FINANCIAL MANAGEMENT AND INTERNAL CONTROLS REFORM PROJECT:
PROGRESS REPORT

(Note by the Secretariat)
Financial Management and Internal Controls Reform Project: Progress Report

1. Members endorsed the terms of the financial management and internal controls reform project in February. At that time, the Secretariat noted [C(2000)12, paragraph 6] that project implementation was premised on "achieving agreement on the 2000 Budget by mid-year at the latest; on the clear provision of adequate resources; and on stability in the functioning of the Budget and Finance Service during the coming year".

2. By and large, these conditions have been met. Agreement was reached on Budget 2000, although the aftermath, notably the work associated with the creation of the Pension Reserve Fund, has impacted on the implementation of the Treasury reforms in particular. Resources provided by Members at this stage appear adequate for the reform task. As far as the third condition is concerned, FIN's operations have been affected by staffing gaps at senior levels.

3. These factors explain to a large extent the delays of some individual project outputs. Overall, however, the Reform Project remains on track. With a number of staffing issues associated with the ongoing restructuring of FIN now resolved, there are good prospects for continued steady progress in implementation.

4. Indeed, it is important to keep these delays in individual areas in perspective. The Reform Project is highly ambitious. The major output delivery to date has been in the area of accounting reforms and revised Financial Statements. This effort not only has given the Organisation reporting that is, for the first time, easily understandable and comparable with standard statements elsewhere, but has generated a dividend through significant exceptional income which has helped, inter alia, to underpin the future of the Pension Reserve Fund. Work has begun on changes to of the Programme of Work and Budget which accelerate reform well beyond the scenario envisaged in the "Road Map" project document.

5. These are the more visible reforms under way. Others may be less visible, but no less important in contributing to an effective and sustainable financial management function in the OECD. The challenge remains formidable, but progress is being made.

6. The Annex provides an account, item by item, of progress in the implementation of the Reform project.

7. Members are invited to note the contents of this report.
ACCOUNTING REFORM – THEME 1

A. **Review of 1998 Accounts by Arthur Andersen**

*Objective:* To re-assess the balance sheet as of 31 December 1998, and to provide a general evaluation of the accounting situation at that date.

*Original Completion date:* February 2000

*Progress Status:* Completed.

*Comments:* Summary issued to OECD management and the OECD Delegations in February and detailed report was made available on request to Member countries.

B. **New Financial Statements for 1999 Accounts**

*Objective:* To produce financial statements, including: P&L statement with budgetary and non-budgetary income and expenses; note explaining accounting principles used; changes proposed for treatment of fixed assets; inventories; multi-year financing; and provisions for asbestos and pensions.

*Original Completion date:* April 2000

*Progress Status:* Completed.

*Comments:* The final version of the 1999 financial statements will be provided to the Board of Auditors and to the Budget Committee early July. The final stages of this work took longer than originally estimated, and translation was subsequently delayed because of pressures due to the MCM.

C. **Identification of, and justification for, reserves**

*Objectives:* To provide a list of all reserves, with necessary explanations and justifications, and make recommendations for their disclosure or utilisation.

*Original Completion date:* April 2000

*Progress Status:* Completed.

*Comments:* Report included in the 1999 Financial Statements. Financial framework for managing the reserves to be defined under Project D.

D. **Financial and legal framework for non-budgetary funds and reserves**

*Objective:* To establish a list of all non-budgetary funds and financial transactions and to define accounting principles, the legal framework and the reporting requirements, in order to ensure transparency and align practices to international accounting standards.

*Original completion date:* August 2000

*New completion date:* November 2000.

*Comments:* Non-budgetary funds identified and included in the 1999 Financial Statements. The delay in achieving the outputs is due to the unforeseen departure from the Organisation of the project leader.
E. **Evaluate possibility and impact of moving to accrual accounting**

*Objective:* To evaluate the impact of moving to accrual accounting for all income and expenditure transactions; determine required control procedures; and define principles and cases for establishing provisions and exceptions.

*Original completion date:* August 2000  
*New completion date:* November 2000  
*Progress status:* This project is delayed by approximately three months because of the greater-than-anticipated effort required for the closing of 1999 accounts, the preparation of the new financial statements and the parallel production run between the old and new corporate financial systems.

F. **Define management and accounting principles for fixed assets and Capital Budget**

*Objective:* To define notion of fixed assets; define principles and procedures for either continuing to expense fixed assets or moving to a depreciation approach; define accounting and disposal principles and procedures; define responsibilities; and establish the link to the capital budget.

