

FINANCE COMMITTEE

Hundred and Twenty-sixth Session

Rome, 11 - 15 May 2009

Progress Report on Adoption of International Public Sector Accounting Standards

Executive Summary

- i) This paper is submitted to the Finance Committee in accordance with the request made at the 122nd Session for an update on IPSAS implementation.
- ii) The importance of International Public Sector Accounting Standards (IPSAS) adoption for the Organization has been recognized by the Finance Committee, the Independent External Evaluation and the Root and Branch Review.
- iii) At its last session the Committee was informed that a revised planning of the Project was underway as the original target date of 2010 for IPSAS compliance was no longer achievable. The revised Project plan, consistent with the availability of key staff resources, envisages 2012 as the first full year of IPSAS compliant operations to be submitted for external audit. Both the UN's Panel of External Auditors and the UN's Task Force on Accounting Standards consider that the majority of UN system organizations will not be able to meet the 2010 target date for IPSAS compliance.
- iv) The Project is progressing in accordance with plan. The Office of the Inspector-General has performed a review of the Project and concluded that it has a sound governance and management structure and is supported by detailed project plans.
- v) The Project Team, a mix of internally seconded staff and externally hired subject matter experts, has been established within the Finance Division and the Information Technology Division and is fully operational.
- vi) In 2009 a major change to Project scope was decided by the IPSAS Project Board. The Field Accounting System (FAS) Replacement project which had been placed on hold in 2007 pending an analysis of the impact of the IPSAS Project and the IEE recommendations will now be

This document is printed in limited numbers to minimize the environmental impact of FAO's processes and contribute to climate neutrality. Delegates and observers are kindly requested to bring their copies to meetings and to avoid asking for additional copies.
Most FAO meeting documents are available on the Internet at www.fao.org

integrated into the IPSAS Project. Planning for the integration of the two projects is currently in progress with the expectation that substantial synergies can be achieved.

vii) The total estimated cost of the IPSAS Project remains at the previously reported USD 13.9 million. The Project is funded from the Capital Expenditure Facility. The 2008-09 appropriation of USD 6.3 million covers the funding requirement for the current biennium; a funding requirement of some USD 6.1 million, in line with the total estimated budget, will be required in 2010-11. In addition completion of the FAS project will require development of funding proposals for an estimated USD 2.5 million. It is expected that a significant proportion of the required funding for the FAS project will be sought from Extra-Budgetary resources.

viii) The major risks to the Project remain the limited availability of key staff who are also required to support other IEE-related initiatives and the capacity constraints in Decentralized Offices.

Action Requested

The Committee is requested to take note of progress reported in this document.

Contact

Director, Finance Division and Treasurer

Mr Nicholas Nelson

Tel. +39 06 5705 6040

Background

Previous Decisions

1. The Finance Committee has reviewed regular reports on the adoption of IPSAS since 2006 and an initial high-level estimate of project costs to adopt IPSAS was included in the Capital Expenditure proposals and approved in the PWB 2008-09 by Conference in November 2007.
2. The Committee at its 122nd Session in May 2008 noted, following the completion of detailed project planning, that the total estimated costs of the Project amounted to USD 13.9 million and that a phased approach would be required to achieve IPSAS compliance in 2010. The Committee at its 123rd Session in October 2008 was orally informed and noted that IPSAS implementation could not be achieved in 2010 since, in the context of the IEE process, the Organization was revisiting its planning assumptions for all major projects, including the synergies the IPSAS project offered with other IT systems initiatives.

Benefits

3. The Committee will recall that the major benefits of the IPSAS Project are that it will provide:
 - the adoption of best practice international accounting standards (already adopted by the OECD, NATO and the European Commission) as increasingly demanded by donors;
 - transparent and reliable financial reporting leading to increased confidence in the Organization's financial state;
 - the foundation for providing complete, comparable and readily understood financial information leading to better decision making and use of resources.

