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FINANCIAL AND BUDGETARY MATTERS

Agenda item 5

For information*



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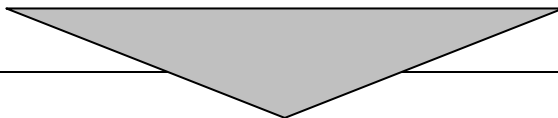
SECOND PROGRESS REPORT ON THE IMPLEMENTATION OF RECOMMENDATIONS IN THE 1998–1999 AUDIT REPORT OF THE EXTERNAL AUDITOR

This document indicates the action taken to date on recommendations made by the External Auditor in the document WFP/EB.3/2000/4-B/1.

* In accordance with the Executive Board's decisions on governance, approved at the Annual and Third Regular Sessions, 2000, items for information should not be discussed unless a Board member specifically requests it in advance of the meeting and the chair accepts the request on the grounds that this is a proper use of Board time.

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Note to the Executive Board



This document is submitted for information to the Executive Board.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal point indicated below, preferably well in advance of the Board's meeting.

Director, Finance Division (FS): Mr S. Sharma tel.: 066513-2700

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact the Supervisor, Meeting Servicing and Distribution Unit (tel.: 066513-2328).




SECOND PROGRESS REPORT ON THE IMPLEMENTATION OF RECOMMENDATIONS IN THE 1998–1999 AUDIT REPORT OF THE EXTERNAL AUDITOR

External Auditor's recommendations (as per WFP/EB.3/2000/4-B/1)	Actions taken to date or to be taken as indicated up to August 2000 (as per WFP/EB.3/2000/4-B/1)	Actions taken to date or to be taken as indicated up to August 2001
FINANCIAL MATTERS 1. Format of Financial Statements		
The addition of new lines in Statements I, II and III for the biennium ended 31 December 1999 brings more 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. Further background information, particularly on the reprogramming and refund of unused fund balances, is provided in the Statement of the Executive Director.	No further action necessary.
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. That policy should be re-examined (para. 46).	Since the initial Trust Fund balance is clearly shown as adequately covering the current shortfall in income and expenditure, no deficits are incurred. The Secretariat will nevertheless re-examine the presentation, because Trust Fund contributions are in the nature of funds held in trust by WFP on behalf of the donors.	A bilateral contribution is in the nature of a Trust Fund and should therefore be a balance sheet account only. For financial statement presentation purposes, however, the receipts and disbursements of the fund are shown as income and expenditures, to disclose the movements in the fund. WFP is reviewing its accounting policy on the presentation of bilateral/Trust Fund income and expenditure in the financial statements. Pending completion of this review and in view of the current procedures ensuring that cash is received before expenditures are incurred, the Secretariat is of the opinion that the cumulative fund balance is more relevant than the excess or shortfall of income over expenditure in a given accounting period.
2. Interim Financial Statements		
The Secretariat will, in future, prepare interim accounts with appropriate notes and disclosure (para. 52).	This will be done starting with the 31 December 2000 financial statements.	The Interim Financial Statements ending 31 December 2000, together with notes and disclosure, will be issued in September 2001.



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3. Reprogramming and Refund of Unused Fund Balances		
Comments more detailed than those provided under Note 14 (paras. 48 and 59) were needed from the Secretariat to explain the origin of the present situation, its impact on the accounts, and decisions to be made regarding the results of this reprogramming exercise.	As stated above, the additional explanation has been provided 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 is finalized—a necessary step for the migration of data to the new Systems, Applications and Products in Data Processing (SAP system)—additional potentially reprogrammable resources will be identified and discussed with donors.	When the 2000 Interim Financial Statements are finalized and donor reports are completed by December 2001, donors will be requested to approve the reprogramming of unused fund balances.
Such a situation raises several important issues, which are a matter of debate and decision for the Executive Board (para. 12). Utilization of these reserves resulting from a lack of known contributors should be decided by the Member States (para. 60).	The Secretariat will submit a proposal to the Executive Board for utilization of these Prior 1996 project surpluses.	On 23 October 2000, the Executive Board approved utilization of unused Prior 1996 fund balances totalling US\$86.8 million to fund operations and to replenish the Immediate Response Account (IRA). These were a significant portion of the Prior 1996 fund balances as at 31 December 1999 that could no longer be identified to specific donors.
4. Transfers from Reserves (Operational Reserve)		
The US\$13.5 million transferred from the Operational Reserve (OR) to cover expenditures under Prior 1996 Development projects led to a reduction in the authorized level of the OR, which accordingly requires an Executive Board decision. Executive Board approval is needed when the Reserve is used but not replenished because of non-collection of a confirmed contribution (para 62).	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.	On 23 October 2000, the Executive Board approved replenishment of the Operational Reserve to the US\$57.0 million level through a transfer of US\$13.5 million from the unearmarked portion of the General Fund.
The Financial Regulations should be reviewed, as they do not provide for this kind of situation (paras. 13 and 62).	The Secretariat will review Financial Regulation 10.6 and Financial Rule 110.1 and submit proposed amendments to the Executive Board at its Annual Session in May 2001.	On 22 May 2001, the Executive Board approved the revised Financial Regulation 10.6 with immediate effect and took note of the relevant amendment to Financial Rule 110.1.



