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102nd session  
Agenda item 4

C 102/4/1  
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## ORGANIZATIONAL REFORMS

### International Public Sector Accounting Standards (IPSAS) and related matters

#### Note by the Secretary-General

#### SUMMARY

<b><i>Executive summary:</i></b>	This document reports on developments with respect to the implementation of the International Public Sector Accounting Standards (IPSAS) and the project to update the Organization's SAP system as well as its functionality to include both Human Resources (HR) and payroll functions
<b><i>Strategic direction:</i></b>	4
<b><i>High-level action:</i></b>	4.1.1
<b><i>Planned output:</i></b>	4.1.1.3 and 4.1.1.4
<b><i>Action to be taken:</i></b>	Paragraph 45
<b><i>Related documents:</i></b>	C 102/4; C 101/D; C 101/4, C 101/4/2; C 98/4(a); C 94/4(a), C 94/4(a)/Add.1 and C 88/12(a)/Add.2

#### Introduction

1 The Council will recall the information provided in document C 101/4 on the progress made towards the implementation within IMO, of the International Public Sector Accounting Standards (IPSAS). This document provides a further update on that work, focusing particularly on the proposed changes required to the Organization's Financial Regulations first submitted to the Council at its 101st session in November of 2008.

2 The document also provides information on progress with the project to update the Organization's SAP system and also upgrade its functionality to include both Human Resources (HR) and payroll functions.

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## Progress report on IPSAS implementation

3 Since the last report to the Council, work towards the implementation of IPSAS has continued at a good pace, with key tasks being undertaken including:

- ***Financial Regulations and Financial Rules*** – the Council will recall that a draft set of revised Financial Regulations were submitted to the Council at its session in November 2008 for comment, noting at that time that the proposals would be revised taking into account the Council's comments, and that there was a possibility that this first draft would be superseded by the work of the United Nations Development Group (UNDG) which has been working on increasing the degree of standardization of Financial Regulations and Financial Rules across the UN system. It is now anticipated that the UNDG will not conclude their work until mid-2010 at the earliest, and consequently the Financial Regulations are resubmitted, as amended to reflect the comments made during the discussion, for further consideration and onward transmission to the Assembly. A draft Assembly resolution on this issue is attached as annex 1, with the revisions to the Financial Regulations attached as annex 2. Whilst full integration with the work of the UNDG is not possible until the conclusion of its work, the Organization has taken every available step to ensure that the proposals made in this document are as consistent as practicable with those being made by other UN organizations adopting IPSAS, including most particularly the International Civil Aviation Organization (ICAO) and the World Food Programme (WFP). The former is comparable in size and nature to the IMO, whilst the latter has adopted IPSAS as of 1 January 2008 and consequently has some experience of operating in an IPSAS environment in practice. The Council will recall that the draft presented in November 2008 also included some areas with square brackets where revision was required to reflect the integration of the new Results Based Budgeting mechanism with the Organization's Strategic Plan. Amendments have been made in regulation 3.3, regulation 3.6, regulation 4.2, regulation 4.4, regulation 4.5, regulation 4.6, regulation 6.7 and regulation 7.1 to properly reflect this linkage;
- ***Development of accounting policies and procedures*** – work continues to develop IPSAS-compliant policies and procedures. When prioritizing this work, precedence has been given to areas with large accounting balances, or where there is significant change expected from current practice. With this in mind, work recently has focused on accounting for fixed assets, accounting for employee benefits (including After Service Health Insurance (ASHI) liabilities), and accounting for the value of publications inventory; and
- ***Development of specifications for system changes*** – in areas where system changes are required, most particularly in the Organization's valuation of its publications inventory, work has been ongoing to develop comprehensive detailed system specifications for the changes in configuration and procedure required to value the Organization's store of publication titles correctly under IPSAS.

4 There is a robust plan in place documenting the deliverables required to have IPSAS-compliant policies and procedures in place in all major accounting areas in time for the cut-over as of 1 January 2010. This plan has been reviewed by the External Auditor and has been commented on favourably in the management letter submitted on conclusion of the annual audit.

5 It is anticipated that the UN system-wide training material being developed for IPSAS will start to become available from the middle of 2009, and the Organization plans to take advantage of this release to begin the process of providing all staff impacted by IPSAS with a general awareness course, which will be built on with topic-specific training later in the year.

### **SAP upgrade and HR implementation**

6 The Council will recall that the Organization first took a decision to implement an Enterprise Resource Planning (ERP) system in 2003, following recommendations originally made in the MANNET report and later by the consultants Deloitte that the Organization's existing management systems required significant investment. Following an extensive procurement process and consideration of all options, this investment was made on the understanding that the Organization's "legacy" financial systems at that time also needed to be replaced and that substantial (by IMO standards) investment would need to be made in a replacement and upgrading programme, in due course.

7 In addition to this "risk-based" imperative for the Organization to make such a significant investment, it was anticipated that the implementation of the SAP system (the Organization's chosen ERP provider) would realize both tangible and intangible benefits through process improvements, efficiencies and improved transparency and management of financial information.

8 After the system went live, on time and on budget, in mid-2004, the Council will further recall information provided (C 94/4(a) and C 94/4(a)/Add.1) on the benefits actually delivered through the implementation, both tangible (annual cash savings of £120,000 plus an internal transfer of resource to the value of a further £100,000) and intangible, in the form of greater control over expenditure and an improved transparency of financial management, which has also been commented on, favourably, by the external auditors.

