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## FIRST PROGRESS REPORT ON THE IMPLEMENTATION OF RECOMMENDATIONS IN THE 1998-99 AUDIT REPORT OF THE EXTERNAL AUDITOR

1. The Executive Director is pleased to submit this report which contains the responses of the Secretariat as well as information on actions taken to date or actions that will be taken to implement the recommendations contained in the Report of the External Auditor on the Financial Statements of the World Food Programme for the financial period 1 January 1998 to 31 December 1999. The Report of the External Auditor conveys results of their audits conducted during 1998, 1999 and the first six months of 2000. At the conclusion of these audit activities, the External Auditor immediately conveyed the results to the offices concerned at headquarters and country offices in the form of audit observations or management letters. This practice provided the offices concerned with the opportunity to respond immediately to the recommendations and take corrective actions or to formulate appropriate decisions and strategies to implement the recommendations in the future. These are now indicated in this first progress report on the implementation of recommendations in the 1998-99 Audit Report of the External Auditor.
2. The present document, which is in a matrix form, consists of three columns. The first column reflects the recommendations of the External Auditor as presented in his 1998-99 report referenced to the relevant paragraph numbers. The second column reflects the Secretariat's responses and comments and the third column reflects the actions that have been taken or that are to be taken within a specific time frame for completion where this can be determined.
3. As indicated in a separate report (Final Report on the Implementation of Recommendations in the 1996-97 Audit Report of the External Auditor), which is also a part of this package of documents, the Executive Director requests that the present report be considered in the context of the Financial Management Improvement Programme which will address a number of the issues raised by the External Auditor.



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External Auditor's recommendations (as per 1998-99 Audit Report)	WFP response	Actions taken to date or to be taken
<b>FINANCIAL MATTERS</b> <b>1. Format of Financial Statements</b>		
The addition of new lines in Statements I, II and III for the biennium ended 31 December 1999 brings greater transparency in the reporting on the operations of the biennium. More comments should, however, have been included in the notes (para. 9).	The financial information relating to the new lines in Statements I, II and III are all adequately explained in the relevant Notes.	In addition, further background information, particularly on the reprogramming and refund of unused fund balances, is provided in the Statement of the Executive Director.
The accounting policy that records the contributions to bilateral operations directly as income when they are received, even if the related expenditures are not incurred in the same financial period, is likely to lead to the conclusion that the Programme is running a deficit in its Trust Fund activity and should be re-examined (para. 46).	Since the initial Trust Fund balance is clearly shown as adequately covering for the current shortfall in income over expenditure, no deficits are incurred.	The Secretariat will nevertheless re-examine the presentation as Trust Fund contributions are in the nature of funds held in trust by WFP on behalf of the donors.
<b>2. Interim Financial Statements</b>		
The Secretariat will, in future, prepare interim accounts with appropriate notes and disclosure (para. 52).	Agreed.	This will be done starting with the 31 December 2000 financial statements.
<b>3. Reprogramming and Refund of Unused Fund Balances</b>		
More detailed comments were needed from the Secretariat to explain the origin of the present situation, its impact on the accounts and the decisions to be made regarding the results of this reprogramming exercise more than those provided under Note 14 (paras. 48 and 59).	We agree that additional background information needs to be provided not in the Notes but in the Statement of the Executive Director.  In the meantime, the Secretariat has begun to close numerous inactive projects (more than 1,000 bilaterals and some 350 development and relief operations). Once the exercise—a necessary step for the migration of data to the new SAP system—is	As mentioned above, the additional explanation has been provided in the Statement of the Executive Director.





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	finalized, additional potentially reprogrammable resources will be identified and discussed with donors.	
Such a situation raises several important issues, which are a matter of debate and decision for the Executive Board (para. 12). The utilization of these reserves due to the lack of known contributors, should be decided by the Member States (para. 60).	Agreed.	The Secretariat will submit a proposal to the Executive Board for the utilization of these Prior 1996 project surpluses.
<b>4. Transfers from Reserves (Operational Reserve)</b>		
The US\$13.5 million transferred from the Operational Reserve (OR) to cover expenditures under Prior 1996 Development projects led to a reduction of the authorized level of the OR, which accordingly requires an Executive Board decision. Executive Board approval is needed when the Reserve is used and not replenished due to the non-collection of a confirmed contribution.	Confirmed contributions fully backed up the use of the OR at the time these funds were spent in order to ensure continuity of operations. Thus during this time, there was authority to use the OR. Later on, however, it was established that such contributions were no longer collectible, hence the depletion of the OR.	The Secretariat will review Financial Regulation 10.5 and Financial Rule 110.1 and submit proposed amendments to the Executive Board at its Annual Session in May 2001.
The Financial Regulations be reviewed, as they do not provide for this kind of situation (paras. 13 and 62).	Agreed. Financial Regulation 10.5 does not have specific provisions for this situation, when the confirmed contributions against which the OR is used do not materialize.	The Statement of the Executive Director contains a recommendation to the Executive Board to authorize the replenishment of the OR to the US\$57.0 million level.
<b>5. Commodity Contributions</b>		
The valuation methods applied to contributions in kind were simplified following the introduction of a new procedure at the end of 1997 (para. 14). Clarifications are needed regarding the status of documentation recognized as donor invoice. A more detailed procedure be issued and implemented by the Programme including the utilization of more effective control to avoid the recurrence of such anomalies and the possibility to correctly adjust its records on actual costs (para. 66).	Agreed. The one instance noted by the External Auditor referred to a commodity contribution for emergency operations by a major donor in which the estimated costs that were used for valuation purposes were significantly higher than the actual costs. This is consistent with the present practice of valuation of commodity contributions for which the donor concerned does not make adjustments because of rigorous monitoring and administrative constraints, which in the end do not account for significant variances.	The Secretariat has begun discussions with the freight forwarder to develop a methodology that will facilitate the timely and regular determination of actual purchase prices of commodity contributions in order to streamline this new valuation procedure. Once established, concurrence of the donor will be obtained that actual purchase figures will be used to value its commodity contributions.

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<b>6. Contributions Receivable</b>		
An internal directive be promptly issued by the Secretariat to establish clear responsibilities for contribution management, impose an effective working relationship through regular meetings of the already existing interdivisional working group and regular reporting of difficulties encountered and decisions taken (paras. 15 and 70).	Agreed.	A draft paper defining the responsibilities of all offices involved in contribution and pledge management was prepared in June 2000 and will be put in final form once SAP is implemented, as this new system will result in new functionalities and redistribution of certain responsibilities.
A clear definition of responsibilities be established among the various administrative units concerned with respect to the registration of pledges, allocation of resources and monitoring of the outstanding value of pledges. The pledge management process be thoroughly reviewed and upgraded (para. 69).	Agreed.	With the new fund management and contribution modules of the new system, it is expected that registration of pledges will be more timely and allocation of resources and monitoring of outstanding value of pledges will be enhanced because of the ability of SAP to generate the appropriate reports as a basis for a more thorough and periodic review and updates of pledges and contributions.  Meetings and decisions taken by the existing working group will be more adequately documented through minutes of meetings and preparation of relevant reports.
<b>7. Full-Cost Recovery Policy and Implementation</b>		
A procedure be quickly issued with respect to the way the Programme monitors the implementation of the full-cost recovery principle in the case of an important donor (para. 72).	Agreed.	The Secretariat has initiated a working-paper analysis of the contributions vis-à-vis the expenditures by cost types to document and monitor full-cost recovery from this major donor. The worksheet will be reviewed with the donor and once accepted, it will be used by both parties as a monitoring tool.





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<b>8. Government Cash Contributions for Local Costs (GCCC)</b>		
The prompt finalization and implementation of the basic agreement to the effect that Financial Regulation 4.7 is fully enforced through adequate agreements with recipient governments or explicit waivers granted by the Executive Board (paras. 16 and 77).	Agreed.	The recently prepared draft basic agreement was submitted to the Legal Counsel for review and comment. This will then be reviewed in-house for review of its implications on the R&LTF, and for finalization and eventual release to WFP field offices. The Office of Budget intends to finalize a management paper by 1 October 2000 which will set out the issues on GCCC and recommend procedures for administering GCCC.
The contributions based on these legal obligations should be accounted for as receivable (para. 77).	The accounting of GCCC will be analysed in terms of its implications on in-kind contributions by host governments. This will be reviewed by the Consultative Committee on Administrative Questions (Finance and Budget) (CCAQ(FB)) as it has an impact on the UN common system.	Accounting policy on GCCC will be formulated on the basis of the new basic agreement and the common UN accounting standard that will be developed by CCAQ (FB).
Financial Rules and instructions be issued to complement Financial Regulation 4.7 and provide the Programme with clear criteria and rules of procedure with respect to applicability of GCCC and valuation methods used to determine the amounts to be claimed (paras. 16 and 77).	Agreed.	Appropriate financial rules will also be formulated to complement Financial Regulation 4.7.
<b>9. Outstanding Obligations and Provisions For Future Disbursements</b>		
The Secretariat assured my staff that in the system the information on the amount to be included in the provisions would be generated from a report, hence ensuring that the actual level of ITSH unliquidated obligation would not be underestimated (paras. 18 and 84).	Agreed.	In SAP, a new system of recording obligations for ITSH has been adopted wherein ITSH expenditures will be expended at the time of obligation (i.e. at the time of raising a Purchase Order), which is consistent with the treatment of all other WFP expenditures.  A report will be available from the system showing the ITSH provisions which have not been obligated.