*Original completion date:* June 2000  
*New completion date:* September 2000  
*Progress status:* This project is delayed by approximately two months, in part due to other priorities and the fact that this task has unexpectedly included the vacation period.

G. **Review other accounting transactions**

*Comments:* All the tasks under this heading have been integrated into other items to ease overall coordination.


*Objectives:* To define the structure of the Accounting section of the Manual; define updating procedures; implement computer systems; integrate principles and procedures as they are reviewed and defined by the various project teams

*Original completion date:* December 2000  
*New completion date:* February 2001  
*Comments:* The two month delay was induced by the greater-than-anticipated effort required to close 1999 accounts and prepare the new financial statements.

I. **Simplify and Strengthen accounting practices and controls for expenditure and income transactions, and improve communications with administrative officers**

*Objectives:* For all categories of expenditure and income, to simplify, standardise, improve and document accounting policies and controls; ensure related processes are clear and efficient; that transactions are correct and authorised; for income transactions, also ensure proper controls of late payments; implement periodic closing of accounts; and establish proper communication with administrative officers.

*Original completion date:* October 2000  
*New Completion date:* October 2000  
*Comments:*  
- restructuring of the Accounting Division finalised in May 2000;
• first meeting with Administrative officers organised in May 2000;
• accounting procedures for non-budgetary operations, internal chargeback and external invoicing finalised in June 2000;
• control improvements to be implemented for October 2000;
• initial closing of accounts to take place in September 2000;
• next meeting with administrative officers scheduled for October 2000.

FINANCIAL INFORMATION SYSTEMS - THEME 2

A1. Implement Improvement to the new conference participants and fixed task consultants system

**Objectives:** To improve payment processing, recruitment letter, management of consultant data and control on commitment usage, to provide improved quality and efficiency for substantive directorates

*Original completion date:* August 2000  
*New completion date:* September 2000  
*Comments:* Timing revised to integrate the feedback received from the administrative officers during the first months of 2000 and the delay induced by the 1999 closing of accounts.

A2. Further integrate SAP with business processes

**Objectives:** To train FIN users in advanced SAP facilities; improve certain SAP functionality (payments and others); and determine approach for migrating to the Euro with a view to achieving increased efficiency in FIN; data consistency; mastering of the SAP tool; and timely processing of payments.

*Original completion date:* August 2000  
*New completion date:* September 2000  
*Comments:* Automation of payments facility and VAT reporting improved; FIN staff trained in the use of advanced SAP facilities; and major improvements made to the automated payment facility.

B. Implement a computer facility to manage fixed assets

**Objectives:** To implement the fixed asset facility available in SAP, taking into account the related policy established for the Organisation, so as to achieve coherent management of fixed assets across the OECD, in line with international accounting standards, and hence more transparent financial statements.

*Original completion date:* December 2000  
*New completion date:* March 2001  
*Comments:* Delays induced by the effort required to carry out the parallel production run between the old and new corporate financial system.

C. Implement computer system to manage staff expenditure

**Objectives:** To implement a computer system for forecasting of staff costs; manage the financial aspects of recruitment and contract extension processes from directorates to HRM and FIN; and improve reporting and analysis of staff costs, which represent more than 75% of the OECD budget, in order to improve forecasts; increased efficiency in Directorates and FIN; improved data consistency; and improved controls
Completion date: December 2000  
New completion date: March 2001  
Comments: Timing revised because of delays related to the closing of the 1999 accounts.

D1. **Provide corporate and directorate reports from SAP**

**Objective:** To provide a series of standard reports for Directorates and at corporate level from SAP, so as to provide access to accounting data in real-time mode and better decision making on expenditure.

Completion date: July 2000  
Progress status: completed.

D2. **Develop a financial planning and reporting tool for directorates**

**Objectives:** To provide Directorates with an integrated tool to plan expenditure, to prepare the quarterly expenditure outlook, to handle re-imputation transactions and to produce specific reports and financial analyses, in order to improve expenditure controls and to increase efficiency in Directorates and in FIN.

Original completion date: July 2000  
New completion date: September 2000  
Comments: Timing revised because of more effort than anticipated required for user training and deployment.

E. **Develop a financial planning and reporting tool for directorates**

**Objectives:** To improve system security and needed reform of internal control processes, by automating or simplifying controls and defining more clearly user authorisations. This will among other things provide the technical capacity for greater devolution of financial authority and accountability.