9 The Secretary-General considered it prudent to postpone a planned review of the staffing levels in Financial Services until there has been time to assess the ongoing impact of the change in accounting arrangements on resource levels. This is in line with the advice promulgated by the UN System Finance and Budget Network (FBN) to the UN System High Level Committee on Management (HLCM) which, *inter alia*, noted that "... IPSAS will involve a fundamental, permanent shift in the way that organizations manage, account for and report on resources and their utilization, with the result that finance functions will need to be reconfigured and asset management functions will need to be strengthened. This shift will mean substantive changes to required staff competencies. While an IPSAS environment is more supportive of the existing set of qualified professional finance staff within the System, it does require a permanent change in the competencies expected of finance staff. This will also require an initial increase in resources, as IPSAS is being adopted and stabilized".

10 With this in mind, the Organization will review its provision for the skills and resource levels for financial and budget management during the 2010-2011 biennium.

11 Whilst the Organization has undoubtedly reaped significant benefits from SAP, particularly following its initial implementation, it remains the case that in order to maximize the value from the significant investment made, appropriate resources must be made available to support and develop the system over time. It has gradually become clear that the current support model and resourcing levels are not appropriate for the task.

12 In August of 2008, the Organization's Internal Oversight Section (IOS) completed a review of the SAP support arrangements, and its report highlighted a number of issues with the current administration and support of the system which had arisen from the support arrangements put in place following the initial implementation of SAP in 2004, when the Organization was not sufficiently able to judge the most appropriate means of managing such a system. The arrangements represented an approach to support which was, to the extent possible, consistent with existing structures and which did not reflect an increase in resource.

13 It is clear from the IOS report, and from the management's own experience of system administration since the introduction of SAP, that the current arrangements are no longer sustainable, and have become, largely due to the limited resource available, focused on keeping the system in day-to-day operation rather than on broader matters of policy, procedure and control. For a system in which the Organization has made such a significant investment, the present support and development arrangements do not deliver an optimum return on that investment.

14 In view of the planned upgrade and expansion of the SAP system, the IOS identified a clear need for a full review of the role of SAP support and administration; policies and procedures in place; and the most appropriate management structure and resourcing.

15 This conclusion is further supported by the findings of the report produced by the United Nations International Computer Centre (UNICC), which are described in more detail in document C 102/4. The report focuses specifically on technical and hosting aspects of managing the Organization's IT landscape, and "recommends that IMO pursue a policy of outsourcing in discrete incremental steps rather than taking a 'big bang' approach". With regard to SAP in particular, this is identified as a "potential outsourcing candidate", being identified as a medium risk option with a high impact.

16 These reports together provide a context for the development of the Organization's project to upgrade SAP and implement the SAP HR and payroll modules.

### **Project overview**

17 The Council will recall that, at its 98th session, it received a detailed project scope (C 98/4(a)) incorporating the adoption of IPSAS, the upgrade of SAP and the implementation of HR and payroll, with an indicative cost of £1.2m in the approved budget for the Headquarters Capital Fund for the 2008-2009 biennium. The expected benefits from the three components of the project are outlined below:

- **adoption of IPSAS** – the adoption of IPSAS as the standard for producing the Organization's financial statements will improve the quality, comparability and transparency of the information contained therein. Further, the move from UNSAS to IPSAS is consistent with the direction of the UN system as a whole, and has been mandated by the UN General Assembly;
- **introduction of SAP HR and payroll** – the move from the Organization's current "legacy" HR and payroll systems on to SAP will eliminate duplication of data entry and improve the financial and budgetary control over staff costs. More significantly, it will reduce one of the most significant administrative risks faced by the Organization, its current dependence on an outdated payroll system which is old and difficult to maintain but remains responsible for processing some 80% of the Organization's expenditure; and

- ***upgrade of SAP*** – the upgrade of the SAP system implemented in 2004 to the latest version ECC 6.0 in 2009 is consistent with an industry standard which anticipates upgrades on a five yearly cycle. Whilst additional functionality is available in the new version of SAP, in order to minimize cost and risk during the upgrade process it is not anticipated that additional functionality will be adopted at this stage. The Organization’s current version of SAP will no longer be covered for support purposes from 2009, and consequently it is necessary and prudent to make the upgrade at this time.

18 The Council will further recall that, at its 101st session, it received an update (C 101/4) on the implementation of this work, noting that an international consultancy firm (Deloitte) had been recruited to provide independent advice on the Organization’s SAP strategy and to ensure that the Organization achieves ‘best value’ in its selection of a system integrator to deliver the SAP upgrade; implement SAP HR and payroll; and make the system changes necessary to support IPSAS reporting.

