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Strategy and Policy Group

**MANAGEMENT RESPONSE
TO THE INTERNAL AUDIT BY OECD FINANCIAL CONTROL OF CLUB DU SAHEL "PRIVATE
SECTOR SUPPORT PROGRAMME" (KNOWN BY THE FRENCH ACRONYM, "PASP")**

**Meeting of the Strategy and Policy Group (GOP)
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The financial audit of the "PASP" focussed on evaluating the sufficiency of the internal financial control procedures and the extent to which these have been respected by the PASP between 1995 - 2000. The OECD and the Secretariat of the Club du Sahel have prepared a consolidated response to the observations and recommendations contained in the four sections in the detailed section of the Internal Audit report by the OECD Financial Control of the Private Sector Support Programme – PASP – under the responsibility of the Club du Sahel. As the responsibility for resolving the issues raised in this Internal Audit lies with different actors this consolidated response is structured to show:

- who is responsible for addressing which recommendation;
- what actions have already been taken;
- what remains to be done and the time span for addressing the issue.

Club du Sahel's general comments on the Audit

Many of the problems identified have either already been corrected since end-1999 or are in the process of being corrected. The first Steering Committee meeting took place in September 1999 and brought full transparency to the process of agreeing a programme of work and the budget between donors and the Networks. The Networks established detailed action plans that were approved by the Steering Committee in April 2000. There was a third meeting of the Steering Committee to monitor activities in September 2000 and the next one is planned for end-April/early May 2001.

In the last year the Club du Sahel has reinforced its project management procedures and internal control mechanisms and brought its procedures in line with the OECD's rules. Where recommendations in the audit of the PASP programme also have application for the Club du Sahel as a whole the Director will implement these recommendations globally.

The Club notes that while the audit has spotlighted a number of areas of lack of transparency and insufficient clarity in the management of the PASP programme, many of its remarks and recommendations concern OECD's procedures. These affect all parts of the Organisation and can only be rectified by the OECD itself.

The examination of the PASP's activities that has taken place over the past few months in the framework of this audit, have clearly demonstrated the difficulty of managing such an operational and innovative project. The following difficulties deserve mention:

- The evaluation of services rendered especially when the project manager is located in Paris and the majority of the services were carried out on behalf of the Networks either in the US or in Africa.
- Financing operating expenses e.g. expenses for statutory meetings – the detailed control of expenditure is time consuming and many of the receipts are of an informal nature, making verification difficult.

The Club has concluded that it will not engage in another programme of this nature but will in future provide support to networks and partners through the financing of specific studies and joint activities. Direct operational support to networks or institutions or fundraising on their behalf will no longer be undertaken by the Club.

In order to ensure rigorous follow up over the next few years to the invaluable work of the audit, the Club proposes to commission an annual external audit of the Club's financial accounts for the next three years, after which period OECD will have fully amended its financial controls and the Club it will revert to OECD's normal audit cycle and procedures.

I. Transparency of Financial Reports relating to the Programme Secretariat

Club du Sahel's responses

- 1. All expenditure related to "PASP" activities should be accounted for completely separately. No PASP costs should be imputed to the Club du Sahel without the approval of the Strategy and Policy Group.***

This is already partially implemented. When the PASP programme lacked funds in June 1999, the Director of the Club reduced activities rather than bridge the financing shortfall using Club funds pending receiving contributions and this policy will be continued. In the Club's 2001 Programme of work the costs associated with housing the PASP programme will be presented with the proposal that these costs be reimbursed by the PASP programme.

- 2. Expenditure to be related to an agreed annual programme of work and budget - approved by the Steering Committee and transparent to the Networks and the "PASP" Program Manager should prepare interim and year-end summaries of actual expenditure versus budget from OECD accounting records, with explanations of variances.***

Part of this recommendation was put into practice with the 2000 programme of work and budget which was elaborated with the full agreement of the Steering Committee and the Networks and completed with a detailed action plan drawn up by each Network. The PASP Manager will draw up the year-end reports for 2000 implementing the suggestions made in the audit and these will be presented in this format for the first time to the Steering Group in April/May 2001.