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5. Commodity Contributions		
<p>The valuation methods applied to contributions in kind were simplified following the introduction of a new procedure at the end of 1997 (para. 14).</p> <p>Clarifications are needed regarding the status of documentation recognized as donor invoice.</p> <p>A more detailed procedure should be issued and implemented by the Programme, to include utilization of more effective control to avoid the recurrence of such anomalies and enable the correction of its records on actual costs (para. 66).</p>	<p>The Secretariat has begun discussions with the freight forwarder to develop a methodology that will facilitate timely and regular determination of actual purchase prices of commodity contributions in order to streamline this new valuation procedure. Once established, agreement of donors will be obtained that actual purchase figures will be used to value its commodity contributions.</p>	<p>The freight forwarder is now able regularly to submit worksheets showing actual commodity prices based on procurement documents from donors. Procedures for implementing actual commodity prices in the WFP Information Network & Global System (WINGS) will be prepared.</p> <p>WINGS includes an automation facility that will allow simpler and quicker adjustment of in-kind commodity values. This facility will allow recording of in-kind commodities received based on donor invoice prices and will automatically adjust related contributions receivable.</p>
6. Contributions Receivable		
 <p>An internal directive should be promptly issued by the Secretariat to establish clear responsibilities for contribution management and impose an effective working relationship through regular meetings of the existing interdivisional working group and regular reporting of difficulties encountered and decisions taken (paras. 15 and 70).</p>	<p>A draft paper defining the responsibilities of all offices involved in contribution and pledge management was prepared in June 2000 and will be finalized when SAP is implemented, because the new system will result in new functionalities and redistribution of certain responsibilities.</p>	<p>A meeting of the Resources and External Relations Division (RE), Finance and Information Systems Division (FS) and Operations Department, Programming Service (ODP) was held on 1 March 2001. A Note for the Record (NFR) was prepared delineating the responsibilities of each unit in the contributions management cycle.</p> <ul style="list-style-type: none"> ➤ The main responsibility of RE is to ensure that donors' conditions are acceptable and contributions are recorded and made available to the Programme. ➤ The main responsibility of ODP is to ensure that contributions are programmed against projects according to donors' conditions and the pledged quantities are called forward for in-kind contributions. ➤ A new Contribution and Project Accounting Branch was established in May 2001 from existing staff resources within FS (FSC). The main responsibility of FSC is to ensure the complete and proper accounting and reporting of all contributions.

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		These responsibilities will be further reviewed once the implementation of WINGS is fully stabilized.
A clear definition of responsibilities should be established among the administrative units concerned with respect to registration of pledges, allocation of resources and monitoring of the outstanding value of pledges. The pledge-management process should be thoroughly reviewed and upgraded (para. 69).	With the 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. This will be a result of the ability of SAP to generate appropriate reports as a basis for more thorough and periodic review and updating 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.	See above.
7. Full Cost Recovery Policy and Implementation		
A procedure should be quickly issued with respect to the way the Programme monitors 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 contributions vis-à-vis expenditures by cost types to document and monitor full-cost recovery from this major donor. The worksheet will be reviewed with the donor and used by both parties as a monitoring tool.	The working paper analysis was discussed with the donor during a meeting in April 2001 and accepted as a useful monitoring tool. The analysis presented the global figures on expenditures by major cost categories compared with related pledged amounts and corresponding receipts, summarized by contribution years. On the basis of cost information in WINGS, the monitoring of full cost recovery will be enhanced. The Secretariat is also presenting in October 2001, to the Executive Board, a separate information paper on cost analysis and containment.