Original completion date: June 2001  
New completion date: June 2001  
Comments: Project to be started early 2001, in the framework of new PWB.

**PROGRAMME OF WORK AND BUDGET -- THEME 3**

A. **Budget reform**

**Objective:** To identify for PWB2001 a reformed budget presentation, linking budget lines more closely with work programme activities; and reducing the number of chapter/articles, and creating greater flexibility budget in resource usage by budget managers.

Original completion date: July  
Current estimated completion date: In-principle endorsement by end-July  
Comments: Reform proposals will be discussed within the Secretariat and with Members in July. If agreed, the PWB submission for 2001-2 will reflect these proposals.
B. Programme of Work Reform

Objective: To continue to move to a Programme of Work approach that is output-oriented and provides monitoring and reporting on an ex-post basis. To begin in 2000 with pilot projects showing how such an approach could be organised; to expand the application of the model for PWB2002 to more, if not all areas of the Organisation; and to achieve full implementation for the biennium 2003-4.

Original Completion date(s): December 2000; December 2001; and June 2002
Current Estimated Completion date: December 2000
Comments: Current planning is to accelerate implementation by moving fully to a new PWB presentation for 2001, and to refine the exercise during 2001 for PWB2002.

C. Programme of Work Activity Evaluation

Objective: To begin to implement systematic evaluation processes, integrating the Committee reviews, and other evaluation processes as appropriate.

Original Completion date: June 2001
Current Estimated Completion Date: June 2001
Comments: none

D. Devolution of financial authority and accountability

This element is to be considered as work proceeds on other outputs. The main focus should commence in 2001.

TREASURY – THEME 4

A. Full use of automatic electronic fund transfers

Objective:
- Full use of automatic electronic fund transfers to replace manual transactions and payments by cheque.
- Strengthen the ability of the new accounting systems (SAP, SIGA, JADE) to process automatic electronic transfers.
- Payroll and benefit payments to staff currently made by cheque and cash to be replaced by bank transfers.

Original Completion Date: July 2000
Current Estimated Completion Date: September 2000
Progress report: Significant computer programming changes have been implemented to improve automated payments. Since mid June data are correctly flowing from all accounting systems (SAP, SIGA, JADE) to teletransmission payment systems. All manual payroll payments have been automated or eliminated. Preparation of documentation on transfer procedures is in progress.

B. Increase restrictions on cash payments to those justified by the OECD's operations

Objective: Replace most existing cash payments by better controlled payment methods such as bank transfers and cheques. Define a new system for controlling and communicating negotiable cheques in FRF.
Original Completion Date: April 2000
Current Estimated Completion Date: July 2000
Progress report: Cash payments are being eliminated. Written policies to eliminate the remaining exceptions have been prepared and will be distributed in July. The specifications for negotiable cheques are being prepared to process these payments automatically in the accounting system (July).

C. Define centralised (FIN) controls over all OECD bank accounts

Objective: Rationalise bank accounts. Automate bank reconciliations using electronic reporting of account transactions.

Original Completion Date: August 2000
Current Estimated Completion Date: September 2000
Progress report: All bank accounts in France now have daily electronic reporting of transaction data and automated bank reconciliation. Five bank accounts have been closed. The closure of most foreign bank accounts will be in line with the implementation of Objectives A and I (selection of an international bank for reporting services and wire transfers).

D. Improved and timely cash receipt procedures

Objective:
- Accelerate deposit of cheque receipts.
- Improve cash receipt procedures by automating reference information received on foreign electronic transfer receipts.

Original Completion Date: September 2000
Current Estimated Completion Date: November 2000
Progress report: Cheques received in treasury are now deposited within two business days. Written procedures are in process of being prepared. There is a delay in the second part of this objective to allow further evaluation of competing systems providing automated reporting of international transfer receipt information.

E. Standardise policies and procedures to reduce errors and exceptions at the source

F. Treasury input to the Policy Manual

Objective: Implement exception reporting using the new financial systems. Improve capacity of FIN treasury staff to detect and resolve remaining exceptions through improved communications within FIN and with administrative staff throughout OECD. Document the new policies, procedures and systems providing improved control.