19 This work is now substantially complete, with the key deliverables being:

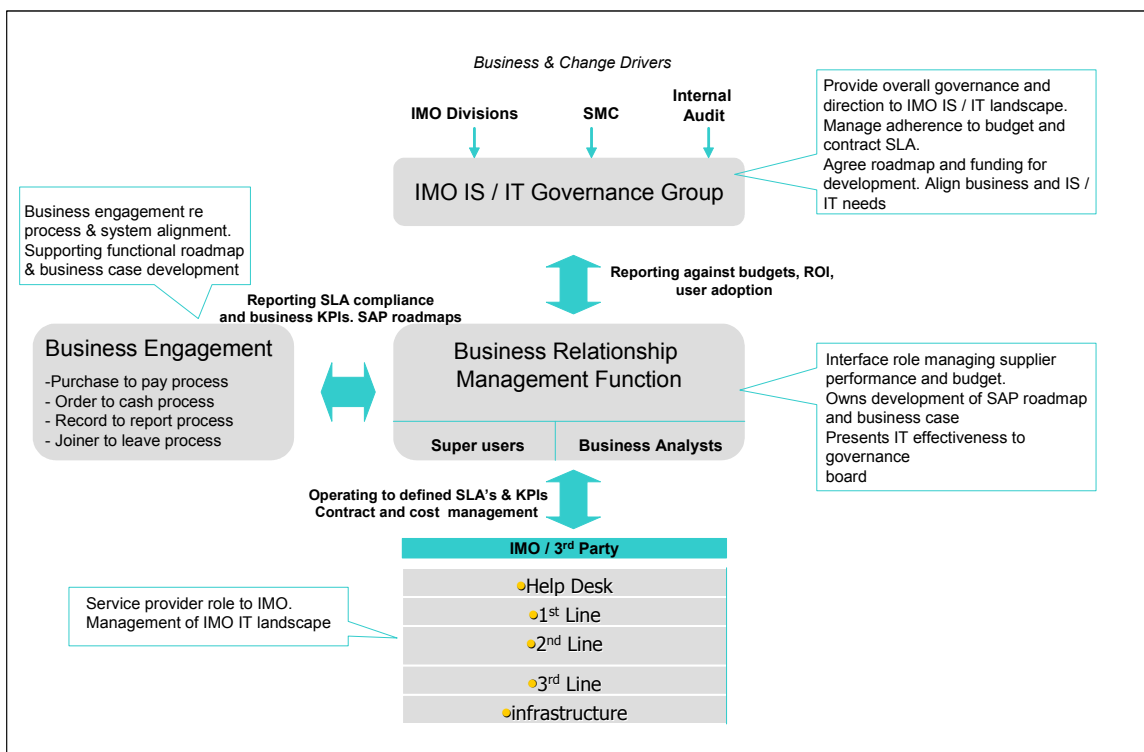
- ***SAP short-term strategy*** – a detailed review of the short-term project scope and objectives, starting from a review of the Organization’s current SAP landscape, the defined requirements for the implementation of SAP HR and payroll, and the likely impact of upgrading SAP on the functionality presently available;
- ***SAP medium- to long-term strategy*** – a broader view of the Organization’s current uses of SAP, and areas where greater value could be obtained from the system in the future, in particular where the benefits are likely to outweigh the additional costs; and
- ***Review of support arrangements*** – a comprehensive review of the Organization’s current SAP support arrangements, determining an optimal structure to ensure proper governance of the system and appropriate resource levels for the support function.

20 The key conclusions reached by Deloitte were:

- ***SAP short-term strategy – the review largely confirmed the scope and detailed requirements for the project as had previously been determined, and as set out in paragraph 17 above. However, the review identified that the upgraded version of SAP would not work on the Organization’s current hardware, and that a significant investment would be required in the appropriate hardware for the new version. The review also identified that the existing technology used to communicate between the Organization’s publication sales website and the SAP system is overly complex for the task in hand, leading to a relatively low performance level and relatively high levels of support calls. The review proposed adopting an alternative, more streamlined, technology to replace the current “Customer Relationship Management” (CRM) software in use. While this will improve performance and reliability, there would be additional costs involved;***

- SAP medium- to long-term strategy** – the review concluded that in order to gain the full benefit of the investment made in SAP, the long-term focus should be on two areas in particular: developing more comprehensive, flexible and user-friendly reporting capability to meet existing reporting needs in a more efficient way and to provide richer reporting to manage the delivery of the Organization’s business; and developing the HR capability within SAP. The scope for the current implementation of SAP HR and payroll has been tightly defined in order to manage risk and cost, but it is clear that there is significantly more capability available from the system in areas like performance management, employee self-service and competency tracking, all of which intersect with and support the implementation of existing HR initiatives; and
- Review of support arrangements** – the review raised a number of issues with the current operation of SAP support, noting that the resource available appears inadequate, in terms of skills and numbers, and that there is a need for a more robust governance structure to manage the SAP system effectively, to coordinate input from users and to provide a single point of responsibility for the system management. Many of these points are consistent with those raised by the IOS in its review of the support arrangements. The Deloitte report recommended a revised governance structure, shown at figure 1 below; guidance on tracking of performance metrics; and indicative service levels.

Figure 1



21 In view of these conclusions, the Organization conducted a workshop with key staff in December 2008 in order to review the Deloitte recommendations and decide a way forward. That session concluded that: the scope for the procurement should be extended to include the proposed changes to the CRM system; the recommended governance structure for SAP, including the establishment of a Business Relationship Management (BRM) unit, should be adopted, subject to existing resource constraints; and that in view of the significant investment in hardware required and the shortcomings in the existing support and hosting arrangements, and in

line with the recommendation in the UNICC report, that the Organization should include in the scope of the procurement the services necessary to outsource the hosting and support of SAP.

### **The internal option – Hosting and support in-house**

22 It is clear from the combined conclusions of the UNICC report, the IOS report and the Deloitte report that current arrangements for supporting and developing the system are not adequate, and those involved in the support of the system have focused on “firefighting” and maintaining an operational system rather than continuing to deliver the long-term benefits anticipated from the system.

23 With this in mind, in order to host and support the upgraded system in-house, a significant increase in staffing levels and expertise would be required. In order to have an appropriate comparison point when considering the option of outsourcing hosting and support, it is important to establish the costs of an appropriate level of resources and, in so doing, ensure that all relevant in-house costs are considered in order to deliver the necessary level of service utilizing the necessary skills and expertise. In view of the Organization’s current lack of capability in this area, it is not easy to develop such a comparison directly.

