


September 2012

	منظمة الأغذية والزراعة للأمم المتحدة	联合国 粮食及 农业组织	Food and Agriculture Organization of the United Nations	Organisation des Nations Unies pour l'alimentation et l'agriculture		Organización de las Naciones Unidas para la Alimentación y la Agricultura
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FINANCE COMMITTEE

Hundred and Forty-seventh Session

Rome, 5 - 9 November 2012

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

Queries on the substantive content of this document may be addressed to:

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EXECUTIVE SUMMARY

- This document outlines the progress on implementation by the Secretariat of recommendations made by the External Auditor. This progress report incorporates the requests made by the Committee at its 143rd Session in May 2012 to include in the report an update on the status of items pending validation by the External Auditor, the status of recommendations arising from the Review and Assessment of the Special Fund for Emergency and Rehabilitation Activities (SFERA) and to report on progress on actions regarding Host Country Agreements¹.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to review the document, and provide its guidance as deemed appropriate.

Draft Advice

- **The Committee reviewed and noted the status of implementation of the recommendations of the External Auditor;**
- **The Committee looked forward to an updated Progress Report at its next regular session in 2013 and which it noted would also include the status of implementation of recommendations contained in the 2010-11 Long Form Report.**

¹ CL 144/12, para 34 refers

Introduction

1. The table below summarizes overall FAO progress in implementing the External Auditor's recommendations.

Audit Report	Total Recommendations	Completed and Closed	Outstanding to Date
Long Form Report 2008-09²	27	11 ³	16
Review and Assessment of SFERA⁴	8	4	4

2. The table below presents details of the latest status of implementation of each recommendation which had not yet been completed and closed at the date of the previous progress report presented to the Finance Committee, including the timeline suggested by the External Auditor for implementation.

3. Actions taken by the Secretariat to implement each recommendation are presented in the column entitled *Management Response*, and the External Auditor's view on the progress of implementation of all recommendations is presented in the last column entitled *External Auditor's Comments*.

² The recommendations contained in the 2008-09 Long Form Report encompass and take account of outstanding aspects of previous External Audit Recommendations.

³ In the previous progress report, five (5) recommendations were reported as completed and closed - FC143/16 para 1 refers

⁴ FC143/16 Add. 1 refers

2008-2009 BIENNIUM - AUDIT OF HEADQUARTERS

FUNDAMENTAL

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
Rec 1. Staff Related Liabilities			
<p>We strongly recommend that the Organization take the matter of funding its staff related liabilities with extreme urgency as deferment of decisions most particularly on funding proposals will in no doubt compromise the financial viability of the Programme of Work and Budget (PWB) in future years.</p>	2010	<p>The Secretariat has drawn the attention of the Governing Bodies on numerous occasions during the past years to the fact that current biennial funding is inadequate, considering the scale of the liability. This matter was most recently discussed at the 143rd Session of the Finance Committee in May 2012, where the Committee considered the results of the latest actuarial valuation as at 31 December 2011 and the results of a study of alternative strategies and options for funding of staff related liabilities.</p> <p>The 37th Session of the Conference in June/July 2011 reiterated the need to take additional steps to improve the financial situation of the Organization but noted that the incremental funding proposals were not feasible at the moment given the current economic situation. The Conference noted that it would revisit the issue of finding these liabilities in future biennia.</p> <p>The matter will be further discussed at the March 2013 Session of the Finance Committee where the Committee will review the results of the latest actuarial valuation as at 31 December 2012 and consider funding approaches to be reported to the Council in the context of the PWB 2014-15.</p>	<p>With the planned revisit of the issue of funding the staff related liabilities by the Conference, the recommendation shall be monitored until it is fully addressed.</p>

