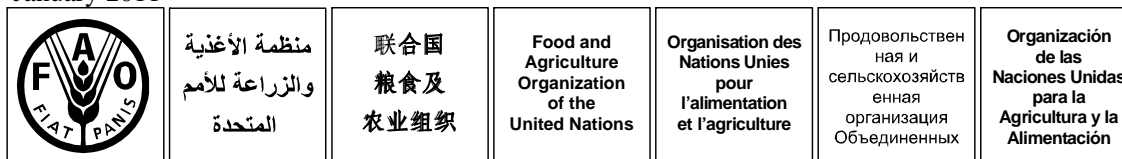


January 2011



# COMMITTEE ON CONSTITUTIONAL AND LEGAL MATTERS

**Ninety-Second Session**

**Rome, 7-9 March 2011**

**Amendments of the financial Rules and Regulations to facilitate the  
Adoption of the IPSAS accounting System**

## I. INTRODUCTION

1. This document contains proposed amendments to the Financial Regulations of FAO. The proposed amendments are intended to facilitate the implementation of the International Public Sector Accounting Standards (IPSAS). The IPSAS accounting standards would replace the currently applied United Nations System Accounting Standards (UNSAS).
2. IPSAS standards are a set of accounting standards which represent best practice for governments and not-for-profit organizations. The standards would bring significant benefits as regards the quality, comparability and credibility of financial reporting of FAO, with consequential improvements anticipated with respect to accountability, transparency and governance. The standards would ensure improved accuracy on assets, liabilities and receivables, and so provide for a more precise overview of the Organization's finances. IPSAS standards are currently being introduced by organizations of the UN system, with varying targets for implementation. Extensive discussions took place on the nature and policy aspects of the adoption of IPSAS standards in the Finance Committee, and the secretariat has provided regular progress report on the IPSAS project to the Finance Committee. Officials of the Finance Division of FAO are available to elaborate on the policy and financial aspects of IPSAS and on the process under way.
3. The IPSAS standards were first approved for adoption by Resolution 60/283 of 7 July 2006 of the United Nations General Assembly, following the unanimous recommendation by the High Level Committee on Management (HLCM). The General Assembly further approved the requested resources to permit the Secretary-General to begin implementation of the Standards at the United Nations secretariat.

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4. As regards FAO, the Finance Committee, at its 115<sup>th</sup> session (CL 131/7) in September 2006, recommended the adoption of IPSAS in FAO in accordance with the HLCM decision and as approved by the General Assembly in July 2006, and that FAO proceed with an implementation project. The adoption of IPSAS was subsequently included as Project 11a of the Immediate Plan of Action, as reported to the CoC-IEE.

## II. AMENDMENTS TO THE FINANCIAL REGULATIONS

5. The Organization's current Financial Regulations are, both in terminology and content, consistent with the accounting on an UNSAS basis. In order to formally adopt IPSAS as the Organization's financial reporting framework, some limited changes to the Financial Regulations are required. This document presents those amended regulations required for IPSAS implementation. It is noted that the present proposals for the amendment of the Financial Regulations have already been reviewed and approved by the Finance Committee at its 135<sup>th</sup> Session from 25 – 29 October 2010.

6. 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 related provisions in the Financial Regulations, will remain unchanged.

7. The proposed amended Financial Regulations further reflect a change from a biannual audit to an annual audit. Although not prescribed by the IPSAS accounting standards, 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 Central Executive Board (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”.*

8. Finally, the Finance Committee considered it desirable that a time indication be explicitly provided by which the External Auditor normally would be required to issue his opinion on the audited financial statements. A corresponding amendment has subsequently been added by the Finance Committee to Financial Regulation 12.9. Subsequently, consultations were held with the External Auditor which resulted in the final version of the amendment as presented in the Appendix.

9. The proposed amendments to the Financial Regulations to implement the necessary changes are provided in the Appendix hereto.

