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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 ("the Committee") recommended that the Assembly of States Parties ("the Assembly") decide that the International Criminal Court ("the Court") work towards implementation of International Public Sector Accounting Standards (IPSAS) in the medium term.[1]

2. At its sixteenth session, the Committee welcomed the report of the Court on IPSAS[2] and observed that the Court had included a proposed implementation schedule along with its proposed budget.[3] The Committee also noted that implementation of IPSAS would have a profound effect on the financial management and budgeting procedures of the Court.

3. At its seventeenth session, the Committee was informed that the Court had already commenced IPSAS implementation with effect from 1 July 2011. The Committee recommended that implementation of the IPSAS project be rigorously monitored, and that a detailed project plan and a draft proposal of all required changes to the Financial Regulations and Rules be submitted to the Committee at its eighteenth session.[4]

4. At its eighteenth session, the Committee considered the Progress Report of the Court on the implementation of IPSAS.[5] The Committee requested the Court to submit further explanation of the implications of each of the three main options for the transition to accrual accounting from the perspective of the budget.[6] Since the Court referred to its current budgeting practice as "modified cash", the Committee requested clarification on what elements of accruals were used in the current budget practice. The Committee also requested an updated budget and a thorough overview of the implications of implementing IPSAS for external users of financial information. These requests have been addressed in this report.

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* Previously issued as CBF/19/2.
[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. 18.
[2] ICC-ASP/10/3.
[2] *Official Records…Tenth session…2011* (ICC-ASP/10/20), vol. II, part B.1, para 49.
[4] Ibid., part B.2. para 71.
[5] ICC-ASP/11/3.
[6] ICC-ASP/11/5, para. 37.

II. Further explanation of the implications of each of the three main options for the transition to accrual accounting from the perspective of the budget

5. The report[7] prepared by the Joint Inspection Unit of the United Nations provides an overview of the transition to IPSAS, and its implementation status, within United Nations system organizations. That report aims to show how this process has been carried out by each organization, with a focus on identifying best practices and possible risks, as well as addressing budget implications. The report concludes that most international government organizations which have already moved to accrual-based accounting (including the European Commission) find it difficult to introduce accrual-based budgeting, at least in the short term. In the long term it is argued that the benefits of accrual accounting can only be fully realized and embedded if budgets are also prepared on an accruals basis. The United Kingdom[8] is one of the few European countries which has taken up the challenge and adopted accrual-based budgeting. However, the transition took thirteen years to complete.

6. In the Court's previous report to the Committee, three options from the perspective of the budget were identified: cash budgeting, accrual budgeting and modified cash budgeting. In cash budgeting, the budgetary balance represents the difference between budgetary appropriations and expenditures based on amounts collected and disbursed. The budgetary balance in accrual-based budgeting is the difference between revenue earned and expenses incurred based on the occurrence of activities generating revenues/expenses within the financial period, irrespective of the amounts actually collected or disbursed.

7. Firstly, the Court would point out that the Court's budget has never been wholly cash-based; the Financial Rules and Regulations ("FRR") have always recognized the concept of 'obligation', as stated in financial regulation 4.1, 4.5 and detailed in rules 110.2 to 110.8. Therefore, the Court has always budgeted for, and charged against the budget, 'unliquidated obligations' in addition to disbursements. Rule 110.8 states that "an obligation must be based on a formal contract, agreement, purchase order or other form of undertaking, or on a liability recognized by the Court". The budgeting basis established by the FRR can thus be described as 'commitment-based budget', or 'modified cash budget'.

8. Therefore, given that the Court is changing its accounting policies, which will be applied in the preparation of financial statements, and adopting full accrual accounting, the question now arises whether the Court should move to accruals-based budgeting and when this transition should take place.

9. The differences between accruals-based and cash-based recording of transactions are essentially differences in timing. Transactions that give rise to asset recognition under accrual accounting are either transactions that involve cash outflows before the asset is recognized (e.g. advance payments to staff or suppliers, acquisition of tangible and intangible assets, financial investments, etc.) or transactions that involve cash inflows after the asset is recognized (e.g. receivables from States Parties, accrued income). Transactions that give rise to recognition of liabilities under accrual accounting are either transactions that involve cash inflows before the liability is recognized (e.g. host State loan, deferred income/contributions received in advance), or cash outflows after the liability is recognized (e.g. employee benefit liabilities, accounts payables, accrued expenses and provisions).

