



منظمة الأغذية
والزراعة
للأمم المتحدة

联合国
粮食及
农业组织

Food
and
Agriculture
Organization
of
the
United
Nations

Organisation
des
Nations
Unies
pour
l'alimentation
et
l'agriculture

Продовольственная и
сельскохозяйственная
организация
Объединенных
Наций

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

FINANCE COMMITTEE

Hundred and Thirty-fifth Session

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Progress Report on Adoption of International Public Sector Accounting Standards

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EXECUTIVE SUMMARY

- This paper is submitted to the Finance Committee as part of the regular updates on IPSAS implementation.
- The Projects' user requirements phase is now finishing and the design phase is underway
- In 2009, the Finance Committee endorsed the inclusion of a new field model within the scope of the overall IPSAS project, in order to fully support the evolving business requirements of the Decentralized Offices. Accordingly, a "Field Solution" has now been designed to replace the current Field Accounting System (FAS).
- To more holistically develop FAO's administrative applications, a "synergistic" approach is now being adopted. This entails managing an upgrade of the Organizations's Enterprise Resource Planning system (ERP) to Oracle Release 12 in parallel with the IPSAS Project and the Field Solution . In addition to the significant cost benefit of running these major administrative projects in an integrated way, such an approach allows the IPSAS Project to exploit the significant new functionality available in Oracle Release 12 while ensuring that the Organization will not be required to rely on an unsupported version of its ERP in 2013.
- The "synergistic" introduction of Oracle Release 12 will also permit the Organization to replace the current Field Accounting System with a Field Solution that uses standard Oracle Release 12 functionality for deployment to the Decentralized Offices as an integrated part of the ERP.
- Under the new synergistic approach IPSAS compliant systems will be delivered in 2012. The first IPSAS compliant official accounts will be prepared for the calender year 2013.
- Changes to the Financial Regulations required to enable the Organization to formally adopt IPSAS as its financial reporting framework have been determined and are set out in Appendix I. The related Draft Conference Resolution is set out in Appendix II.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to note:
 - the synergistic approach for delivering IPSAS, the new Field Solution (to replace the current Field Accounting System), and the Oracle R12 Release in parallel,
 - that IPSAS compliant systems will be delivered in 2012 and the first set of IPSAS compliant official accounts in 2013
- The Finance Committee is also requested to approve the changes to the Financial Regulations required to introduce IPSAS as presented in this document, for consideration by Council and approval by Conference.

Draft Advice

- **The Finance Committee noted the progress of the project to implement International Public Sector Accounting Standards (IPSAS), together with the design of the new Field Solution to replace the current Field Accounting System. It acknowledged the merits of adopting a synergistic approach aimed at also upgrading the applications to Oracle R12 release in parallel. The Committee noted that under this synergistic approach IPSAS compliant systems will be delivered in 2012 and the first set of IPSAS compliant accounts in 2013.**
- **The Finance Committee reviewed the proposed changes to the Financial Regulations required to introduce IPSAS and endorsed the draft resolution for transmission to Council and Conference.**

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 would be integrated into the IPSAS Project and that 2012 was the target date for the first full year of IPSAS compliant operations, this implementation timetable being based 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. At its 132nd Session in April 2010 the Committee was informed that the complexity and impact of the FAS integration required a seven month extension to the timeline resulting in an overlap with the timeline for the necessary upgrade of FAO's Oracle Enterprise Resource Planning system (ERP) to Release 12.

2. Following the integration of the FAS Replacement Project, the objectives of the FAO IPSAS Project have been broadened to include the following:

(i) To provide Decentralized Offices with a financial system that fits current business purposes and reduces financial risks through implementing processes and systems to support the recording, accounting, control and reporting of all financial and procurement transactions at the Decentralized level;

This is in addition to the original objectives of the Project which are:

(ii) To comply with internationally recognised, and UN required, standards for recording and reporting financial transactions through the preparation of annual financial reports in accordance with IPSAS standards;

(iii) To address organization-wide business requirements for automating, streamlining and supporting financial decision making by implementing new or updated sustainable business processes, integrated systems, financial controls and comprehensive reporting.

