial costs.

(c) The change in expenditure recognition policy will also affect liabilities. Financial statements will no longer report unliquidated obligations, and will only include accruals where the goods and services have been delivered but not necessarily yet paid for. The Court already makes provision for some end-of-service liabilities; these include the costs of repatriation grants. Other liabilities such as the cost of accrual for accumulated staff leave entitlements will also be included. All these liabilities will need to be fully reported in the Statement of Financial Position, and will require more detailed evidence to support them. Consequently IPSAS will provide a more accurate measure of the Court's liabilities. Additional disclosures will also be required to report any related-party transactions, including the total remuneration of senior management personnel.

B. Impact on the Financial Regulations and Rules (FRR)

15. Several provisions of the current Financial Regulations and Rules of the Court will be affected by the adoption of the IPSAS standards, and hence will need to be changed. However, only some of the standards will have direct impact on the FRR, and these have been identified below. The standards that will have the most significant impact are:

- IPSAS 1 – Presentation of Financial Statement
- IPSAS 2 – Accounting Policies
- IPSAS 3 – Effects of changes in Foreign Exchange Rates
- IPSAS 4 – Consolidated and Separate Financial Statements
- IPSAS 5 – Revenue from Exchange Transactions
- IPSAS 6 – Inventories
- IPSAS 7 – Leases
- IPSAS 8 – Property Plant and Equipment
- IPSAS 9 – Segment Reporting
- IPSAS 10 – Related Party Disclosure
- IPSAS 11 – Revenue from Non-Exchange Transactions
- IPSAS 12 – Presentation of Budget Information in Financial Statements
- IPSAS 13 – Employee Benefits
- IPSAS 14 – Intangible Assets

16. By way of illustration, IPSAS 4 (Effects of changes in Foreign Exchange Rates) will affect Financial Rules 105.2 and 111.5(c); IPSAS 12 (inventories) will affect Financial Rule 110.6 and Regulation 8. Under the Court's current system and within the context of FRR 110.6 and 8, an expense is recognised at the point of issue of the Purchase Order, which initiates the recording of an unliquidated obligation. Thus, the obligation is recorded before the relevant goods or services are received. This means in effect that intentions are reported as implementation. However, under Financial Rule 108.5(b) disbursements are recorded in the accounts at the time when they are made. IPSAS 12, on the other hand, allows recognition of expenditures only when delivery has actually occurred and also requires that inventory be capitalized (at acquisition) and disclosed at appropriate value. The inventory will be transferred to expenses as and when control on it is relinquished for utilization.

17. IPSAS 12 will allow for better control of inventories, but will also require additional effort to conduct physical counts to access their closing values for reporting, as well as the putting in place of structures to track expenditures and record them at the appropriate time.

18. At this early stage, not all issues impacting on the Court's Financial Regulations and Rules can be identified. The Court will be compiling a comprehensive list of necessary changes as implementation progresses. However, reference may already be made to the document¹² issued by the HLCM IPSAS Task Force, and endorsed by the Finance and Budget Network at its Meeting of 21 November 2005. In that document, the Task Force outlined the major implications of IPSAS for the accounting, financial reporting and associated IT systems of participating organisations.

V. Impact on budget issues

19. IPSAS 24 (Presentation of Budget Information in Financial Statements) prescribes mandatory presentation of budget amounts against accounting data. Two main options are available when making the transition from cash basis to accrual-based accounting:

(a) Given that the Court's budget information (monitoring of the execution of the adopted budget) will continue to be presented on a cash basis, the transition to IPSAS may lead to a marked dissociation between accounting and financial data, unless appropriate systems are put in place; and

(b) To fully apply the principle of accrual-based accounts to both budget and general accounts, the budgetary balance will correspond to the difference between budgetary entitlements and obligations established in the course of the financial year, irrespective of the amounts disbursed or collected.

