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Organización
de las
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Unidas
para la
Agricultura
y la
Alimentación

FINANCE COMMITTEE

Hundred and Nineteenth Session

Rome, 3 – 7 September 2007

**Progress Report on Implementation of the External Auditor's
Recommendations**

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LONG FORM REPORT				
External Auditor's Recommendation	Priority	External Auditor's Suggested Timetable	Action taken, status and time-frame for implementation	External Auditor's Comments
LONG FORM REPORT FOR THE BIENNIUM 2004-05				
FINANCIAL MATTERS				
Internal Financial Controls				
1. I recommend that the Organization should determine the minimum number of posts at different levels required by Finance Division to maintain the internal financial controls at a satisfactory level and then provide for them.	Significant	December 2006	<p>The Organization recognizes the fundamental roles of the Finance Division, the Office of the Inspector-General and the Local Audit Programme in a properly functioning system of internal control, which is essential to ensure a proper framework of delegation and accountability. The reform proposals, which were approved by the Council in November 2006, provided resources to: 1) strengthen administrative support in field locations through the reclassification of 24 General Service positions to national professional positions since the PWB 2004-05; 2) re-instate nearly US\$1 million per biennium for the local audit programme; and 3) provide a further US\$340 000 since the Revised PWB 2006-07 to the Office of the Inspector-General and US\$1.1 million to bolster further internal control mechanisms in the Finance Division.</p> <p>The above mentioned reinstatements were granted to the Office of the Inspector General, Finance Division and the Local Audit Programme for the year 2007, in the measure of fifty percent of the above figures. In addition, due to the severe budget situation, significant reductions were made in the 2007 allotments for all departments in the Organization. The effect of these reductions on</p>	This approach would not take forward the commitment made by the Organisation and would expose the Organisation to avoidable risk.

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			<p>the Finance Division and Local Audit Programme allotments was to more than halve the biennial reinstatements, with important effects on the Local Audit Programme for 2007 as well as on other internal control mechanisms. As other funds provided through the reduced allotments were already programmed or committed on staff resources, it was not possible after June 2007 to continue with the contracting of Local Audit firms to carry out Local Audit Programme work.</p> <p>The resource requirements for these areas in the next biennium will be further analysed in the light of actual resources made available in the final PWB 2008-09</p> <p>Status: In progress</p>	
2. I recommend that concrete steps be taken to ensure that scaling down of local audit does not have any adverse impact on the control environment in the decentralized offices. I further recommend that the Finance Committee should be periodically informed about the extent of scaling down and its impact.	Fundamental	December 2007	<p>See recommendation above for commentary on resources. The Finance Committee will be informed in September 2007 about the suspension of the Local Audit Programme and of the resulting impact on internal controls in the FAOR offices.</p> <p>Status: In progress.</p>	Suspension of Local Audit exposes the Organisation to avoidable risk.
Banking Arrangements				
3. I recommend that, as planned, the	Merits	December	Implementation of the third tier of the strategy is scheduled to	It recommended that the

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Organization implements the third tier of the banking strategy and completes the process of rationalization of banking arrangements. The Organization should move towards a regime of total Electronic Data Interchange and e-banking.	Attention	2007	commence in late 2007, subject to availability of resources. Status: To be commenced	Secretariat may report further developments.
OFFICIAL TRAVEL				
Revenue Sharing Arrangements for Travel Services				
4. I recommend that the Organization concludes the tender process and finalises the contract as soon as possible to avoid incurring additional costs that it has been burdened with.	Fundamental	Immediate	A new travel tender was issued jointly with IFAD in April 07, which closes in June 07. The tender process is scheduled to be completed by end 2007 Status: In process	No comment as the recommendation is yet to be fully implemented.
Lack of Validation Checks in ATLAS				
5. I recommend that the Organization continues with the process for replacement of the travel system in order that it fully meets the current and future requirements of the Organization. I also	Significant	December 2005	Due to other priorities connected with the new off-shored SSC, the replacement of the travel system has been postponed to 2008/09. The project will be subject to prioritisation of funds in the PWB for 2008-09	No comment as the recommendation is yet to be fully implemented.

