



Finance Committee

Distr.: Limited
2 June 2014

Original: English

Twentieth session
Kingston, Jamaica
14-25 July 2014

Implementation of the International Public Sector Accounting Standards

Report of the Secretary-General

I. Introduction

1. The present report has been prepared to update document [ISBA/18/FC/3](#), which was reviewed by the Finance Committee at the eighteenth session of the International Seabed Authority, after which the Committee requested that it be considered again during the twentieth session, to be held in July 2014. In addition to addressing 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, the report also sets out the proactive steps taken by ISA towards the adoption of IPSAS that have virtually no financial implications.

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 (World Food Programme) first implemented IPSAS in 2008, 8 (International Civil Aviation Organization, International Maritime Organization, International Telecommunication Union, Pan American Health Organization, United Nations Educational, Scientific and Cultural Organization, United Nations Industrial Development Organization, World Intellectual Property Organization and World Meteorological Organization) introduced IPSAS by the original target of 2010, 2 (International Atomic Energy Agency and Universal Postal Union) implemented IPSAS in 2011, 9 (Food and Agriculture Organization of the United Nations, International Labour Organization, Office of the United Nations High Commissioner



for Refugees, United Nations Development Programme, United Nations Population Fund, United Nations Children's Fund, United Nations Office for Project Services, United Nations Relief and Works Agency for Palestine Refugees in the Near East and World Health Organization) implemented IPSAS in 2012 and 2 (the United Nations and the World Tourism Organization) are implementing IPSAS in 2014.

3. Most United Nations system organizations, 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 adoption will enable the Authority to provide a complete and accurate view of its business and performance and 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 will 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 2015-2016. A breakdown of the 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 the

implementation costs). Acquisition of an enterprise resource planning system is inevitable because financial data from the procurement, finance and human resources units (at the very least) will need to be linked by that system in order 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 2016. Accordingly, the policies, business practices and financial activities reporting system of the Authority 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 Standards 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 the policies, along with the necessary guidance and procedures. The tasks will require the assistance of an external consultant. The expected time frame for this phase is from 1 October to 31 December 2014;

(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 January to 31 March 2015;

(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 transition as smoothly as possible to new processes and procedures. This phase is expected to run from 1 April to 30 June 2015;

(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 July to 30 September 2015;

(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 those 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 issues encountered in the process. This final phase is expected to run from 1 October to 31 December 2015.

V. Proactive steps taken by the International Seabed Authority to prepare for the adoption of the International Public Sector Accounting Standards by January 2015

8. In order for the Authority to prepare for the adoption of IPSAS, the following proactive steps were taken by the secretariat at virtually no additional cost:

(a) Participation of the Finance Officer in a videoconference conducted by the United Nations System Task Force on Accounting Standards on 10 April 2013, which covered, among other topics, the following:

(i) Discussions held regarding United Nations organizations that implemented IPSAS in 2012 and those that are adopting it in 2014, including on specific issues encountered during the implementation process, which had been raised by external auditors, and on solutions to those issues;

(ii) Submission, by the Task Force on Accounting Standards to the International Public Sector Accounting Standards Board, of the conceptual framework exposure draft entitled "Conceptual framework for general purpose financial reporting by public sector entities: elements and recognition in financial statements";

(b) Participation of the Finance Officer in the meeting of the United Nations System Task Force on Accounting Standards, held in Geneva from 30 September to 2 October 2013, at which lead agency focus working groups gave presentations, including on the following topics:

(i) Revenue recognition for non-exchange transactions;

(ii) Toolkit for the statement of internal control;

(iii) Inventory and property plant and equipment;

(iv) IPSAS dividends and costs.

(c) Development in March 2013 of a comprehensive assets inventory database in Excel by the Finance Officer for the Assets Management Unit in order to facilitate asset measurement and valuation, including of all the inventory items of a given organization. The assets inventory database will store information on all inventory items under the following column headings:

<i>Business unit</i>	<i>Asset profile</i>	<i>Serial No.</i>	<i>Description</i>	<i>Location</i>	<i>Date purchased</i>	<i>Value in United States dollars</i>	<i>Comments</i>	<i>Remarks</i>
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9. The Assets Management Unit has commenced populating the inventory database with available information in preparation for the imminent adoption of IPSAS by the Authority.

VI. Recommendation

10. 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 2014-2016

<i>Activity</i>	<i>Estimated cost (United States dollars)</i>
Consultancy for the development of — policies and procedures compliant with the International Public Sector Accounting Standards (IPSAS)	10 000
Software acquisition	59 000
Professional software services	10 000
Low-end servers	20 000
Valuation of assets	5 000
Training of staff on software use and on IPSAS-related matters	6 000
Contingencies	10 000
Total	120 000