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<b>10. Cancellation of Outstanding Commitments</b>		
<p>There should be a more transparent method of reporting the cancelled commitments, to appear in the actual financial statements and not only in the notes (paras. 19 and 88).</p>	<p>We consider that the new procedure, introduced this biennium, of reflecting cancelled commitments in the Notes is sufficient and transparent enough to enable the reader to ascertain the impact of these cancellations.</p> <p>Normally, project implementation and the relevant expenditures span across two or more biennia. Expenditures are accumulated from the beginning to the end of a project and are reported to donors upon the project's completion. If in the course of the project some previous commitments are cancelled, we deem it more appropriate to reduce the expenditures by the amounts cancelled so as not to overstate the accumulated total of expenditures at the project's completion. Thus, we cannot agree with the recommendation of the External Auditor that the cancelled commitments on prior biennium provisions be recorded as a credit to the donor as this will artificially overstate not only expenditures but also the contribution.</p>	<p>In SAP, a report providing details of cancelled commitments by expense/cost category can be generated from the system, which will be used as a basis for making disclosure in the Notes to further enhance transparency.</p>
<p>Greater attention be given to the updating and monitoring process of the LTSH matrices (para. 89).</p>	<p>The review and updating of LTSH matrices is an ongoing process.</p>	<p>The Secretariat has already compiled a comprehensive list of active projects and information on LTSH matrices. This will be used as a tool to monitor progress on the review and updates of rates and as a plan to schedule updates and participation in LTSH review missions from headquarters.</p>
<b>11. Country Office Expenditures</b>		
<p>Prompt and adequate measures aiming at reinforcing the control on the field transactions by headquarters (paras. 22 and 103):</p> <ul style="list-style-type: none"> <li>➤ The headquarters unit in charge of monitoring field accounting be adequately reinforced.</li> </ul>	<p>Agreed.</p>	<p>A strategy is being developed to reinforce the Field Finance Branch (FSFF) adequately, both in quality and quantity, in the light of the decentralization process and with the implementation of SAP.</p>



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<ul style="list-style-type: none"> <li>➤ The control activity by this unit on decentralization processing be an ongoing process throughout the biennium so that global evaluation at headquarters, lessons to be learnt, and passed on to the decentralized offices be timely and effectively carried out.</li> <li>➤ Adequate and monthly reporting be required from regional offices on the processing and controls implemented in their clusters so that headquarters are in a position to follow up the actual situation and take corrective actions if necessary.</li> </ul>		<p>Very recently, FSFF has developed and instituted new mechanisms for a more proactive and systematic supervision, monitoring and reporting of activities in country offices to ensure that headquarters' overall responsibilities on financial administration are properly discharged in the new organizational arrangements.</p> <p>FSFF has likewise introduced lately a more systematic way of sharing lessons learned and has enhanced the consultation process between headquarters and field offices.</p> <p>The development of a revised Country Office-SAP-Interface reporting package is another measure being introduced with the implementation of SAP. Monthly reporting mechanisms will be finalized and circulated and these will be more vigorously enforced and followed up.</p>
<b>12. Programme Support and Administrative (PSA) Costs</b>		
<p>The principles laid down in the Resource and Long-term Financing (R&amp;LTF) policies adopted in 1995 whereby the full cost recovery principle calls for PSA costs to be covered by GCCC and ISC levied on contributions to operational costs at pre-determined rates approved by the Executive Board were not yet fully implemented in the 1998-99 biennium (para. 23 and 104).</p>	<p>It was recognized by the Executive Board during the review of the implementation of the R&amp;LTF in this biennium that the funding of PSA costs is rather complicated. In fact, the review resulted in the revision of the ISC rate from a multiple to a single-rate approach across programme categories.</p>	<p>In June 2000, the Executive Director formulated an explicit methodology for the computation, accounting, and reporting of indirect support costs as one of the funding sources for PSA. Further analysis is ongoing to address the GCCC as an additional funding source for PSA.</p>
<b>PSA accounting</b>		
<p>The delineation between PSA and DSC-funded activities was neither clear nor backed by a consistent set of guidelines (paras. 24 and 105).</p>	<p>It should be borne in mind that the clusters have their own local peculiarities (i.e. they implement operations that are regional in nature). Thus, these peculiarities and the nature of direct support provided to the country offices within the cluster should be the basis for ascertaining the appropriate</p>	<p>In budget preparations for the 2000-01 biennium, country offices were given guidance and provided with a formula that defines the PSA and DSC elements within their budgets. Additional guidelines on the use of DSC have been drafted and are awaiting finalization.</p>



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	source of funding for these activities. The new R&LTF indicate that the determination of the appropriate cost categories is on the direct or indirect relationship of the funded activity and the purpose of the project and not on the geographical location where the disbursements are made.	
In future a more rigorous method of reviewing and reporting Unliquidated Obligations (ULOs) to be posted at biennium end against the PSA budget (para. 106).	The new system of recording obligations will provide the necessary reports that will facilitate the periodic review and reporting of ULOs at any given time.	Clearer and appropriate guidance on the accounting treatment of unliquidated obligations will be issued with the implementation of SAP.
<b>13. Cash Management</b>		
There is urgency for the Programme to have the necessary instruments to manage the Treasury functions in a modern and efficient way on the basis of the study of Treasury operations initiated in January 2000 and the resulting proposals made by the consulting firm with respect to the strengthening of security systems and evaluation of Treasury systems (paras. 25 and 114).	Agreed.	The Treasury Manual is at an advanced stage of preparation and will be issued before the year's end. Recommendations made by the consultants for improving the security of the electronic banking systems are being implemented.
<b>14. Investment Management Policy</b>		
The Secretariat promptly finalise the written procedures applicable to the management of investment and reinforce its structure to ensure effective control and supervision of the external managers and control of bank accounts (paras. 25 and 119).	Agreed.	The Secretariat is considering two options to effectively control and supervise the newly hired external investment managers: to augment existing resources of the Treasury Unit or to outsource the functions to a Rome-based UN agency that has extensive experience in investment management. Several meetings have taken place between the agency and WFP with the objective of sharing common services.





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<b>15. Bank Accounts</b>		
<b>Headquarters Bank Accounts</b>		
The rules governing the reconciliation of bank statements be strictly adhered to, as they are essential for monitoring the accuracy of the accounting records and safeguarding WFP's assets (para. 120).	Agreed.	Actions are under-way to distinguish more clearly between the roles of the Treasury Unit and FSFF to ensure more vigorous monthly reconciliation and monitoring of accounting of cash transactions, especially for Zero Balance Accounts. Bank statements for headquarters bank accounts are now being reconciled regularly and this responsibility is going to be transferred from the Treasury to achieve better control and safeguarding of these assets.
<b>Field Bank Accounts</b>		
Rules governing the opening and closing of WFP bank accounts and the assignment of responsibilities for operating each individual bank account at headquarters and in the field be strictly adhered to (paras. 26 and 122).	Agreed.	Stricter application of existing rules and more vigorous assessment of operational requirements in opening new bank accounts are already in place. The continued need for many existing bank accounts are also being reviewed in the data clean-up activities in preparation for the implementation of SAP.
<b>16. Monetized Funds Held in Trust</b>		
More attention be given to the management of the monetized funds held in trust as local audits were not performed on a regular basis and as the amount of cash recorded on these accounts in some countries largely exceeded their operational requirements (paras. 26 and 124).	Agreed.	More attention is being paid to a stricter application of policies and procedures in the management of and accounting for monetized funds held in trust by WFP. As acknowledged by the External Auditor, this has been reflected in the financial statements in a more transparent manner. With the implementation of SAP, accounting procedures are better clarified and reports thereon will be readily available for better monitoring.  Furthermore, the Office of Internal Audit (OEDA) performs an analysis of the local external audit reports of generated funds as required by ED

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		Circular 95/007 and OD Directive 95/002. OEDA reports yearly to management on a consolidated basis the issues and concerns arising from summarizing country/project-specific weaknesses, recommendations, and follows-up on previous years' issues and reports not submitted. OEDA also covers monetization projects in its audit missions to COs, and carries out periodic bilateral consultations with COs.
<b>17. Interest for Trust Funds and Special Accounts</b>		
The practice of deducting a part of the interest earned to the Trust Funds before they are allocated to them be stated in the Financial Regulations (para. 126).	There are factors (compensating mix between savings and time deposit accounts, delays in processing country office disbursements) that are believed to affect the actual amount of interest generated for trust funds. Hence, these are considered in the calculation of the interest to be accrued to the trust funds to reflect a more accurate amount of actual interest earned from these balances. This procedure of interest calculation is a practice consistent with previous years and need not be stated in the Financial Regulations.	In SAP, composite interest rates will be generated by the new system and posting of country office expenditures will be more current, thereby reducing the impact of these factors in the interest calculation.
<b>18. Accounts Receivable and Payable</b>		
The reconciliation [with WFP and FAO] should be continued until the present discrepancies in the payable/receivable amount is fully explained and accounted for. It should then become a routine exercise performed on a monthly basis (paras. 28 and 132).	Agreed.	Reconciliation is an ongoing process as transactions are recorded every month, which may or may not contain discrepancies. In the case of FAO, the reconciliation between their official accounts (Oracle) and their payroll system (Finsys) will be obtained and will be reconciled with WFP's records.
In the case of FAO, there is need to reconcile the payable account with the payroll transactions since the data were generated by two different systems (para. 28). Efforts should continue to explain the discrepancy between Finsys and payroll data and	Agreed.	An extensive data clean-up exercise of all balance sheet accounts, including the receivables from and payables to FAO, is under-way in preparation of the data migration into SAP and the assumption by WFP of payroll functions from FAO.





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Oracle records for 1999 and to compute those for 2000 and necessary adjustments would have to be made. WFP should also obtain from FAO payroll transactions from Oracle and no longer from Finsys in order to avoid discrepancies in the future (para. 132).		
There is absolute necessity to clear all provisional or uncertain entries before the data migration to the new system (para. 30).	Agreed.	In the migration strategy for the implementation of SAP, extensive guidance and procedures were provided to facilitate the clearing of all provisional and uncertain items that are going to be migrated into the new system.
<b>Personal Advances</b>		
More attention be given to the treatment of personal advances so that they do not exceed three months and that staff receivables and payables no longer be set off in the financial statements (para. 135).	<p>Personal advances which are related to the separation of staff (agreed termination and repatriation entitlements), advances for education grants, and car/house rentals upon transfer are entitlements and the amounts and recovery/settlement could exceed three months' salary of the staff concerned and a 3-month period, respectively.</p> <p>It should be noted that receivables and payables were offset only at the financial statement level but not at the subsidiary level of individual staff accounts. The recommendation of the External Auditor cannot be carried out in the existing system as it would require a lengthy process of manual intervention.</p>	The new SAP system will maintain individual staff subsidiary ledgers that will facilitate the presentation of receivables and payables at gross amounts in the financial statements.
<b>Receivable from Host Government</b>		
Action be taken to claim from the Italian Government receivables with respect to wages paid for the transfer from the former headquarters to the new location in Parco de Medici (paras. 30 and 136).	Agreed.	A note verbale was sent to the Italian authorities in July 2000.

