Finance Committee

Distr.: Limited
17 May 2012

Original: English

Eighteenth session
Kingston, Jamaica
16-27 July 2012

Implementation of the International Public Sector Accounting Standards

Report of the Secretary-General

I. Introduction

1. The present report has been prepared in response to the request of the Finance Committee at the seventeenth session of the International Seabed Authority for a report on the advantages and disadvantages for the Authority of adopting the International Public Sector Accounting Standards (IPSAS), including the financial implications of adoption and an implementation plan (see ISBA/17/A/3-ISBA/17/C/3, para. 11).

II. Advantages of the International Public Sector Accounting Standards

2. The adoption of IPSAS is seen as a key reform element within the United Nations system that continues to receive support from governing bodies and senior management. Since 2006, United Nations system organizations have made headway in aligning themselves with IPSAS requirements. Of the 22 United Nations system bodies reviewed, 1 (the World Food Programme) first implemented IPSAS in 2008, 8 (the International Civil Aviation Organization, the International Maritime Organization, the International Telecommunication Union, the Pan American Health Organization, the United Nations Educational, Scientific and Cultural Organization, the United Nations Industrial Development Organization, the World Intellectual Property Organization and the World Meteorological Organization) introduced IPSAS by the original target of 2010, 2 (the International Atomic Energy Agency and the Universal Postal Union) implemented IPSAS in 2011, 9 (the Food and Agriculture Organization of the United Nations, the International Labour Organization, the Office of the United Nations High Commissioner for Refugees, the United Nations Development Programme, the United Nations Population Fund, the United Nations Children's Fund, the United Nations Office for Project Services,

the United Nations Relief and Works Agency for Palestine Refugees in the Near East and the World Health Organization) are implementing IPSAS in 2012 and 2 (the United Nations and the World Tourism Organization) will implement IPSAS in 2014.

3. Most United Nations system agencies, in addition to many public-sector authorities, including Governments, have already adopted IPSAS. Adoption by the Authority would therefore lead to improved consistency of financial statements over time and across organizations. Other advantages include:

(a) **Improved internal controls and transparency**. This will be facilitated by the establishment of a basis for a more coherent internal control and accountability framework based on user roles and an automated approval procedure and workflow;

(b) **Improved accountability**. IPSAS will enable the Authority to provide a complete and accurate view of its business and performance and also to adopt full accrual accounting, which is the bedrock of IPSAS;

(c) **Greater transparency of liabilities and the use of financial resources**. This will be fostered by IPSAS 1 (Presentation of financial statements), which requires the inclusion of a statement of changes in net assets/equity in the financial statements;

(d) **Improved management and planning**. This will be facilitated by more precise estimates of income and expenditure and a fuller picture of assets and liabilities;

(e) **Better support for results-based management**. This will be achieved through the provision of more comprehensive information about costs and income;

(f) **Establishment of re-engineered and automated processes**. This will increase efficiency and effectiveness in workflow and facilitate staff development;

(g) **Staff development**. This will be fostered during the implementation of IPSAS through staff training and education with users adopting best practices, working cross-functionally and understanding the importance of data quality throughout the Authority.

III. Financial implications

4. The major challenge associated with the implementation of IPSAS is that there are substantial upfront costs in terms of new software, business systems and training. These are mostly one-off costs, which can be compensated for in terms of greater efficiency and transparency in accounting. The recurrent costs of IPSAS are modest.

5. The initial cost associated with the adoption and implementation of IPSAS is estimated at $120,000 for the financial period 2013-2014. A breakdown of these costs is shown in the annex to the present report. The most significant cost relates to the implementation of an enterprise resource planning system, including software, related training and consultancy, which amounts to $89,000 (74 per cent of implementation costs). Acquisition of an enterprise resource planning system is inevitable because financial data from the procurement, finance and human resource

units (at the least) will have to be linked by that system to achieve IPSAS implementation.

6. Ongoing and recurrent costs associated with IPSAS are estimated at $7,500 per year, which represents the membership fee for the Authority in the IPSAS project being pursued by the Task Force on Accounting Standards throughout the United Nations system.

IV. Adoption plan

7. The objective is that the first IPSAS-compliant financial statements will be produced for the year ending 31 December 2015. Accordingly, the Authority's policies, business practices and financial activities reporting system must conform to the requirements of IPSAS by that date. Success in this endeavour will require taking the following five-step approach:

(a) **IPSAS policies**. The relevant IPSAS have to be tailored to the Authority's circumstances and their probable impact on the Authority's operations assessed. New IPSAS-compliant accounting policies can then be formulated and transition plans developed for the introduction of these policies, along with the necessary guidance and procedures. These tasks will require the assistance of an external consultant. The expected time frame for this phase is 1 October 2012-31 March 2013;

(b) **Business requirements**. Once the policy options have been chosen, the next step is to coordinate with the various user units to ensure that existing business practices and processes will accommodate IPSAS. In addition, the basic training and communications materials to support the implementation of the new processes will be created at this stage. This phase is expected to run from 1 April 2013 to 30 September 2013;

(c) **Transition**. A transition plan will be developed to ensure that measures are taken to establish accurate opening balances, outlining the data collection and clean-up efforts required to move as smoothly as possible to new processes and procedures. This phase is expected to begin on 1 October 2013 and end on 31 December 2013;

(d) **Systems changes**. The next step is to ensure that the Authority's information technology systems provide the information needed for IPSAS compliance. All needed changes to the information technology systems will be described in functional specifications documents, which will be reviewed by user groups and signed off by working groups. This phase is expected to run from 1 January 2014 to 30 June 2014;

(e) **Training, cutover and deployment**. The implementation of IPSAS will affect several areas of the Authority's work, not simply finance and accounting. One critical success factor for IPSAS adoption will be the provision of effective support for these changes. This will include training and guidance for staff members, frequent communication with all stakeholders on the method and progress of IPSAS adoption and regular follow-up with each business owner on any issues encountered in the process. This final phase is expected to run from 1 July 2013 to 31 December 2014.

V. Recommendation

8. The Finance Committee is invited to note:

(a) The advantages for the Authority of adopting IPSAS;

(b) The financial implications of the implementation of IPSAS in accordance with the implementation plan described above.

Annex

Estimated financial implications of the adoption of International Public Sector Accounting Standards by the International Seabed Authority during the financial period 2012-2014

Activity	*Estimated cost (United States dollars)*
1. Consultancy for the development of IPSAS-compliant policies and procedures	10 000
2. Software acquisition	59 000
3. Professional software services	10 000
4. Low-end servers	20 000
5. Valuation of assets	5 000
6. Training of staff in how to use the software and in IPSAS-related matters	6 000
7. Contingencies	10 000
Total	**120 000**