Project Deliverables

4. IPSAS adoption is a large scale project for FAO as it impacts the accounting, financial reporting and associated information technology systems of the Organization. It requires the implementation of the following deliverables:

New or significantly updated **business processes** in the following areas:

- a) Fixed assets
- b) Payment authorization
- c) Revenue recognition
- d) Financial reporting
- e) Foreign exchange recording and revaluation
- f) Employee benefits
- g) Accrual accounting
- h) Receiving of goods and services (new)
- i) Donated and in-kind goods (new)
- j) Inventory (new)
- k) Intangible assets (new)
- l) Consolidation (new)
- m) Budget and donor reporting support (new)

New or significantly updated **accounting policy and procedures** including:

- a) Updated Financial Regulations
- b) Updated Manual Sections
- c) Accounting policy statements
- d) Procedures
- e) Accounting policies and rules for business process deliverables

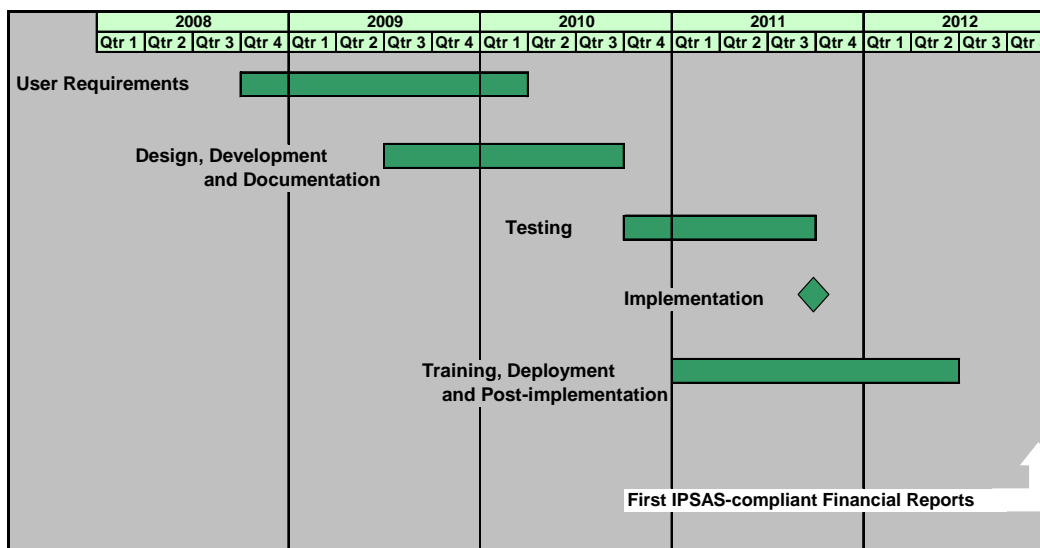
New **reporting and control** deliverables:

- a) Financial statements and disclosure notes
- b) Budget reporting and reconciliation reports
- c) Financial statement opening balance
- d) Updated chart of accounts

Project Progress

5. In October 2008 the Project Board, comprising senior managers from AF department, KCT, TCO, OCD and PBE, approved a revised Project plan under which IPSAS compliance would be achieved in 2012, the first full year of IPSAS compliant operations to be submitted for external audit. The original Project plan whereby initial IPSAS compliance was to be achieved in 2010 and full IPSAS compliance in 2011 was considered to be no longer consistent with the availability of key staff required by the Project given the competing requirements of other IEE-related initiatives. The Board therefore requested a re-planning consistent with the Organization's latest estimation of the availability of key staff resources. The Board also considered that a re-planning of the timeline would permit greater synergies with other Organizational projects and initiatives. The new approved Project timeline is shown in the table below:

Table 1



6. The user requirements gathering stage started in October 2008 and is progressing in accordance with plan. The user requirements relate to both the development of an IPSAS compliant accounting policy and the new or updated business processes required to support the new accounting requirements. The user requirements for all Project deliverables are being developed in accordance with the project methodology whereby the users and stakeholders at HQ and in the Decentralized Offices are fully involved in the specification and validation of the requirements.

7. The Project Team, a mix of internally seconded staff and externally hired subject experts, has been established within the Finance Division and the Information Technology Division and is fully operational.