24 In considering first, therefore, the level of resource required to **host** SAP effectively in-house, we have considered that the proposal provided by the UNICC is the most reasonable starting point for delivering such services in a UN environment. Whilst the comparison is not perfect, the ICC have a clear view of the Organization’s current systems and capabilities through their review work in 2008, have a good understanding of the future requirements through the tender document, and have long experience of delivering hosting solutions for SAP systems used by other UN organizations.

25 The prices supplied have, in order to provide the best comparison possible, been adjusted for expenditures which would be required for a remote solution but would not be required in-house, for example for remote connectivity, and staff costs have also been adjusted for the current difference in post adjustment between Geneva (69.5) and London (49.7). It has been assumed, in order to provide a streamlined in-house cost for comparison, that all costs are payroll costs of Professional-grade staff, and therefore this difference has been applied to the UNICC costing in its entirety.

26 In summary, therefore, the annual estimated costs for hosting SAP in-house would be approximately **£287,343**, based on a UNICC estimate of **\$569,148**, adjusted for the post adjustment noted above and translated at the April rate of £0.706: 1USD.

27 Turning next to the cost of properly **supporting** SAP in-house, Deloitte in their report on the Organization’s support arrangements, have produced an estimate of annual costs of £414,000. In verifying this figure, UNICC have provided an estimate for the provision of outsourced support, which is significantly higher than that provided by Deloitte and, while this is helpful additional information, in order to provide a “best case” scenario for the resources required for in-house provision the lower figure provided by Deloitte has been used.

28 This provides a **total annual cost** for effectively hosting and supporting the Organization’s SAP system, provided by independent external expertise, **of some £700,000**, and in reviewing the cost-effectiveness of an outsourced solution this figure has consequently been used for comparative purposes. Since the BRM team will form a key part of the governance arrangements whether the hosting and support is conducted in-house or through an outsource

arrangement, and will be delivered within the existing complement, these costs have been excluded from the comparison.

### **Procurement process**

29 With the issues raised above in mind, therefore, the scope of the procurement exercise was revised from that identified in paragraph 17 to also include the outsourced support and hosting of the SAP system for a period of four years, and including the purchase or provision of the necessary hardware to support the upgraded version of SAP. In approaching the market, Deloitte further advised that given the necessarily risk-averse approach to the provision of such business-critical services, the Organization should consider primarily those vendors which had achieved SAP accreditation in the provision of hosting and support services.

30 Following a detailed review and documentation of business requirements in each functional area, the procurement process began with the issuance of a Request for Proposal (RFP) document to the six suppliers in the United Kingdom with the necessary accreditation, in addition to the Organization's current support providers. On the understanding that UNICC could not participate in a formal procurement process, as a parallel process they were asked to prepare an estimate of what would be required to meet the defined requirements in terms of plans, timescales and resources.

31 All key stakeholders were involved in the review and technical assessment of the responses to the RFP, and followed a comparable process in assessing the strengths and weaknesses of the UNICC proposal. A parallel evaluation of the financial and contract terms was conducted, with the technical and financial results being consolidated and recapped at a meeting of the key stakeholders. There was a unanimous agreement on three suppliers with the track record, technical capabilities and understanding of the requirements expressed in the RFP to effectively deliver a timely and cost-effective solution.

32 At this stage in the process, UNICC were not invited to participate further. Whilst there are a number of strong reasons for the consideration of a UN-hosted solution should all other factors be broadly equal, not least a common understanding of the unusual features of dealing with an international organization and a co-operative approach to working, it was felt that in view of the significant costs associated with such an approach, both in view of the responses from other suppliers and in the context of the Organization's budget as a whole, that there was no realistic possibility that this would be the preferred option.

33 The three short-listed bidders were then asked to make a presentation to the key stakeholders on the important aspects of their approach, and to provide a demonstration of the UN standard SAP HR and payroll to a similar audience with broader participation from the Organization's Human Resources Services (HRS) section. The bidders were given the opportunity to discuss the requirements for the work in more detail, testing their assumptions made in submitting their initial response, and were subsequently asked to re-submit their proposal in view of their more precise understanding.

34 Revised responses have been received, and will be reviewed following the same methodology as for the initial submissions, the objective being to select a preferred supplier and an alternate for detailed contract negotiations.



## **In-house and outsource comparison**

35 In view of the revised technical and financial responses for a fully outsourced solution to hosting and support, it is necessary to consider whether, in the final analysis, it is appropriate to outsource such services for a business-critical system such as SAP.

36 The **in-house option** has much to commend it, offering, as it does, full control over the system (given appropriate skills and resource) without reliance on outside contractors, and the avoidance of issues typically associated with an outsourcing arrangement, in particular the monitoring of the service provided to ensure it is consistent with the expected levels of service. Assessing, however, the costs of the skills required to deliver complex development work, such as the installation of HR and payroll in-house, the concept of having a significant in-house support capability becomes superficially attractive.

37 At the same time, it is clear, from three independent reports compiled by UNICC, Deloitte and the Organization's own IOS, that the current support model is not appropriate and, from those reports that tackle the issue, that the current levels of resource are inadequate. There is a need for significant change in the way in which the hosting and support of the system are resourced and delivered, whether this is to be in-house or outsourced.

