OPENING REMARKS AT FIFTH COMMITTEE

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AUDIT OPERATIONS COMMITTEE (AOC)

OF THE BOA OF AUDITORS (BoA)

FRIDAY 16th NOVEMBER 2012

IN CONNECTION WITH

THE REPORTS OF THE BOARD OF AUDITORS ON:

THE IMPLEMENTATION OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

AND

THE ENTERPRISE RESOURCE PLANNING SYSTEM (UMOJA)

Good morning Mr. Chairman and Distinguished Delegates.

On behalf of the Board of Auditors (BoA) and my colleagues in the Audit Operations Committee, I have the honour to introduce to you the main findings from our second progress report on the implementation of the International Public Sector Accounting Standards (IPSAS) and our first progress report on the enterprise resource planning system (Umoja).

IMPLEMENTATION OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

Background

In 2005, the UN decided to move its organisations from the internally developed accounting standards (UNSAS) to adopt the accruals based International Public Sector Accounting Standards (IPSAS) for the presentation of its financial statements. Accruals based accounting will provide Member States with the potential for greater insights into entities' performance and financial position; and management with better information to maintain control, drive cost-effective decision-making, and secure long-term financial sustainability.

This is the Board's second progress report. It examines progress made by the UN and its peacekeeping operations, and other entities following the UN timetable; and the funds and programmes that went live in 2012.

Key findings

On benefits realization

Projected benefits form an important part of the business case for implementing IPSAS. It is the delivery of the intended benefits from IPSAS that is the ultimate test of success, not the delivery of unmodified opinions on the financial statements.

In its previous report, the Board highlighted and recommended in broad terms the need for all entities to establish clear benefits realisation plans. In general, the Board has seen limited progress in this area, primarily because of a strong focus on technical and practical delivery. While the limited progress is understandable, the Board is concerned that the delivery of benefits cannot be overlooked, and notes that failure to actively manage benefits realisation alongside technical delivery is a common factor in failed projects.

For the UN and its peacekeeping operations

The UN IPSAS implementation team has made significant progress in 2011 and 2012 and has worked closely and constructively with the Board to achieve the near completion of the IPSAS Accounting Policy Framework. The UN is now in a position to start converting this framework into practical application guidance for staff. Much has also been done to develop a detailed implementation strategy, a key recommendation of the Board last year.

Despite the progress made, we consider that successful implementation of IPSAS within Peacekeeping Operations by mid July 2013 and the UN by January 2014 remains at high risk. Significant tasks, such as data collection and cleansing, remain to be completed, and the implementation environment is complex. So implementation is inherently risky.

There has been uncertainty over the implementation strategy to be adopted. In 2011 we noted the abandonment of Umoja as the basis for IPSAS implementation in the UN, and a fluid situation where a hybrid approach using a mix of partially developed Umoja and certain legacy systems was being developed.

In early 2012 the Administration decided to abandon Umoja altogether and to rely on its core financial system IMIS. But at the time of the report we see a reversion to a strategy for peacekeeping involving IMIS up to October 2013 and Umoja thereafter; but continuation of a transition IMIS only for UN implementation from January 2014 with use of Umoja only after the first full year.

These are relatively recent developments and the risks and feasibility of the latest approach had not at the time of reporting been fully evaluated. The Board previously strongly recommended the finalisation of a detailed implementation strategy for IPSAS implementation and such a plan must be fully updated to reflect these changes in the Administration's implementation strategy.

Risks remain in gathering and cleansing data on schedule. There is a risk that reliable data will not be prepared in time to meet implementation deadlines due to the shortage of time and the difficulty of gathering timely, accurate, complete and reliable IPSAS compliant accounting data from locations around the world.

Use of manual workarounds presents risk of errors. All non-IMIS accounting data will be posted using manual journal vouchers. There is an inherent risk of human error effecting completeness and accuracy for such large volumes of data, especially given the significant, and inherently greater, challenges in generating new data to ensure compliance with the more demanding IPSAS standards.

There is a lack of clarity on funding and resourcing for IPSAS implementation outside UNHQ. There is a significant risk that progress will be affected if local implementation teams are under-resourced.

For the funds and programmes

IPSAS implementation is on track in the seven funds and programmes. Good progress has been made and, while there can be no guarantee of success, we consider that seven funds and programmes (UNDP, UNICEF UNHCR, UNFPA, UNOPS, UNRWA and UNJSPF) are now firmly on track to implement IPSAS in 2012 and to produce IPSAS financial statements in early 2013.

The Board notes that senior management involvement and support, the availability of fit for purpose enterprise resource planning systems, and timely preparation of basic accurate accounting data are three important aspects that have aided the good progress made by these entities. There are, however, issues to be addressed, in particular:

- Ensuring that all key accounting data has been collected, cleansed and migrated. Despite its previous recommendations on these matters many entities had not yet completed their data cleansing exercises at the time of this report;
- Preparation of dry-run financial statements containing real accounting data ready for audit by the Board no later than 30 September 2012;
- Developing benefits realization plans and associated change management processes.