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8. Government Cash Contributions for Local Costs (GCCC)		
<p>Prompt finalization and implementation of the basic agreement is needed to the effect that Financial Regulation 4.7 be fully enforced through adequate agreements with recipient governments or explicit waivers granted by the Executive Board (paras. 16 and 77).</p>	<p>The recently prepared draft basic agreement was submitted to legal counsel for review and comment. It will then be reviewed in-house for its implications on Resource and Long-term Financing (R&LTF) and for finalization and release to WFP field offices. The Office of Budget intends to finalize a management paper by 1 October 2000 that will set out the issues on GCCC and recommend procedures for administering GCCC.</p>	<p>Having passed legal and administrative scrutiny, the draft basic agreement is in the final stages of completion. A new set of procedures to guide country offices is being drafted, taking into account the need for wider and more precise modalities.</p> <p>The Office of the Executive Director—Budget (OEDB) in consultation with the Operations Department (OD), the country offices, legal counsel and organizational units in WFP, will circulate a management paper before the end of August 2001.</p> <p>It should be noted that as WFP closes its operations in non-LDC countries and concentrates more on LDCs, there will be fewer countries able to meet these contributions, resulting in a decline in the aggregate amount of GCCC.</p>
<p>Contributions based on these legal obligations should be accounted for as receivable (para. 77).</p>	<p>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)) because it has an impact on the UN common system.</p> <p>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).</p>	<p>To be included by OEDB in the above-mentioned paper.</p>
<p>Financial rules and instructions should 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 establish the amounts to be claimed (paras. 16 and 77).</p>	<p>Appropriate financial rules will be formulated to complement Financial Regulation 4.7.</p>	<p>To be included by OEDB in the above-mentioned paper.</p>



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9. Outstanding Obligations and Provisions for Future Disbursements		
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, ensuring that the actual level of internal transport, storage and handling (ITSH) unliquidated obligation would not be underestimated (paras. 18 and 84).	In SAP, a new system of recording obligations for ITSH has been adopted, in which ITSH expenditures will be expended at the time of obligation (i.e. at the time of raising a Purchase Order). This is consistent with the treatment of all other WFP expenditures. A report will be available from the system showing the ITSH provisions that have not been obligated.	The change in WINGS in the modalities of recording ITSH expenditures will ensure that ITSH unliquidated obligations are not underestimated at the end of the biennial reporting period.
10. Cancellation of Outstanding Commitments		
There should be a more transparent method of reporting cancelled commitments, to appear in the financial statements themselves, not in the notes only (paras. 19 and 88).	In SAP, a report providing details of cancelled commitments by expense/cost category can be generated from the system. The report will be used as a basis for making disclosure in the notes to improve transparency.	In WINGS, where expenditures will be recorded based on receipt of goods or services and not on commitments, the issue of reporting cancelled commitments in the financial statements does not retain the same significance as in the legacy system.
Greater attention should be given to the updating and monitoring process of the LTSH matrices (para. 89).	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 in reviewing and updating rates and as a plan to schedule updates and participation in LTSH review missions from Headquarters.	The Secretariat has been concentrating on further improving the quality of LTSH matrices. Measures taken have included adopting a more proactive review process by involving the Logistics Officers at the regional bureaux. These officers will be provided with comprehensive information concerning LTSH status of projects in their regions from records maintained at Headquarters to enable them to perform a more effective review of the matrices.





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<p>11. Country Office Expenditures</p> <p>Prompt and adequate measures aiming at reinforcing the control on the field transactions by Headquarters are needed (paras. 22 and 103).</p> <ul style="list-style-type: none"> ➤ The Headquarters unit in charge of monitoring Field Accounting should be adequately reinforced. ➤ This unit's control of decentralized processing should be an ongoing process throughout the biennium, so that global evaluation at Headquarters and lessons to be learned and passed to the decentralized offices are timely and effective. ➤ Adequate monthly reporting should be required from regional offices on the processing and controls implemented in their clusters, so that Headquarters are in a position to follow up on the actual situation and take corrective action if necessary. 	<p>A strategy is being developed to reinforce the Field Finance Branch (FSFF) both in quality and quantity in the light of the decentralization process and with the implementation of SAP.</p> <p>Very recently, FSFF has developed and instituted new mechanisms for more proactive and systematic supervision, monitoring and reporting of activities in country offices. This is to ensure that Headquarters' overall responsibilities on financial administration are properly discharged in the new organizational arrangements.</p> <p>FSFF has recently introduced a more systematic way of sharing lessons learned and has enhanced consultation between Headquarters and field offices.</p> <p>The development of a revised country office/SAP/Interface reporting package is being introduced with the implementation of SAP. Monthly reporting mechanisms will be finalized and circulated and will be more vigorously enforced and followed up.</p>	<p>The currently reinforced Field Support (FSF) structure will be maintained in the 2002–2003 biennium. New mechanisms whereby daily contacts with country offices are now enhanced and systematic monitoring of field financial activities is functioning. These mechanisms will be further strengthened in line with the field roll-out and stabilization of WINGS.</p> <p>With the completion of decentralization, FSF will maintain close consultations with the Regional and Country Office Finance Officers. The development of the Country Office-SAP-Interface (COAG-SAPInt) field database system has been completed and tested. It was introduced with effect from February 2001 in all country offices, including the liaison and regional offices, and allows the automatic upload of country office financial transactions into WINGS. The processing of country office transactions will be further enhanced with the completion of field roll-out of WINGS to regional and country offices.</p>
<p>12. Programme Support and Administrative (PSA) Costs</p> <p>The principles laid down in the R&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 predetermined rates approved by the Executive Board, were not fully implemented in the 1998-99 biennium (para. 23 and 104).</p>	<p>In June 2000, the Executive Director formulated a method for calculating, accounting, and reporting indirect support costs as one of the funding sources for PSA. Analysis is continuing to address the GCCC as an additional funding source for PSA.</p>	<p>To be included in the above-mentioned management paper.</p>