VI. Impact on ERP Systems

20. While there are a number of areas of financial statements which will be affected by IPSAS, the existing accounting software used by the Court, namely SAP, with the addition of some further modules and customization to existing functionalities, should be sufficient. At this stage, it does not appear that the Court will need a radical reform of its existing accounting system.

A. Impact on asset management

21. IPSAS will require suitable software to support the management of the court's assets in financial reporting in compliance with requirements under IPSAS 17 (Property, Plant and Equipment), IPSAS 1 (Presentation of Financial Statements), IPSAS 12 (Inventories) and IPSAS 31 (Intangible Assets).

22. The Court does have an old version of the Asset Management Module, which was bundled with the original SAP system, acquired by the Court some years ago. However, the existing blueprint, dated 2005, was not written with IPSAS-compliant requirements in mind, and hence needs to be revisited and reassessed for compatibility. A SAP module will need to be acquired to manage different asset classes, including fixed assets and inventories. Such a system should have the capability and expertise to acknowledge depreciation with user-friendly functionalities, fast, dependable performance and data security. The existing SAP blueprint will also need to be reconfigured to conform to the SAP Assets Module implementation.

¹² JIU/REP/2010/6.

B. Impact on current SAP system

23. As the External Auditor pointed out in its 2009 report, the existing SAP system will need to be adapted and upgraded so as to take account of changes in accounting practice under IPSAS. For example, transaction and delivery dates are often not the same, and their accounting treatment is different under each system. Thus the signing of a contract will have no accounting impact. The only accounting reference will be the date of delivery/provision of the service purchased, rather than the date of commitment of budget funds. Receipt of the payment request will become the key event. It will no longer be a matter of liquidating a funds reservation, but of recording each event once it has actually occurred. All these conditions and transactions create gaps that will require harmonization in the current SAP modules so as to achieve an IPSAS-compatible SAP system.

24. During 2011, preparation for the implementation of a harmonized Asset Management Module with SAP will be carried out. This will mean revising existing Asset Management Blueprints in order to:

- (a) Validate findings of the Asset Management Blueprint performed in 2005;
- (b) Perform Gap Analysis of proposed blueprint to match IPSAS compliance;
- (c) Validate current Asset Management software in SAP; and
- (d) Perform Gap Analysis of software suitability against new IPSAS compliant model.

C. Impact on Revaluation of Assets and Liabilities

25. During 2012, a comprehensive assessment of all assets for their fair value will be carried out. Also, the SAP Asset Module will be configured against the approved IPSAS blueprint using standard IPSAS asset depreciation models based on the straight-line depreciation method. Some additional costs will be incurred to provide fair valuations of Court assets which have already been fully written off in our books of accounts. Court agreements on leases will also have to be reviewed to ensure IPSAS compliance (IPSAS 13).

26. There may also be a need to revalue liabilities in relation to judges' pensions, using licensed actuarial valuers.

D. Impact on Financial Statement presentation

27. Extensive customization will be required in the area of Financial Statement presentation, which will be taken up during the later years of IPSAS implementation. Under IPSAS, any event which impacts the reporting entity's wealth must be recognized at the time it occurs. Under traditional cash-based accounting methods, expenses and revenues need not be recorded in the period to which they relate; expenses and revenues, together with capital spending, are booked in total in the year in which the capital purchase or disposal is made. In addition, cash-based accounts do not fully recognize assets and liabilities. By contrast, accrual-based accounting measures an entity's performance and financial position by recognizing economic events at the time when transactions occur (instead of when payments are made). As a result, Financial Statements prepared on an accrual basis should provide information about elements such as the resources controlled by the reporting entity, the cost of its operations (cost of providing goods and services), cash flow and other useful financial information about its performance and financial resilience.

VII. Implementation strategy

28. The Court's Coordination Council (CoCo) will provide strategic and political leadership. Provision will also be made for an internal and/or external advisory oversight body, including the Audit Committee, in addition to the project manager and project team (which will carry out the detailed implementation work). The project team should be generally supported by specific working teams, consisting of key managers from all the relevant functional areas, assigned with the task of providing technical expertise based on the Court's implementation activities.