- 3. Financial reports provided to the "PASP" Steering Committee should be complemented by frequent information in an "income statement" format.***

The Club du Sahel will implement this recommendation for the PASP programme beginning with the accounts for 2000 to be presented to the PASP Steering Committee in April / May 2001.

II. "Parallel financing", and transparency of financial reporting to the Steering Committee.

Club du Sahel's responses

- 1. The PASP annual programme of work and budget and the activities reports should outline the totality of the Network's activities, indicating those financed from Program Secretariat funds and those financed directly.***

As there is a tacit agreement among Committee members that any contributions not made via the PASP secretariat should be made in co-ordination with the programme, the PASP Manager will ensure that the programme of work and budget for 2001 is as comprehensive as possible and include activities to be financed directly either by the Networks or with other funds. The Director of the Club will request the Steering Committee to take a commitment that donors and the networks will provide this information both for the preparation of the programme of work and for the annual end of year reporting on activities and expenditures.

- 2. For activities financed with a mixture of funds channelled through the "PASP" and funds paid directly to the Networks, the PASP Manager should draw up a clear overview of the contents of the activity and the formula to be used for the sharing of costs.***

PASP has generally used this approach whenever direct financing of activities has been carried out with full transparency. The Steering Committee's commitment to transparency outlined above should mean that it would provide sufficient information to ensure that this recommendation can be respected in the future.

III. Internal controls over fees, travel and other expenditure relating to external consultants

OECD's response

The issues raised in Sections III and IV of the Financial Audit are covered by the Secretary-General's process of financial reform currently being carried out, which includes the reform of internal control procedures.

The first phase of this reform, operational with effect from 2 April, will resolve the questions related to the separation of tasks and the nature and reliability of supporting documents for payment.

Other aspects of the reform will become effective as soon as the necessary modifications have been made to OECD's Financial Regulations and their rules of implementation .

Club du Sahel's responses

- 1. Consulting contracts with individuals should be subject to the same accounting and internal control principles as are required for companies \i.e. calls for tender; contract process; payment once terms of contract met.***

The implementation of the recommendations for ensuring adequate internal procedures for contracts with individuals and the segregation of duties are the responsibility of OECD. The Club has already largely anticipated their introduction by: 1) enforcing greater transparency and competition in the awarding of contracts; 2) considerably tightening the internal contract management procedures and; 3) ensuring greater clarity in the terms of reference for both individuals and companies. The issue of evaluating the quality of the services rendered and conformity with the terms of the contract remains to be addressed and the Director of the Club will address this issue in the next 6 months for the Club du Sahel as a whole and report back to the Strategy and Policy Group on the measures taken.

IV. Internal control over contributions from "PASP" Secretariat to Networks for the financing of conferences and other "events".

OECD's response.

See Section III above.

The Club du Sahel's responses

- 1. Commitments should be planned, funds reserved, contracts established and accepted by both sides and a formal financial commitment made in good time. In no case should contracts and financial commitments be drawn up retroactively.*

The Club fully accepts that forward planning has been inadequate and that certain internal procedures have not been respected in the PASP programme. The Director of the Club will review this with the PASP Manager and implement for 2001 a system of expenditure planning, which will be reviewed monthly between the Director and the PASP Manager. The PASP Manager will invite the administrative officers from the three networks to Paris to discuss the procedures related to financing by the PASP of the Networks and to establish an operating manual that will be submitted to OECD for approval.

- 2. OECD proposes interim and longer-term solutions to cover transactions that resemble donations to jointly finance activities rather than purchases.*

The problems encountered with the Millennium Conference did not result only from insufficient internal planning but also from the fact that OECD's internal procedures are not adapted to financing such activities that involve the organisation of events in-country. The Club would welcome changes to OECD's procedures to recognise that providing support to such events is a normal activity in some parts of the Organisation and the Financial Rules should be drawn up to allow such support.