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PSA Accounting		
The distinction between PSA- and Direct Support Cost (DSC)-funded activities was neither clear nor backed by a consistent set of guidelines (paras. 24 and 105).	In budget preparations for the 2000-01 biennium, country offices were given guidance and provided with a formula defining PSA and DSC elements in their budgets. Additional guidelines on the use of DSC have been drafted and are awaiting finalization.	OD, FS and OEDB issued a Joint Directive on 2 February 2001 providing guidance on procedures for management and administration of DSC funds.
In future, a more rigorous method of reviewing and reporting Unliquidated Obligations (ULOs) should be posted at the end of the biennium against the PSA budget (para. 106).	Clearer and appropriate guidance on the accounting treatment of unliquidated obligations will be issued with the implementation of SAP.	In WINGS, payables will be set up on the basis of goods received or services rendered, which will limit them to valid and legal ones. Country offices not online with WINGS at the end of the biennium will prepare journal entries to accrue valid PSA and DSC expenditures. Instructions on this will be issued in November 2001 as part of the Closure Instructions.
13. Cash Management		
There is an urgent need for the Programme to have the instruments to manage the Treasury function in a modern and efficient way. These should be in line with the study of Treasury operations initiated in January 2000 and the resulting proposals made by the consulting firm with respect to strengthening security systems and evaluating Treasury systems (paras. 25 and 114).	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 security of the electronic banking systems are being implemented.	The consultants' recommendations to improve security of the electronic banking systems have been implemented, reviewed and updated in line with the best practices in cash management. A request for proposal (RFP) for an integrated treasury solution is being drafted and will be issued to prospective vendors and providers by the year's end. The Treasury Manual is still being finalized.
14. Investment Management Policy		
The Secretariat should promptly finalize the written procedures applicable to the management of investment and reinforce its structure to ensure effective control and supervision of external managers and control of bank accounts (paras. 25 and 119).	The Secretariat is considering two options to control and supervise the recently hired external investment managers: either augment existing resources of the Treasury Unit or 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.	The Secretariat has developed procedures to monitor and assess the performance of external investment managers as a basis for reporting to the Investment Committee. Discussions between WFP and IFAD are being conducted to outsource these services.



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15. Bank Accounts		
Headquarters Bank Accounts		
<p>The rules governing the reconciliation of bank statements should be strictly adhered to, because as they are essential for monitoring the accuracy of the accounting records and safeguarding WFP's assets (para. 120).</p>	<p>Actions are under way to distinguish more clearly between the roles of the Treasury Unit and FSFF to ensure more rigorous 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. This responsibility will be transferred from the Treasury to achieve better control and protection of these assets.</p>	<p>Bank statements continue to be reconciled on a regular basis. The aim is to do this monthly when processing in WINGS becomes routine.</p> <p>Automatic bank uploads to facilitate daily reconciliation of bank balances against book balances for Headquarters bank accounts is being developed as part of WINGS and is expected to be operational by the third quarter of this year. Pending completion of the automatic bank statement upload, electronic balances and transactions of bank accounts are downloaded on a daily basis and compared against cash transactions initiated by the Secretariat during the previous day.</p> <p>In the Finance Division Memorandum dated 22 May 2001, the responsibilities for the reconciliation of Headquarters and country office bank accounts have been clearly delineated.</p>
Field Bank Accounts		
<p>Rules governing the opening and closing of WFP bank accounts and the assignment of responsibilities for operating individual bank accounts at Headquarters and in the field should be strictly adhered to (paras. 26 and 122).</p>	<p>Stricter application of existing rules and more rigorous assessment of operational requirements in opening new bank accounts are already in place. The continued need for many existing bank accounts is being reviewed in the data clean-up activities in preparation for the implementation of SAP.</p>	<p>With the new centralized banking arrangement for remittance of non-US dollar contributions and the centralized disbursement function at Headquarters, 9 of 26 Headquarters bank accounts will be closed by the end of the year. With an up-to-date database for country office bank accounts, requests from the field to open new bank accounts can easily be evaluated and scrutinized prior to approval.</p> <p>For purposes of monitoring and controlling the cash holding levels in the country offices, a data base for all country office bank accounts has been established in September 2000 from which a Monthly Cash Book Balances Report is prepared. The report is also used as basis for reviewing the continued need for existing bank accounts.</p>