A. Strategy for Communication

29. Communication strategy, both internal and external, will be critical to the successful implementation of IPSAS. As the Court's implementation of the project develops and advances, the Court will inform relevant stakeholders through regular progress reports. Core communication activities would involve:

- (a) Maintenance of a stable system-wide policy platform;
- (b) Supporting the Court's project team through meetings;
- (c) Monitoring IPSAS Board activities to update and disseminate of relevant information;
- (d) Developing frameworks and working tools in support of harmonized approach to addressing implementation in diversity;
- (e) Ensuring ad hoc support from UN Task Force on various IPSAS policy and implementation issues; and
- (f) Supporting communication and knowledge sharing activities.

B. Strategy for Staff Training

30. The IPSAS Coordinator will be given responsibility for developing a comprehensive and detailed staff training plan, together with relevant training materials. Training would be supported by external and internal resources, consisting of finance professionals tasked with providing technical expertise.

31. Existing presentation and training materials prepared by United Nations System organizations which have in the past indicated that they have developed orientation or other training materials will be contacted to determine the extent to which these materials are suitable and their willingness to share them. Pooling of efforts by other IPSAS adopting organizations, such as OPCW, with a view to sharing basic training materials will complement the use of internal or contracted resource materials.

32. Training products will be modular and will offer options for alternative methods of delivery (instructor-led and computer-based). This will allow the Court to deliver training in a flexible way to meet its specific needs.

Table 2: Proposed training programme

<i>UN System-wide training course on the implementation of IPSAS</i>			
<i>IPSAS Training Course Name</i>	<i>Course Number*</i>		<i>Level</i>
1. Orientation to IPSAS	CBT-1		Introductory
2. Accrual Accounting under IPSAS – The Basics	CBT-2	ILT-1	
3. Accrual Accounting under IPSAS – Beyond the Basics		ILT-2	
4. Accounting for Property, Plant & Equipment	CBT-3	ILT-3	Working level
5. Accounting for Inventories	CBT-4	ILT-4	
6. Accounting for Employee Benefits – The Basics	CBT-5		Specialist
7. Accounting for Employee Benefits – The Basics & Beyond		ILT-5	
8. Accounting for Leases	CBT-6	ILT-6	
9. Accounting for Provisions & Contingent Liabilities & Assets	CBT-7	ILT-7	Working level
10. Accounting for Intangible Assets		ILT-8	
11. Accounting for Financial Instruments		ILT-9	Specialist
12. Advanced Topics in Financial Reporting		ILT-10	
13. Preparing Accrual-Based Financial Statements		ILT-11	

*The training suite consists of 7 Computer-Based Training (CBT) courses and 11 Instructor-Led Training (ILT) courses. In total 18 courses have been developed.

C. Strategy for customization and improvement to current SAP system

33. To ensure that staff have access to high quality financial and accounting data, the Court needs to improve the current functioning of the SAP system at the same time as it develops the new architecture. This improvement will be a priority in 2012 and will continue to be so in 2013.

Table 3: Proposed timeline for IPSAS implementation

<i>Task</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
SAP-IPSAS consultants in cooperation with procurement, IT and accounting staff customize fixed assets, inventory and general ledger modules.			√			
Financial consultants review accounting for employee benefits to ensure IPSAS compliance.			√			
SAP-IPSAS consultants in cooperation with procurement, IT and accounting customize existing procurement and accounting modules to incorporate full accrual accounting.			√			
Prepare capital assets and inventory detailed implementation plan.			√			
Attend meetings of UN implementing bodies to keep abreast of lessons learned.	√	√	√	√		
Consultations with auditors on various applications of IPSAS standards to financial policies and procedures.			√	√		
Address budget effects to include capital budget, operating budget issues and reconcile and explain the variances between budget and financial statements.					√	
Finalize FRR changes required and submit to CBF for approval.				√		
Begin implementation in a phased approach by starting full accrual accounting in the procurement of goods and services.					√	