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<b>Project Preparation Costs</b>		
This account, Project Preparation Costs, be monitored and cleared regularly (paras. 30 and 137).	Agreed.	The Accounts Branch (FSFA) will closely monitor this account in its monthly review of the financial statements.
<b>Despatch and Demurrage Accounts</b>		
Despatch (should) be paid and demurrage recovered, or written off after a decision of the Executive Director, in accordance with the present rule, without further delay (paras. 30 and 140).	The Secretariat concurs with the recommendation that demurrage and despatch be settled in a timely manner.	Relevant units at headquarters and country offices will liaise to establish and streamline procedures that will result in a more timely settlement of demurrage and despatch accounts.
<b>Insurance Accounts</b>		
The global excess [concerning the period 1989 to 1994] would have to be written off. All efforts should be made to complete the reconciliation for the period after 1994 in view of the upcoming data migration and to prepare the necessary write off (paras. 30 and 142).	Agreed. Due to the lack of supporting documents for the period 1989 to 1994, further attempts at detailed reconciliations are futile. The reconciliation of accounts for the period after 1994 is ongoing.	The global excess pertaining to the 1989 to 1994 net insurance recoveries amounting to US\$510,011.89 will be written off. A recommendation will be made to the Executive Board at its Third Regular Session in October 2000 to transfer to the Immediate Response Account these net insurance recoveries that are unidentifiable to specific donors.  The insurance claims and recoveries after 1994 and onwards are currently being analysed prior to data migration to the new SAP system and appropriate steps will be taken immediately.
<b>Insurance Recoveries Payable to Donors</b>		
The clearing of all these accounts and the reporting to donors or the Executive Board is a matter of urgency for which I recommend rapid and effective measures (paras. 30 and 143).	Agreed, except that the disposition of these recoveries is a matter for individual donors to decide and not the Executive Board.	Subsequent to the analyses of the insurance recoveries mentioned above, these will be immediately reported to the donors concerned and their preferred disposition of such recoveries will be obtained. Those recoveries already reported will be actively followed up.





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<b><i>Provisions to Cover Bilateral Expenditure not yet Refunded by the Host Government</i></b>		
The Secretariat continue to pursue its action to recover the receivable of US\$3.4 million from the Host Government for the refurbishing of the former headquarters (para. 144).	Agreed.	The Secretariat has actively pursued this matter with the Host Government.
<b>19. Staff-related Schemes</b>		
<b><i>Separation Payment Scheme and Compensation Payments Revolving Fund</i></b>		
<p>The Programme adjusts its records for the excess assets over actual liabilities related to the Separation Payment Scheme (SPS) and the Compensation Payments Revolving Fund (CPRF), as soon as it has been provided with the relevant information and that the Executive Board decide on the reapportioning of any excess of investment (paras. 31 and 147).</p> <p>The WFP share of the actuarial liability be reported in conformity with the FAO stated policy and that an agreement be reached with WFP to implement such policy (para. 146).</p>	Agreed.	As explained to the External Auditor, a proposal will be made to the Executive Board to transfer to a Reserve for Staff Benefits account any surplus arising from the difference between the actuarial valuation of the staff benefit schemes and the book value of the investments, once the latest valuation becomes available. The investments and the actuarial liability will be reported and accounted for accordingly.
<b><i>Entitlements for Staff Ruled by UNDP Contracts</i></b>		
Note 18 to the financial statements may not disclose the total amount of personnel-related liabilities towards local staff hired under UNDP rules and these liabilities be evaluated and reported in future financial statements (para. 149).	At present, UNDP's actuarial study does not clearly segregate WFP national staff covered under their scheme, hence it is impossible to determine the liabilities of WFP.	Initial consultations had been conducted with UNDP in order to obtain the required information for purposes of disclosure in future financial statement disclosure. UNDP suggested hiring the same consultant as they are also the firm performing the FAO actuarial studies.

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<b>MANAGEMENT MATTERS</b> <b>20. Decentralization Policy</b>		
My general appreciation is that the reform, although not completed, was timely and duly launched and that the results were globally positive at this stage with respect to support given to the operations. However, my opinion is that there is much room for improvement on the administrative, financial and monitoring sides (para. 33).	Agreed.	See below.
<b><i>Creation and Modification of "clusters"</i></b>		
The decision to create or modify the perimeter of a cluster be prepared against a clearly defined procedure and always formalized through a Circular from the Executive Director (paras. 33 and 151).	Agreed.	Announcements of any changes will be made through the issuance of Circulars from the Executive Director.
<b><i>Missions of the Regional Offices</i></b>		
A clear policy be set up by the Secretariat in order to establish the different responsibilities of country offices, regional offices and headquarters. All functions performed by the Regional Managers should be described in detailed instructions and any change of the basic pattern should be in written statements (para. 154).	Agreed.	A review called "Making Decentralization Work" has been conducted. The outcomes of this review include the consolidation of all guidance on decentralization, and the preparation of an accountability matrix and a detailed functional statements of each cluster office.  The review's final recommendations in headquarters and all cluster offices via sensitization workshops, training sessions and preparation of guidelines will also be implemented.
<b><i>Shortcomings in the Implementation of Some Specific Tasks</i></b>		
Particular attention be given by the Secretariat to the follow-up of staff training and LTSH reviews. The responsible Headquarters unit produce a global assessment of the situation regarding LTSH reviews. (para. 155)	Agreed.	The 2000 work plan of the Career Development and Training Branch (HRC) includes the issuance of guidelines on allocation, management and monitoring of training funds. These guidelines will be distributed to all country office and headquarters





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		work units. See further information on LTSH in response to section 9, Outstanding Obligations and Provisions, above. The Secretariat also plans to produce a global assessment of the situation through biannual reviews of LTSH to be conducted by country offices and supervised by the Transport and Logistics Division (OT).
<b><i>The Funding of Regional Offices</i></b>		
Every effort should be made to match, as closely as possible, the posts and their funding source in the regional offices. If some functions were to be shared between country and regional offices, this should be done through an established and formal procedure (para. 156).	Agreed.	A working group consisting of representatives from ODD, ODP, FS, RE, and chaired by OEDB has been constituted to address funding issues for posts in country and regional offices. Guidelines have been issued from time to time.
<b><i>Decentralization of Regional Bureaux</i></b>		
A clear policy should be set up regarding the situation and the responsibilities of Regional Bureaux. Proper evaluation of the advantages and inconveniences of the transfers (decentralization of two Regional Bureaux) already made and their financial and staffing consequences be implemented (para. 157).	Agreed.	The impact of the transfer of Regional Bureaux outside of headquarters is being carefully assessed and discussed in consultation with the consultants that conducted the study on "Making Decentralization Work".
<b><i>Follow-up to the Decentralization Policy</i></b>		
Greater involvement of the managerial structure set up at headquarters to control, monitor/follow up the reform. The results of the review of the consultant, when they are known, be brought to the attention of the Executive Board (para. 158).	Agreed.	Early this year, the Executive Director reconstituted the Change Management Oversight Committee to achieve a more active and organized control, monitoring, and follow-up of the reform. A status report on the follow-up of the decentralization policy will be conveyed to the Executive Board at its Annual Session in May 2001.

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<b><i>Evaluation of the Results of the Decentralization Policy</i></b>		
Make an evaluation of the cost-effectiveness of the decentralization process which should include a precise assessment of the evolution of the financial costs and savings, with data such as the number of posts created in the field and suppressed at headquarters, the administrative cost of the regional offices and the global cost of decentralization (para. 159).	Agreed.	An evaluation of the Organizational Change Initiative begun in 1997 has been planned for the mid-2001. It will include an assessment of the costs and advantages of decentralizing operational decision-making to the field.  The terms of reference of this evaluation will be established by the Change Management Oversight Committee. Proposals will be sought from a short list of management consulting firms. The report will be presented to the Executive Board in due course.
<b>21. Human Resources Management</b>		
<b><i>Budget and Post Control</i></b>		
Several tools designed to monitor the achievement of geographical and gender recruitment goals could be more broadly used (para. 165).	Agreed.	Senior Management has set recruitment targets in terms of geographical distribution and gender, and all hiring managers have been informed in writing. Senior Management receives quarterly reports on whether or not these targets have been met and by which divisions and regional and country offices. Hiring managers are held accountable for meeting these targets, which is one of the achievements reported upon in the Management and Appraisal of Performance (MAP) reports for each hiring manager.
<b><i>Post Creation and Recruitment</i></b>		
More attention be given to the reconciliation of the staffing tables in the Post Control System between headquarters and the actual situation in the field. The filing of vacancies remained a slow process when it came to external recruitment (para. 168 and 169).	Agreed.	Pending implementation of the new SAP system, the reconciliation of posts and staff data as contained in the Post Support System (previously known as Post Control System) is conducted once a year in a joint exercise between headquarters and the country offices.







External Auditor's recommendations (as per 1998-99 Audit Report)	WFP response	Actions taken to date or to be taken
		The introduction of the roster system, established for various functional profiles and updated on a quarterly basis, has reduced the external recruitment time from over 7 months in the past, based on specific vacancy announcements, to an average of 3.5 months.
<b><i>Parallel Posts, Rest and Recuperation, Temporary Duty Assignments and Casual Labour</i></b>		
The procedures for the so-called "Parallel Posts" and the "Rest and Recuperation" be introduced in the FAO manual to deal with these specific situations, and guidelines issued to deal with temporary duty assignments and casual labour (paras. 37, 170 and 172-174).	Agreed. The parallel posts for staff on mission status and the related ad hoc DSA rates instead of mission subsistence allowance (MSA) are issues; HR has to deal with this within revised/amended personnel manual sections.  The use of casual labour in country offices requires an in-depth analysis and review by HR, considering the complex contractual situation of national employees who are governed by UNDP rules and regulations. The incentives for staff assigned to very difficult duty stations (security-related) have been kept under review by HR on a continuous basis.	The policies on casual labour, mission status and use of MSA instead of ad hoc DSA rates will be reviewed and the incentives on Rest and Recuperation for staff assigned to very difficult duty stations will be formally put in place. These new policies will be developed in close collaboration with the Legal Counsel and other bodies, if appropriate. When approved by the Executive Staff, the new policies will then be translated into new or amended sections of the FAO Manual. The whole process is expected to be finalized by the end of 2001.
There should be a minimum set of guidelines surrounding the Programme's mobilization of these human resources (temporary duty assignments) on almost instantaneous notice (para. 170).	Agreed.	Temporary duty assignments in emergencies have been reviewed through the creation of an Emergency Response Team and up-front training of those staff who volunteer to be part of such a team. Related guidelines have been approved by the Executive Staff and the set-up will be completed and fully in place by November 2000.