PROJECT PROGRESS

3. Significant progress has been achieved against the project timeline presented to the Committee at its last meeting in April 2010, with the user requirements phase now being completed and the design phase being advanced. Key points of interest for the Finance Committee include the following and are described in more detail in the following paragraphs:

- a) major progress has been made in finalizing a new field model (the "Field Solution") which will replace the model that supports the current FAS;
- b) a "synergistic" approach has now been adopted which will upgrade the Organization's ERP applications to Oracle Release 12 (R12) in parallel with IPSAS related system changes, thereby taking advantage of the new functionality available in R12;
- c) the new "Field Solution" will be based on standard Oracle Release 12 functionality supplemented when required by custom built system extensions fully integrated in the Oracle ERP;
- d) the updated planning and timeline for the synergistic approach will deliver IPSAS-compliant systems in 2012 while IPSAS-compliant financial statements will be first produced in 2013;
- e) the changes to the Financial Regulations required to enable the Organization to formally adopt IPSAS as its financial reporting framework have been determined and are set out together with the related Draft Conference Resolution in this document.

MODEL FOR A FIELD SOLUTION

Context

4. Decentralized Offices¹ around the world are today responsible for a significant and increasing proportion of the Organization's business activities driven by the growth in the Extra-budgetary income and increased delegations to the FAORs. Annual disbursements by Decentralized Offices have doubled since 2005 to reach USD500 million in 2009 and the trend is expected to continue.

5. The current business processes in Decentralized Offices cannot support this rapid expansion in operations because (i) the current FAS is not fit for purpose, having little integration with the corporate Oracle ERP and not capturing all required data (including commitments made by Decentralized Offices); (ii) the limited number of administrative staff in the Decentralized Offices can no longer cope with the increasing volume of business and; (iii) poor connectivity between field offices and the HQ ERP limits the use of corporate monitoring and reporting tools.

6. The consequence of this is that insufficient management information is available to budget holders in those field offices, which therefore makes monitoring of expenditure and delivery difficult. The increasing transaction volumes which are being handled with limited staff capacity is leading to a higher level of errors in transaction processing which increases financial risk. In this context, a new Field Solution is required to address the system and resource capacity limitations in Decentralized Offices in order to provide adequate support for the increased levels of business and greater delegations in the field.

Model for the Field

7. A new model that will meet the requirements to support FAO's business in the Decentralized Offices whilst respecting resource and connectivity constraints has been designed by the IPSAS Project. The model features the roll-out of selected Oracle Release 12 functionality (web-enabled) in the Decentralized Offices fully integrated with the Oracle ERP and supported by an upgrade of the wide area network infrastructure and an increased use of support centres to help with processing needs. The IPSAS Project Team has used field visits, workshops, surveys and secondments from Decentralized Offices to validate whether the model will support the current and foreseen requirements of the field. In addition, the Project has collaborated with other agencies which have an extensive network of field operations to ensure that the model incorporates best practise.

8. The web-enabled Oracle functionality will be used by Decentralized Office staff to enter transactions into the Oracle ERP, rather than into a locally-based FAS as at present. All financial information will be entered remotely in decentralized offices but loaded automatically into the Oracle database in Headquarters where the standard Oracle functionality will perform the control, accounting and reporting of all financial transactions. IPA Project 3.90 (WAN Upgrade) will bring field connectivity to the levels required to support transaction processing through the Oracle ERP. The system solution will be modular, allowing expansion for future functionality and scalable, allowing Decentralized Offices to selectively deploy those Oracle modules required for their local operations.

9. The integration with the Oracle ERP will allow full leverage of the existing Oracle ERP functionality which does not therefore require expensive replication in the Decentralized Offices. All key procurement and transaction data including field commitments will be held in the corporate database and will be available to all users through the standard corporate reporting tools to support monitoring and decision making.