10. The purpose of accrual-based accounting is to give a better view of the financial performance of the reporting entity by allocating revenue and expenses to appropriate financial reporting periods, thus providing a truer picture of the reporting entity's financial position by showing net assets/equity (assets minus liabilities) at the end of the reporting period.

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[7] *Preparedness of United Nations System Organizations for the International Public Sector Accounting Standards*, Joint Inspection Unit, United Nations, 2010.

[8] In the *Overview of Accrual Accounting and Budgeting Practices in Individual Countries*, prepared by OECD in 2009, only four developed counties were identified as applying full accrual budgeting: Australia, New Zealand, Switzerland and the United Kingdom.

11. The differences between full accrual budgeting and existing budgeting practice for the Court arise mainly in relation to the following items:[9]

(a) Tangible and intangible assets: under accrual accounting, only depreciation charges are accounted for as expenses, while for budgeting purposes acquisition costs are charged against appropriations as expenditures at the time the commitment is created (i.e. purchase order is placed, contract or agreement concluded). Should full accrual budgeting be applied, the budgeting methodology would have to be changed. In any case, there would be a need to establish a mechanism to ensure that funding is available for asset acquisitions. This would be either through a separate capital budget, which would still be commitment-based, but would recognize non-cash charges such as depreciation, or through creation of a capital replacement reserve to cover accumulated depreciation, from which the Court would have authority to draw in order to replenish or replace depreciated assets;

(b) Non-staff costs are currently recognized as expenditure at the time the commitment is created (i.e. purchase order is placed, contract or agreement concluded). Should full accrual budgeting be applied, the time of delivery would be relevant: i.e. expenditure would be charged against the budget when the goods and services are delivered. Therefore, programme managers would have to budget for 'deliveries' of goods and services and not for commitments. Even though the differences in expenses reported on an accruals basis and expenditure reported on a commitment basis is not expected to be significant in annual terms,[10] there are certain practical difficulties relating to budgeting for deliveries. The main one is related to the length of the procurement process, as well as other factors relating to the supplier's performance, which are difficult to estimate and are not under the programme manager's control;

(c) Expenses in respect of employee benefits have in the past been accounted and budgeted for on a cash basis. When accounting policies were changed to include elements of accrual accounting, these were also replicated in the budgeting practice.[11] The Court thus already applies accrual budgeting for specific transactions related to employee benefits. However, the basic budgeting methodology has remained unchanged. Staff costs are budgeted for by adding to salary costs a percentage representing common staff costs (which includes a number of payroll staff benefit elements) and including an element to take account of delayed recruitment. This percentage has not changed since 2006, and has so far been sufficient to absorb additional accrued charges. By charging the increase in annual leave accrual and repatriation grant accrual against annual appropriations, the Court has been funding liabilities part of which will be settled only in the medium or long term. Applying accrual budgeting in the area of staff costs has also revealed certain practical difficulties in past years. For example, the expense in respect of untaken annual leave and repatriation grant is difficult to estimate, as closing leave balances and foreign exchange rates are not known until year-end;

(d) In relation to the host State loan, only interest repayments would be considered an accrual-based expense. On the other hand, budget appropriations need to be available to cover payment in full of each loan instalment, including repayment of the principal; and

(e) Provisions relating to judicial activities: it is possible that, in the future, provision (i.e. a liability of uncertain timing or amount) may need to be recognized as a result of judicial activities. For example, should an accused be acquitted, he could be entitled to compensation from the Court. In this situation accrual accounting would recognize such a provision before the cash outflow was actually required, and the relevant expenditure might be budgeted for at a later stage.

[9] Due to the complexity of IPSAS, the items presented below are simplified and cannot be considered exhaustive, but are nevertheless indicative of the main differences.
[10] For example, certain goods and services charged against appropriations in 2012 will only be delivered in 2013, and therefore not recognized as expenses in 2012, but at the same time a similar value of goods and services that have been charged against the 2011 budget will be delivered during 2012 and therefore recognized as expenses in 2012.
[11] Questions and answers, second set, CBF, eighteenth session.

12. Unlike the views on accrual accounting, views on accrual budgeting differ significantly,[12] and support is considerably lower compared to accrual accounting. States which have introduced accrual budgeting are in a minority and the Court is unaware of any UN system organization that has made the transition to accrual budgeting.[13] Among others, critics of accrual budgeting argue that accruals introduce technical complexity into budgeting, making it less transparent and less readily understandable.

