



FINANCE COMMITTEE

Hundred and Eighteenth Session

Rome, 17 - 25 May 2007

Progress Report on Adoption of International Public Sector Accounting Standards

Introduction

1. The Finance Committee at its 115th session¹ was informed that in July 2006 the General Assembly (GA 60/283) had approved the proposal for United Nations system-wide adoption of International Public Sector Accounting Standards (IPSAS). The Committee recognized both the importance and the scale of the project within the Organization and approved start up of an implementation project using the Capital Expenditure Facility as a funding source for the 2006-07 biennium. This document provides an update on project progress and an estimate of total project costs. The estimated costs to be incurred in the 2008-09 biennium amount to US\$5.2 million and have been included in the SPWB 2008-09.

Background

Previous Decisions

2. In November 2005 the High-Level Committee on Management (HLCM) of the United Nations System Chief Executives Board for Coordination (CEB) accepted the recommendation of the inter-agency Task Force on Accounting Standards that the UN System adopt IPSAS for reporting periods beginning on or after 1 January 2010. The CEB endorsed the recommendation in April 2006 and in July 2006 the General Assembly approved the adoption of IPSAS by the United Nations. The Director-General has agreed to adopt IPSAS in FAO subject to the identification of the costs of such adoption and the approval of the proposal by the Governing Bodies together with the financing of the expenses.

¹ FC115/9 Adoption of International Public Sector Accounting Standards

Benefits

3. The benefits of IPSAS adoption for the UN organizations are significant. Reporting of assets, liabilities, revenue and expenses in accordance with independent international standards will significantly improve financial management. The resulting more comprehensive information about costs will better support results based management. IPSAS adoption will significantly improve the quality, comparability and credibility of United Nations System financial reporting to Member Nations and donors with consequential improvements anticipated with respect to accountability, transparency and governance. IPSAS is recognized as best practice for not-for-profit organizations. It has recently been adopted by the OECD, EU and NATO.

Implications

4. IPSAS adoption represents a large scale project for the Organization as it impacts the accounting, financial reporting and associated information technology systems and will likely lead to changes in the Organization's approach to budgeting and donor reporting.

5. The major impacts on the Organization's accounting and financial reporting will be:
- a) Liabilities for After Service Medical Coverage (ASMC) and termination benefits will require to be fully recorded in the financial statements. The current practise of amortizing unrecognized past service costs over several biennia will be discontinued.
 - b) Capital assets such as buildings, vehicles, furniture and equipment will be required to be recognised and depreciated in the financial statements. The current policy of fully expensing the costs of these items at the date of acquisition will be discontinued. Assets will increase as a result of recognizing capital assets. Depreciation expenses for capital assets will spread the acquisition cost of the asset over its useful working life rather than expensing the full cost in the year of acquisition.
 - c) Inventories will be recognized for goods received but not yet delivered out or consumed. Assets will increase as inventories were not previously recognized in the financial statements.
 - d) Expenses or capital assets or inventories must be recognised on the basis of goods and services having been received (the delivery principle). The current policy of recognizing an expense when an internal purchase order has been raised will be discontinued.
 - e) Provisions for delays in receipt of Member contributions would be made based on an assessment of collectability. The current policy of one hundred percent provisioning of contributions receivable will be discontinued.
 - f) Financial Statements must be prepared and audited on an annual basis instead of on a biennial basis.

6. Budgeting and donor reporting are impacted by the introduction of IPSAS for financial reporting. Currently budgeting, donor reporting and financial reporting recognize expense on the same basis. This is often referred to as a "cash" or "modified accruals" basis. With the introduction of IPSAS the basis of financial reporting will change with the recognition of expenses on the delivery principle and recognition of capital assets and inventories. This is often referred to as the "full accruals" basis. The Organization will need to decide if budgeting and donor reporting should also move onto the full accruals basis and thereby maintain consistency with financial reporting or if they will continue on the current cash or modified accruals basis. Moving to the full accruals basis for budgeting is a major change that would require the approval of Member Nations and donors while remaining on the cash basis will require additional reporting capabilities and complex reconciliations. IPSAS limits itself to financial reporting only and is not prescriptive regarding the basis to be adopted for budgeting and donor reporting.

