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PROGRESS REPORT ON THE IMPLEMENTATION OF

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

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Introduction

1. The Council adopted Resolution No. 1177 on 5 December 2008, amending the Financial Regulations to allow, inter alia, for the adoption of International Public Sector Accounting Standards (IPSAS) in order to enhance the accountability, comparability and transparency of IOM’s financial statements.

2. As noted in the Revision of the Financial Regulations (MC/2261) of 20 October 2008, IOM is taking a phased implementation approach to the adoption of IPSAS in close consultation with the Organization’s auditors.

3. At the informal consultation on SCPF matters on 28 September 2010, document IC/2010/6 presented various topics for potential discussion at the SCPF, including an update on IOM’s progress towards IPSAS adoption. While not selected for discussion, the Member States expressed an interest in receiving a conference room paper on this topic.

4. This paper outlines the further changes Member States can expect to see in IOM’s annual financial reports in the future to increase transparency and accountability and how and why this differs from existing reporting. It will also highlight how managers at all levels can benefit from an accrual accounting system, which will be explained along with the internal controls inherent in such a system. The implementation process, time frame and cost will also be provided, together with some implications of full IPSAS compliance.

Benefits of accrual accounting using IPSAS

5. Accrual accounting using IPSAS provides both internal and external stakeholders with a more complete picture of the financial performance and position of the Organization, thus assisting stakeholders in their decision-making. For example:

(a) All revenue, such as voluntary contributions, earned during the year is recorded, irrespective of when it is actually received.

(b) All expenses for goods and services, such as air transportation services, consumed during the year are recorded, irrespective of when payments actually occur.

(c) All amounts owing to the Organization, such as assessed and voluntary contributions receivable and advances paid to contractors, are identified as such until settled.

(d) All amounts owed by the Organization, such as payables to vendors and provisions (terminal emoluments, including after-service health insurance (ASHI) premium contributions), are identified as such until settled.

(e) Recording property, plant and equipment in the system facilitates assets replacement planning and budgeting.

(f) Transparency is increased through the presentation of additional statements and note disclosures required under IPSAS.

6. Internal controls and accountability are enhanced; for example, improved accountability for property, plant and equipment, monitoring of contractor performance in achieving agreed milestones and tracking what is owing to/owed by the Organization.

Implementation process

7. The introduction of IPSAS was a key factor in the design of PRISM, IOM's enterprise resource planning system. Training, which initially occurred during the roll-out of PRISM Financials between January 2008 and March 2009 and subsequently through Web-based and class-based training sessions, reinforces IOM's accrual-based, IPSAS-compliant accounting policies and procedures incorporated into the PRISM training materials available on the Intranet.

8. An IPSAS manual was prepared during 2008 and shared with the Organization's external and internal auditors. It should be noted that this manual will need to be updated on an ongoing basis to take account of new standards and/or changes to existing standards.

9. An external consultant, who also provided IPSAS-related services to agencies within the United Nations system, was hired during 2008 to provide advice on various issues specific to IOM.

10. As mentioned earlier, the Financial Regulations were amended to allow for the adoption of IPSAS.

11. The above-mentioned IPSAS manual and a skeleton financial report and notes were reviewed in draft by an international auditing firm during 2008/2009 with a view to identifying and rectifying any shortcomings.

12. In 2010, IOM commissioned the same auditing firm to conduct an external audit and evaluation of PRISM to, inter alia, identify possible areas for system improvements to facilitate IPSAS compliance.

13. Work on consolidating the existing accounting policies and procedures into a new financial management manual is ongoing.

14. IOM will continue to participate in IPSAS task force meetings convened by the United Nations system as both a cost-saving measure and so as to adopt, wherever possible, a common approach for greater comparability.

Time frame for full implementation of IPSAS

15. The current aim is to make significant progress towards full IPSAS compliance for the 2011 annual financial report.

16. The Financial Report for the year ended 31 December 2010 (MC/2313) introduced two additional statements required under IPSAS: a statement of comparison of budget and actual amounts on the operational programmes; and a statement of cash flows. A new note disclosure on related parties (including, inter alia, remuneration to key management personnel) was also introduced (see Note 19 of the Report).

17. In 2011, the Administration plans to implement the one remaining standard that required implementation in 2010 for IPSAS compliance: property, plant and equipment. In addition, it will need to implement two standards that will be required in 2011: intangibles (relating to capitalization of software) and employee benefits (including, inter alia, IOM's obligation to contribute to ASHI premiums).

18. The property, plant and equipment standard requires that the value in use of buildings, vehicles, equipment, and so on, above certain thresholds be spread over the years in which they are used by the Organization, instead of being fully expensed in the year they are acquired. This will not affect donor reporting, which will continue to reflect the full purchase cost in the year of acquisition.

19. The intangibles standard works in a similar way to the property, plant and equipment standard and will be applied to the costs of purchased and internally developed software over certain values.

20. For employee benefits, in addition to the provision already made for terminal emoluments for staff funded by the operational programmes, a similar provision will also need to be recorded in the financial statements for those funded by the administrative programme. At the moment, in accordance with Council document MC/1883 of 9 October 1996, terminal emoluments expenses for the administrative programme reflect only those amounts actually paid or payable for staff who left the Organization during the current reporting year. The amount required to cover the full terminal emoluments provision for remaining staff under this programme is merely disclosed in the notes to the financial statements. It is thus an unfunded and unrecorded liability. In addition, the Administration will need to obtain regular actuarial assessments to determine (and record) the Organization's full ASHI liability – for both the operational and administrative programmes. The Administration will be undertaking a review of terminal emoluments accounting practices to determine the best course of action.

21. The implementation of IPSAS is an ongoing exercise as new standards are released and/or earlier standards are revised. For instance, three new standards, all relating to financial instruments, will need to be incorporated into the 2013 annual financial report, at the latest.

Costs of IPSAS implementation

22. One-off and recurring costs are summarized below. It should be noted that the costs associated with the development and roll-out of PRISM are not included, since the

implementation of IPSAS, while a contributing factor, was not the sole reason for obtaining an enterprise resource planning system.

	One-off costs (USD)	Recurring costs per annum (USD)
United Nations task force participation	15 000	3 000
Training – IPSAS/financial management	15 000	50 000
Consultancy services	50 000	
Property valuations	10 000	
Actuarial assessments (initial/recurring)	20 000	5 000
	110 000	**58 000**