38 The question then is "Which model for supporting and hosting a complex and business-critical system such as SAP is the most appropriate?" From a detailed review of the short-listed responses, and the estimates provided by external experts for the corresponding costs of delivering effectively in-house (see paragraph 28), the **conclusion is that an outsourced approach offers the best solution for the Organization**. The key factors in this conclusion are:

- ***cost-effective delivery*** – while the final cost of such an approach will only be finalized during the contract negotiations, it is clear from the financial information available to date that the cost of an outsourced solution is significantly lower than that set out in paragraphs 25 to 28 above. Whilst resourcing levels are not the only consideration, the size of the financial difference over the term of the contract is difficult to ignore in determining where the best interests of the Organization lie;
- ***broadening support capability*** – an inherent weakness in an in-house support model is its over-reliance on certain key staff. This is particularly the case with SAP, where the modular structure of the system means that a technical member of staff with expertise in procurement, for example, cannot easily cover technical issues in the payroll module. It would not be cost-effective to recruit duplicate staff on any module, and consequently the risk, which can more easily be mitigated by an outsourced provider working in a team structure, remains significant for the in-house approach. The same risk arises for temporary staff absence, or permanent staff departure, with the latter case posing particular handover and knowledge transfer issues until a permanent replacement is recruited;
- ***access to "best practice" knowledge*** – the use of an outsourced provider with a number of other clients will allow the Organization to tap into the suppliers experience of "best practice" – what works and what does not work for SAP in practical terms. It is significantly more difficult to obtain this experience in-house; and

- ***rapid response to identified issues*** – the UNICC, IOS and Deloitte report all raise significant issues with the current support arrangements. The introduction of a critical system such as payroll onto the SAP landscape raises the potential impact of a failure in the delivery of hosting or support for SAP. Whilst the recruitment and redefinition of processes required would be a major undertaking for an in-house solution, outsourcing offers a rapid introduction of revised processes and procedures, and an approach which is necessarily built on best practice principles. Information Technology Infrastructure Library (ITIL) standard processes are a feature of all of the short-listed bids, and such an approach will go a long way to addressing current issues.

39 It should not be a surprise that, for an organization of IMO's size, it is simply not cost effective to host and support a system as complex as SAP in-house, as the breadth and depth of skills required to properly support each module are expensive to recruit and such resources would not in practice be fully utilized. The market for outsourcing services for SAP is now much more mature than that which existed at the time of the initial implementation, and the Organization will be following a well-trodden path. Further, such an approach with regard to SAP would allow the IT and IS Section to refocus its efforts on services to the Membership and staff and thereby effectively address the broader issues raised by the UNICC report (addressed in more detail in document C 102/4) without the increase in complement, which might otherwise have been required.

40 The Council will be aware that the Organization already has a number of outsourcing contracts in place for support services, including the maintenance of the building; the provision of security services; and the printing of publications. Such contracts demonstrate that a properly-managed outsourcing approach can deliver significant benefits to the Organization.

41 While the final annual costs for hosting and support will not be known until the conclusion of contract negotiations, the figures in the budget submission in document C 102/8 include a provision which is considered appropriate and prudent to cover the necessary contract costs with a certain provision for ongoing system development and enhancement.

### **Implementation and next steps**

42 The procurement process for a single provider for the implementation of HR and payroll, upgrade of the existing SAP system and the provision of hosting and support services will shortly be entering the contract negotiation stage. In order to meet the established project deadlines for substantial completion of delivery during 2009, it will be necessary to conclude negotiation and start work in early May, and progress in this regard will be provided in a further report to the Council.

43 In view of the extension of the project scope to include changes to the CRM system and to incorporate outsourcing of hosting and support, the overall project costs are likely to exceed those originally provided for in the Headquarters Capital Fund budget for the biennium. The final figure for one-off implementation costs will not be known until the conclusion of contract negotiations; however, from the figures provided by suppliers to date it appears that the additional costs can be accommodated through savings made elsewhere. The final position will be reported to the Council in due course.

44 In addition to the project implementation work, the Organization will, at the same time, be working to establish internally the SAP governance structure recommended by Deloitte, most notably through the establishment of the Business Relationship Management (BRM) unit which will be responsible for managing the outsourced services, coordinating the input from the user

groups and developing, in response, coherent and prioritized plans for future developments. The team will be resourced through reallocation from within the existing staff complement, and it is anticipated that the team will be in place shortly after contract signature. As a part of this process, the Organization is developing robust procedures for supporting the system, which are consistent with best practice as represented by ITIL, and also to the greatest extent possible address the issues identified in the IOS report.

**Action requested of the Council**

45 The Council is invited to:

- .1 note the information provided in this document on progress made towards the adoption of IPSAS (paragraphs 3 to 5);
- .2 approve the Organization's revised Financial Regulations to take effect from 1 January 2010, together with the associated draft Assembly resolution; and forward them to the twenty-sixth regular session of the Assembly for adoption (paragraph 3 and annexes 1 and 2 of this document); and
- .3 note the information provided on progress on the project to upgrade the Organization's SAP system and implement SAP HR and payroll, noting, in particular, the future outsourcing of hosting and support of the system and the consequent changes in the scope of the project and the consequent budgetary impact (paragraphs 6 to 44).