¹ For the purposes of this document, 'Decentralized Offices' refers to Sub Regional Offices, FAO Representation Offices, Liaison Offices and Project Offices. Headquarters, Regional Offices and SSC Hubs are excluded as transactions performed at these locations are recorded directly in Oracle.

10. The support centre model will allow remote support for transaction processing at Decentralized Offices. This will support delegation of authority as it will allow the Decentralized Offices to concentrate their limited resources on value-added operations.

11. It is expected that introduction of the new Field Solution will bring significant benefits to the Organization's field operations, including major improvements in IPSAS compliant accounting and financial management information to Decentralized Offices.

UPGRADE OF THE ERP TO ORACLE R12

12. As reported to the Committee at its 132nd Session in April 2010, the necessity to upgrade FAO's ERP from its current Oracle release 11i to R12 has become critical because Oracle Corporation has announced that as of November 2013 it will end support for the version of Oracle currently in use by FAO.

13. An extensive internal review was undertaken during June to September 2010 to determine the most efficient and effective way to address the dual need to upgrade Oracle and implement IPSAS compliant systems. The review has concluded that implementation of R12 functionality will bring real benefits to the Organization and will contribute materially to the IPSAS project. In fact, R12 has a number of key standard accounting, reporting and technological features that would otherwise have to be customized if IPSAS and the Field Solution requirements were developed under the current Oracle release 11i. The customizations effort was considered a wasteful approach (as the systems features built would be discarded under R12) and therefore a "synergistic" approach has been adopted whereby the R12 upgrade and IPSAS efforts are developed in an integrated fashion, taking advantage of the new functionality available in R12.

14. Key benefits of such a synergistic approach are that the Organization will not be required to rely on an unsupported version of its ERP, while for the IPSAS Project the significant business benefits being developed for the Decentralized Offices and HQ, including the Field Solution, will be delivered in a holistic and cost effective manner together with the R12 upgrade. The internal working group, which included senior level participants from CS and CIO, has estimated that significant system development cost savings will be achieved resulting from economies in areas with Organization-wide impact such as user acceptance testing, training, deployment, change management and communication. The synergistic approach foresees implementation and delivery of IPSAS compliant systems on an Oracle R12 platform by the end of 2012.

15. With IPSAS compliant systems becoming available from end 2012, attempting to prepare IPSAS compliant accounts retroactively for the year commencing 1 January 2012 without related ERP system support would require an inordinate effort in terms of financial and human resources to support manual processes, including determining IPSAS-compliant opening balances. The synergistic approach therefore also foresees that the first IPSAS compliant official accounts be prepared prospectively after full implementation under Oracle release 12 of the IPSAS compliant system (including the Field Solution), as from the calendar year 2013.

16. In support of this approach, in July 2010, members of the FAO Audit Committee acknowledged the magnitude and complexity of the IPSAS Project, and the challenge of introducing new business processes during a major systems upgrade. They noted that for large organizations in the UN system the timelines for IPSAS implementation were becoming inextricably linked to broader ERP project considerations.

17. Within the overall synergistic approach, the IPSAS Project Team continues to identify opportunities for earlier implementation of key deliverables with high business benefit. The first of these deliverables, Field Office Budget Holder Reporting, provides timely and efficient delivery of budget holder data from the corporate Datawarehouse to Decentralized Offices, leveraging the new corporate Business Intelligence platform, thereby improving support to monitoring and decision-making activities. A second early deliverable, to provide the HQ

Procurement services with functionality for recording receipt for HQ-ordered goods and associated services with delivery to Decentralized Office locations is in progress.