7. IPSAS adoption is expected to require changes to be made to the Financial Rules and Regulations of the Organization by Conference in 2009. The extent of the required changes will

be identified when both a detailed analysis of IPSAS requirements has been completed and a decision taken on the basis to be adopted for budgeting and donor reporting.

8. IPSAS adoption is a UN system-wide decision that requires all UN entities to be IPSAS compliant by 1 January 2010. A UN system-wide project team provides support, coordination and leadership but each individual UN entity requires to work through the implications and project requirements and to incorporate their requirements with respect to the necessary project funding in their budgets. The initial analysis of the implications for the Organization concluded that this is a project which required to commence 2006 in order to adhere to a 1 January 2010 implementation deadline.

Progress on IPSAS Project at FAO

Project Structure

9. A project management structure and methodology has been agreed and the IPSAS Project Board held its first meeting in November 2006. The Project Board includes the directors of Finance Division (AFF), Office of Programme, Budget and Evaluation (PBE) and the Information Technology Division (KCT). The Project Board reports to the Assistant Director General, Department of Human, Financial and Physical Resources (AF) who is responsible to Programme Management for the overall direction and management of the project. The Project Board will report on a periodic basis to the Oracle Project Management Committee (OPMC) in order that the resolution of major issues will be coherent and consistent with the FAO Oracle Project Programme.

Development of IPSAS Compliant Accounting Policy

10. The dedicated UN-wide IPSAS project team has continued work on the key deliverable of IPSAS compliant UN System Accounting policies. The FAO IPSAS project team has committed resources to provide input into this development process. The External Auditor has also been requested to comment on the proposed accounting policies. Meetings of the Accounting Standards Task Force in April and June 2007 are expected to approve the accounting policies which will be a key input for defining the scope of the FAO IPSAS project.

Communication

11. Early and effective communication of the IPSAS projects aims, benefits and impacts within the Organization has been recognized as a key component for a successful implementation of IPSAS. The project team has set up an IPSAS information website on the FAO intranet and held information meetings for relevant staff in AFF, PBE and the Office of the Inspector General (AUD).

Inter-Agency Cooperation

12. An interagency workgroup has been formed with FAO, WHO and ILO as all three agencies are implementing IPSAS on an Oracle ERP platform. The objective of the workgroup is to identify common issues and solutions to problems arising from the implementation of IPSAS in an Oracle ERP framework. FAO has maintained close cooperation with WFP in order to benefit from the experience of an agency which will implement IPSAS in 2008.

Impact Analysis

13. A high level analysis of change requirements for IPSAS adoption has been performed by the project team. This has identified the probable areas of major impact on business processes. Those that are expected to require major business analysis and system developments or technical support are:

- Implementation of functionality for the recording, depreciation and disposal of fixed assets.

- Implementation of functionality for recognition of expenses or assets at the point of delivery of the good or service
- Implementation of functionality for recognition of inventories at point of delivery-in and derecognition at point of delivery-out or consumption.
- Increased reporting to support increased financial reporting and management requirements. Increased reporting requirements may also result from the budget and donor reporting processes if they are not moved onto the same basis as the IPSAS compliant financial reporting.

Project Plan

14. The table below shows the high level project plan and timetable for FAO to achieve IPSAS implementation by 1 January 2010.