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**ANNEX 1****DRAFT ASSEMBLY RESOLUTION****REVISION TO THE ORGANIZATION'S FINANCIAL REGULATIONS  
EFFECTIVE 1 JANUARY 2010**

THE ASSEMBLY,

RECALLING that the Organization's Financial Regulations provide a framework for the financial control and reporting of the Organization's financial resources,

RECALLING ALSO the adoption, by the United Nations General Assembly, of resolution 60/283 of 17 August 2006 by means of which it approved the adoption by the United Nations of the International Public Sector Accounting Standards (IPSAS),

RECALLING FURTHER the need to improve comparability, harmonization, transparency and accountability of financial reporting across the United Nations Common System in support of management reform,

RECALLING IN PARTICULAR the agreement given, in principle, by the Assembly at its twenty-fifth session to the change in the Organization's accounting standards from United Nations System Accounting Standards to International Public Sector Accounting Standards as from 1 January 2010,

RECOGNIZING that this change in applicable accounting standards has a consequent impact on the framework of financial control and reporting and, therefore, on the Financial Regulations of the Organization,

MINDFUL OF the provision of article XIV of the Financial Regulations, which requires that amendments to the Organization's Financial Regulations should be approved by the Assembly,

HAVING CONSIDERED the recommendations of the Council at its one hundred and second session:

1. APPROVES the revised Financial Regulations given at annex to this resolution and resolves that they shall take effect as from 1 January 2010;
2. REQUESTS the Council and the Secretary-General, as appropriate, to monitor progress on the development of United Nations System-wide Financial Regulations and to take any necessary action to align the Organization's revised Financial Regulations as closely as practicable with the United Nations Common System IPSAS-compliant Financial Regulations;
3. REQUESTS the Secretary-General to ensure the effective implementation and application of the Organization's Financial Regulations as revised;
4. REVOKES resolutions A.14(I), A.32(II), A.59(III), A.75(IV), A.253(VII), A.301(VIII), A.364(IX) and A.845(20).

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## **ANNEX 2**

### **PROPOSED AMENDMENTS TO THE ORGANIZATION'S FINANCIAL REGULATIONS AND FINANCIAL RULES**

#### **Article I**

##### **APPLICABILITY**

REGULATION 1.1 These Regulations shall govern the financial administration of the International Maritime Organization.

#### **Article II**

##### **THE FINANCIAL PERIOD**

REGULATION 2.1 The financial period shall be a calendar year from 1 January to 31 December inclusive.

#### **Article III**

##### **THE BUDGET**

REGULATION 3.1 The proposed budget, covering two consecutive financial periods, shall be prepared on a biennial basis by the Secretary-General.

REGULATION 3.2 The proposed budget shall cover income and expenditure for each of the financial periods covered by the biennium to which it relates and shall be presented in pounds sterling.

REGULATION 3.3 The proposed budget shall contain the resources necessary to meet the requirements of the strategic results derived from the Organization's Strategic Plan, and shall be structured in such a manner as to provide transparency between the resources required and the results to be achieved. The proposed budget shall include budgetary estimates for the income, expenditure and transfer of the regular budget and all Funds established by the Assembly under regulation 6.7, shall reflect the availability of extra-budgetary resources and shall be accompanied by such information, annexes and explanatory statements as may be requested by or on behalf of the Assembly or Council and such further annexes or statements as the Secretary-General may deem necessary and useful.

REGULATION 3.4 The Secretary-General shall submit, in the second year of the biennium, a proposed budget for the following biennium to the regular session of the Council prior to the regular session of the Assembly.

REGULATION 3.5 The proposed budget shall be submitted to the Assembly by the Council, together with the comments and recommendations of the Council thereon. The proposed budget and the report of the Council shall be transmitted to all Member States at least two months prior to the opening of the regular session of the Assembly in accordance with the Rules of Procedure of the Assembly. Any additional comments of the Council made at its extraordinary session prior to the regular session of the Assembly shall be circulated to Member States immediately.

REGULATION 3.6 The Assembly shall, in the second year of a biennium, adopt the budget for the ensuing biennium, and vote the budget appropriations by strategic results and in total for the financial period to which they relate.

REGULATION 3.7 The Assembly shall prescribe the conditions under which unforeseen and extraordinary expenses may be incurred.

REGULATION 3.8 Supplementary or revised budget proposals may be submitted by the Secretary-General whenever necessary. The Secretary-General shall prepare supplementary or revised budget proposals in a form consistent with the approved budget and shall submit such proposals to the Council for approval.

#### **Article IV**

### **APPROPRIATIONS**

REGULATION 4.1 The appropriations voted by the Assembly shall constitute an authorization to the Secretary-General to incur obligations, make payments and transfers and build up reserves for the purposes for which the appropriations were voted and up to the amounts so voted.

REGULATION 4.2 The Secretary-General may enter into commitments for future financial periods, provided that such commitments:

- (a) are consistent with the Organization's Strategic Plan for those future financial periods and with the Organization's normal operating practices; or
- (b) are authorized by specific decisions of the Council.

REGULATION 4.3 Appropriations shall be available for the financial period to which they relate and for the ensuing financial periods to the extent that they are required to discharge commitments incurred during that period.

REGULATION 4.4 Such portion of appropriations as may be required to meet the outstanding legal obligations as at the last day of the calendar year shall remain available for twelve months.

REGULATION 4.5 The Secretary-General may make transfers from one strategic result to another provided that the transfer made is not more than 10% of the approved appropriation. Transfers of more than 10% of the approved appropriation must have prior authorization of the Council. The Secretary-General may proceed, without prior concurrence of the Council, to transfer up to 50 per cent of any uncommitted balance of appropriations of the first financial period of a biennium to the same strategic result in the second financial period. Transfers above 50 per cent of uncommitted balance of appropriations shall be effected with the prior approval of the Council.

REGULATION 4.6 The Secretary-General shall report to the Council appropriations carried forward or transferred to the following financial year in accordance with the provisions of regulations 4.3 and 4.5.



## Article V

### PROVISION OF FUNDS

REGULATION 5.1 The appropriations, subject to the adjustments effected in accordance with provisions of regulation 5.2, shall be financed by contributions from Member States, according to the scale of assessments fixed by the Assembly after consideration of the proposals of the Council thereon. Pending the receipt of contributions the appropriations may be financed from the Working Capital Fund.