The Board recognizes that management in the respective Administrations are aware of, and actively addressing, the outstanding issues.

The Board considers that the particular challenges facing UN Women, in establishing its basic system and operations in its first full year of implementation, mean that successful IPSAS implementation is at higher risk. But, again, with effective senior management engagement successful implementation is achievable.

THE ENTERPRISE RESOURCE PLANNING SYSTEM (UMOJA)

Background

The UN's proposed $315.8 million ERP system spans most of the organisation's administrative and support functions across five areas: finance, supply chain, human resources, central support services, and programme and project management. The objective of the project is to simplify a wide range of administrative practices and provide the UN with updated and accurate data that will enable quicker decision making, and better service delivery through improved planning of programmes and measurement of results. The project encompasses many entities within the UN system beyond the core UN Secretariat, and is therefore a very complex and challenging transformation project.
Overall, we are concerned that the existing plans covering the scope, budget and timetable for the project are highly optimistic and lack rigour, and we cannot provide any assurance that the project can be delivered to time, cost and specification. Many of the problems encountered on the project were avoidable and point to weak project governance and management, as well as wider and deeper weaknesses in the ability of the UN to affect meaningful business transformation. The Board's main concerns are summarized as follows.

The Administration has not been approaching the ERP implementation as a business transformation project and has no plans for how it will manage change and embed more efficient working practices across the organisation. To realise the intended benefits of the ERP system the organisation will need to introduce new ways of working and make changes to staff working practices, roles and responsibilities. There are no plans for how improved ways of working will be embedded across the organisation and the scale and cost of the retraining programme that will be required to redirect staff time into more value-added activities has not been established.

A lack of sufficiently detailed monitoring and analysis of project costs against clear budgets and deliverables means that the Administration is unable to manage project resources effectively. The Administration is unable to demonstrate whether the project is under or over budget because it cannot determine what should have been achieved in return for the $123 million spent so far. There is no detailed plan which identifies which tasks need to be completed to achieve the overall aims of the project, or the sequence in which they need to be completed. As a result, delays have accumulated unnoticed or have been accepted in the belief that they can be absorbed within the overall project timetable.

The Administration's implementation timeline is unlikely to be achievable and its reported anticipated final cost is not robust. Implementation of the ERP system is likely to be delayed further because the design of the system has not been completed on schedule. The Administration has not yet quantified the extent of this delay, but the revised implementation timeline has no contingency to absorb delay and makes no allowance for further slippage arising from common causes of project delay during implementation (such as complications with the transfer of data from legacy systems).

The Administration's estimated cost of the ERP system remains unchanged despite the timetable being extended by two years. The Board is concerned that the Administration could not provide the Board with robust supporting evidence for the anticipated final cost of $315.8 million as first stated in October 2009; and that the cost impacts of significant delays and changes to the project implementation approach since October 2009 have not been reflected in the Administration's cost forecast. The Board noted that the Administration has made reductions to its projected resource requirements to keep its reported anticipated cost at $315.8 million but the Board has seen no evidence of underlying changes to project scope, or planned activities to indicate how the phased approach will be implemented without increasing costs. The Board considers that this falls far short of good practice in managing project finances where it is essential that there is an ongoing and realistic appraisal of costs as the basis for sound decision making.

The governance arrangements for the ERP project lacked clear lines of accountability and are not conducive to transparent and effective decision-making. There is a lack of transparency in decision-making; it is difficult to establish the basis upon which key decisions about the project have been made. The Board considers that the Steering Committee has provided insufficient critical challenge on the feasibility of cost and progress reporting and proposed actions; and until April 2012 the project did not have a Senior Responsible Owner.

The ERP project encompasses multiple, and different, entities and business models within the UN system. Given this challenging scope, the Board considers that the implementation strategy has been too ambitious from the outset in terms of timeframe and in attempting simultaneous roll-out in all locations and entities. The Board considers that the strategy was formulated without undertaking a proper assessment of the existing business structure. Nor was due account taken of the wider inter-dependencies with other transformation projects, such as the implementation of International Public Sector Accounting Standards (IPSAS).

By way of final comment, our report reflects the position as at Spring 2012. Subsequently we have been reassured by the seriousness with which the UN Management Committee, and the new Project Director and Under-Secretary-General for Management have taken our concerns, and we are pleased to note the full acceptance of our recommendations. We have fully acknowledged in the report the actions being taken by the Administration to turn the project around, whilst at the same time stressing the need for decisive action to bring the project back on track.

This concludes my introduction of the Board's second progress report on the implementation of the International Public Sector Accounting Standards (IPSAS) and first progress report on the enterprise resource planning system (Umoja). My colleagues and I will endeavor, as always, to answer any questions you may have during the informal session of the Committee.

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