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
Rec 3. Host Country Agreements			
<p>We recommended and the Organization agreed to undertake a comprehensive review of outdated Host Country Agreements (HCAs) to assess the adequacy of the contributions, in cash or in kind, and explore the possibility of generating additional revenues by negotiating improved cost-sharing schemes between the Organization and amenable host countries.</p>	2010	<p>The Office of Support to Decentralization has prepared a proposal for a comprehensive review and re-negotiation of the FAOR HCAs and relevant Government's contribution based on countries' income classification.</p> <p>This exercise will be carried out on a pilot basis for a first group of countries where there are no arrears and using the new standard HCA format which has been developed. Further details of progress in this area are provided as an Annex to this document.</p>	<p>As the comprehensive review of the HCAs is ongoing, the recommendation shall be monitored until it is fully addressed.</p>
Rec 4. Working Capital Fund (WCF)			
<p>We recommended that the Organization seriously consider increasing the level of the WCF to provide sufficient buffer to the General Fund (GF). In this regard, the Secretariat confirmed that they will include proposals to increase the level of the WCF in the PWB for 2012-13 under the section on Financial Health similar to those which were previously presented in the PWB 2010-11 but which were not endorsed by the Membership at that time. We also reiterate our recommendation that the Organization continue its efforts to collect contributions and arrears due from member states.</p>	2010	<p>The Secretariat included proposals to increase the funding level of the WCF in the PWB 2012-13.</p> <p>The 37th Session of the Conference in 2011 reiterated the need to take additional steps to improve the financial situation of the Organization but noted that the incremental funding proposals were not feasible at the moment given the current economic situation. Conference therefore deferred to future biennia the replenishment of the Working Capital Fund.</p> <p>Proposals to increase the funding level of the WCF will be presented within the PWB 2014-15.</p>	<p>We took note of the actions taken by the Secretariat and the Conference to increase the funding level of the WCF. The recommendation shall be monitored until it is fully addressed.</p>

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
Rec 5. Regular Programme budgetary controls			
<p>We encourage the Organization to consider the standard Oracle budgetary functionality for effective and efficient fund sufficiency checking in accordance with the budget fungibility rules.</p>	<p>2010</p>	<p>The External Auditor notes in his report (para. 61) that a thorough approach to budgetary control is already in place at the Organization, which ensures that budget holders are provided with regularly updated budget status information and which includes all transactions processed in both Oracle and non-Oracle applications. Such information is made available to budget holders (BH) via the Oracle Data Warehouse (ODW) and is updated on a daily basis. BHs are instructed to review this information regularly and to commit funds after review of the available balances. In addition to this, the Organization has established systems and procedures for monitoring and reporting on the status of allottee appropriations and for the review and authorization of additions to and transfers between allotments.</p> <p>With the implementation of GRMS and the roll-out of financial systems to country offices in 2013, more complete and timely financial information will be available and facilitate the potential implementation of automated budgetary control functionality.</p> <p>During 2012-13 the Organization is finalizing the requirements for the design of the new Planning and Budgeting Model and defining the new structure of the PWB and requirements for a new standardized reporting system, following the recommendations in the Immediate Plan of Action and the Root and Branch Review. The potential use of standard Oracle budgetary functionality for efficient and effective funds checking, if practical, will be considered within the context of that review.</p>	<p>We recognize the linkage of the recommendation with the ongoing review of the new planning and budgeting module and we encourage the Organization to complete the action on the recommendation.</p>

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
Rec 6. Consultant contracts' terms of reference and outputs			
<p>We recommend that the Organization review thoroughly the performance of the consultants and consider the non-reengagement of those who have not been able to meet the reporting requirements as contained in the contracts. The Organization agrees with the recommendation and notes that quality assessment document drafted by the hiring division shall indicate whether the established deadlines were not met and provide reasons why, and contain a statement of non-rehire if applicable. In this context, we were informed that forms aimed at standardizing Terms of Reference (TORs), objectives and expected outputs for Consultants and Personal Service agreements were transmitted throughout the Organization on 8 September 2010.</p>	<p>2012</p>	<p>The introduction in September 2010 of a standard template for Terms of Reference, objectives and expected outputs for consultants and PSA subscribers as part of initiatives relating to the HR Strategic Framework and Action Plan 2010-11, which includes the a priori formulation of measurable key performance indicators, addresses the recommendation.</p>	<p>We took note of the introduction of the standard template. The recommendation may be considered implemented.</p>
Rec 7. Project management – project closure			
<p>We recommend that the Organization examine more closely the cause of the delay in closure actions in order to address them adequately and set a target of reduction of this delay.</p>	<p>2011</p>	<p>Long standing issues linked to delays in project closures are acknowledged, and the external auditor notes in his report (para. 61) that some steps to improve the situation have been taken; specifically the fact that the closure of projects in Oracle and FPMIS has now been harmonized which will reduce the delays in financial closures TC, in consultation with a wide range of stakeholders in</p>	<p>The Organization's compliance shall be evaluated during the 2012-13 biennium audits.</p>

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
		<p>headquarters and DOs is currently engaged in the revision and update of most project cycle related procedures including those for operational clearance and operational closure. In addition, a series of missions to the ROs have been undertaken, with the aim of identifying, assessing and solving operational delays and problems, including those related to project closures.</p> <p>Phase 6 of the new project cycle describes in detail the procedures which need to take place for ensuring timely project closure. In addition, a new Project Operational Closure Form has been designed.</p> <p>In this context, a new Field Programme Support Network (FPSN) Monitoring Tool is now available in FPMIS for monitoring purposes to call attention to the need for action on those and other operational issues by Budget Holders, Lead Technical Units and others involved in operations and monitoring. This tool is now widely used. Training provided by ROs also highlight the need for action in that respect.</p> <p>However, the BH is the ultimate responsible, and is held accountable, for ensuring closure actions take place (e.g. Field Project Personnel, Equipment and project inputs are settled in accordance with FAO's standard procedures).</p> <p>The Organization agrees with the recommendation, and confirms all possible actions to this end have been taken.</p>	

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
8. Support costs to Field Programme (Project Servicing Costs)			
<p>We suggest that the Organization:</p> <p>a) in accordance with the principle of reasonable alignment of support costs to field programmes and projects as they had actually materialized and recoveries from donor funded projects, work on the immediate expansion of the policy on support cost reimbursements to include recovery of any fixed indirect costs as far as already acceptable to donors and can be made acceptable to them and provide for the appropriate guidelines and training required.</p> <p>b) in accordance with the principle of transparency and in order to accurately establish the reasonable level of support cost reimbursements, consider reporting and assessing the level of reimbursements of support costs from Extra Budgetary (EB) funded projects to show the following:</p> <p>b.1 unrecovered fixed indirect support costs;</p> <p>b.2 unrecovered support costs by category of programmes or projects;</p> <p>b.3 unrecovered support costs represented by the difference between the approved Technical Support</p>	2012	<p>The Secretariat presented measures to improve implementation of the Organization's Support Cost Policy to the Finance Committee at its 138th Session in March 2011. These measures were welcomed by the Committee and it looked forward to reviewing in further detail at its session in October 2011 proposals for cost recovery measures of categories previously excluded from the policy.</p> <p>The 37th Session of the Conference in June 2011 reaffirmed the policy of full cost recovery and noted its concern about the persistent under-recovery of administrative and operational support costs as regularly reported in the biennial Programme Implementation Reports. The Conference urged the Director-General to vigorously pursue improved administrative and operational support cost recovery from extra-budgetary activities and develop new mechanisms, as appropriate, building on the experience of other UN Agencies. Such means for improved cost recovery, including for security, information systems and technology were considered by the Finance Committee in October 2011 and approved by the Council in December 2011. As a result, an uplift of project staff costs and project consultant costs is being gradually introduced from 2012 to: a) recover the indirect variable costs of services provided in connection with recruiting and managing project personnel where PSC rates were applied below the ceiling rates; and b) to improve cost recovery for categories of variable indirect costs that had been largely excluded from the FAO Support Cost Policy, but were normally recovered by other</p>	<p>We recognize the efforts being exerted by management in these recommendations but since the means for improved cost recovery, including areas such as security, information systems and technology shall be implemented during the biennium 2012-13 verification will be undertaken during the 2012-2013 audit.</p>

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
<p>Services (TSS) and Project Servicing Costs (PSC) rates and actual reimbursements; and</p> <p>b.4 unrecovered support costs represented by the difference between the support cost income budgeted and the actual reimbursements by manner of recovery (fixed-percentage charge, direct charge to programme or project or combination of the two).</p> <p>c) in order to present fairly the support costs actually incurred under the Regular Programme (RP) funds, consider the disclosure in the financial statements of the unrecovered support costs from donor funded projects and absorbed by the RP fund and how these were calculated.</p> <p>d) in keeping with the principle of reasonable alignment of support costs to field programmes and projects as they had actually materialized and recoveries from donor funded projects, and in order to accurately establish the reasonable level of TSS cost recovery:</p> <p>d.1 consider articulating the instances where recovery is possible or not; and</p> <p>d.2 establish the extent at which the Organization desires to recover the cost of TSS.</p>		<p>UN Organizations.</p> <p>A comprehensive report addressing all aspects of this support cost policy will be presented to the Finance Committee during the 2012-13 biennium and which could lead to further improvements in cost recovery.</p>	

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
Rec 9. Property Management - Custody and accountability over non-expendable property			
<p>We recommend that issuances of property to a staff member be documented by a Custody of Property Form and that the listing of properties in the name of the division be used only for common equipment such as printers, and photocopiers or divisional (shared) laptops. We also suggest that staff members be required to secure gate passes before a property item is taken out of office premises.</p>	2010	<p>Review of the business process relating to asset management is a feature of the IPSAS project, and the recommendation on accountability of non-expendable property will be considered in that framework. A revised Manual Section is being drafted where the role of “asset custodian” and its associated responsibilities have been defined. It is expected that the revised MS will be implemented by 31 December 2012.</p> <p>With regard to the issuance of secure gate passes, the Security Service will review the feasibility of this recommendation taking into consideration the cost of implementing the new procedures.</p>	<p>In view of the wider review of the recommended processes under IPSAS, verification will be undertaken as soon as the subject guidelines and procedures under IPSAS Project have been reported complete.</p> <p>Meantime, during audits in the current biennium, we still noted some offices (RAP, Myanmar) where issuances of property to staff members were not documented by Custody of Property Form.</p>
Rec 10. Non-expendable property and Expendable property			
<p>We recommend that the Organization revisit its policies and procedures in the recognition of non-expendable property and that the valuation method used in recognizing non-expendable property as purchases and as inventory are consistent.</p>	2010	<p>As noted by the External Auditor in his report (para.124), the Organization has confirmed that as part of the wider review of changes in processes to address IPSAS compliance requirements, FAO shall review and implement updated/new processes for the identification of and the accounting for property, plant and equipment and the required financial statement presentation and disclosures. The new policies and processes will be implemented in accordance with the GRMS deployment timetable.</p>	<p>In view of the wider review of the recommended processes under IPSAS, verification will be undertaken or as soon as the subject guidelines and procedures under IPSAS Project have been reported complete.</p> <p>Meantime, we still noted, during the audit in the current biennium, issues on recognition of non-expendable property in RAP, Myanmar and Sri Lanka.</p>

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
Rec 11. Year End Asset Reports			
<p>We recognize that the Organization is revising its asset management policies and procedures within IPSAS and recommend that the Organization ensure that the submission of Year End Asset Report (YEAR) by the Offices outside Headquarters as to the timeline of submission, the monitoring of their submission and the immediate verification and reconciliation of property records in the Organization is included in the new policy.</p>	2011-12	<p>The Organization agrees with the recommendation, and as noted by the external auditor in his report (paras. 130-131), significant changes and improvements of the existing processes are required to support the accounting for property, plant and equipment in order to meet IPSAS requirements. The YEAR process will be simplified and more timely as a result of the new asset processes and procedures to be implemented as part of GRMS. In addition, as part of the GRMS deployment, an asset count and verification will be carried out.</p>	<p>In view of the wider review of the recommended processes under IPSAS, verification will be undertaken as soon as the subject policies and procedures under IPSAS are put in place.</p> <p>Meantime, we still noted, during the audit in the current biennium, issues on the YEAR in Myanmar and RAF.</p>
SIGNIFICANT			
Rec 12. Field Advances – Advances to Staff Members for Tax Payments			
<p>We were informed of the improvements made in the policies related to the recovery of tax advances. However, we still recommend that the Organization through its Liaison Office in Washington require the strict enforcement of the submission of the annual tax returns within the deadline set in the Administrative Circular AC2010/08 so that prepayments are promptly cleared and excess advances refunded immediately by the staff members</p>	2012	<p>The External Auditor (para. 132) has recognized the improvements which have already been made in the policies related to the recovery of tax advances and encourages the Organization to enforce these. CSF shall continue these efforts in conjunction with LOWA.</p> <p>Given the external auditor's acknowledgment of the ongoing procedures in place to ensure the timely settlement of tax advances, we would suggest that the status of this recommendation be updated to implemented as of 31 December 2010.</p>	<p>The Recommendation may be considered implemented.</p>

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
Rec 13. Field Advances – Advances to Consultants			
<p>We emphasize the importance of an intensive monitoring effort and the importance of ensuring the timely settlement of advances especially those remaining uncleared beyond the prescriptive period and that the grant of advances for OCAs be limited to the restrictions of DGP064 so as not to unduly burden the consultants and allow for the immediate settlement of the said advances.</p>	2012	<p>The external auditor notes (para. 140) that the Organization follows up on field advances and generally ensures that these are cleared on a timely basis, whether at the year end or any other period and that FAO is committed to ensuring that follow-up actions will continue.</p> <p>It is noted that the single country (Democratic Republic of Congo) where the majority of the overdue field advances had originated referred to a situation with particular operational difficulties, including a lack of banking systems in some areas of the country and lack of adequate infrastructure to transport documentation from remote locations to FAO office. The level of outstanding advances in this country has now been addressed by the Organization.</p> <p>Given the External Auditor's acknowledgment of the ongoing procedures in place to ensure the timely settlement of advances, we would suggest that the status of this recommendation be updated to be implemented as of 31 December 2010.</p>	The Recommendation may be considered implemented.

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
Rec 15. Technical Cooperation Programme Deferred Income			
<p>We recommend that the Organization implement Technical Cooperation Programme (TCP) projects within the terms of the existing UN Financial Regulation 4.3, specifically the cancellation of unutilized appropriation at the close of the financial period for which the appropriation was voted for to ensure proper programming and implementation of project activities within their approved budgets and appropriation for the year/biennium</p>	2012	<p>The Organization considers that implementation of TCP projects is carried out in compliance with Financial Regulation (FR) 4.3.</p> <p>The return flow practice had been endorsed by the Finance Committee and Council in 1980 to ensure the full utilization of the resources appropriated by the Conference for the TCP and its practice had been consistently applied by the Organization since then. The continued use of the established methodology was most recently confirmed by the Finance Committee at its 128th Session in July 2009.</p>	The Recommendation may be considered implemented.
Rec 16. Plan Assets			
<p>We recommend that the Organization consider placing the earmarked long term investment and advance payments for the Separation Payment Schemes (SPS) in a separate trust fund to properly recognize them as Plan Assets as part of the effort towards full adoption of International Public Sector Accounting Standards (IPSAS).</p>	2012	<p>As noted by the External Auditor in his report (para. 158), review of the recommendation to place the earmarked assets in a separate trust fund shall be undertaken within the context of IPSAS implementation.</p>	<p>We will review the implementation of the recommendation within the context of IPSAS implementation. Verification will be undertaken as soon as the subject matter has been reported complete.</p>

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
Rec 17. Procurement – Liquidated Damages of Late Deliveries Assets			
<p>We recommend that the monitoring of deliveries be strictly performed by the Budget Holders (BH). The recommendation to impose penalties, if any, should be made by him/her already and subsequently deducted from the payment.</p>	<p>2011 onwards</p>	<p>The Organization agrees that monitoring of deliveries should be performed by the Budget Holders and, as appropriate, that they make recommendations regarding application of liquidated damages for late delivery. However, final determination of application of liquidated damages rests with the Buyer and Authorized Official so as to ensure that all factors including any mitigating circumstances or contractual obligations are considered.</p> <p>In order to address this recommendation, the Organization will prepare and communicate guidance to Budget Holders reminding them of their responsibilities for monitoring deliveries and procedures related to the application of liquidated damages.</p>	<p>The Organization's compliance shall be evaluated during the 2012-13 biennium audits.</p>
MERITS ATTENTION			
Rec 18. Travel – Ticket Cancellations			
<p>We recommend that the Organization set a policy that will hold the traveller accountable for the cost of tickets, surcharges and fees where cancellations are caused by him without justifiable reasons. The Organization noted that it will review the impact of such a policy within the context of the staff rules. Simultaneously a communication</p>	<p>2012</p>	<p>A policy of holding the traveller accountable for the cost of cancellation has been implemented with communication to budget holders being done on a case by case basis.</p>	<p>The Recommendation may be considered implemented.</p>

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
strategy will be undertaken to sensitize budget holders and approvers of cancellations charges to the cost of cancellation and the need to determine upfront the validity of these charges.			
Rec 19. Special Fund for Emergency and Rehabilitation Activities			
We recommend that management pursue the formulation of guidelines for the SFERA that will specify the maximum amount of the advances that may be granted to a specific project and the definite period within which said advance will be recovered.	2012	<p>Guidelines related to the management of the SFERA were endorsed for immediate use by the Director, TCE at the end of November 2011.</p> <p>These guidelines have been translated into an internal procedure for the governance and management of the SFERA. The final version will be submitted to the IDWG for review in early September and will integrate the recommendations of the External Auditor.</p>	The Organization's compliance shall be evaluated during the 2012-13 biennium audits.
2008-09 BIENNIUM - AUDIT OF DECENTRALIZED OFFICES			
FUNDAMENTAL			
Rec 20. Budgetary Controls – Regular Programme (Regional Office for Africa)			
We recommend that the Regional Office for Africa (RAF) enforce more strictly the requirement to secure prior approval from the Office of Strategy, Planning and Resources Management (OSP) before incurring commitments and expenditures requiring shifts of allotments exceeding USD 100,000 at	2010	RAF will ensure that it works within the limit of allotments provided and reported through PBRs in accordance with the PWB, and that written authorizations are received from OSP before proceeding to budget implementation.	Observation was also noted during the 2010-11 audit . RAF's compliance to be evaluated during biennium 2012-2013 audit.

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
<p>programme level and USD 20,000 each at chapter and allottee levels. RAF's request for shift, which may be included in the PBR, needs to state specifically the allotted amounts to be shifted, the source of allotment for transfer between programmes or chapters and the reasons or justifications for the transfer.</p> <p>We also encourage RAF to work consistently within the limit of the institutional allotment provided in accordance with the PWB.</p>			
Rec 21. Budgetary Controls – Projects (Regional Office for Africa)			
<p>We recommended and RAF agreed that the Budget Holders (BHs) endeavour to work within the approved project budget for TCP and in the case of Trust Fund (TF) project within the cash received from donor.</p> <p>To ensure that funds are available for the project before incurring commitments and expenditures, the BH should consider employing worksheet of actual commitments and expenditures outside of the existing systems to keep track of project cash or fund balance until system embedded controls to prevent over-expenditure</p>	2010	<p>RAF agrees with the recommendation, and notes that the newly created Regional Programme Coordination Unit (RPCU) has the responsibility to address the issues and closely monitor programmes/projects and their budgets in the manner that has been recommended by the External Auditor.</p> <p>Some FAO Representations are already using the tracking system to monitor their project budget. Following the hub trainings carried out by RAF at the end of the last biennium, RAF is now working closely with other FAO Representations to have the tracking system in place.</p> <p>The new field solution to be rolled out in 2013 as part of the GRMS Programme will provide complete and timely information on local commitments, hence facilitating</p>	<p>Observation was also noted during the 2010-11 audit .</p> <p>RAF's compliance to be evaluated during biennium 2012-2013 audit.</p>

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
<p>are put in place.</p> <p>In the event that the cash balance is low and there is a need to obtain additional cash from the donor and as required in the Project Agreement, the BH needs to promptly request from the Finance Division - Project Accounting (CSFE) the need for the Call for Funds and submit budget revision needing donor's consent/approval to prevent incurrence of negative cash balance for TF projects</p>		<p>budget and cash balance monitoring, and more timely call for funds.</p> <p>It is also noted that "The Field Programme Support Network" (FPSN) Monitoring Tool in FPMIS highlights where Budget Holder attention is required for a call for funds as one of the specific monitoring elements and FPMIS also sends trigger messages in this respect.</p>	
Rec 22. Non-Expendable Properties			
<p>We recommend the (i) intensified review of accounting transactions; (ii) periodic and up-to-date reconciliation of the inventory records between the decentralized offices and the headquarters; and (iii) preparation and timely submission of ADM 41 and ADM 83.</p>	2010	<p>The Organization concurs with the recommendation and confirms that these processes are included within the scope of the GRMS program. Automation of the asset process will dispense with the need for ADM41 and ADM83 for Decentralized Offices, simplify and make more timely the count and reconciliation and permit greater control and monitoring of the transactions.</p>	<p>In view of the wider review of these recommended processes under IPSAS, verification will be undertaken as soon as the subject guidelines and procedures under IPSAS Project have been reported complete.</p>

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
Rec 24. Prepayments (Regional Office for Africa)			
<p>While we appreciate the effort of the Organization to prevent the accumulation and further reduce outstanding travel advances, relevant offices should coordinate with Human Resource (HR) Services and Travel Incoming-TECs, Budapest for the follow-up and collection of advances from ex-consultants who were already paid of final honoraria. We also recommend that the Organization include in the consultant's TOR the requirement on submission of TEC and the recovery of outstanding travel advance on the payment of final honorarium</p>	2011	<p>As noted by the external auditor in his report (para. 207), procedures are already in place to hold the final honorarium of consultants until all advances are settled. Payment by the AP-Invoice Unit is effected only after receiving clearance from the SSC-Travel Unit. Monitoring of outstanding advances is handled between the RAF, the BH and the Receivables Unit in CSF.</p>	<p>The Recommendation may be considered implemented.</p>
Rec 25. Project Management - Delays in Terminal Reporting and Closures			
<p>We reiterate that utmost efforts be exerted to observe the timelines for project implementation and completion</p>	2011	<p>The Organization concurs with the recommendation, acknowledging challenges to delays in project closures – please refer to comment to recommendation 7 above.</p> <p>The Reports Group in TC Department has been working closely with the FPMIS team and Budget Holders to minimize delays in the operational closure of projects. Since the last update, three consultants have been recruited in the Reports Group, TCSR, and efforts are being made to identify one more. With the new persons on board the capacity of the Group has increased considerably and it is expected that delays in terminal reporting will be reduced.</p>	<p>The Organization's compliance shall be evaluated during the 2012-13 biennium audits.</p>

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
		<p>Furthermore, revised versions of the first three phases of the project cycle have been issued and guidelines for Phases 4, 5 and 6 will be issued shortly. These include standard formats for reports, indicating their scope and focus, as well as the supporting quality assurance tools available in FPMIS, with scorecards on relevance, achievement of results, implementation and sustainability.</p> <p>By using these scorecards to keep monitoring and performance evaluation data up-to-date in the system, the Budget Holder and project task force will ensure that the production of reports is simplified and less demanding in terms of staff time. Reporting will thus be streamlined; it will focus on results and facilitate analysis. This in turn will step up the operational closure of projects.</p>	

Review and Assessment of the Special Fund for Emergency and Rehabilitation Activities

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
Rec 1. Guidelines on the Governance and Management of SFERA			
<p>Proceed to the immediate issuance of the “Guidelines on the Governance and Management of SFERA” which should incorporate the following:</p> <p>a) the maximum amount that a project may obtain as a cash advance from SFERA;</p> <p>b) the prescribed period for reimbursement of SFERA advances following receipt of donor contributions;</p> <p>c) a criteria in defining emergency situations which would warrant SFERA funding adopting the criteria contained in the 2005 Field Programme Committee document entitled “A new approach for the designation of TCE operational responsibility”; and</p> <p>d) requiring a logical framework for all projects, regardless of project cost, as a best management practice tool in planning, monitoring and reporting.</p>	2012	<p>Guidelines related to the management of the SFERA were endorsed for immediate use by the Director, TCE at the end of November 2011.</p> <p>These guidelines have been translated into an internal procedure for the governance and management of the SFERA. The final version will be submitted to the IDWG for review in early September and will integrate the recommendations of the External Auditor.</p>	<p>The Organization's compliance shall be evaluated during the 2012-13 biennium audits.</p>

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
Rec 2. Logical Framework for SFERA Projects			
<p>Ensure that a logical framework are prepared for all SFERA-funded projects, regardless of project cost, and made part of project documentation, in accordance with the Instructions Manual on Results-Based Integrated Planning and Monitoring, in order to facilitate review and monitoring of emergency projects.</p>	2012	<p>SFERA funded projects follow FAO's Field Programme Circular on the Standard Project Document Format, issued in March 2007. A Logframe is compulsory for all emergency projects with a budget higher than USD 500,000</p> <p>TCE is now closely monitoring SFERA projects to ascertain that all projects with a budget above USD 500,000 include a logframe. The use of a standard and simple logframe for smaller projects will also be promoted. This will be included in the procedure to be issued referred to under Recommendation 1 above.</p>	<p>The Organization's compliance shall be evaluated during the 2012-13 biennium audits.</p>
Rec 3. Reporting Mechanisms for Revolving Funds			
<p>Improve the reporting mechanism for FAO management, individual donors and other stakeholders taking into consideration that costs are assigned to every support mission funded out of the SFERA revolving fund component (OSRO/GLO/402/MUL and OSRO/GLO/403/MUL). It would be of great value to both fund donors and project evaluators if reporting of utilization is made in a more detailed manner that permits an evaluation and a cost-benefit analysis on a per mission basis.</p>	2012	<p>TCE and CSF have established two new projects in January 2012 to replace OSRO/GLO/402/MUL and OSRO/GLO/403/MUL and address this specific recommendations</p> <p>Each single SFERA allotment is now recorded against one specific baby activity under the projects SFER/GLO/001/MUL and SFER/GLO/002/MUL.</p>	<p>The Recommendation may be considered implemented.</p>

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
Rec 4. Criteria for Fund Applications under Revolving Funds			
Establish definite criteria on allocating funds under the revolving fund to be adopted as official policies in the proposed guidelines in the governance and management of the SFERA.	2012	Addressed as part of guidelines referred under Recommendation 1 above.	The Organization's compliance shall be evaluated during the 2012-13 biennium audits.
Rec 5. Further RBM Information to be provided in FPMIS			
Include in the information provided by FPMIS for SFERA-funded projects the planned specific project products, services and activities under the Strategic Framework, to add value to the project information made available by FPMIS, for purposes of corporate and donor reporting, and to make it reflective of the RBM approach.	2012	SFERA funded allocations and projects follow existing FPMIS facilities, which link the project with the FAO strategic framework.	The Recommendation may be considered implemented.
Rec 6. Provision of RBM matrix for every project			
Provide a RBM matrix for every project in the FPMIS to ensure that there is sufficient information on the progress of project activities and project fund utilization.	2012	The systematic use of the RBM modules for SFERA funded projects is planned to be effective by the end of 2012, as for other projects.	The Organization's compliance shall be evaluated during the 2012-13 biennium audits.

Recommendation	Suggested Timeline	Management Response	External Auditor's Comments
Rec 7. Contributions and other sources of receipts of SFERA			
Sustain campaign efforts for the support of more member countries and other donors to the organization's emergency and rehabilitation programmes, to mitigate the risk of fund depletion, which may lead to the Fund's inability to finance emergency response activities in the event of major catastrophes.	2012	As part of its ongoing activities, TCE continually seeks to expand and its interactions with its donors to ensure adequate funding of the SFERA.	The Recommendation may be considered implemented.
Rec 8. Contributions and other sources of receipts of SFERA			
Expand partnership with a wider donor base and encourage donors to directly contribute to SFERA (specifically for needs assessment, coordination and programme formulation), and coordinate with donors to commit to the Fund unspent balances of completed and closed projects funded out of extra-budgetary sources	2012	See comment for Recommendation 7	The Recommendation may be considered implemented.

Annex 1 - Review of Host Country Agreements (HCAs)

At the May 2012 session of the Finance Committee, the Office of Support to Decentralization (OSD) reported to the members on an exercise for the comprehensive review and re-negotiation of the FAOR HCAs including Host Governments' in cash contribution, based on countries' income classification (WB index).

The exercise started immediately after the May 2012 meeting. An initial group of 19 countries was selected based on two criteria: a) no outstanding arrears of Government Counterpart Cash Contribution (GCCC) towards the operating costs of the FAO Representations stipulated in the standing agreement, and b) the current presence of a substantive FAO Representative in the country. The list of selected countries is provided in Annex II.

A standard letter was prepared with some customization based on the specific situation of the concerned country. The letter was accompanied by a copy of the new standard agreement that was prepared in collaboration with the FAO Legal office. The agreement includes the legal framework regulating FAO's presence in the country, and an Annex stipulating the in cash and/or in kind contribution of the host Government towards the functioning of the office. In particular, based on the WB index country classification, the minimum contribution that FAO is requesting, is as follows:

- Countries classified as “Low Income” should provide MOSS compliant premises free of charge.
- Countries in the lower middle-income category should provide at least MOSS compliant premises free of charge. in addition to some logistics staff (i.e. drivers, guards).
- Countries falling under the upper middle-income category should provide, in addition to premises and logistic staff, an annual cash contribution.

In case, according to the standing HCA, the country already provides some cash contribution, the current level constitutes the basis for the re-negotiations with the Government and the minimum amount (actualized to the current value) that the Host country should contribute.

The letter is addressed to the FAO Representative in each of the 19 countries, with the request to immediately approach the relevant Government counterpart, with a view to revise the agreement based on the conditions stipulated in the letter. The deadline for the signing of the new agreement from both parties has been set to 31 December 2012.

In collaboration with the Legal office, OSD will organize video conferences with the concerned FAO Representatives to provide further guidance on how to undertake the negotiations with the host Government.

Annex II - List of pilot countries for the HCA re-negotiation exercise

- 1) Afghanistan
- 2) Angola
- 3) Bangladesh
- 4) Cambodia
- 5) Chad
- 6) Congo
- 7) Congo DR
- 8) Costa Rica
- 9) Dominican Republic
- 10) Indonesia
- 11) Jamaica
- 12) Kenya
- 13) Laos
- 14) Morocco
- 15) Peru
- 16) Senegal
- 17) Sri Lanka
- 18) Tanzania
- 19) Uganda