Original Completion Date: September 2000
Current Estimated Completion Date: October 2000

PROGRESS REPORT: COMMUNICATIONS ON PRINCIPLE ISSUES HAVE BEEN GENERATED (PARTIAL SALARY TRANSFERS, LIMITS ON CASH PAYMENTS, USE OF BANK TRANSFERS, PAYMENT OPTIONS TO NON-MEMBER COUNTRIES, LIMITATION OF CHEQUE PAYMENTS). INITIAL PAYMENT EXCEPTION REPORTS ARE GENERATED BY THE ACCOUNTING SYSTEMS AND THESE WILL BE EXPANDED OVER TIME.
G. Tighter exchange rate risk controls

Objective: To enhance electronic reporting of revenues and expenditures in foreign currencies. Regular assessment of exchange positions and methods to reduce the risk to the Organization.

Original Completion Date: November 2000
Current Estimated Completion Date: November 2000
Progress report: A written policy has been drafted on all issues involving exchange risks. This objective is on target.

H. Reporting of the current treasury position

Objective: Reporting of the current treasury position and trend analysis to senior management including regular cash flow forecasting.

Original Completion Date: December 2000
Current Estimated Completion Date: December 2000

PROGRESS REPORT: ON TARGET. WEEKLY TREASURY REPORTS ARE CURRENTLY PREPARED. THE OVERALL TREASURY SITUATION IS PERIODICALLY ANALYSED FOR MANAGEMENT AND MEMBER COUNTRIES. THE BASIS FOR REGULAR REPORTING AND CASH FLOW FORECASTING IS BEING DEVELOPED THROUGH OTHER REFORMS TO INCREASE THE FREQUENCY AND RELIABILITY OF REPORTING.

I. Daily electronic reports on cash debits and credits to bank accounts

Objective: The OECD treasury reporting is currently limited to accounting information which is not timely. Our objective is to put in place a system which reports electronically on cash debited and credited to bank accounts on a daily value date basis. A precondition to this objective is to consolidate existing bank accounts and negotiate revised arrangements with the remaining banks and therefore this objective will not be fully implemented until 2001.

Original Completion Date: February 2001
Current Estimated Completion Date: February 2001

PROGRESS REPORT: ON TARGET. AFTER EVALUATING FOUR BANKING SYSTEMS, A BANK HAS BEEN SELECTED TO IMPLEMENT THEIR REPORTING SYSTEM. THIS SYSTEM NOT ONLY HAS AN INTERNATIONAL REPORTING FUNCTION; IT CAN ALSO BE USED TO PROCESS LOCALLY INTERNATIONAL TRANSFERS (COST AND TIME EFFICIENT). THIS SOLUTION WILL BE IMPLEMENTED PROGRESSIVELY FROM SEPTEMBER.

INTERNAL CONTROL FRAMEWORK – THEME 5

Objective: To establish a clear and effective documented structure regarding the nature of controls - the allocation of roles and responsibilities, and appropriate safeguards including segregation of duties - for each of the main functional activities of the Organisation: finance/budget; purchasing; human resource/payroll; fixed assets; programme activity implementation; treasury; and evaluation.

Original completion date: June 2001
Current estimated completion date: June 2001
Comments: Work is already in progress with assistance from external Ernst & Young selected in accordance with a call for tender process. Following an analysis of the present internal control culture in the Support Services and in Directorates and Part II Programmes, proposed procedures and controls for the principal expenditure cycles, personnel and procurement (including missions and the purchase of intellectual services), are expected to be identified by the end of September of this year.

FINANCIAL RULES AND REGULATIONS - THEME 6

Objective: To modernise OECD financial rules and regulations to reflect more accurately the strategies being implemented as part of the financial management and internal controls project.

Original Completion date: March 2001
Current Estimated Completion Date: March 2001
Comments: The 'Action Plan' associated with this activity has been adjusted as has the composition of the project team. The Executive Director is leading a project group which has begun to work systematically through the financial rules and regulations.

TRAINING AND COMMUNICATION - THEME 7

Objective: To help achieve successful change in the OECD financial 'culture' by ensuring and demonstrating the strong support of management and member countries for reform; by demonstrating the benefits of change to the Organisation; by providing staff most directly involved with the training tools needed to implement and to benefit from the changes; and by developing a Manual of Procedures for Directorates and Services.

Original Completion Date: on-going
Current Estimated Completion Date: as above
Comments: To some extent, the momentum of reform is not yet quite at the point at which full value can be derived from training and communication efforts. That said, almost all FIN staff have participated in two customised training courses -- one organised on accounting principles and one on internal controls. Further training is being planned. Extensive training in the new financial information systems has been provided to Directorates. One information meeting with administrative staff, devoted to the reform project, was held following the closing of accounts. Further meetings are planned on specific aspects of reform as they mature.