

March 2010

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Organización
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FINANCE COMMITTEE

Hundred and Thirty-second Session

Rome, 12-16 April 2010

Progress Report on Adoption of International Public Sector Accounting Standards

Queries on the substantive content of this document may be addressed to:

Mr Nicholas Nelson
Director, Finance Division
Tel: +3906 5705 6040

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EXECUTIVE SUMMARY

- This paper is submitted to the Finance Committee in accordance with the request made for regular updates on IPSAS implementation.
- A major change to Project scope took place in 2009 with the decision to integrate the Field Accounting System (FAS) Replacement Project into the IPSAS Project. The planning and costing for this major increase in scope (the “Field Solution”) was carried out during the latter part of 2009 and approved by the IPSAS Project Board in December 2009.
- The document describes progress in IPSAS implementation since the last report to the Finance Committee in May 2009, noting in particular some of the key considerations regarding the change in project scope to include development of a Field Solution system solution to support the Organization’s field operations, risk management issues, and budget and funding considerations.
- The estimated cost of the IPSAS Project with the integrated Field Solution workstream amounts to USD 19.7 million over three biennia. The estimated cost of the original IPSAS workstream remains at USD 13.9 million, while that of the new Field Solution workstream amounts to USD 5.8 million. Full funding for the 2010-11 requirements of the IPSAS workstream has been provided for from the CAPEX¹ facility in the PWB 2010-11. The new Field Solution workstream has only partial funding from the same source, and a funding requirement of USD 3.1 million needs to be identified before the end of the project in 2012.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to note the Report, re-emphasize the importance of IPSAS, affirm the importance of the increase in scope to include the Field Solution while recognizing the increased risk that this represents, and to encourage Management to find suitable solutions for the funding requirement.

¹ The CApital EXPenditure Facility in the PWB 2010-11 funds projects of a capital expenditure nature.

BACKGROUND

1. The Finance Committee has reviewed regular reports on the adoption of IPSAS since its 115th Session in September 2006 when it approved that FAO adopt IPSAS. At its 126th Session in May 2009, the Committee was informed that Field Accounting System (FAS) Replacement project was being integrated into the IPSAS Project and that detailed planning for the integration of the two projects was underway. The Committee was also informed that 2012 was the target date for the first full year of IPSAS compliant operations and that this implementation timetable was based also on a best estimate of the capacity of the Organization to implement IPSAS at the same time as carrying out many other Reform related activities.

2. The following paragraphs describe progress in IPSAS implementation since the last report to the Finance Committee in May 2009, noting in particular some of the key considerations regarding the change in project scope to include development of a Field Solution to support the Organization's field operations, risk management issues and budget and funding considerations.

Project Progress

Inclusion of the Field Solution in project scope

3. Country offices around the world are today responsible for a significant and increasing proportion of the Organization's business activities. For FAO's global business model to operate successfully, it is essential that all staff, wherever they are located, be provided with the administrative and system support to enable them to carry out the functions delegated to them. Key weaknesses that characterise the administrative and system support currently available to Decentralized Offices include poor integration with corporate systems, lack of data capture, limited transaction level controls over key processes, lack of capacity in terms of human resources at many offices and poor connectivity.

4. In addition to meeting functional requirements such as supporting day to day transaction processing, providing an appropriate level of internal control and providing timely reporting and management information to staff at all locations, the Field Solution must also meet a range of technical requirements including: being operable on the FAO network, being flexible to meet changes in business requirements, using technology that will remain supportable and maintainable and being scalable to match the differing capacities of different Offices and support the expected continuing growth of Decentralized Office activities.

5. The new Field Solution must also consider both system connectivity issues and the limited capacity of administrative resources in the Decentralized Offices. In this regard, the Project team performed an analysis which concluded that FAO's Oracle standard HQ configuration cannot be rolled out to the Decentralized Offices because there is neither adequate connectivity nor resources in the Decentralized Offices to support it. Whilst one of the IPA projects will improve the levels of connectivity in the Field, the new Field Solution will require to be designed using "light" Oracle processes adapted to future projected levels of connectivity and resources in the Decentralized Offices.

6. At its 126th Session, the Committee was informed that while the estimated cost to complete the (pre-IPSAS) FAS Replacement Project was USD 2.5 million a revised planning and budget would be required given the major expansion in scope required to meet the substantially increased requirements and objectives of the Field Solution and in order to integrate the work stream into the IPSAS timeline and thereby generate synergies.

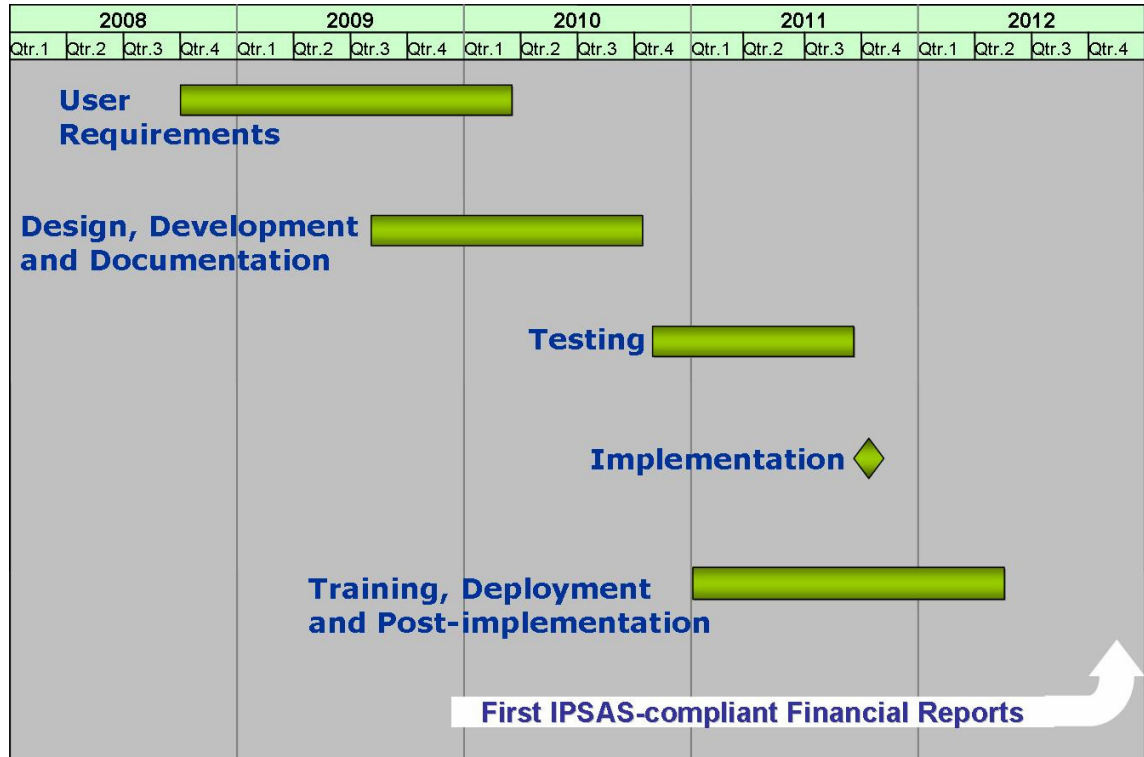
7. In December 2009, the IPSAS Board approved the revised planning and timeline for the integrated project while recognizing the increased risk that the integration represented to the Project timeline. Given, however, the dependency of the Project on the FAS Replacement Project

to achieve IPSAS compliance in the Field and the synergies available from such an integration the increased risk was considered necessary. The revised estimated cost for the Field Solution work stream amounts to USD 6.9 million for the 4 year period to 2012 of which USD 1.1 million was already provided for in the IPSAS Project budget to fund the functionality required for IPSAS compliance in the Decentralized Offices. Consequently there is a net revised total funding requirement for non-IPSAS related functionality in Decentralized Offices of USD 5.8 million.

Updated Project Timeline

8. The IPSAS Project timeline as shown below now incorporates the new Field Solution work stream.

Table 1



9. 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. A series of secondments from Decentralized Offices to the Project at HQ has ensured that the Field requirements are fully taken into account.

10. The Project Team, a mix of internally seconded staff and externally hired subject matter experts, has been established within the Finance Division and the Chief Information Office Division and is fully operational. A team to support the new Field Solution is now being put in place.

11. The IPSAS Project Board is chaired by the Director CSF and includes representatives from CS, TC, CIO, OSP, OSD as well as the ADG-CS. The role of the Board is to provide overall guidance and direction to the Project, monitor its progress, assist in the management of risks and ensure synergies with other related initiatives and projects. In addition the Information

System Committees that provide IT governance are kept informed of the major system related changes that are planned by the Project.

12. 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, Stakeholders and Senior Management both in HQ and in Decentralized Offices has been developed and implemented.

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. Both WHO and ILO have similar challenges to FAO in respect of designing a workable Field Solution that takes into account limited connectivity and resources. 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. The Task Force on Accounting Standards issues six-monthly reports to the HLCM on the progress of IPSAS Adoption within the UN System. With the exception of WFP all the larger UN entities are now planning for IPSAS adoption in 2011 or 2012 with the UN itself now stating 2014 as its planned adoption date.

Project Risks

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

- **Availability of user and project team staff.** The Project's estimate of required input to the project from key staff from units throughout the Organization is substantial; such input is concentrated for the main part in the phases of user requirements definition and testing. User availability remains a major risk given the many other reform-related activities being undertaken by Organization.
- **Other Information System (IS) Projects.** A particular risk relates to the timing of project activities with regard to certain other related projects, including in particular the necessary upgrade of FAO's (Oracle) financial and HR systems to the next product release ("Release12") and the introduction of Enterprise Risk Management within FAO which is due to commence during the current biennium. Other IS Projects are a risk both because of their competing requirement for input from key staff and because of the need to synchronize Project timelines for certain key activities.
- **Constraints in Decentralized Offices.** IPSAS adoption requires the implementation of new or substantially modified business processes. Infrastructure and staff 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.
- **Integration of the FAS Replacement Project.** Overall risk to the Project timeline has increased with the major change in scope to integrate the FAS Replacement Project. Given however the dependency of the Project on the FAS Replacement Project to achieve IPSAS compliance in the Field and the synergies available from such an integration the increased risk was considered necessary.

Budget and funding

16. The table below shows the estimated cost of the IPSAS Project with the integration of the new Field Solution workstream.

Table 2

Total IPSAS Project	Actual		Estimated		Total
	2006-07	2008-09	2010-11	2012	
	USD millions				
<u>IPSAS Workstream</u>					
Project Team – Functional		1.7	3.0	0.6	5.3
Project Team – Technical		0.2	2.2	0.3	2.7
User Support from Divisions		0.2	1.6		1.8
Other ²	0.3	0.6	2.1	1.1	4.1
Total Costs	0.3	2.7	8.9	2.0	13.9
<i>Funding from CAPEX</i>	<i>0.3</i>	<i>2.7</i>	<i>8.9</i>		
<u>Field Solution Workstream</u>					
Project Team – Functional		0.3	0.9	0.6	1.8
Project Team – Technical		0.2	0.7	0.7	1.6
User Support from Divisions		0.1	0.4	0.5	1.0
Other ²			0.4	2.1	2.5
Total Costs		0.6	2.4	3.9	6.9
Funded from IPSAS workstream		-0.4	-0.7		-1.1
Net Estimated Costs		0.2	1.7	3.9	5.8
<i>Funding from CAPEX</i>		<i>0.2</i>	<i>1.7</i>		
Total IPSAS Project Costs	<u>0.3</u>	<u>2.9</u>	<u>11.3</u>	<u>5.9</u>	<u>19.7</u>

17. The USD 13.9 million estimated cost for the IPSAS work stream is unchanged from the last estimate provided to the Committee. This work stream is funded from the Capital Expenditure Facility for which an amount of USD 8.9 million has been identified for 2010/11.

18. The USD 5.8 million estimated cost for the FAS work stream has only a partially identified funding source. An amount of USD 1.7 million has been identified from CAPEX for the 2010-11 biennium. This amount was the current biennium's requirement of the USD 2.5 million total (2008-12) estimate to complete the (pre-IPSAS) FAS Replacement Project. Consequently there remains a funding requirement of USD 3.1 million to be identified before the end of the project in 2012.

² Other costs cover communication, travel, training, hardware and software.