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recommend that adequate resources may be provided for having a web based travel monitoring package fully integrated with Oracle Financial Applications.			Status: Ongoing	
Other Expenses in TA				
6. I recommend that the task of configuring the travel expense list may be completed as early as possible and suitable guidelines issued.	Merits Attention	December 2005	The travel expense list has been updated and incorporated into the new version of Atlas. Due to systems problems, the update is being re-tested and will be implemented shortly. Status: Ongoing	No comment as the recommendation is yet to be fully implemented.
REVIEW OF CONTRACTS FOR LOCAL SERVICES				
Outsourcing by the Organization				
7. I recommend that, in view of the changed circumstances, the Organization develops comprehensive policy/guidelines covering issues such as impact on costs, impact on staff, quality measurement indicators and decentralization of services for approval at the appropriate level, including if required, from the Governing	Significant	By end of 2006	This concern is being addressed in the proposal of the Shared Service Center (SSC) which sets out the parameters for outsourcing/offshoring of FAO activities. The SSC project is a pilot project to test potential policy/guidelines governing offshoring. Status: Ongoing	No comment as the recommendation is yet to be fully implemented.

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Bodies, to govern its outsourcing operations both in Headquarters and in the decentralized offices.				
Factoring Costs in the Tendering Procedures				
8. I recommend that the Organization should amend provisions in the Manual to include costs as an important factor for award of any contract. Technical parameters and costs should have a balanced weightage to ensure value for money for the Organization.	Fundamental	By end of 2006	<p>The revised Manual provides for a balanced weighting of cost and technical parameters to ensure value for money to the organization and therefore includes Value for Money as award criteria. The Manual is at final editing stage and Value for Money has been used as an award/evaluation criterion for a number of tenders in the meantime.</p> <p>Status: In progress - The last round of review, validation and rewriting of the revised Manual prior to Senior Management approval is pending funding availability.</p> <p>Expected completion: End 2008 (pending funding availability).</p>	No comment as the recommendation is yet to be fully implemented.
Evaluation of Bids				
9. I recommend that the Organization develop and document principles determining requirements of technical proposals or otherwise. A minimum set of parameters for technical evaluation taking into account the good practices of other	Significant	By end of 2006	The minimum set of parameters for technical evaluation as well as additional guidelines for complex and/or specific contracts will be developed once the revised Manual, as noted above, is approved. The minimum set of parameters and additional guidelines are already applied on a case by case basis whenever relevant/applicable.	No comment as the recommendation is yet to be fully implemented.

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international Organizations should also be developed and documented. Additional guidelines as necessitated by complexity of specific contracts should be supplementary.			Status: In progress Expected completion: End 2007 (pending funding availability).	
Inadequacy of Vendor Response				
10. I recommend that the Organization should continue its efforts towards strengthening the vendors' database to increase response to its invitations for bids.	Merits Attention	By end of 2006	Efforts have been made to strengthen the vendors' database: a clean-up has been undertaken, the category codes upgraded, a supplier poor-performance flag in Oracle implemented and the reporting/monitoring tools have been upgraded. In addition a project is in progress for a differentiated supplier identification, rating and selection for emergencies for which additional resources are needed. Status: In progress Expected completion: On-going	No comment as the recommendation is yet to be fully implemented.
Management of Works Contract				
11. I recommend that the Organization should impress upon the requisitioning divisions to draw up specifications with greater care.	Significant	By end of 2006	A targeted training program aimed at strengthening procurement and procurement related technical capacity at requisitioner level is being developed. A Procurement Program has been developed which includes a training and certification module for requisitioners. The first module, "basics of procurement" of said training program has	No comment as the recommendation is yet to be fully implemented.

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			<p>been tested in Accra in May, 2007.</p> <p>Status: In progress</p> <p>Expected completion: End of 2008 (pending funding availability).</p>	
ACTION TAKEN IN RESPONSE TO PREVIOUS LONG FORM REPORTS				
FINANCIAL MATTERS				
Corporate accounting manual				
<p>12. I recommend that the Organization should finalize the corporate accounting manual on priority as significant changes have taken place in the accounting systems and procedures due to introduction of new automated systems for many processes.</p>	<p>Merits Attention</p>	<p>2004-2005</p>	<p>All financial and accounting related procedures, administrative rules and regulations which, when taken together, will constitute a comprehensive corporate accounting manual, are currently under review. Manual Sections are being revised to only include material which is of a higher level policy and rule nature. Procedures and related documentation are being prepared for all business units and are published when finalised on the FAO Intranet, which is used to communicate authoritative policy and procedure documentation to user groups.</p> <p>Material published to date includes procedures and how to guides for the areas of Accounts Receivable, Accounts Payable, Staff Receivables, Decentralized Accounting and Systems Access. Account Descriptions explaining the use of the general ledger accounts and Frequently Asked Questions for several areas have also</p>	<p>No comment as the recommendation is yet to be fully implemented.</p>

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			<p>been published.</p> <p>Work on this exercise is expected to continue throughout 2007 and 2008 with individual sections of the work being published as they are completed during the period. Due to the significant impact of the IPSAS implementation on financial and accounting policy and procedures, the documentation is expected to be completed as part of the IPSAS implementation project.</p> <p>Status: In course of implementation</p> <p>Expected completion: As part of IPSAS implementation</p>	
TECHNICAL CO-OPERATION PROGRAMME				
Accounting of TCP expenditure: Return flow				
<p>13. I recommend that the Organization should bring the actual practice of the "return flow" process including the latest changes of this process to the notice of the Governing Bodies. I further recommend that the accounting and reporting procedures of the "return flow" process should be reviewed and codified. The monitoring mechanisms should be</p>	Fundamental	May 2005	<p>As regards the first part of the recommendation, the mechanism of the return-flow was fully explained to the 108th Session of the Finance Committee.</p> <p>As regards the review and codification of year-to-year return-flow procedures, a working group comprising TC and AFF recommended changes to the accounting structure, the implications of which are yet to be fully assessed. In addition, a first set of definitions and conditions that apply to current processes have been drafted. This activity is ongoing.</p>	No comment as the recommendation is yet to be fully implemented.

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reoriented to adhere to these procedures.			<p>It is further highlighted for this item that due to the measures taken to accelerate the delivery of the TCP appropriation, there was no return flow exercise arising from the 2002-2003 biennium and no return flow is expected from the 2004-2005 biennium.</p> <p>Status: Ongoing</p>	
Emergency projects				
14. I recommend that procurement procedures should be improved to ensure that inputs like seeds and fertilizers are available for the emergency projects at the time when these are needed.	Significant	Immediate	<p>Training of the operational officers in procurement procedures and rules is expected to improve the situation. Moreover, following the roll-out of the WAN connectivity, procedural information on the FAO Intranet is more easily accessible to FAORs.</p> <p>The Organization is further exploring ways of increasing speed and flexibility in procurement of inputs for emergency projects and is investigating the opportunity to procure larger amounts of inputs on a case-by-case basis depending on the urgency of the situation. A data base on goods supplied under emergency projects is being created to better identify the specifications of the main inputs in advance.</p> <p>TCE elaborated under AFSP's guidance recommendations designed to improve FAO's procurement planning and procedures for emergency operations. While many of the recommendations should be directly implemented by TCE and AFSP, other recommendations are taken into consideration by the Working Group on Procurement</p>	No comment as the recommendation is yet to be fully implemented.

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			<p>during its review and revision of Manual Section 502. This matter is being further addressed under the newly launched working group on "Design and implement administrative procedures to ensure timely and effective emergency responses" recently established by the DG, under the EMPRES programme.</p> <p>TCE has been working together with WFP on improving logistics, procurement and procedures. Cooperation agreement with WFP had been drafted and cleared.</p> <p>Status: On-going task - implementation in progress pending finalisation of action under Recommendation # 11.</p>	
<p>15. I also recommend that lessons learnt and ways to meet the critical risks in various emergency projects should be documented from time to time for use by various concerned agencies and for strengthening institutional memory.</p>	<p>Merits Attention</p>	<p>2004-2005</p>	<p>Guidelines for the implementation of FAO emergency and rehabilitation operations are under preparation for distribution to all TCE staff as well as concerned FAORs, and will derive from the FAO Emergency Coordinator kit, prepared in early 2007. Maximum synergies are also being sought with the continuously improving "Operations Component" of the Field Programme Manual.</p> <p>Generic sensitization on "Emergency and Rehabilitation project implementation" has been delivered through training to 101 FAORs and Emergency Coordinators from 64 countries (Africa, Asia, Central Europe and Near East). Latin America training is planned for end 2007.</p> <p>Status: On-going task - implementation in progress</p>	<p>No comment as the recommendation is yet to be fully implemented.</p>

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PROCUREMENT FUNCTIONS BY AFSP IN HEADQUARTERS				
Delays in procurement				
16. I recommend that the Procurement Service (AFSP) should develop a formal procedure to review timeliness in supply of commodities where seasonality is involved to ensure that delivery is made by the date by which the supply is required. The inter-departmental working group which is proposed to be set up should look into this aspect in particular.	Significant	Immediate	This issue is included on the Terms of Reference of the Inter Departmental Working Group (IDWG) which consists of members of the Procurement Committee (PC) tasked to undertake a complete review of the Manual Section on Procurement of Goods, Works and Services. The PC was briefed accordingly in April 2005. The matter noted in the recommendation is part of the proposed tasks of the Working Group. The Working Group has completed its review and submitted its report to Senior Management. Status: Completed	No comment as the recommendation is yet to be fully implemented.
Inspection of goods				
17. I recommend that the Organization should document the practice of distribution of goods to final beneficiaries after receipt of inspection reports and should review other inspection practices	Significant	2004-2005	Draft guidelines of inspections of goods have been completed, reviewed and finalized in collaboration with the relevant Operating and Technical Services. A tender for inspection services has subsequently been launched	No comment as the recommendation is yet to be fully implemented.

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urgently. Any revision should be implemented in a time-bound manner.			Status: Partially completed Expected completion: End 2007	
Penalty clause				
18. I recommend that the Organization should standardize provisions of penalty and maintain in the purchasing files the calculations and authorization details. Exceptions in specific situations should have the approval of a designated authority and supported by recorded reasons.	Significant	2004-2005	The standard penalty for purchase orders was reviewed by AFSP and cleared by LEG in the context of a revision of the standard Terms and Conditions. It was determined that the standard provisions for liquidated damages would be 2.5% per full week of delay up to a maximum of 10%. In extraordinary cases, this may be increased. Purchasing Officers have been instructed to maintain records in the files to adequately document decisions regarding the application of penalties. Guidelines regarding authority levels for approval of exceptions of application of penalties in specific situations are being developed. Status: Partially completed Expected completion date: End 2007	No comment as the recommendation is yet to be fully implemented.
Internal reporting				
19. I recommend that suitable internal reporting arrangements should be implemented for effective monitoring of	Merits Attention	2004-2005	AFSP has improved data quality and capturing. AFSP has procured a division-oriented Business Intelligence software (BIS) tool to enhance its reporting and monitoring capacity.	No comment as the recommendation is yet to be fully implemented

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progress of purchase cases. Information Technology support to procurement service should be enhanced on a priority basis to improve monitoring.			software (BIS) tool to enhance its reporting and monitoring capacity as recommended and is in the process of initiating implementation. Status: BIS at fine-tuning stage Expected completion: Completed	
Procurement committee				
20. I recommend that purchase cases with less than three bids meeting specifications of the tender should be submitted to the Procurement Committee, in accordance with the financial limits set out in the Manual.	Merits Attention	2004-2005	This issue has been included in the TORs of the Inter Departmental Working Group (IDWG) noted above that has been tasked with the review and revision of the Manual Section on Procurement. Status: In course of implementation Expected completion: End 2008 (pending funding availability see Recommendation # 9)	No comment as the recommendation is yet to be fully implemented.
Procurement of urea under Oil for Food Programme				
21. I recommend that the risk assessment in procurement functions should be completed in a time bound manner and the review of the provisions of the Manual and the levels of delegation of authority should be finalized and	Fundamental	Immediate	The levels of delegation of authority subsequent to the risk assessment in procurement functions have been revised in DGB 2006/19. The relevant revision of the Manual is pending its finalization. Status: Partially completed	No comment as the recommendation is yet to be fully implemented.

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implemented at the earliest.			Expected completion: End 2008 (pending funding availability see Recommendations # 9 and 11)	
FINANCIAL MATTERS				
Applicable rules and regulations for employment of retirees				
22. The existing guidelines and practices for the re-employment of former staff members who have been separated should be consolidated into a comprehensive policy, which should address, in particular, the following issues: minimum time lapse between termination and re-employment, maximum time of employment, nature of the assignment, financial and other conditions of employment. As far as the first point is concerned, I consider the UN standard rule of three years minimum to be a good practice. It should be duly recalled in all termination agreements. The Director-General could, of course, always grant a waiver to this rule on the basis of detailed justifications. The maximum time of employment could be based on the one	Significant	Early in 2003	<p>A policy framework has been formulated that provides comprehensive guidelines on the employment of retirees including former staff members of the Organization as well as those of the UN Common System. This policy covers all issues mentioned above as well as those raised in the External Auditor's recommendation.</p> <p>Status: Presently under review by Management</p> <p>Expected completion – December 2007</p>	No comment as the recommendation is yet to be fully implemented.

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for retirees (six months).Once defined, the rules governing re-employment of separated staff should be incorporated into the FAO Manual under Section 300				