13. The Court is monitoring developments in financial management within UN system organizations and does not currently envisage any change in its current budgetary practices towards the application of full accrual budgeting.

III. Clarification on what elements of accruals are used in the current budget practice

14. The Court uses certain elements of accruals in its current budget practice. The Court's practice to date in its financial statements, in line with United Nations Accounting Standards (UNSAS), has been to present a Statement of assets, liabilities, reserves and fund balances which lists certain assets and liabilities. Each asset and liabilities item recognized (except cash balances) in this Statement effectively represents a departure from cash-based accounting. The Court has thus applied a modified cash basis of budgeting and accounting. The following non-cash items are included in the budget out-turn report and are reflected in the Court's liabilities:

(a) Contributions received in advance: contributions received in advance are shown on the balance sheet as a liability;

(b) Unliquidated obligations: commitments entered into that have not been disbursed during the financial period in question. Obligations are based on a formal contract, agreement, purchase order or other form of undertaking, or on a liability recognized by the Court. Current-period obligations remain valid for 12 months after the end of the financial year to which they relate;

(c) Other accounts payable, mainly consisting of amounts payable to suppliers. On the principle of accrual-based accounting, all invoices dated until year end represent an account payable of the Court for that financial year and are booked in the accounting system of the same year. Unpaid invoices at year-end are paid in the subsequent financial year;

(d) Provision for US tax liability: the estimated tax liability for United States taxpayers on the payroll of the Court that has been incurred during the current financial period. The Court settles these liabilities in a subsequent financial period. According to the fundamental principles of the International Civil Service, all employees of the Court are entitled to exemption from taxation on Court salaries, emoluments and allowances paid by the Court;

(e) Provision for ILO cases: Former staff members of the Court have filed cases with the International Labour Organization Administrative Tribunal (ILOAT). The Court makes an appropriate provision when it is probable that the Court will have to make payments to those staff members;

(f) Repatriation grant liability: internationally recruited staff members who separate become entitled to repatriation grants after one year of service. Similarly, judges become entitled to receive a relocation allowance after five years of service, upon termination of duty. The Court recognizes these items as liabilities; and

(g) The annual leave balance represents unused annual leave for Court staff members and elected officials and is recognized as a liability on the balance sheet.

[12] *Issues in Accrual Budgeting*, OECD Journal on Budgeting - Volume 4, no.1, OECD 2004.
[13] *Budget Reporting and Reconciliation Working Group, Task Force on Accounting Standards*, High Level Committee on Management, United Nations, presentation by UNDP, Turin, September 2011.

IV. Overview of the implications of implementing IPSAS for external users of financial information

15. The main implication of implementing IPSAS for external users of financial information is that users will have better information on the financial performance of the Court during a financial period and better information on the financial position of the Court at the end of the financial period. It should be noted that, in the transition to full accrual accounting, no existing information will be lost, but rather, financial information will be added.

16. The full set of IPSAS-compliant financial statements will include a Cash Flow Statement, providing cash-based information.

17. Assuming budget preparation remains on the existing basis, information presented in the Statement of Appropriations will not be changed. The Statement of Appropriations provides information on the following: the original budget appropriations; the appropriations as modified by any transfers; any supplementary budget appropriations; credits, if any, other than the appropriations adopted by the Assembly of States Parties; the amounts charged against those appropriations and/or other credits and unencumbered balances of appropriations.

18. There will be a difference between ‘expenditure’ as reported in the Statement of Appropriations and ‘expenses’ as reported in the Statement of Financial Performance, due to the fact, as explained in para. 11 above, that a number of items will not be budgeted on a full accrual basis. These differences will be reconciled in a note to financial statements and will require a certain effort on the part of the users of financial information in order to understand the reconciled figures resulting from the application of different accounting bases.

19. The differences between IPSAS and the Court’s current accounting standards, UNSAS, will impact on how transactions are recorded and presented in the main financial statements: Statement of Financial Position, presenting assets, liabilities and net assets/equity; Statement of Financial Performance, presenting revenue, expenses and result for the period, and Statement of Changes in net assets/equity. The Cash Flow Statement, which provides information on the Court’s cash flows, is unlikely to be significantly affected.

20. None of these accounting differences will have any impact on the Court’s budgeting regime, since IPSAS will not be applied to budgeting. IPSAS are accounting standards, not budgeting standards. IPSAS 24, however, deals with the presentation of budget information in the financial statements. The table below includes a comparison between existing accounting policies and IPSAS, together with the impact of required changes.