External Auditor's recommendations (as per 1998-99 Audit Report)	WFP response	Actions taken to date or to be taken
<b>22. Financial Management Improvement Programme</b>		
The go-live date (should) be established in line with the completeness of all system introduction activities (paras. 40 and 199).	Agreed. During the development of the new system, there has always been the assumption that the go-live date of its application was dependent on the successful completion of all the tasks that are a prerequisite for project success. The application will not be taken into production prior to successful completion of prerequisite tasks.	The remaining actions in the project, which affect the go-live date, are: testing, training, and data migration. While there are many facets of each of these high-level headings, each one must be successfully completed before the go-live date. The progress of completion of each is being actively tracked and its effect on the go-live date determined almost on a daily basis.
<b>23. Management of the Office of the Executive Director</b>		
For simplicity, transparency and logical reasons, all the activities of the Executive Director should be financed only through the PSA budget (paras. 41 and 200).	We cannot agree with this recommendation because in the funding modalities introduced in the R&LTF, the linkage of the activity (purpose of the travel) to the project is the determining factor on which expenditures are to be charged. It is considered that expenditures incurred by the Office of the Executive Director (OED) that are directly related to new or stepped-up large-scale/complex operations (e.g. DPRK, Angola, etc.) should be financed from the DSC component of these projects. Charging these against PSA for simplicity is not only inconsistent with the costing methodologies but could also place considerable strain on the PSA budgets of offices like OED that tend to increase their travel agenda and communications when such large emergencies suddenly arise.	In May 2000, criteria were established for the use of DSC for related expenditures at headquarters and regional offices.  In future, to achieve more transparency, a summary will be prepared on the relevant expenditures of OED that were charged against the DSC of specific projects.





External Auditor's recommendations (as per 1998-99 Audit Report)	WFP response	Actions taken to date or to be taken
<b>OTHER MATTERS</b> <b>24. Procurement</b>		
The Programme should carefully check that the vendor and the payee are part of the same legal entity, as the audit disclosed that proper verifications were not always made (paras. 42 and 201).	Agreed. It should be noted, though, that the case cited by the External Auditor refers to only one vendor which is a major and regular supplier of commodities, with whom the Programme has conducted business through the years as they had been rendering a satisfactory performance.	In future, careful checking of the legal identity or relationships between vendor and payee will be actively pursued and documented even with WFP suppliers with long and favourable standing.
<b>25. Upgrading of Financial Information, Accounting and Procedural Discipline</b>		
Further develop and disseminate clear and organization-wide operational and finance guidance, particularly the Finance Manual, as well as reinforce with urgency the finance staff, particularly at headquarters, both in quantity and quality. These efforts should be intensified in view of the upcoming implementation of the new information system (paras. 43 and 202-203).	Agreed. In the process of configuring the systems and procedures under the new SAP environment, certain finance and accounting-related policies had to be amended by way of FMIP Issue Resolutions.	As indicated by the External Auditor, the revised Finance Manual will be issued as soon as all the issues in the implementation of SAP are addressed. Appropriate training of all staff concerned shall also be conducted.  As stated earlier, a strategy is being developed to strengthen the Financial Services of the Programme in view of the implementation of the new information systems, the decentralization process, and implementation of the revised R&LTF policies effective 1 January 2000. This strategy will address both the qualitative and quantitative aspects raised by the External Auditor.

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## FINAL REPORT ON THE IMPLEMENTATION OF RECOMMENDATIONS IN THE 1996-97 AUDIT REPORT OF THE EXTERNAL AUDITOR

1. In prior biennia, the Executive Director introduced the practice of presenting progress reports to the Executive Board on the implementation of the External Auditor's recommendations. The present report refers to the 1996-97 Audit Report.
2. The first progress report was submitted to the Board at its Annual Session of 1998 (document WFP/EB.3/98/4-A). The progress report reflected the recommendations as presented in the report of the External Auditor on the financial statements for 1996-97, and the corresponding response of WFP and the actions taken or to be taken. The annex to the present document is the third and final report on the recommendations for the 1996-97 biennium. The first two columns of the annex present the recommendations and responses contained in the first progress report while the third column reflects the follow-up actions taken to date. The fourth column includes the status of implementation, and comments and reactions of the External Auditor in his audit report for the 1998-99 biennium to the actions taken by WFP.
3. The Executive Director confirms that those issues that have not yet been fully resolved are being addressed through specific action and steps as indicated, or will be addressed in the implementation of the Financial Management Improvement Programme.
4. The Executive Director assures the Board that the recommendations of the External Auditor in his audit report for the 1996-97 biennium were seriously considered and addressed by WFP within existing available resources and in line with the ongoing or expected changes in regulations, policies, systems and other arrangements.

**FINAL PROGRESS REPORT ON THE IMPLEMENTATION OF RECOMMENDATIONS IN THE 1996–1997 AUDIT  
REPORT OF THE EXTERNAL AUDITOR**

External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
<b>1. Contributions</b> <b>Commodity contributions</b>			
The new procedure on the valuation of contributions in kind issued at the end of 1997, with a view to simplifying these methods and making them consistent, be effectively implemented in 1998 (paras. 10, 37 and 38).	Agreed.	Directive FS 97/04 on Valuation of Commodity Contributions in Kind detailing the new procedure based on uniform valuation methodology and a simplified pricing and accounting system was implemented effective 1 January 1998	The External Auditor indicated that this new procedure was an improvement when compared with the previous practices but recommended these to be reviewed for a more precise definition of a donor invoice and a stricter application of the procedure (paras. 14, 63 and 66).
<b>Contributions receivable</b>			
The pledge management process be thoroughly reviewed and upgraded (paras. 11 and 40).  A clear definition of responsibilities be established between the various units concerned with respect to registration of pledges, allocation of resources and monitoring of the outstanding value of pledges (para. 40)	Agreed.	An inter-divisional working group (WG) was established consisting of representatives from RE, ODP, FSFA and FSI. The group serves as a forum for the management of receivables prior to the full implementation of the Resource Mobilization System (RMS). The initial implementation of RMS in January 1999 improved the management and control of pledges receivable and their collection.  The minutes of each regular meeting of the WG were issued and circulated. The chair of the WG was taken over by FSFA.  A review of all pre-1996 pledges was carried out throughout the 1998-99 period	The External Auditor commended the clean-up process that should be achieved before the data migration to the new financial information system (para. 68).  He also stated that altogether the present ageing situation of contributions receivable coming from 1996-97 pledges appears more in line with the actual situation of the Programme.  He also recognized that the implementation of the RMS can be considered as progress (para. 70).





External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
		leading to their reduction from US\$162 million as recorded in the financial systems at the end of 1998 to US\$ 4.8 million still outstanding as at 31 Dec. 1999.	The External Auditor made further recommendations to strengthen contributions management. See recommendations in the Progress Report for 1998-99 (paras. 15, 69 and 70).
<b>Government cash contributions for local costs (GCCC)</b>			
Financial Regulations be fully implemented through adequate agreements with recipient governments or explicit waivers granted by the Executive Board (paras. 12 and 42).	WFP concurs that efforts must be systematically made to secure adequate agreements with recipient governments on the level of contributions (cash or in-kind) to local costs.	<p>In 1998 and 1999 efforts were made at headquarters to provide the country offices with clearer guidelines and information regarding contributions to be collected from host governments. The monitoring tools were improved and the Programme has a better view of the situation of outstanding contributions by country. Reconciliation between budgetary and accounting data is now carried out on a regular basis.</p> <p>Suitable text under Article VIII (clause six) has been included in the newly revised standard WFP/Government Basic Agreement. The agreement is still in draft form and awaiting legal clearance.</p>	The External Auditor recognized these improvements. However, he made further recommendations towards a more efficient and effective management of the whole issue. See recommendations in the Progress Report for 1998-99 (paras. 16 and 74).

External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
<p>Agreed GCCC should be considered as receivable by WFP, accounted for as such and the recovery of the corresponding amounts pursued (paras. 41 and 42).</p>	<p>WFP will review its current practices of accounting for GCCC and consider the recommendation of the External Auditor in terms of WFP's new Financial Regulations and in consultation with the Executive Board, if necessary.</p>	<p>For purposes of consistency in the application of accounting policy for income, the Programme continued to recognize and record GCCC as income at the time when these were actually collected in cash. However, in kind contributions in terms of premises, etc. by host governments are not recognized and recorded in the books of the Programme. The CCAQ (FB) will start looking into this issue as these may have significant implications on the UN systemwide.</p>	<p>See recommendations in the Progress Report for 1998-99 (paras. 16 and 77).</p>
<p><b>2. Expenditures Outstanding Obligations and Provisions</b></p>			
<p>Further improvements in the review of outstanding obligations and provisions and a modification of the accounting procedure for the posting of internal transport, storage and handling (ITSH) costs (para. 13).</p>	<p>Conceptually WFP agrees with this recommendation, but effective implementation may not be practical.</p>	<p>In view of the imminent implementation of the new WFP financial information system, it was considered not cost-effective to modify the legacy systems. WIS was not enhanced to automatically segregate unliquidated obligations from provisions; instead, the exercise was carried out manually for the 1998-99 closure.</p>	<p>In reviewing these outstanding obligations and provisions for ITSH in the financial statements, the External Auditor agreed on the principles that the Commitment Requests (CRs) raised prior to 1 Jan. 1999 would be carefully examined to distinguish surrenders, provisions and outstanding obligations and those raised after 1 Jan. 1999 would only be divided between obligations and provisions without questioning the validity of provisions regarding ITSH (para. 85).</p> <p>As a result of this review, the External Auditor did not question the fairness of the whole amounts posed in the financial statements for 1998-99 (para. 86).</p>





<b>External Auditor's recommendations (as per WFP/EB.3/98/4-A)</b>	<b>WFP response (as per WFP/EB.3/98/4-A)</b>	<b>Follow-up actions taken to date</b>	<b>Status and comments of the External Auditor (*)</b>
<p>The accounting procedure for posting ITSH expenditure be modified to clearly distinguish in the general ledger unliquidated obligations from provisions and therefore dispense with the need for manual adjustments which are less accurate (para. 47).</p>	<p>The modification in accounting procedure needed to delineate provisions and outstanding obligations has to be implemented in the system (WIS), as the task priorities of FSID will allow.</p> <p>The new procedure could be the set up of an ITSH Provisions account (currently generated through the bill of lading data input operation) for a specific project and then as ITSH actions or actual costs are taken or incurred (i.e., amounts supported by legal binding documents) they could be recorded under a different object of expenditure and automatically charged from the Provisions account.</p>	<p>In the implementation of SAP, a new policy has been formulated that would account for unliquidated obligations for ITSH based on actual contracts or purchase orders. This policy for the expensing of ITSH will eliminate the manual review and segregation between provisions and obligations at the end of each year.</p>	