8. Effective communication with the users and stakeholders impacted by the Project has been recognized as a key component for the successful implementation of IPSAS. A communication strategy to obtain the buy-in to the Project of the diverse users and stakeholder

groupings both in HQ and in Decentralized Offices has been developed and implemented. In the current phase of the Project the principal communication methods employed are presentations and workshops supported by a fully comprehensive and regularly updated website.

9. The Project continues to be planned, managed and monitored in accordance with the PRINCE2¹ best practice project methodology. The overall Project plan is divided into six-monthly stages. Formal Board approval is required before each stage can begin and the Board receives bi-monthly progress reports during the stage and an end-stage report at the end of the stage. Project issues and risks are subject to formal monitoring and all proposed changes to Project scope are subject to a change control procedure overseen by the Project Board.

10. The Office of the Inspector General (AUD) carried out a process and gap review of the IPSAS Project in September 2008.² The audit reviewed processes used by the Finance Division in planning, managing and monitoring the IPSAS project and assessed deliverables to identify any missing key components or procedures that could negatively impact its successful implementation.

11. AUD concluded that “*the project has a sound governance and management structure supported by detailed project plans, project board and project manager who are knowledgeable of project implications and risks*” while noting that the Project could benefit from intense and continuous communication, higher prioritization by the Organization, a visible organization-wide structure for the coordination and prioritization of large projects and the involvement of senior management. As noted above the Project has, subsequent to the review, developed and implemented a communication strategy.

Project Scope

12. The major change to Project scope in 2009 relates to the project to replace the Field Accounting System (FAS). The FAS project had been placed on hold in 2007 pending an analysis of the impact on the project of both the IPSAS Project and the IEE recommendations. The IPSAS Project Board recognized that a field accounting solution was necessary in order to achieve IPSAS compliance in Decentralized Offices and considered that substantial synergies could be obtained by integrating the FAS project into the IPSAS Project. The planning to integrate the two projects is currently in progress and the next IPSAS Progress Report to the Committee will report on the impact of this integration

Inter-agency Cooperation

13. The FAO IPSAS Project continues to cooperate with the other agencies in order to maximize efficiency through the identification of common approaches and solutions. In particular the WHO/ILO/FAO interagency working group continues to meet periodically to share experience on IPSAS implementation in an Oracle ERP framework. Close contact has continued with WFP in order to benefit from its experience as an early adopter of IPSAS.

UN system context

14. The Organization has continued to participate in the working groups of the UN Task Force on Accounting Standards to develop system wide IPSAS-compliant policy and guidance. A stable platform of accounting policies has now been put in place.

15. The Task Force on Accounting Standards issues six-monthly reports to the HLCM on the progress of IPSAS Adoption within the UN System. The latest report issued in February 2009³

¹ Projects In Controlled Environments (PRINCE2)

² AUD 2908

³ CEB/2009/HLCM/8

quotes a letter from the UN's Panel of External Auditors to the Secretary General of the UN that states the Auditor's opinion that the majority of the United Nations system organizations will not be able to meet the 2010 target date for IPSAS compliance. The letter to the Secretary-General concludes with the Auditor's opinion that "*the implementation of IPSAS is the single most important aspect of the United Nations management reform*".

16. The Task Force's own assessment of entities likely to achieve the 2010 target date, based on a survey of all UN entities, concludes that 52% of entities have already indicated that they will not be IPSAS compliant in 2010 or have identified significant risks that appear to make that date unachievable.

17. FAO's early evaluation that it could not achieve the 2010 target date was the result of its rigorous planning process that identified there was not sufficient capacity within the Organization to implement the major changes required within a 2010 timeline. Several organizations appear less able to evaluate their ability to meet the original 2010 deadline as they have not performed the same level of planning. It is now clear however that the 2010 original deadline while providing the impetus to progressing IPSAS adoption was an unrealistic target date for adoption by the whole system.