Phase No.	Phase Description	Activities	Activities to be completed during years
1	Project Definition	Confirm objectives High level analysis of change requirements Identify Constraints (resources/financing) Identify Interfaces: UN Accounting Standards Project Produce list of Deliverables and Timetable	2006-07
2	Project Initiation and Planning	Overall Planning Project structure	2006-07
3	Business Requirements	Review of policies, rules and regulations for submission for approval by Governing Bodies in 2009. Identification of detailed accounting requirements (policies, financial statements, chart of accounts etc.). This will be reliant on output from UN Accounting Standards Project. Gap Analysis – systems, procedures	2006-07 with completion in 2008
4	IT Developments	Develop IT system requirements to support business requirements.	2008-09
5	Testing	Testing of system and procedural changes	2008-09
6	Conversion and Implementation	Opening balances to be established Changes to processes and procedures Amendments to Financial Rules and Regulations Training	2008-09

7	Go-Live	System changes and new policies and procedures operational	2010
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Estimate of Project Costs

15. An initial estimate of total project costs covering the total duration of the project (which is expected to complete in June 2010) is presented below. It is important to recognize that this estimate is based on a number of assumptions which can only be validated when extensive business analysis has been completed.

	2006-07	2008-09	2010-11	Total
Costs for Functional Activities (non-IT)	\$ millions			
Staff/Consultants for Core Project Team	0.2	2.0	0.5	2.7
Functional Support from the Divisions for analysis and testing	-	1.0	0.2	1.2
Communication/Training	-	0.6	0.2	0.8
Travel	0.1	0.2	-	0.3
Funding of UN system-wide IPSAS Project	0.1	0.1	-	0.2
<i>Total Cost for Functional Activities</i>	<i>0.4</i>	<i>3.9</i>	<i>0.9</i>	<i>5.2</i>
Costs for Technical Activities (IT)				
Analysts/developers/Data Base Administrators	-	1.1	0.1	1.2
Hardware, licenses and other	-	0.8	-	0.8
<i>Total Cost for Technical Activities</i>	<i>-</i>	<i>1.9</i>	<i>0.1</i>	<i>2.0</i>
<i>Total Project Costs</i>	<i>0.4</i>	<i>5.8</i>	<i>1.0</i>	<i>7.2</i>

16. The initial estimate includes both functional and technical costs and is therefore the total estimated cost of the project. The functional costs include the staff and consultant costs of the dedicated project team in addition to the costs of backfilling staff members in the divisions who will be called upon by the project during the business analysis and testing phases. The technical costs cover the staff or consultant costs for the provision of technical activities and additional licence fees and hardware costs as required.

17. Care should be exercised when comparing the costs of IPSAS implementation between different UN entities as cost will be dependent on the complexity and size of the different entities and the extent of the system changes required. In addition further variation is introduced according to the periods for which budgets have been produced and the types of costs included. Particularly important with regard to the latter is whether the costs of technical activities and support required from the divisions have been included. In this respect it should be noted that the WFP estimate of IPSAS implementation project costs of \$3.7 million was for a two year period

only and it is understood to exclude the costs of technical activities and functional support²; the United Nations has estimated a total IPSAS implementation cost of \$23 million which excludes costs related to the requirement to implement a new Enterprise Resource Planning (ERP) system³; IAEA has estimated IPSAS implementation costs of \$8.3 million which includes required system upgrades⁴

18. FAO's total estimated cost of the IPSAS project of \$7.2 million will fall into 3 biennia. The estimated costs for the current biennium amount to \$410,000 while it is forecast that \$1 million of costs will be required for post implementation support in the 2010-11 biennium. The forecast costs for the 2008-09 biennium are therefore \$5.8 million. In order to assure that the project delivers the identified benefits within the required timetable an identified source of funding is required within the Capital Expenditure Facility.

19. There are substantial risks in not carrying out the IPSAS adoption project in the event that no source of funding is identified. The credibility of the Organization will be impacted in a UN environment where the other organizations are producing IPSAS compliant reporting and the external auditors can be expected to report negatively on the Organization's inability to prepare financial statements in accordance with IPSAS standards. In addition the consequential improvements with respect to accountability, transparency and governance will not accrue to the Organization.

² WFP/EB.A/2006/6-1/1

³ A/60/846/Add.7, Annex II

⁴ GOV/2007/10