External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
<p>Inflow of new balances of unliquidated obligations should be more closely monitored, throughout the biennium (para. 45)</p>	<p>It is agreed that close monitoring is necessary.</p> <p>The exercise, involving close liaison with country offices, takes place over a period of at least two months. Therefore, the frequency and depth of these reviews provide a satisfactory level of monitoring of unliquidated obligations.</p>	<p>Unliquidated obligations are reviewed and analysed on a regular basis.</p> <p>Detailed reviews continued to be made periodically and a global exercise involving 64 countries was carried out at the end of the 1998-99 biennium covering all outstanding balances for ITSH.</p>	
<p>The instructions addressed to the various operational units detail precisely the type of supporting documentation needed to keep an obligation and provision outstanding, and require a justification of the continued validity of the obligations and provisions raised during the second year of the biennium (para. 45).</p>	<p>The imposition of this discipline, together with provisions of detailed rules, should eliminate current uncertainties in this area.</p> <p>LTSH will remain as a provision unless specific commitments are raised based on legally binding documentation and the provision correspondingly reduced.</p> <p>FSFD reviews documents for commitments set up for administrative type of expenditures, i.e., direct and indirect support costs. However, details of commitments set up for</p>	<p>Guidelines for this exercise and a proforma reporting document were sent to country offices in December 1999, which they utilized during the biennial closure exercise.</p>	<p>The External Auditor noted the improvement in the regular clearing of old commitments but was concerned that figures reported by field offices and unexplained differences revealed may point to different accounting treatments. This may result, on the one hand, in under-estimated sums of all valid outstanding obligations and, on the other, over-estimated amounts for provisions. The Secretariat assured the External Auditor that in the new system, reports on the amounts of provisions and unpaid contracts/purchase orders as at a given date would be systematically generated, thus ensuring accuracy of actual levels of ITSH provisions and unliquidated obligations (paras. 18 and 86).</p>





External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
	<p>direct operational costs are automatically verified through the review modules of WIS. In case of discrepancies, FSFD refers these to the originating unit and/or the Computer Development Branch for appropriate adjustments and ensures that similar problems do not recur.</p>		
<b>Cancellation of Outstanding Commitments</b>			
<p>WFP consider the advantages and feasibility of a more transparent method of reporting cancelled commitments. In the case of the Programme Support and Administration budget (PSAB), cancelled obligations are reported as "savings" (i.e., windfall income) in Statement I. In the case of projects, commitments cancelled after a reasonable period of time (e.g., one year) could similarly be reported as a credit to donors, i.e., an unexpended part of their donation for given projects. Such amounts could then be re-allocated, with the agreement of the donor concerned, to the same or another project. Thus, expenditure and savings on prior commitments for projects would be reported separately instead of being netted against one another (paras. 14 and 49).</p>	<p>While the recommendation lends to transparency in reporting cancelled commitments, the Secretariat believes that with the present system this could be handled through a note to the financial statements disclosing the amount involved, calculated through the generation of accounting reports, either through the WIS or the GLM systems. However, this recommendation may be considered in the FMS module of FMIP.</p> <p>The release of PSA obligations remaining unused after more than one year following the end of the financial period is considered "below the line"</p>	<p>Done. The cancellations of prior period obligations and provisions for ongoing projects are disclosed in Note 19 to the 1998-99 financial statements.</p>	<p>The External Auditor commended the Secretariat's effort in providing clarification on cancelled obligations and provisions through a disclosure in Note 19 to the financial statements but indicated his preference that this be done in the actual financial statements (paras. 19 and 88).</p>



<b>External Auditor's recommendations (as per WFP/EB.3/98/4-A)</b>	<b>WFP response (as per WFP/EB.3/98/4-A)</b>	<b>Follow-up actions taken to date</b>	<b>Status and comments of the External Auditor (*)</b>
	<p>in accordance with Financial Regulation 9.9, which states that the balance shall revert to the General Fund. However, this regulation does not apply for donor funds. The timing restrictions on the use of donor funds are set out in the agreements with the donors. Within the time limits and other conditions set by the donors, funds may be obligated and unused obligations released and reused. Under the current accounting methodology (accrual basis), unused obligations are released as credits to expenditure under the relevant donor contribution, and again become available for reprogramming. It could be envisaged that a distinction be made in the accounts between current period expenditure (when an expenditure is both disbursed and accrued, as current period obligations) and adjustments to prior period obligations. The Secretariat will investigate this option.</p>		



External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
<b>Direct Support Costs</b>			
<p>The accounting procedures retained for the reclassification of project expenditures from direct support costs to other operational costs be detailed in specific financial and accounting instructions to ensure that they are treated consistently across programme categories and across financial periods (paras. 15 and 51).</p>	<p>In the Resource and Long-term Financing (R&amp;LTF) policies it was indicated that the cost categories for projects would be direct operational support costs and direct and indirect support costs. However, in the implementation of these policies, it became clear that the cost categorization was not consistent across projects. This was primarily due to the fact that historically the PSA was funding direct support costs in some instances, and direct support resources were funding indirect support costs in other instances.</p>	<p>A joint FS/OD Directive (FS2000/001, OD2000/002) - Procedures Applying to Other Direct Operational Cost (ODOC) - was issued on 21 March 2000.</p> <p>The Directive defines ODOC as "all activity inputs (e.g. staff resources, non-food items or services) provided by WFP and utilized directly in activities by beneficiaries, the government of the recipient country or other implementing partners, including costs related to food transformation (e.g. milling)."</p> <p>On the other hand, Direct Support Cost (DSC) is defined as "all staff resources, equipment and services utilized by a WFP Country Office or WFP unit in direct support to projects."</p>	<p>The External Auditor noted that this Directive provided some guidelines for the biennium 2000-01 (para. 91).</p>
<b>Consultants</b>			
<p>Greater care be exercised in the recruitment of consultants (paras. 16 and 52).</p>	<p>Contracts with UNICC, the rates and periods are administered by that organization's rules and practices which differ from those of WFP.</p>	<p>HR Directive 2000/01 dated 26 April 2000 was issued to define the responsibilities of the hiring manager, the consultant and HR as well as prescribe an updated and consistent basis for honorarium levels and the criteria to be used.</p>	<p>The External Auditor made no further comments.</p>



<b>External Auditor's recommendations (as per WFP/EB.3/98/4-A)</b>	<b>WFP response (as per WFP/EB.3/98/4-A)</b>	<b>Follow-up actions taken to date</b>	<b>Status and comments of the External Auditor (*)</b>
	<p>To simplify the process of engagement and contract administration, contracts had been arranged through UNICC wherever possible. This makes use of the unique services that have been established to assist United Nations organizations in the engagement of specialized consultants from the information systems and computer sectors, and is consistent with past practices of WFP. These services include vetting of qualifications and work experience of candidates and the intended level of remuneration within the context of industry standards. Furthermore, it is acknowledged that the charge levied by UNICC for these services is significantly lower than that which would be incurred by WFP if the Programme handled the contracts directly.</p>		



External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
<b>3. Country office expenditure</b>			
Reiterate previous recommendations to implement a stricter checking of field transactions before they are posted to the general ledger to the effect that (paras. 17 and 57):		Follow-up actions are presented below.	The External Auditor recommends that adequate measures aimed at reinforcing the control on the field transactions by headquarters be adopted promptly (paras. 22 and 103).
<ul style="list-style-type: none"> <li>➤ imprest account transactions be transmitted to headquarters in an electronic form and under a format consistent with the central accounting system in order to avoid manual re-entry of data and eliminate risks of erroneous inputs;</li> </ul>		<p>In line with the decentralization policy of the Programme, direct access to WIS was given to five other regional offices and two stand-alone countries, which involved 35 country offices having to record all of their transactions into the financial records at headquarters during the biennium.</p> <p>In view of the implementation of the new system, FSFF and FSID had developed jointly COAGSAPInt, a database that will automatically upload the field transactions into the new SAP system.</p>	The External Auditor raised the concern that the three directives issued in 1998 stated in general terms only the framework for the delegated responsibilities and the control maintained by headquarters (para. 98).
<ul style="list-style-type: none"> <li>➤ considering the large number of transactions concerned, their regularity be thoroughly checked against supporting documentation on a statistical basis and the samples selected after due consideration of risk areas;</li> </ul>		FS management is currently reviewing the present policy dealing with the submission of supporting documentation and the required review that will have to be conducted by FSFF to ensure an adequate level of assurance on the integrity of transaction recording done in the field. This review will also consider controls being put in place in the new financial information system.	The External Auditor noted that efforts were made in addressing this issue of review of supporting documentation towards the end of the biennium (para. 99).

External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
<p>➤ bank statements, cash books and general ledger bank balances be systematically reconciled every month and all discrepancies duly investigated;</p>		<p>Monthly reconciliations are now more vigorously enforced, and the database to enhance proper control and efficient data maintenance for country office bank accounts became operational in June 2000.</p>	<p>The External Auditor noted the operationalization of this data base (para. 121).</p>
<p>➤ operational instructions be issued to guide the work of processors at headquarters.</p>		<p>The draft processing guide has not been issued as it has been taken over by new requirements of the new financial information system. Hence, these are being rethought and rewritten in line with SAP.</p>	<p>The External Auditor noted the draft processing guide (para. 98).</p>
<p>Country Directors be reminded of the importance of checking expenditure against commitments, and this be strictly enforced.</p> <p>If the outcome of the decentralization policy is to shift the responsibility of accounting for field operations to regional finance officers, such a move be carefully prepared with (para. 58):</p>	<p>The financial responsibilities of country directors are expressly embodied in the Revised Country Office Accounting Guide.</p>	<p>The Country Office Accounting Guide is now being reviewed for updating to incorporate additional instructions not previously provided, to revise instructions superseded by new policies or those that will be affected by the new financial information system.</p>	<p>See recommendations in the Progress Report on 1998-99 (para 98).</p>
<p>➤ a clear definition of responsibilities maintaining the final control of the Director, FS, responsible for preparing the accounts of the Programme, over the accounting entries posted to the general ledger;</p>	<p>The Programme is investigating the most cost-effective way to maintain the final control of the Director, FS over the accounting entries posted to the General Ledger. At</p>	<p>FS continues to be responsible for the overall posting to the GL:M general ledger by releasing (and reviewing) the journal vouchers for decentralized countries and by processing the accounts of non-decentralized countries.</p>	





External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
	<p>present the entries processed in the field are the object of the same format and voucher statistical control as those posted in headquarters. FSFF will become a control and guidance unit when most returns are routinely processed in the field.</p>		
<p>➤ the issuance of organization-wide financial and accounting instructions to ensure standard treatment of transactions;</p>	<p>The Country Office Accounting Guide embodies comprehensive standard accounting procedures to be applied in the country offices.</p>	<p>The Country Office Accounting Guide dated 26 August 1998 was issued to all country offices.</p>	
<p>➤ training of field finance officers;</p>	<p>A series of training session have already taken place both in the field and at headquarters.</p>	<p>A five-day conference for Regional Finance/Admin. Officers was held at headquarters in March 1999.</p> <p>Training of field finance officers continues to be a priority for FS. On several occasions during 1999, the Chief of FSFF attended regional meetings of Finance and Administration Officers.</p> <p>In May 2000, a five-day SAP Implementation Preparation Workshop was held in Rome which was attended by regional finance and administration officers and programme logistic project officers.</p>	<p>The External Auditor agreed that training sessions were organized on an average of two weeks in each decentralized office. However, he expressed the belief that these sessions cannot be considered a substitute for adequate and precise guidelines (para. 98).</p>
<p>➤ definition of controls to be carried out on field transactions; and</p>		<p>Completed.</p>	





External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
<p>➤ setting up a strong central unit to implement this reform and provide guidance to field personnel.</p>		<p>The new structure of FSFF is designed to provide more professional support to field personnel. It aims to formulate, communicate and implement financial policies; to ensure that controls are in place and that financial rules, regulations and procedures are adhered to; and to design and coordinate training for field finance staff.</p> <p>FSFF has recently designed a system of monitoring and reporting on the status of field finance. This was presented during the SAP Preparation workshop held in May 2000 and soon to be finalized.</p> <p>FS management is now reviewing the existing and available competencies vis-à-vis the required ones in order to provide recommendations to top management for the strengthening of FSFF as it evolves into its new role in the decentralization process and with the new financial information system.</p>	<p>The External Auditor commented that the reduction of staff in the central unit responsible for the implementation of the reform is contrary to the previous recommendation of setting up a strong central unit to implement the reform and provide guidance to the field (para. 101).</p>
<p><b>4. Programme Support and Administrative Costs (PSAC)</b></p>			
<p>Comprehensive budgetary arrangements, specifying recognized expenditure components and the categories of resources applicable to meeting such expenditure, be worked out with a view to providing the Programme with an administrative structure commensurate with their missions (paras. 18 and 62).</p>	<p>WFP fully agrees that, with the possibility of the R&amp;LTF policies being revised, there continues to be scope to refine and devise comprehensive budget arrangements. The R&amp;LTF policies introduced on 1 January 1996 the concepts of direct support costs (DSC) representing</p>	<p>In 1999, a working group, chaired by OEDB and representatives from ODD, ODP, RE and FS was constituted to develop an action plan for the implementation of the revised policies on R&amp;LTF and formulation of guidelines on the funding and categorization of costs (joint FS/OD Directive FS2000/001, OD2000/002 dated 21 March 2000 and a memo by the Director of OD to Regional Directors).</p>	<p>The External Auditor recognized these guidelines but made further recommendations on the delineation between PSA costs and DSC, which are addressed in the recommendations in the Progress Report for 1998-99 (paras. 23, 105 to 111).</p>



External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
	<p>expenditure items directly linked to operational activities and indirect support costs (ISC) which were used to fund the PSA. But there were certain expenditure items that were being charged under PSA prior to the new R&amp;LTF policies that should be more appropriately classified and funded as DSC. And it took some time during the biennium for the Programme to become accustomed to the new policies and to define clearly the expenditure components applicable to PSA and DSC.</p> <p>In their negotiations with donors, RE submit proposals which outline the direct and indirect support costs associated with proposed contributions. Every effort is made in these discussions with donors to ensure that full compliance with all provisions of the R&amp;LTF policies are achieved, including the provision of indirect support costs.</p>	<p>Also, the WIS was enhanced in early 2000 to provide a system of budgeting and accounting for the new cost category – ODOC.</p> <p>In the course of that preparation of the 2000-2001 budget, comprehensive guidelines on cost re-categorization (under R&amp;LTF) were issued and country offices were fully briefed (through a series of joint OEDB/ODD/ODP missions) on the preparation of budget proposals. Budgets were reviewed to ensure compliance, placing emphasis on the definition of specific items classified as DOC, DSC, or ISC.</p> <p>OEDB is leading the coordinated production of budget guidelines, which will be available to country offices and headquarters to help them produce project and PSA budgets.</p>	

External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
<b>5. Cash Management Investment Management</b>			
<p>WFP reconsider the present arrangements and structure for the management of their cash with a view to (i) bringing into line official investment policy and actual conduct of investment management, (ii) out-sourcing the management of investments to professional managers, and (iii) re-organizing the structure to ensure adequate oversight of the external managers and control of bank accounts (paras. 19 and 66).</p>	<p>Agreed. Currently responsibilities are divided between FAO and WFP, and this creates a less than satisfactory situation.</p>	<p>ED Circular No. 99/003 was issued 30 September 1999 prescribing the Programme's investment policies and the responsibilities of the reconstituted Internal Investment Committee.</p> <p>Five external investment managers were selected and hired effective February 2000.</p> <p>In December 1999, FS management commissioned a consulting firm to conduct a study aimed at evaluating existing treasury systems and procedures with a view to strengthening the security of systems, preparing a comprehensive treasury manual, and identifying an appropriate application for treasury that can interface with SAP.</p> <p>A draft Treasury Manual was issued on 24 May 2000.</p> <p>A more systematic manner of interest calculation is being introduced in the new financial information system.</p> <p>The Programme decided that notwithstanding the assumption of treasury operations, the FAO Investment Advisory Committee will continue to be used.</p>	<p>The External Auditor commented that the outsourcing of investment management to professional firms is now in line with the objective of conducting an active investment policy. However, he stressed the urgent need to finalize the investment procedures (para.118).</p> <p>In addition, the External Auditor urged the issuance of the necessary instruments to manage the treasury function in a modern and efficient way and the finalization of the treasury manual (paras. 114 and 117).</p>





External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
<b>Cash Management</b>			
<p>In spite of the recruitment of a cash manager in March 1996 and the signature of a Memorandum of Understanding with FAO in October 1996, there is still considerable room for improvement in the operation of bank accounts and implementation of an investment policy (para. 63).</p>	<p>Disagree. During 1996-97 the average amount held in interest-bearing current accounts was \$115 million and not \$600 million as indicated (para. 66). The amount held in current accounts is liquidity necessary to meet daily expenditures (equivalent to less than 60 days' expenditure) and is independent of interest rate differentials. The excess liquidity is held in time deposits. The interest earned on time deposits in 1997 averaged 5.70% which is better than the interest of 5.45% available from professionally managed short-term liquid asset funds.</p>	<p>Based on the recommendation of the FAO Investment Advisory Committee, surplus cash was being invested in a money market fund prior to the appointment of the external investment managers.</p> <p>This recommendation is also addressed through the study commissioned by FS management, as such study addressed both the investment and cash management policies and procedures of the Programme.</p>	<p>The External Auditor recognized that the Treasury Unit of WFP now directly manages all bank accounts but recommended that this move be supported by an adequate and timely delivery of instructions and documentation. These will be addressed by the treasury manual that covers both cash and investment management policies and procedures (para. 113).</p>
<b>Bank Accounts</b>			
<p>The rules governing the opening and closing of WFP bank accounts and the assignment of responsibilities for operating each individual bank account at headquarters and in the field be strictly adhered to as they constitute an essential element of the safeguarding of WFP assets (para. 64).</p>	<p>Agreed.</p>	<p>Opening, closing and amending bank accounts are functions of the newly established Treasury Unit.</p> <p>Monitoring of the opening and closing of field bank accounts was strengthened with the database for country office bank accounts that was developed by FSFF in October 1999.</p>	<p>The External Auditor acknowledged the introduction of the database but reiterated his previous recommendation that the rules governing the opening and closing of WFP bank accounts and the assignment of responsibilities for operating each individual bank account at headquarters and in the field be strictly adhered to (para. 122).</p>

External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
<b>6. Self-Insurance Policy</b>			
Self-insurance transactions be reported as a provision on the liabilities side of the balance sheet, as was the case in the 1994-95 financial statements. If, nevertheless, it were decided to proceed with the establishment of a special account for self-insurance operations, I recommend that its establishment and the principles governing its operation be formally endorsed by the Executive Board (paras. 20 and 69).	As recommended, formal endorsement will be sought from the Executive Board.  The Secretariat has decided that the most appropriate accounting procedure for the self-insurance scheme is as a special account in the General Fund.	Completed. The Executive Board formally approved the scheme and endorsed the special account in October 1998.	The External Auditor made no further comments.
<b>7. Bilateral Operations</b>			
Closer cooperation be ensured and clear responsibilities delineated between the administrative units involved (Resources, Operations and Finance) (paras. 21 and 70).	The real over-expenditure on bilaterals amounted to \$0.2 million. The Financial Regulations do not prohibit bilateral agreements where WFP receives an advance before operations start and the balance on submission of the final report. Expenditure in excess of the advance gives rise to a temporary deficit balance which is settled by donor remittance of funds after the final report is sent to the donor. This type of arrangement shows deficits as long as the donor has not settled the balance.	With the implementation of SAP, the responsibility of managing bilateral operations is being shifted from RE to the relevant operating offices.	The External Auditor made no further comments.