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16. Monetized Funds Held in Trust		
<p>More attention should be given to management of the monetized funds held in trust, because local audits were not performed on a regular basis and because the amount of cash recorded on these accounts in some countries considerably exceeded their operational requirements (paras. 26 and 124).</p>	<p>More attention is being paid to stricter application of policies and procedures in managing 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 clearer and reports will be readily available for better monitoring.</p> <p>The Office of Internal Audit (OEDA) analyses local external audit reports of generated funds as required by an ED Circular 95/007 and OD Directive 95/002. OEDA reports to management annually on a consolidated basis 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 country offices, and carries out periodic bilateral consultations with them.</p>	<p>Following Internal Audit Report on Monetization (AR/05/01), dated 26 March 2001, and its recommendations, an improvement in the approach to and emphasis on processing results of local external audits aimed at increasing management awareness of and responsibility for monetization issues is being undertaken. An example is the periodic circulation of bank balances to the Executive Staff and the Regional Directors.</p> <p>Furthermore, Treasury (FST) reports with regard to the level and make up of the monetized funds are now being submitted to the Investment Committee on a quarterly basis.</p>
17. Interest for Trust Funds and Special Accounts		
<p>The practice of deducting a part of the interest earned to the Trust Funds before the interest is allocated should be stated in the Financial Regulations (para. 126).</p>	<p>This procedure of interest calculation is a practice consistent with previous years and need not be stated in the Financial Regulations.</p> <p>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.</p>	<p>No further action necessary.</p>
18. Accounts Receivable and Payable		
<p>The reconciliation with WFP and FAO should be continued until present discrepancies in the payable/receivable amount are fully explained and accounted for. It should then become a routine exercise performed on a monthly basis (paras. 28 and 132).</p>	<p>Reconciliation is an ongoing process as transactions are recorded every month. These 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 reconciled with WFP's records.</p>	<p>The FAO reconciliation has been completed for 2000. All discrepancies were identified and explained. Discussions are being held with FAO on how to facilitate regular reconciliation of the accounts.</p>

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In the case of FAO, there is a need to reconcile the payable account with the payroll transactions, because the data were generated by two different systems (para. 28). Efforts should continue to be made to explain the discrepancy between Finsys and payroll data and Oracle records for 1999 and to compute those for 2000; adjustments will have to be made. WFP should also obtain from FAO payroll transactions from Oracle, not Finsys, in order to avoid discrepancies in the future (para. 132).	An extensive data clean-up of all balance-sheet accounts, including receivables from and payables to FAO, is under way in preparation for data migration into SAP and the assumption by WFP of payroll functions from FAO.	The account with FAO as at 31 December 2000 has been reconciled on the basis of FAO's Oracle records.
There is an absolute necessity to clear all provisional or uncertain entries before data migration to the new system (para. 30).	In the migration strategy for implementation of SAP, extensive guidance and procedures were provided to facilitate clearing of all provisional and uncertain items to be migrated into the new system.	The extensive clean up exercise has been concluded and relevant adjusting entries made. A significant portion of provisional and uncertain items were cleared prior to final migration to WINGS in August 2001. A few provisional items were migrated to WINGS, but with a defined timeframe and methodology for clearing in the new system.
Personal Advances		
More attention should be given to the treatment of personal advances, so that they do not exceed three months. Staff receivables and payables should no longer be set off in the financial statements (para. 135).	The new SAP system will maintain individual staff subsidiary ledgers that will facilitate presentation of receivables and payables at gross amounts in financial statements.	With the availability in WINGS of detailed information on personal advances, more aggressive monitoring of these accounts will be performed to ensure that advances exceeding three months will be recovered on a timely basis.
Receivable from Host Government		
Action should 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).	A <i>verbale</i> was sent to the Italian authorities in July 2000.	On 4 October 2000, the Host Government agreed to refund these costs up to ITL12.5 billion on an installment basis for a three-year period. The first installment of ITL2.0 billion was paid in December 2000.
Project Preparation Costs		
The project preparation costs account should be monitored and cleared regularly (paras. 30 and 137).	The Accounts Branch (FSFA) will closely monitor this account in its monthly review of financial statements.	FSC, the new section in FS, will now carry out this function.