REGULATION 5.2 In the assessment of the contributions of Members for each calendar year, adjustments shall be made in respect of:

- (a) estimated funding for the work of the Organization from internal and external sources other than assessments;
- (b) supplementary appropriations for which contributions have not previously been assessed on the Members.

REGULATION 5.3 In respect of contributions for each calendar year, the Secretary-General, during the last two months of the preceding year, shall:

- (a) inform Members of their obligations in respect of annual contributions to the budget;
- (b) inform Members of their obligations in respect of advances to the Working Capital Fund;
- (c) request Members to remit all contributions and advances due.

REGULATION 5.4 Contributions and advances shall be considered as due and payable in full within thirty days of the receipt of the communications of the Secretary-General referred to in regulation 5.3 above, or as of the first day of the calendar year to which they relate, whichever is the later.

REGULATION 5.5 Contributions and advances to the Working Capital Fund shall be assessed in pounds sterling and payable in such currencies as the Council may, on advice from the Secretary-General, decide.

REGULATION 5.6 Payments made by a Member State shall be credited first to the Working Capital Fund and then to the contributions due in the order in which the Member was assessed.

REGULATION 5.7 The Secretary-General shall submit to the regular session of the Assembly a report on the collection of contributions and advances to the Working Capital Fund.

REGULATION 5.8 For any period during which it has not been included in the assessment of Members, a new Member shall be required to make a contribution according to the scale applied to existing Members in the year in which it becomes a Member and, if applicable, the scale applied to existing Members in the next year, as well as an advance to the Working Capital Fund. The contribution assessed in respect of the calendar year in which it becomes a Member shall be based on the number of full months remaining in that year after the date on which the Convention has come into force for the new Member. The contribution of the new Member for that calendar

year and the advance shall be due and payable within thirty days of receipt of the notification by the Secretary-General of the determinations made by the Assembly, and, if applicable, the contributions for the next calendar year shall be due and payable in accordance with the provisions of regulation 5.4.

**REGULATION 5.9** A Member State which withdraws from the Organization shall not be entitled to adjustment in respect of contributions paid or assessed. In the event that the most recent financial statements show that the Organization has net liabilities, the Member State will be assessed a closing contribution of a proportion of the net liability in those financial statements consistent with the proportion of the overall appropriation assessed on that Member State for the preceding financial period.

**REGULATION 5.10** The Secretary-General shall report to each session of the Assembly, the Council and the Committees of the Organization, as appropriate, on the application of Article 56 of the Convention.

## **Article VI**

### **FUNDS**

**REGULATION 6.1**

- (a) There shall be established a General Fund for the purpose of accounting for the expenditure of the Organization unless otherwise determined by the Assembly for other funds established in accordance with regulation 6.7. The contributions paid by Member States under regulation 5.1, miscellaneous income and any advances made from the Working Capital Fund to finance general expenditures shall be credited to the General Fund.
- (b) A surplus of revenue over expenditure for a financial period in any Fund shall be credited to the reserves of that Fund. An excess of expenditure over revenue for a financial period in any Fund shall be debited to decrease the reserves of that Fund.

**REGULATION 6.2** There shall be established a Working Capital Fund in an amount and for purposes to be determined from time to time by the Assembly. Any Member on joining the Organization shall make an advance to the Fund in accordance with the scale of contributions applicable to the budget of the year of its accession. The Fund shall be increased by the amounts joining Members are required to advance, until the Assembly establishes a new level of the Fund.

**REGULATION 6.3** Advances made by Member States to the Working Capital Fund shall be carried to the credit of the Members which have made such advances.

**REGULATION 6.4** Advances made from the Working Capital Fund to finance budgetary appropriations during a financial period shall be reimbursed to the Fund as soon as and to the extent that resources are available for that purpose.

**REGULATION 6.5** Advances made from the Working Capital Fund for unforeseen and extraordinary expenses or other authorized purposes shall be reimbursed through the submission of supplementary estimates, except when such advances are recoverable from some other source.

REGULATION 6.6 Income derived from investments of the Working Capital Fund shall be credited to the General Fund.

#### REGULATION 6.7

- (a) Trust, reserve and special funds may be established by the Secretary-General or the Assembly as may from time to time be required to deliver work in accordance with the Organization's Strategic Plan. The Secretary-General shall report to the Council on the establishment of any new funds.
- (b) Unless otherwise provided, the purpose and limits of each trust, reserve and special fund shall be clearly defined by the appropriate authority and shall be administered in accordance with these Regulations.

### **Article VII**

#### **OTHER INCOME**

REGULATION 7.1 The Secretary-General has the authority to accept extra-budgetary contributions, provided that the purposes for which the contributions are made are consistent with the Organization's Strategic Plan. Other than when resources have specifically been provided through the approved budget, or from an alternative funding source, the direct and indirect costs associated with implementing activities funded from extra-budgetary contributions shall be fully recovered.

REGULATION 7.2 Monies accepted for purposes specified by the donor shall be treated as trust or special funds under regulation 6.7.

REGULATION 7.3 Monies accepted in respect of which no purpose is specified shall be treated as miscellaneous income and reported as "gifts" in the accounts.

### **Article VIII**

#### **MANAGEMENT OF RESOURCES**

REGULATION 8.1 The Secretary-General is responsible to the Council and the Assembly for the proper management of the Organization's resources.

### **Article IX**

#### **INVESTMENT OF FUNDS**

REGULATION 9.1 The Secretary-General shall establish an investment policy on the investment of surplus cash and, within the terms of that policy, may make investments for less than one year of cash not needed for immediate requirements and shall inform the Council periodically of such investments.