<i>Task</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
Complete development, testing and evaluation of new processes, policies, manuals and other procedural guidance.				√		
Implementation of new accounting policies and procedures to include fixed assets, depreciation, inventory, vacation accruals and after-service benefits to the financial statements.				√		
Implement new procedures determined in 2012-2013.			√	√		
Go live in all aspects of IPSAS from 1 January 2014.					√	
Produce IPSAS-compliant financial statements for 2014 financial year.					√	
Audit of opening balances as of 1 January 2014.					√	

VIII. Major challenges

34. Delays in the implementation plans and milestones might oblige the revision of the timeframe for the project. For example the recruitment of the IPSAS Project Coordinator and other Project team staff is subject to external factors that might influence the timeline for implementation.

35. Changes to the Financial Regulations and Rules will entail a lengthy process of review and approval by the Assembly. Consensus has to be reached among stakeholders with regard to the change in accounting policies and business processes. The capacity for monitoring of the Project milestones and for prompt remedial action when necessary will need to be strengthened accordingly.

36. Change management is another key issue, and the support of senior management and oversight bodies will be critical to success of the Project.

37. To apply the accrual principle to the general accounts only, while budget implementation remains subject to the cash principle, will entail a “dual” system, whereby a reconciliation has to be made on a yearly basis, published in notes to the Financial Statements and certified by the auditor. One of the main challenges of IPSAS adoption is matching FS information to budgets, a practice which may help to better assess the performance of the reporting organization. This will require an explicit yearly (or quarterly) reconciliation of budget and Financial Statements.

IX. IPSAS budget

38. The costs for IPSAS standards implementation at the Court approved by the Assembly for the current year, as well as anticipated expenditure in future years, are shown in Table 4 below. There is no change in the overall budget or in yearly allocations. Some minor adjustments have been made to redeploy funds between certain outputs based on the experience gained so far.

Table 4: Approved and anticipated annual expenditures for IPSAS implementation

<i>Item</i>	<i>Amount €</i>	<i>Year of expected expenditure</i>				
		<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
Staff resources:						
IPSAS short-term consultancy for policy revisions	60,000	30,000	30,000			
SAP expert consultants – customization	145,400		82,700	62,700		
UN IPSAS Task Force Membership Fee	45,000	15,000	15,000	15,000		
Modifications to existing system reports	205,050	51,350	50,000	55,000	19,350	29,350
Printing and Publications	40,000			20,000	10,000	10,000
Changes to system for HR, and financial recognition of business processes	180,000	30,000	60,000	50,000	20,000	20,000
P-4 IPSAS Project Coordinator (4.0 years)	450,450	64,350	128,700	128,700	128,700	
P-2 IPSAS Standards and Systems Associate Officer (3.5 years)	232,850	29,600	89,200	89,200	24,850	
GS-OL Project A assistants - Two (3.5 years)(G6 and G5)	403,800	67,300	134,600	134,600	67,300	
Training:						
IPSAS and SAP	90,000	30,000	30,000	30,000		
Travel:						
CEB and SAP networks	40,000	10,000	10,000	10,000	10,000	
Miscellaneous	25,000	5,000	5,000	5,000	5,000	5,000
Total estimated €	1,917,550	332,600	635,200	600,200	285,200	64,350

X. Conclusion

39. The Court notes that the adoption of IPSAS will be a major exercise that will require changes to the Financial Regulations and Rules and a significant investment in the management of their introduction to the Court, including staff training, development of relevant guidelines, resolution of accounting issues and information systems development.

40. For a successful transition to IPSAS, it is critical to first undertake a more detailed gap analysis of business processes, procedures, financial reporting and functionalities developed and currently existing at the Court, and subsequently to conduct an in-depth analysis of the requirements and impact of each IPSAS standard, taking account of lessons learned from the Accounting Standards Task Force of the UN HLCM, as well as from other international organisations. Such an analysis will be led by the IPSAS team, once on board.