FAO Context

18. The IPSAS Project is strongly supported by the IEE and the Root and Branch Review. The IEE stated that "*FAO leadership should use the transition to IPSAS to achieve significant efficiencies and improved effectiveness in financial accounting, financial management and decision support systems*". The IPA has grouped the IPSAS Project in Thematic Group 4 "Efficient use of member contributions through reform of administrative and management systems". The Root and Branch Review stated that "*the implementation of IPSAS is the most important initiative for the Finance Division and a key initiative for FAO as a whole. It is a prerequisite for many other initiatives and system changes. As implementation of IPSAS is key for further streamlining and improving processes we strongly recommend that FAO put the highest priority to this initiative, ensuring that IPSAS has the full support of senior management and gets the staffing necessary for a timely and high-quality realization*".

Risks

19. The Project evaluates and monitors risks on an on-going basis. The major risks to the project are:

- Availability of user resources. The Project's estimate of required user resources, key staff from units throughout the Organization required by the Project, are substantial and concentrated in the phases of user requirements and testing. The planning has moved IPSAS compliance from 2010 to 2012 to take into account the limited availability of key staff resources but a major risk remains the impact on user availability as the user requirements for other IEE-related projects are developed. The concentration of knowledge in a limited number of key users required to support a number of reform initiatives will require prioritization of the IPSAS Project in order to ensure the required users are made available at the required time.
- Constraints in Decentralized Offices. IPSAS adoption requires the implementation of new or substantially modified business processes. Infrastructure and capacity constraints in Decentralized Offices and project locations are a key factor in determining both the type of solutions and the speed at which they can be implemented.

Budget and Funding

20. The latest update of estimated costs for the IPSAS Project amount to USD13.9 million over three biennia, consistent with the previous estimate provided to the Committee.

Table 2

IPSAS Project	2006-07	2008-09	2010-11	2012	Total
	USD Millions				
Project Team – Functional	0.2	2.3	3.0	0.6	6.1
Project Team – Technical		0.7	2.2	0.3	3.2
DBAs / Unix Administrators		0.1	0.5		0.6
User Support from Divisions		0.5	1.6		2.1
Communication/Training		0.2	0.4	0.2	0.8
Travel		0.1	0.1	0.1	0.3
Hardware and Other		0.6			0.6
Funding of UN IPSAS Project	0.1	0.1			0.2
Total Estimated Project Costs	0.3	4.6	7.8	1.2	13.9

21. The Project is funded from the Capital Expenditure Facility for which an allotment of USD 6.3 million has been provided for 2008/09. The projected under spend of USD 1.7 million in 2008-09 results from the revised timing of Project expenditure from when the first budget estimates were provided for the PWB 2008-09. The under spend will be carried forward, consistent with the rules of the Capital Expenditure Facility, to offset the funding requirement for the 2010-11 biennium. The funding requirement for the IPSAS Project in the PWB 2010-11 will therefore amount to some USD 6.1 million (i.e. USD 7.8 million less USD 1.7 million).

22. The original scope of the FAS project was to implement a Field Solution to support the needs of the Decentralized Offices to record and control financial transactions. With the subsequent decision to adopt IPSAS it was recognized that implementation of the full Field Solution was a dependency of IPSAS compliance in Decentralized Offices.

23. With the decision to integrate the FAS Project, the IPSAS Project also now takes responsibility to implement the full Field Solution, including the completion of the development and deployment of the functionality contained in the original FAS project scope. A high-level estimate of the additional funding required to complete the development of functionality in the Field Solution is shown below.

Table 3

Field Solution	2008-09	2010-11	2012	Total	Funded by IPSAS Budget	Net required funding
	USD Millions					
Project Team - Functional	0.6	0.8	0.1	1.5	0.5	1.0
Project Team - Technical	0.2	1.0	0.2	1.4	0.4	1.0
Communication/Training		0.6		0.6	0.1	0.5
Total Estimated Project Costs	0.8	2.4	0.3	3.5	1.0	2.5

24. The high-level estimate will be revised over the next three months as the detailed planning to integrate the FAS project into the IPSAS Project is completed.
25. The estimated required additional funding of USD 2.5 million for the Field Solution will be developed in the PWB 2010-11 proposals. It is expected that a significant proportion of the required funding will be sought from Extra-Budgetary funding as the principal driver for the project, the requirement to update the financial system in decentralized offices, largely results from the need to increase control and monitoring over the substantial increase in Extra-Budgetary activities.