Table 1 — Comparison of UNSAS and IPSAS: impact of changes

ICC's current accounting standards (UNSAS)	*IPSAS*	*Impact*
1. Reporting requirements take a modified cash approach that is very close to cash accounting.	Requirements are on a full accrual basis	The effect of this is that IPSAS reports a larger group of items (assets and liabilities) on the balance sheet than does UNSAS. The pattern of expenses associated with these assets and liabilities is different. Under IPSAS, expenses associated with investments in assets are reported later than would be the case under UNSAS, while expenses associated with liabilities are sometimes reported earlier than would be the case under UNSAS.
2. Costs of assets (both tangible and intangible) are reported as expenditure in the Statement of Income and Expenditure when the assets are purchased.	Costs of fixed assets and intangible assets are capitalized and are included on the balance sheet when the assets are first acquired. The original cost of the assets is spread over their useful lives as the assets are used (depreciation expense).	There will be an increase in assets reported and a decrease in reported expenses, at least for new asset acquisitions.
3. Accrued employee benefits in respect of long term employee benefits reported in a note to the accounts and not as a liability on the balance sheet.[14]	Full recognition of liabilities and expenses for employee benefits.	The accounting treatment (mostly relating to valuation and presentation) of judges' pension scheme, repatriation grant accrual and annual leave accrual will require some adjustment. The treatment of UNJSPF contributions will remain unchanged.
4. Reported expenditure represents disbursements and unliquidated obligations.	Recognition of expenses on the basis of goods and services received (the delivery principle).	As not all unliquidated obligations of the financial period will be recognized as expenses, there will be a reduction in reported expenditure during the initial years of IPSAS adoption.
5. Recognition of voluntary contributions on cash basis.	Voluntary contributions recorded on an accrual basis under certain conditions.	As voluntary contributions are limited, the impact is expected to be minimal.
6. Budget information in the financial statements is included in the Statement of Appropriations. The amounts reported as expenditure in the Statement of Income and Expenditure are equal to those in the Statement of Appropriations.	Requirement to present a comparison of budget amounts and actual amounts on a similar basis. Requirement to reconcile amounts in the budget to the amounts in the financial statements.	Changes in the format and content of budget presentation. A Statement comparing budget amounts and actual amounts is required, which would be similar to the existing Statement of Appropriations. Changes in disclosure requirements. A disclosure note explaining significant differences between budget and actual amounts will be required, unless such information is cross-referenced to other documents where it is included and which are publicly available. The Court will need to explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget. The actual amounts presented on a comparable basis to the budget (in the Statement of Appropriations) will be reconciled to the actual amounts presented in the financial statements, identifying separately any basis, timing and entity differences.

[14] Note that the Court already recognizes repatriation grant accrual and annual leave accrual.

V. Updated budget

21. At its eighteenth session, the Committee recalled that the project should be within the approved budget of €1,917,550 and requested an updated budget.[15] The table below includes an overview of the updated budget by item of expenditure.

Items in thousand euros	*Actual Expenditure 2011*	*Budget 2012*	*Budget 2013*	*Budget 2014*	*Budget 2015*	*Total*
General temporary assistance	133.7	351.6	369.2	161.3		1,015.7
Travel	7.5	15.9	15.0	10.0		48.4
Contractual services	246.3	237.7	186.0	54.4	64.4	788.7
Training	4.7	30.0	30.0			64.7
Total	**392.2**	**635.2**	**600.2**	**225.6**	**64.35**	**1,917.5**

VI. Conclusion

22. In the current report, the Court has attempted to answer the questions raised by the Committee at its eighteenth session. The proposed amendments to the Financial Regulations and Rules, following preliminary consideration by the Audit Committee and the External Auditor, are being resubmitted in a revised format as a separate document. The Court has endeavoured to address appropriately all comments received to date from the Committee, the Audit Committee and the External Auditor in order to enable the timely adoption of the proposed amendments. Any delay in the adoption of the proposed changes beyond 2012 would have an adverse effect on the project timeline and the approved budget. Should the proposed amendments be adopted only in 2013, the resultant regulatory uncertainties would make it impossible for the Court to proceed with the required system changes, opening balances adjustment and other related organizational changes scheduled to take effect from 1 January 2014.

[15] ICC-ASP/11/5, para. 38.