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<i>Dispatch and Demurrage Accounts</i>		
Dispatch 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).	Relevant units at Headquarters and country offices will liaise to establish and streamline procedures that will result in more timely settlement of demurrage and dispatch accounts.	Design of WINGS procedures for dispatch and demurrage will be issued in September 2001 by way of an OD, MS and FS Joint Directive.
<i>Insurance Accounts</i>		
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).	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 IRA these net insurance recoveries that cannot be traced to specific donors. Insurance claims and recoveries from 1994 onwards are currently being analysed prior to data migration to the new SAP system. And appropriate steps will be taken immediately.	The sum of US\$510,011.89 was approved for transfer to the IRA by the Executive Board on 23 October 2000. The insurance claims and recoveries from 1995 onwards have been extensively analysed. Suspense accounts and finalized or settled claims have been cleared. Insurance recoveries payable to donors and the IRA, open items on claims against 3 rd parties and self-insurance payables have been identified for migration to WINGS.
<i>Insurance Recoveries Payable to Donors</i>		
Clearing of all these accounts and reporting to donors or the Executive Board is a matter of urgency. I recommend rapid and effective measures (paras. 30 and 143).	Following the analyses of insurance recoveries mentioned above, donors will be immediately informed and their preferred disposition of such recoveries will be obtained. Recoveries already reported will be actively followed up.	As part of the post-migration activities, the insurance recoveries as at 31 December 2000 will now be reported to the donors for their preferred disposition.
<i>Provisions to Cover Bilateral Expenditure Not Yet Refunded by the Host Government</i>		
The Secretariat should continue to pursue its action to recover the receivable of US\$3.4 million from the Host Government for refurbishing the former headquarters (para. 144).	The Secretariat has actively pursued this matter with the Host Government.	See prior note on the agreement reached with the Host Government on 4 October 2000.



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19. Staff-related Schemes		
<i>Separation Payment Scheme and Compensation Payments Revolving Fund</i>		
<p>The Programme should adjust 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 the relevant information. The Executive Board should decide on the reapportioning of any excess of investment (paras. 31 and 147).</p> <p>The WFP share of actuarial liability should be reported in conformity with FAO policy and agreement should be reached with WFP to implement such a policy (para. 146).</p>	<p>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.</p>	<p>The Secretariat has received the latest (end 1999) Actuarial Valuation Report and has reservations on the methodology followed. Accordingly, the Secretariat is developing a strategy to take action only after the next actuarial valuation is undertaken at the end of 2001.</p>
<i>Entitlements for Staff Ruled by UNDP Contracts</i>		
<p>Note 18 to the financial statements may not disclose the total amount of personnel-related liabilities towards local staff hired under UNDP rules. These liabilities should be evaluated and reported in future financial statements (para. 149).</p>	<p>Initial consultations had been conducted with UNDP in order to obtain the required information for purposes of disclosure in future financial statements. UNDP suggested hiring the same consultants, because they are the firm carrying out the FAO actuarial studies.</p>	<p>The Secretariat has requested UNDP for information on the extent to which UNDP has provided for after-service medical benefits for WFP field staff. UNDP replied that they were gathering the required information and would respond after they completed their 2000 year-end closure.</p>
MANAGEMENT MATTERS 20. Decentralization Policy		
<i>Creation and Modification of "Clusters"</i>		
<p>The decision to create a cluster or modify a cluster's perimeter should be prepared against a clearly defined procedure and always formalized through a circular issued by the Executive Director (paras. 33 and 151).</p>	<p>Announcements of any changes will be made through Circulars from the Executive Director.</p>	<p>No further action required.</p>





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<i>Missions of the Regional Offices</i>		
<p>A clear policy should be set up by the Secretariat to establish the different responsibilities of country offices, regional offices and Headquarters. All functions performed by regional managers should be described in detailed instructions and any change of the basic pattern should be in written statements (para. 154).</p>	<p>A review called "Making Decentralization Work" has been conducted. The outcomes include consolidation of all guidance on decentralization and preparation of an accountability matrix and a detailed functional statement of each cluster office.</p> <p>The review's final recommendations will also be implemented in Headquarters and all cluster offices via sensitization workshops, training sessions and preparation of guidelines.</p>	<p>The AED issued an OD Directive on decentralization in October 2000, which outlined the various roles and responsibilities of country offices, regional offices and Headquarters.</p> <p>Decentralization was one of the main themes of the senior managers' strategy workshop in November 2000. Roles and responsibilities were further discussed, especially in the context of the last phase of decentralizing the Africa and Asia regional bureaux by 1 September 2001.</p> <p>In the first and second quarters of 2001, the Africa and Asia regional bureaux and OD held workshops to discuss implementation of the last phase of decentralization.</p> <p>The AED's OD Directive will be updated in the context of the last phase of decentralization and reissued by September 2001 as an Executive Director's Circular on Decentralization.</p>
<i>Shortcomings in the Implementation of Some Specific Tasks</i>		
<p>Particular attention should be given by the Secretariat to the follow-up of staff training and LTSH reviews. The responsible Headquarters unit should produce a global assessment of the situation regarding LTSH reviews. (para. 155)</p>	<p>The 2000 work plan of the Career Development and Training Branch (HRC) includes the issue of guidelines on allocation, management and monitoring of training funds. These guidelines will be distributed to all country office and Headquarters 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).</p>	<p>In line with improving the LTSH review process, the Secretariat circulated a memorandum of 9 February 2001 to regional and country office directors giving the policy of the Transport Division, Logistics Service (OTL) regarding clearance procedures for LTSH rates in project budgets. At a global meeting of senior logistics staff held in April 2001, LTSH issues were discussed with emphasis on rate calculation and review.</p> <p>The Secretariat will investigate levels of LTSH expenditures of closed projects, with a view to identifying common factors that lead to deviations from the calculated project budget rate, and will take action, as necessary.</p>

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<i>The Funding of Regional Offices</i>		
Every effort should be made to match as closely as possible posts and their funding sources in regional offices. If some functions are to be shared between country and regional offices, this should be done through an established and formal procedure (para. 156).	A working group consisting of representatives from the Operations Department, Development Service (ODD), Operations Department, Programming Service (ODP), FS and RE, 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.	OEDB will be issuing guidelines vis-à-vis the mechanics for funding posts from DSC for Rome- and field-based headquarter offices, including regional bureaux.
<i>Decentralization of Regional Bureaux</i>		
A clear policy should be set up regarding the situation and responsibilities of regional bureaux. Proper evaluation of the advantages and inconveniences of the transfers (decentralization of two regional bureaux) already made and the financial and staffing consequences should be implemented (para. 157).	The impact of the transfer of regional bureaux outside Headquarters is being carefully assessed and discussed in consultation with the consultants who conducted the study on "Making Decentralization Work".	The AED's OD Directive of October 2000 on Decentralization, mentioned above, clarified the roles and responsibilities of regional bureaux, vis-à-vis country offices and regional offices. This Directive will be updated and reissued in the last quarter of 2001 to reflect the new reality after decentralization of the Africa and Asia regional bureaux. The decentralization of the Africa and Asia regional bureaux was conducted after a thorough analysis of staffing changes and in the context of the PSA budget preparation process. The location of the host cities was chosen after a careful analysis of many criteria such as security, costs and logistics.
<i>Follow-up to the Decentralization Policy</i>		
There should be greater involvement of the managerial structure set up at Headquarters to control, monitor and follow up the reform. The results of the consultants' review should be brought to the attention of the Executive Board (para. 158).	Early this year, the Executive Director reconstituted the Change Management Oversight Committee to achieve more active and organized control, monitoring and follow-up of the reform. A status report on follow-up of the decentralization policy will be conveyed to the Executive Board at its Annual Session in May 2001.	WFP made a presentation to the Executive Board Annual Session in May 2001 about the decentralization initiative. At the Board's request, a status report on decentralization will be tabled at the October 2001 Board session.



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<i>Evaluation of the Results of the Decentralization Policy</i>		
An evaluation should be made of the cost-effectiveness of the decentralization process. It should include 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).	An evaluation of the Organizational Change Initiative begun in 1997 has been planned for 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.	Bearing in mind that the bureaux decentralization and WINGS project will be completed in the second half of 2001, the Secretariat decided it was not yet the appropriate time to undertake an immediate evaluation. Instead the Secretariat is presenting to the Board at its February 2002 session a report on the decade of change, and has a plan for the progressive evaluation, from 2002 onwards, of all aspects of the initiative.
21. Human Resources Management		
<i>Budget and Post Control</i>		
Tools designed to monitor achievement of geographical and gender recruitment goals could be more broadly used (para. 165).	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 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 in the Management and Appraisal of Performance (MAP) reports for each hiring manager.	Since January 2001, distribution of the report on recruitment is no longer limited to WFP senior management but has been extended to all WFP Regional and Country Directors as well. Use of these tools is now an ongoing process for which no specific action is required.
<i>Post Creation and Recruitment</i>		
More attention should be given to reconciliation of staffing tables in the Post Control System between Headquarters and the actual situation in the field. The filling of vacancies remained a slow process when it came to external recruitment (para. 168 and 169).	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 jointly once a year by Headquarters and the country offices. 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 seven months in the past, based on vacancy announcements, to an average of three and a half months.	The annual reconciliation was conducted jointly by the Human Resources Division (HR), country offices and the Office of Budget. In preparation for data migration, data lists are produced monthly for review and amendment in the present Post Support system and/or Persys. The number of roster profiles was increased from 7 in 1999 to 10 in 2000 and 19 as of June 2001, in order to reduce external recruitment time.