REGULATION 9.2 The Secretary-General may, within the terms of the investment policy and after consultation with the Council, make investments for longer than one year of cash not needed for that period based on projected cash flow estimates.

REGULATION 9.3 Income derived from investments shall be credited as provided in the rules relating to each fund.

## **Article X**

### **INTERNAL CONTROL**

REGULATION 10.1 The Secretary-General shall:

- (a) establish detailed financial rules and procedures in order to ensure effective financial administration and the exercise of economy;
- (b) cause all payments to be made on the basis of supporting vouchers and other documents which ensure that the services or goods have been received and that payment has not previously been made;
- (c) designate the officers who may receive monies, incur obligations and make payments on behalf of the Organization;
- (d) maintain an internal financial control which shall provide for an effective current examination and/or review of financial transactions in order to ensure:
  - (i) the regularity of the receipt, custody, and disposal of all funds and other financial resources of the Organization;
  - (ii) the conformity of obligations and expenditures with the appropriations or other financial provision voted by the Assembly, or with the purposes and rules relating to trust and other special funds;
  - (iii) the economic use of the resources of the Organization.

REGULATION 10.2 No obligations shall be incurred until allotments or other appropriate authorizations have been made in writing under the authority of the Secretary-General.

REGULATION 10.3 The Secretary-General may make such *ex gratia* payments as he deems to be necessary in the interests of the Organization, provided that a statement of such payments shall be submitted to the Assembly with the financial statements.

REGULATION 10.4 The Secretary-General may, after full investigation, authorize the writing off of losses of cash, stores and other assets, provided that a statement of all such amounts written off shall be submitted to the External Auditor with the financial statements.

## **Article XI**

### **INVESTMENT OF FUNDS**

REGULATION 11.1 The Secretary-General shall produce annual financial statements for the Organization to be prepared in accordance with International Public Sector Accounting Standards (IPSAS). The Secretary-General shall also prepare annual consolidated financial statements under IPSAS showing the financial position of the Organization and all other organizations which it is deemed to control for financial reporting purposes.

REGULATION 11.2 The financial statements for each financial period shall be submitted by the Secretary-General to the External Auditor by 28 February following the end of that financial period.

## **Article XII**

### **EXTERNAL AUDIT**

#### **Appointment**

REGULATION 12.1 An External Auditor, who shall be Auditor-General (or officer holding the equivalent title) of a Member State, shall be appointed by the Assembly for a four-year period covering the two budget periods immediately following the Assembly's decision. In order to support the Assembly in making its decision, the Council should, in good time, provide an opportunity for all interested and eligible Auditors-General to submit to it an application to be considered by the Assembly setting out their proposed approach and the costs to the Organization. The Council should then submit this information for the Assembly's consideration, along with such comments as it considers to be appropriate.

REGULATION 12.2 If the External Auditor ceases to hold that office in his own country, his tenure of office as External Auditor shall thereupon be terminated and he shall be succeeded as External Auditor by his successor as Auditor-General. The External Auditor may not otherwise be removed during his tenure of office except by the Assembly.

REGULATION 12.3 The audit shall be conducted in conformity with generally accepted common auditing standards and, subject to any special directions of the Council or the Assembly, in accordance with the additional terms of reference set out in the appendix to these Regulations.

REGULATION 12.4 The External Auditor may make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the Organization.

REGULATION 12.5 The External Auditor shall be completely independent and solely responsible for the conduct of the audit.

REGULATION 12.6 The Council or the Assembly may request the External Auditor to perform certain specific examinations and issue separate reports on the results.

## **Facilities**

REGULATION 12.7 The Secretary-General shall provide the External Auditor with the facilities he may require in the performance of the audit.

REGULATION 12.8 For the purpose of making a local or special examination or of effecting economies of audit cost, the External Auditor may engage the services of any national Auditor-General (or equivalent title) or commercial public auditors of known repute or any other person or firm who, in the opinion of the External Auditor, is technically qualified.

## **Reporting**

REGULATION 12.9 The External Auditor shall issue a report on the audit of the financial statements, which shall include such information as he deems necessary in regard to matters referred to in financial regulation 12.4 and in the additional terms of reference.

REGULATION 12.10 The External Auditor's reports shall be transmitted through the Council, together with the audited financial statements, to the Assembly in accordance with any directions given by the Assembly. The Council shall examine the financial statements and the audit reports and shall forward them to the Assembly with such comments as it deems advisable. The report on the financial statements shall be submitted to the Council not later than 31 May following the end of the financial period to which the financial statements relate.

## **Article XIII**

### **RESOLUTIONS INVOLVING EXPENDITURES**

REGULATION 13.1 No committee, commission or other competent body shall take a decision involving expenditure unless it has before it a report from the Secretary-General on the administrative and financial implications of the proposal.

REGULATION 13.2 Where, in the opinion of the Secretary-General, the proposed expenditure cannot be made from the existing appropriations, it shall not be incurred until the Assembly has made the necessary appropriations, unless the Secretary-General certifies that provision can be made under the conditions of the resolution of the Assembly relating to unforeseen and extraordinary expenses.

REGULATION 13.3 All measures affecting the budget shall require a two-thirds majority of those present and voting in order to be adopted.

## **Article XIV**

### **GENERAL PROVISIONS**

REGULATION 14.1 These regulations shall be effective as of the date of their approval by the Assembly and may be amended only by the Assembly.

REGULATION 14.2 The word "Member" in these regulations shall be deemed to include Associate Member.