External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
<b>8. Procurement of commodities and non-food items</b>			
<p>The various procurement rules needed to be revised, harmonized, and assembled in a comprehensive document to make them more easily accessible to staff. Delegations of authority, in particular, needed to be clarified (paras. 23 and 73 to 78).</p>	<p>Agreed.</p>	<p>ED Circular 99/04 prescribing policies in the procurement of non-food items (NFIs) was issued on 11 November 1999 together with the relevant WFP Non-Food Procurement Manual (NFI). Subsequently, MSP conducted several training programmes in regional and country offices to introduce these new policies, principles and procedures.</p> <p>The policies and procedures came into effect on 1 January 2000.</p> <p>The delegation of authority for all forms of procurement of NFIs at headquarters and in the field was restated, with amendments, in ED Circular 99/04.</p>	<p>The External Auditor made no further comments.</p>
<p>Given the many constraints weighing on purchase decisions (legal considerations, availability of cash, variety of donors, diversity of projects and local food patterns, seasonality of markets), food purchase planning is limited. This is probably an area where further progress could be achieved in the future (para. 72).</p>	<p>Agreed.</p>	<p>A memorandum was issued by the Management Services Division on 18 January 2000, requesting submissions for the preparation of Procurement Plans for 2000.</p>	

External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
A large sample of contracts did not disclose significant irregularities, but the following anomalies noted should be corrected in the future (paras. 24 and 79 to 84):		The recommendations detailed by the External Auditor were all addressed with the issuance of the Non-Food Procurement Manual.	The External Auditor made no further comments except for payments made to a large international trading firm from which the Programme procures food regularly. The identity and the address of the payee were not those of the vendor who had signed the contract because the payee is an authorized agent of the vendor with which WFP conducted business. Thus, the External Auditor reiterated his previous recommendation that the Programme carefully check that the vendor and the payee are part of the same legal entity. (para. 42)
➤ discontinue the practice of issuing cheques to payees whose identity and address are not those of the vendor who had signed the contract;	Agreed.	See above comment.	The External Auditor made no further comments.
➤ losses incurred due to defaults;	Agreed.	See above comment.	The External Auditor made no further comments.
➤ circumvention of bidding procedures and the delegated levels of authority in procurement;	Agreed.	See above comment.	The External Auditor made no further comments.
➤ contract for telephone services not put out to tender and negotiation, and the officer who signed for the Programme did not have the authority to do so; and	Agreed.	See above comment.	The External Auditor made no further comments.





External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
<p>➤ contract for travel services not concluded in consultation with the Contracts and Purchases Committee prior to signing and the condition in the contract for providing services during normal hours on-site was not respected.</p>	<p>MS's interpretation of the contract manual led to the conclusion that the approval by the Contracts and Purchases Committee was not required because the signature did not entail a financial commitment by WFP. The subject agreement in fact is a travel agency concession based on variable and non-exclusive terms. The provision of services during working hours outside office premises was done on a trial basis to improve service by regrouping the resources of the Concessionaire. It did not prove to be satisfactory to WFP and therefore the on-site service of the Concessionaire was reintroduced early August 1998.</p>	<p>See comment at the top of page XXX.</p>	<p>The External Auditor made no further comments.</p>
<p><b>9. Procurement of ocean transport and services</b></p>			
<p>Internal controls of operations could be improved, particularly with respect to performance evaluation and effectiveness of the ex-post review of contracts (paras. 25, and 86 to 88).</p>		<p>OTS expanded the spreadsheets prepared by officers on offers received to reflect the final freight actually agreed and paid after negotiations.</p>	<p>The External Auditor made no further comments.</p>





External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
<p>The performance indicator used by OTS, the FOB/C&amp;F differential, should be supplemented by other market comparators.</p>	<p>In addition to the FOB/C&amp;F differential, OTS uses other market indicators such as the so-called Market Reports, which list all fixtures concluded by other charters in the coal, iron and grain trades. They also include reports on time charter contracts fixed between owners and operators. Other sources of information on market movements are available at the Baltic Exchange (operating, in some ways, similarly to a stock exchange), which produces various indices based on future contracts and actual fixtures concluded worldwide.</p> <p>OTS agrees to the practice of calculating Equivalent Time Charters, which will compare WFP costs to market rates.</p>	<p>A computer program has been installed and a portion of its functionality is operational. In addition to C&amp;F and FOB differentials, OTS will start reporting on quarterly rebate savings as well as final freight savings, both of which are excellent performance indicators. Target date: June 2000.</p>	<p>The External Auditor made no further comments.</p>
<p>The benefit of ex-post review of OTS operations by the CCTI, transport section, would be enhanced if they were more focused on the search for the most competitive offer and the economic results achieved.</p>	<p>OTS acknowledges the advantage of submitting the final freight cost figures to the CCTI once a voyage is completed and the final freight account settled.</p>	<p>As an additional performance indicator, OTS plans to prepare a chart showing actual savings generated by the Programme as a result of more economical chartering activities and final fixture conclusions. Target date: September 2000.</p>	<p>The External Auditor made no further comments.</p>



External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
<b>10. Financial Management Improvement Programme</b>			
The following observations were presented for appropriate consideration by the Programme:			
<b>Compliance with legal authority</b>			
Weaknesses in the compliance with legal authority relate to the following (paras. 27 and 92 to 94):			
<ul style="list-style-type: none"> <li>➤ formal approval of FMIP by the Executive Board;</li> </ul>	<p>While it is true that formal approval of the Executive Board was never sought to create the FMIP, the Board has been kept fully informed of the programme's content, funding status and implementation status since the FMIP's inception. This goes back to the detailed briefing provided at CFA:40 and has included the circulation of FMIP Progress Reports at EB sessions since 1996.</p>	<p>On 20 July 1998, the Executive Director formally approved FMIP as a Special Account (with retroactive effect from 1 January 1996) and approved the increase of the budget ceiling from US\$32 million to US\$37 million. At the same time, she established an Oversight Committee (OC) to monitor and supervise the use of the FMIP budget.</p> <p>During its Annual Session of 1999, the Executive Board authorized the conversion of the US\$10 million advance from the General Fund into a grant to the FMIP Special Account, and further granted authority to cover the remaining unfunded balance up to US\$37 million from the General Fund.</p>	<p>The External Auditor observed that major progress had been accomplished in the implementation of FMIP. He indicated that observations made regarding compliance with legal authority and funding had been addressed: the FMIP had been duly established as a Special Account and funding up the revised ceiling of US\$37 million has been secured (para. 197).</p>



External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
<p>➤ the decision to account for its operations in a special account under the General Fund;</p>	<p>During the 1994-95 biennium FMIP was defined as a Special Operation. This was consistent with the definition of Special Operations used before the introduction of the new R&amp;LTF policies. However, with the R&amp;LTF policies, the definition of Special Operations changed to the extent that FMIP could no longer be considered as one. For this reason, it was redefined and accounted for as a special account within the General Fund. However, prior to 1998, no measures were taken to formally create the account.</p>	<p>To December 1999 the FMIP Special Account had generated US\$1,022,000 in interest income. This is being applied to reduce the funding deficit and hence the amount needed to be accessed through the General Fund (see also "FMIP Funding" below).</p>	<p>The External Auditor indicated that the shortfall of US\$16.3 million had been fully transferred from the General Fund. Although this exceeded the present cash needs, interest income would be generated to the benefit of the FMIP rather than of the General Fund (para. 195).</p>
<p>➤ the charging of programme support and administrative costs to the FMIP budget; and</p>	<p>It is also reminded that FMIP was developed to pursue its main objective - <i>"to improve WFP's financial management capability"</i> - at <u>two levels</u>: i) effecting longer-term, more permanent improvements by putting in place new procedures and supporting information systems; and ii) providing immediate improvements through staff augmentation in certain FS units. While both are valid</p>	<p>During the 1998-99 biennium, the costs for FMIP activities which might be considered "recurrent" or of a PSA nature were separately accounted for and funded fully from the PSA budgets.</p> <p>This transfer, which amounted to US\$2.3 million, did not have any impact on the overall cost ceiling since it was decided to treat it as a contingency. Since then, the amount was reduced because of the US\$215,000 penalty paid to IBM for the OASIS delays, mentioned above.</p>	<p>The External Auditor did not comment on this treatment of the contingency and observed that at the time of this report, it had not been necessary to draw from such contingency allocation (para. 196).</p>



External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
	<p>approaches and fully consistent with the FMIP objective, the resources applied to the latter are PSA in character. Hence, the blurring of the delineation between PSA and FMIP budgets.</p>		
<p>➤ inconsistent treatment of contributions to the programme with respect to the charging of indirect support costs</p>	<p>Of the eight contributions received to date, only in two cases was the indirect support cost levy applied. However, this was done with ample justification:</p> <ul style="list-style-type: none"> <li>➤ the contribution made by the USA towards the FMIP in 1995 was a component of a contribution made for the Rwanda regional operation. Since the USA allowed part of the funds to be used for systems improvements, WFP elected to direct part through the FMIP. However, as a contribution for a Special Emergency Operations (SEO), the contribution was subject to the 9% ISC levy which applied at the time.</li> </ul>		<p>The External Auditor made no further comments.</p>



External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
	<p>➤ The contribution of US\$3 million later in 1995 from another donor was a transfer of the balance from a bilateral operations account. All bilateral contributions are charged the appropriate fees at the time of receipt. There was no mechanism to credit these back for unexpended balances.</p> <p>Apart from the above exceptions, approximately US\$8.8 million received for FMIP from donors which have been fully credited <u>without</u> an ISC levy. We believe that this exemption is fully justified because:</p> <p>➤ Although initially treated as a Special Operation as a matter of convenience to fit within an existing programme category, FMIP is <u>not an operation in the normal sense</u> - and thus does not create the need for additional support; and</p>		



External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
	<ul style="list-style-type: none"> <li>➤ the <u>impact</u> of FMIP is much the same as many activities covered through ISC and, in fact, in future WFP should have a provision within its recurrent budget to fund gradual, ongoing improvements and maintenance to its information systems so as to eliminate the need for a major, one-off intervention like the FMIP.</li> </ul>		
<b>FMIP funding</b>			
<p>FMIP is facing a shortage of funds and WFP has no contingency plans related to resourcing or adjusting the implementation of FMIP available resources (paras. 28 and 95).</p>	<p>At present FMIP is facing a funding shortfall of approximately US\$17.5 million. Thus, the advance of US\$10 million from the General Fund approved by the Executive Board in late 1997 means that a further US\$7.5 million needs to be raised to complete the programme.</p>	<p>Completed.</p>	<p>Please see previous comments on funding the shortfall of the FMIP budget.</p>

External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
<b>FMIP accomplishments</b>			
<p>Some major accomplishments were achieved through FMIP. However, key FMIP systems are not yet operational and require additional work, testing and training of staff. Seen in this context, the present end-1999 deadline appears unrealistic (paras. 29 and 96).</p>	<p>The new strategic information systems make up the core of FMIP. There are eight in total, though they combine to form an integrated whole. Work is currently under way on all of these as indicated in the next column.</p>	<p>During 1999, the implementation of COMPAS expanded even more than initially planned. The COMPAS project formally ended at the end of December 1999, the only remaining issue being the interface with SAP. Twenty-six countries were covered by the end of the first quarter of 2000, meaning that nearly 50% of the total food moved by WFP was now managed and recorded through COMPAS.</p> <p>Development of all the modules of RMS was completed in early 1999, as well as the interface with WIS. The RMS has been in use at headquarters since February 1999.</p>	<p>The External Auditor considered COMPAS to be fully operational at the time the report was written.</p> <p>The External Auditor considered that since RMS was conceived as a partial and interim solution until the remaining components of the new corporate system were put in place, a number of unresolved issues remained up to the present. See recommendations in the Progress Report on 1998-99 (para. 185).</p>
		<p>While work has proceeded on the implementation of the original system components (i.e. covering financial management and accounting, procurement and HR administration, plus payroll and travel which were added later), a management decision was taken in the latter part of 1999 to deliberately delay the completion of these areas in order to allow the OD system components (termed OASIS) to catch up. This was deemed prudent mainly in order to eliminate the need for costly and complex temporary interfaces with the old systems (e.g. WIS, GL:M).</p>	<p>The External Auditor acknowledged that many changes had in fact been made to the initial plan regarding all the strategic systems during the 1998-99 biennium (para. 197).</p> <p>He also recognized that changes, delays and additional costs were incumbent to the implementation of integrated software in any given organization because of the complexity of such a project and the dynamic nature of the information technology industry, and WFP was no exception. Nevertheless, he thought that some of the changes, delays and surcharge could have been avoided (para.198).</p>





External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
		<p>In the second quarter of 1999, a contract for the analysis and design of OASIS functionality was concluded with IBM and the work completed by early 2000. Following this, a contract for the actual implementation of most of the OASIS components was negotiated with IBM which will see all new system functionality brought into production in the third quarter of 2000.</p>	<p>He further stated that he did not consider the go-live date of 2 October 2000 realistic. He argued that any new delays in the go-live date would result in additional costs for maintaining the legacy systems and probably in penalties to be paid to IBM. However, short-time savings achieved in pushing for the go-live could be offset by much larger expenses generated by system failure due to corrupt data and lack of preparation.</p> <p>He stressed that much had already been achieved. It would be regrettable to spoil all these efforts by undue precipitation at the end.</p> <p>Thus, he recommended that the go-live date be established in line with the completeness of all system introduction activities (para. 199).</p>
<p><b>11. The year 2000 problem</b></p>			
<p>The year 2000 problem is a major management issue and not just an information technology issue. In this context there is a need for senior management to take on overall responsibility for addressing the year 2000 problem (paras. 30 and 97).</p> <p>It is also essential that effective reporting arrangements be put in place to provide senior management with an early warning</p>	<p>Considerable information exists on the year 2000 problem and help is available to organizations gratis or at a modest cost. Although there is considerable variation in the way that recommended strategies are presented,</p>	<p>WFP executive staff set up a Y2K steering committee that provided overall direction to the Y2K Task Force on all Y2K-related issues. A special Y2K communications centre was staffed over the Y2K period to ensure that all country offices considered most vulnerable to the Y2K problem could be monitored during the millennium roll-over period.</p>	





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<p>of any difficulties. Given the magnitude and pervasiveness of this problem, there is little time left (paras. 30 and 97).</p>	<p>there seems to be a consensus as regards the steps to be taken to address the year 2000 problem.</p> <p>While it is true that the system implementation schedule will extend into early 2000, many components will already be in use by the end of 1999. Furthermore, measures are being taken to ensure that there are no problems with year 2000 compliance for WFP's existing systems.</p>	<p>All country offices and headquarters units completed action and contingency plans prior to the millennium roll-over period. As the roll-over proceeded with only minor problems, none of the action or contingency plans had to be implemented.</p> <p>Overall, the Y2K problem did not affect ongoing WFP operations at headquarters or in the field.</p>	<p>The External Auditor made no further comments.</p>
<p><b>12. Reiterated recommendations in previous reports</b> <b>Upgrading of financial information, accounting and procedural discipline</b></p>			
<p>Immediate improvements, consistent with the longer-term FMIP strategy, be implemented with a view to upgrading financial information and accounting systems and procedural discipline (paras. 31 and 98).</p>	<p>Errors are now corrected at their source in WIS before the month's transactions are allowed to flow to GL:M.</p>	<p>Checking of new financial codes is now part of FSFA's routine work.</p>	<p>The External Auditor expressed his understanding that, to a large extent, WFP deficiencies in financial management lay on the one hand, with the need to further develop and disseminate clear and organization-wide operational and finance guidance and, on the other hand, with the urgent need to reinforce finance staff, particularly at headquarters, both in quantity and quality. Consequently, he recommended that these problems be given priority.</p>



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			<p>The External Auditor noted that new useful manuals were issued during the biennium:</p> <ul style="list-style-type: none"> <li>➤ the Country Office Accounting Guide in August 1998,</li> <li>➤ the Transport and logistics manual in October 1998,</li> <li>➤ the Non-food Procurement Manual in October 1999 (para. 202).</li> </ul>
<p>Once achieved, the major effort that is under way to produce written accounting procedures detailing the operation of each account in the chart of accounts and for validating transactions in GL:M should represent a major improvement in the control of accounting transactions(para. 100).</p>	<p>A new Chart of Accounts will be issued this summer and procedures for updating it are being produced.</p> <p>The Chart of Accounts database will be used in the review of validity of all open accounts in GL:M. This will also be used to automatically check for discrepancies between WIS account information and the Chart of Accounts. Such changes will lessen the number of account codes to be analysed by Finance staff from 500 account-code combinations to approximately 50 account-code variables.</p>	<p>An updated version of the Chart of Accounts was circulated in November 1999.</p> <p>With the recent closure of 1998-99 books, FSFA is conducting a review of accounts no longer required, for possible elimination from the Chart of Accounts.</p>	

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Financial and accounting instructions are still needed to determine the treatment retained for bilateral operations, LTSH transactions, self-insurance operations and the provision mechanism introduced in 1995 to report estimates of future ITSH/LTSH expenditure (para. 100).	It is not contemplated to issue instructions on bilateral operations as their importance is rapidly decreasing.  At present, the WIS system is not able to implement the new LTSH model; an instruction will be issued when it is actually implemented. It will address the provision mechanism, among other issues.	Financial and accounting instructions for these activities and accounts were incorporated into the design and configuration of the financial system in SAP and will be integrated in the revised Finance Manual as mentioned above.	
The procedures and supporting systems for implementing the new inventory policy announced in March 1995 were not yet operational (para. 100).	The new WFP Inventory System (WInS) has been operational since early 1997. To date, consolidated records for 75 country offices are available in MSA. In some of these 75 consolidated inventories, data for 1997 purchases have not been included. This is not a system shortcoming but rather a delay in adopting/implementing the WInS and/or in technical process.	In June 2000, MS provided information on the 1999 Inventory of WFP fixed assets based on reports from 85 out of 88 country offices.  Currently, MS is working in liaison with FMIP to assist in the initial migration to SAP of inventory data from 9 selected countries.	The External Auditor made no further comments.





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<p>The documentation of financial procedures and the provision of operational guidelines remain a major management problem at the end of 1997, particularly the processing of imprest returns, the monitoring of the value of pledges receivable, and the implementation of financial concepts such as ISC and DSC introduced under the R&amp;LTF model. (para. 101).</p>	<p>All issues on updating and maintaining pledges receivable are referred to the newly created ongoing working group on pledges receivable mentioned in these recommendation on Contributions Receivable.</p>	<p>Documentation of financial procedures has continued during 1998-99 with the issuance of Financial Directives and the Country Office Accounting Guide.</p> <p>The Finance Manual has been recently revised to complete missing chapters and improve on the format. It is awaiting finalization upon completion of SAP as this might have an impact on accounting and financial policies prescribed therein.</p> <p>Ongoing activity.</p> <p>Concerning the provision of operational guidelines:</p> <ul style="list-style-type: none"> <li>➤ The WFP Resource Mobilization Strategy will be presented to the Executive Board for adoption in October 2000.</li> <li>➤ A Resource Mobilization Manual will be prepared as a reference document.</li> <li>➤ The new Guide to the Resource and Long-term Financing policies was released in October 1999.</li> </ul>	<p>The External Auditor received a copy of the current draft of the revised manual at the time of writing his report. He commended such work (para. 203).</p>



External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
<p>With respect to the Organizational Change Initiative the visits to the regional offices showed that there was an urgent need to define the role and responsibilities of these offices in the areas of personnel, budgetary and financial management (para. 101).</p>	<p>WFP agrees that more has to be done to define roles and responsibilities, particularly during a time of evolving organizational change and decentralization. Of particular importance is ensuring that the required tools (e.g., connectivity) are in place to facilitate this process and allowing regional/country offices to exercise full management control and responsibility over the resources placed at their disposal.</p>	<p><u>On budgetary management</u></p> <p>OEDB conducted specific missions to country offices during the budget preparations for 2000–2001 to effect full consultations with the regional bureaux, clusters, and country offices.</p> <p>Detailed budget preparation guidance was issued and a budget hot-line was set up to service field queries.</p>	<p>The External Auditor made no further comments.</p>
		<p><u>On personnel management</u></p> <p>In June 1998, HR defined the responsibilities of the Director, HR, Regional Managers, Country Directors and Regional HR Officers. This was discussed with all Regional HR Officers at the HR Retreat in March 1999.</p> <p>In addition, HR is preparing an "On-line WFP HR Manual", that will be available in the summer of 2000 to all HR staff at headquarters and in the field. This manual provides guidance to WFP managers and HR staff, on all related personnel issues. It will enhance the decentralization of HR functions.</p>	<p>The External Auditor reviewed human resource management as one of the management matters that was the focus of their audit during the biennium. Please refer to Progress Report on 1998-99 Recommendations.</p>



External Auditor's recommendations (as per WFP/EB.3/98/4-A)	WFP response (as per WFP/EB.3/98/4-A)	Follow-up actions taken to date	Status and comments of the External Auditor (*)
		<p>In the coming months, with the implementation of the new HR System (SAP), all Regional HR Officers will be trained in the servicing functions (entitlements, etc.) and this function will then be decentralized to the field. At that time, the matrix on HR delegation of responsibilities will be updated and made available to all concerned.</p>	
		<p><u>On financial management</u></p> <p>In addition to the steps taken to improve financial management as presented in the relevant sections above, existing financial services and functions are being reviewed to develop proposals for strengthening the organizational structures and competencies in this service. This is also being done in view of the functional changes brought about by the new R&amp;LTF policies and the implementation of SAP, particularly in field finance management.</p>	<p>The External Auditor reiterated his recommendations for the issuance of organization-wide financial and accounting instructions, to ensure standard treatment of transactions; definition of controls to be carried out on field transactions; setting up a strong central unit to implement this reform and to provide guidance to field personnel as among the essential measures to be taken in the new decentralized environment (para. 96).</p>