FINANCIAL RULES AND REGULATIONS

18. The Finance Committee has reviewed regular reports on progress made in the implementation of IPSAS since its 115th Session in September 2006 when it approved that FAO adopt IPSAS, and inform the Council and Conference.
19. The terminology and content of the Organization's current Financial Regulations are consistent with accounting on a United Nations System Accounting Standards (UNSAS) basis. In order to formally adopt IPSAS as the Organization's financial reporting framework, some limited changes to these Financial Regulations are required.
20. The principal changes relate to the need to produce annual financial statements as opposed to the biennial accounts currently produced under UNSAS. It is recalled that IPSAS relates to financial reporting and will not change the underlying budgetary methodology nor the funding obligations of Member Nations. While the financial reporting cycle will therefore be annual, the current biennial budget cycle and relevant provisions in the Financial Regulations will remain unchanged.
21. In addition, although not prescribed by IPSAS, an annual audit is considered to be best practice and the following recommendation by the United Nations system-wide Task Force on Accounting Standards to perform such annual audits was approved by the CEB Finance and Budget Network at its meeting in June 2007: "*Acknowledging that the frequency of the audit is determined by the Governing Body, it is recommended that organizations have their annual financial statements audited each year, when they begin presenting IPSAS compliant statements*".²
22. The proposed amendments to the Financial Regulations to implement the necessary changes are provided in Appendix I.
23. The effective date of the proposed amendments should be 1 January of the year for which IPSAS compliant financial statements are first prepared. To this end, the Draft Conference Resolution (see Appendix II) provides for the entry into force of the amended Financial Regulations in the same calendar year in which the Organization first prepares Financial Statements compliant with IPSAS.

² CEB/2007/HLCM/FB/10, para 50 which approves the recommendations contained in CEB/2007/HLCM/FB/7

Appendix I: Table of Proposed Amendments to the Financial Regulations

In the text of the Financial Regulations reproduced below, the proposed changes regarding deletions are indicated using ~~struck-out text~~ and the proposed changes regarding insertions are indicated using underlined italics.

C. Financial Regulations		Proposed Changes
Regulation VI Funds		
6.8	<p>The Director-General may enter into agreements with governments and donors providing for technical assistance in the context of development projects to be executed/implemented by the beneficiary government or other national entity. Under these modalities, referred to below as projects under Partnership in Development Agreements, the following shall apply:</p> <ul style="list-style-type: none"> a. Where the funds are to be held and managed by the government or other national entity under national execution or implementation arrangements, FAO's participation shall be separately reported to the Finance Committee as Funds under Partnership in Development Agreements, and such funds shall not be included in the Financial Statements of the Organization. b. Where the funds are to be held in trust by FAO and transferred to the government or other national entity for the implementation of agreed activities, the funds shall be reported to the Finance Committee in the Financial Statements of the Organization as Funds held in Trust on behalf of beneficiary governments under Partnership in Development Agreements and shall be subject to the internal and external auditing procedures of the Organization. Funds held in trust by FAO that are subject to national implementation shall be expended in accordance with the national regulations and rules of the implementing government 	<p>The Director-General may enter into agreements with governments and donors providing for technical assistance in the context of development projects to be executed/implemented by the beneficiary government or other national entity. Under these modalities, referred to below as projects under Partnership in Development Agreements, the following shall apply:</p> <ul style="list-style-type: none"> a. Where the funds are to be held and managed by the government or other national entity under national execution or implementation arrangements, FAO's participation shall be separately reported to the Finance Committee as Funds under Partnership in Development Agreements, and such funds shall not be included in the Financial Statements of the Organization. b. Where the funds are to be held in trust by FAO and transferred to the government or other national entity for the implementation of agreed activities, the funds shall be reported to the Finance Committee in the Financial Statements of the Organization as Funds held in Trust on behalf of beneficiary governments under Partnership in Development Agreements and shall be subject to the internal and external auditing procedures of the Organization. Funds held in trust by FAO that are subject to national implementation shall be expended in accordance with the national regulations and rules of the implementing government and shall be subject to certification by the responsible national authorities, provided that the Director-General shall satisfy himself before entering into the agreement with the government