### III. ENTRY INTO FORCE

10. In view of the complexity of implementing IPSAS, it cannot be foreseen with certainty when IPSAS-compliant statement will be issued by the Organization. As a consequence, 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 1) provides for the entry into force of the amended Financial Regulations in parallel with the *de-facto* issuance of IPSAS-compliant statements.

### IV. SUGGESTED ACTION BY THE COMMITTEE

11. The CCLM is invited to review this document, with particular reference to the proposed amendments to the Financial Regulations, and make such comments thereon as appropriate.

12. The CCLM is, in particular, invited to review the proposed draft Conference Resolution, set out in the appendix hereto, containing the amendments to the Financial Regulations and to forward it to the Council for transmission to the Conference for its approval.<sup>1</sup>

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<sup>1</sup> The amendment of the Financial Regulations is made in the same manner as provided for amendments of the General Rules of the Organization. The amendments have to be adopted by a two-thirds majority of the votes cast, through a nominal vote. The total number of affirmative and negative votes must be more than half of the Members Nations of FAO.

**V. APPENDIX DRAFT CONFERENCE RESOLUTION  
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 92nd Session held from 7 to 9 March 2011, reviewed and endorsed the proposed amendments to the Financial Regulations;

Noting that the Council, at its 141st Session held from 11 to 15 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 provided for in the attached table:

## 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
<b>Regulation VI Funds</b>		
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> <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> </ol>	<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> <ol style="list-style-type: none"> <li>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, <del>and such funds shall not be included in the Financial Statements of the Organization.</del> <i>and such funds 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.</i></li> <li>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 <del>in the Financial Statements of the Organization</del> <i>in the Financial Statements of the Organization</i> 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</li> </ol>

<b>C. Financial Regulations</b>		<b>Proposed Changes</b>
	<p>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 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>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 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>
<b>Regulation XI The Accounts</b>		
11.1	<p>The Director-General shall maintain such accounts as are necessary and shall prepare final accounts for each financial period showing:</p> <ol style="list-style-type: none"> <li>a. The income and expenditure of all funds;</li> <li>b. The status of appropriations, including: <ol style="list-style-type: none"> <li>i. the original budget appropriations;</li> <li>ii. any supplementary appropriations;</li> <li>iii. the appropriations as modified by any transfers;</li> <li>iv. credits, if any, other than the appropriations voted by the Conference; and</li> <li>v. the amounts charged against the appropriations and against any other credits;</li> </ol> </li> <li>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</li> </ol>	<p>The Director-General shall maintain such accounts as are necessary and shall prepare <del>final</del> accounts for each <del>financial period</del> <u>calendar year</u> <del>showing</del> <u>and which will include:</u></p> <ol style="list-style-type: none"> <li>a. The income and expenditure of all funds;</li> <li>b. The status of appropriations, including: <ol style="list-style-type: none"> <li>i. the original budget appropriations;</li> <li>ii. any supplementary appropriations;</li> <li>iii. the appropriations as modified by any transfers;</li> <li>iv. credits, if any, other than the appropriations voted by the Conference; and</li> <li>v. the amounts charged against the appropriations and against any other credits;</li> </ol> </li> <li>c. Statements of assets and liabilities at the close of the <del>financial period</del> <u>calendar year</u>. He shall also give such other information as may be necessary, to indicate the current financial position of the Organization.</li> </ol>

C. Financial Regulations		Proposed Changes
	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 <del>final</del> accounts for the <del>financial period</del> <i>calendar year</i> , 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 <del>at the end of each of the intervening years.</del>
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 <del>final and any interim</del> 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 <del>final and any interim</del> accounts <i>for each calendar year</i> shall be submitted to the External Auditor not later than 31 March following the end of the period to which they relate.
<b>Regulation XII External Audit</b>		
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 <i>for each calendar year</i> 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. <i>This report shall be submitted in time for review by the Finance Committee during a session in the year following the period to which the financial statements relate.</i>