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<i>Parallel Posts, Rest and Recuperation, Temporary Duty Assignments and Casual Labour</i>		
The procedures for the so-called "Parallel Posts" and "Rest and Recuperation" should be introduced in the FAO manual to deal with these situations, and guidelines issued to deal with temporary duty assignments and casual labour (paras. 37, 170 and 172-174).	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 legal counsel and other bodies. When approved by the Executive Staff, the new policies will be translated into new or amended sections of the FAO Manual. Finalization is expected by the end of 2001.	The policies and practices on casual labour are under review. A consultant has visited and reviewed practices in seven countries. The policy will be drafted and reviewed during the second half of 2001. The Executive Staff is currently reviewing the policy on Rest and Recuperation. When approved, the new policies will be translated into new or amended sections of the WFP Human Resources Manual. Finalization is expected 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).	Temporary duty assignments in emergencies have been reviewed through creation of an Emergency Response Team and up-front training of staff who volunteer to be part of the team. Guidelines have been approved by the Executive Staff and set-up will be completed by November 2000.	The Emergency Response Roster (ERR) of internal WFP staff was built in October 2000. This ERR constitutes a pool of about 120 WFP staff, with mixed skills, available for deployment on emergency mission at 24 to 48 hours notice. Almost all the staff retained on the ERR attended a ten-day emergency training in 2001, following which they were requested to remain on standby for a three-month period. As of June 2001, about 20 staff had been deployed. After one year's implementation of the ERR, HR will review the lessons learned in collaboration with the Office for Humanitarian Affairs, in order to improve the WFP emergency deployment mechanism.
22. Financial Management Improvement Programme		
The go-live date should be established in line with the completeness of all system-introduction activities (paras. 40 and 199).	The remaining actions in the project, which affect the go-live date, are testing, training and data migration. Each of the many aspects under these headings must be successfully completed before the go-live date. The progress of completion is being actively tracked and its effect on the go-live date determined almost daily.	SAP, now WINGS, went live in January 2001, covering all business areas except HR/Payroll functions. Interim solutions for HR and Travel were developed in WINGS while Payroll activities remained outsourced with FAO. The current schedule makes provision for a decision to be made in November, based on the preparation in WINGS, whether or not to go-live for January 2002 payroll.



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23. Management of the Office of the Executive Director		
For reasons of simplicity, transparency and logic, all activities of the Executive Director should be financed through the PSA budget only (paras. 41 and 200).	In May 2000, criteria were established for the use of DSC for related expenditures at Headquarters and regional offices. To achieve greater transparency in future, a summary will be prepared on relevant expenditures of OED that were charged against the DSC of specific projects.	No further action required.
OTHER MATTERS 24. Procurement		
The Programme should carefully check that vendor and payee are part of the same legal entity, because the audit disclosed that proper verifications were not always made (paras. 42 and 201).	In future, the legal identity or relationships between vendor and payee will be carefully checked and documented, including WFP suppliers with long and favourable standing.	This is an ongoing process.
25. Upgrading of Financial Information, Accounting and Procedural Discipline		
There should be further development and dissemination of clear, organization-wide operational and financial guidance, particularly the Finance Manual. The finance staff should be urgently reinforced, 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).	As indicated by the External Auditor, the revised Finance Manual will be issued as soon as all the issues in implementation of SAP are addressed. Appropriate training of all staff concerned will 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<F policies effective 1 January 2000. This strategy will address both the qualitative and quantitative aspects raised by the External Auditor.	The upgrading of financial information and accounting procedures is an ongoing activity that forms part of the work plans of FS units with the participation of the country office Finance and Administration Officers. Completion of the Finance Manual is targeted for the middle of 2002; changes made in the new system will be incorporated. In line with strengthening the Financial Services of the Programme and as previously mentioned, the FSF organizational structure has been reinforced with the hiring of two additional professional staff and the creation of a new Contribution and Project Account Branch (FSC) in FS. To strengthen and rationalize information systems, communications technology and information management, the Executive Director issued a circular on 31 July 2001 (ED2001/003) creating a new division to be known as the Information and Communications Technology Division (ICT).



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		Effective from 1 July 2001, ICT was formed by merging the Information Systems Service of FS and the Central Information Management and Statistics Branch (SPI) of the Strategy and Policy Division (SP).