C. Financial Regulations		Proposed Changes
	<p>and shall be subject to certification by the responsible national authorities, provided that the Director-General shall satisfy himself before entering into the agreement with the government that such regulations and rules are consistent with the Financial Regulations of the Organization and provide adequate controls over the expenditure of the funds. These projects under Partnership in Development Agreements shall be subject to audit at least once a year by an independent auditor appointed with the agreement of both the government concerned and the Organization in accordance with the respective agreements.</p>	<p>that such regulations and rules are consistent with the Financial Regulations of the Organization and provide adequate controls over the expenditure of the funds. These projects under Partnership in Development Agreements shall be subject to audit at least once a year by an independent auditor appointed with the agreement of both the government concerned and the Organization in accordance with the respective agreements.</p>
Regulation XI The Accounts		
11.1	<p>The Director-General shall maintain such accounts as are necessary and shall prepare final accounts for each financial period showing:</p> <ul style="list-style-type: none"> a. The income and expenditure of all funds; b. The status of appropriations, including: <ul style="list-style-type: none"> i. the original budget appropriations; ii. any supplementary appropriations; iii. the appropriations as modified by any transfers; iv. credits, if any, other than the appropriations voted by the Conference; and v. the amounts charged against the appropriations and against any other credits; 	<p>The Director-General shall maintain such accounts as are necessary and shall prepare final accounts for each financial period <i>calendar year</i> showing and which will include:</p> <ul style="list-style-type: none"> a. The income and expenditure of all funds; b. The status of appropriations, including: <ul style="list-style-type: none"> i. the original budget appropriations; ii. any supplementary appropriations; iii. the appropriations as modified by any transfers; iv. credits, if any, other than the appropriations voted by the Conference; and v. the amounts charged against the appropriations and against any other credits;

C. Financial Regulations		Proposed Changes
	c. Statements of assets and liabilities at the close of the financial period. He shall also give such other information as may be necessary, to indicate the current financial position of the Organization.	c. Statements of assets and liabilities at the close of the financial period <u>calendar year</u> . He shall also give such other information as may be necessary, to indicate the current financial position of the Organization.
11.2	Besides the final accounts for the financial period, the Director-General shall prepare, where the nature of the accounts so warrants, or in exceptional cases as decided by the Finance Committee, interim accounts at the end of each of the intervening years.	Besides the final accounts for the financial period <u>calendar year</u> , the Director-General shall prepare, where the nature of the accounts so warrants, or in exceptional cases as decided by the Finance Committee, interim accounts at the end of each of the intervening years.
11.4	The final and any interim accounts of the Organization shall be presented in United States dollars. The accounting records may, however, be kept in such currency or currencies as the Director-General may deem necessary.	The final and any interim accounts of the Organization shall be presented in United States dollars. The accounting records may, however, be kept in such currency or currencies as the Director-General may deem necessary.
11.5	The final and any interim accounts shall be submitted to the External Auditor not later than 31 March following the end of the period to which they relate.	The final and any interim accounts <u>for each calendar year</u> shall be submitted to the External Auditor not later than 31 March following the end of the period to which they relate.
Regulation XII External Audit		
Reporting 12.9	The External Auditor shall issue a report on the audit of the financial statements and relevant schedules, 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.	The External Auditor shall issue a report on the audit of the financial statements <u>for each calendar year</u> and relevant schedules, 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.

Appendix II: Draft Resolution for Amendments to the Financial Regulations***CONFERENCE RESOLUTION*****AMENDMENTS TO THE FINANCIAL REGULATIONS*****THE CONFERENCE***

Recalling that the Finance Committee, at its 135th Session held from 25 to 29 October 2010, proposed amendments to the Financial Regulations for transmission to the Committee on Constitutional and Legal Matters for endorsement and submission to the Council;

Considering that the Committee on Constitutional and Legal Matters, at its _____ Session held from __ to __ March 2011, reviewed and endorsed the proposed amendments to the Financial Regulations;

Noting that the Council, at its _____ Session held from __ to __ April 2011, agreed to transmit to the Conference, for its approval, the proposed amendments to the Financial Regulations;

Decides to amend the Financial Regulations as follows: