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**Executive Board
Annual Session**

Rome, 3–6 June 2014

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For consideration

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ANNUAL REPORT OF THE AUDIT COMMITTEE



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NOTE TO THE EXECUTIVE BOARD

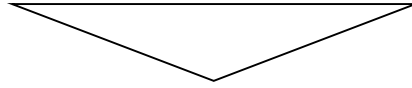
This document is submitted to the Executive Board for consideration.

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

Audit Committee Chairperson: Mr A. Antoun Email: antoine.antoun@noos.fr

Should you have any questions regarding availability of documentation for the Executive Board, please contact the Conference Servicing Unit (tel.: 066513-2645).

DRAFT DECISION*



The Board takes note of “Annual Report of the Audit Committee” (WFP/EB.A/2014/6-E/1).

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.

Annual Report of the WFP Audit Committee

April 2014

To the Executive Board

The WFP Audit Committee is pleased to submit its Annual Report to the Executive Board for consideration, as required under the WFP Audit Committee Terms of Reference.¹

The report summarizes the principal activities and opinions of the Audit Committee from 1 April 2013 to 31 March 2014. The latter date coincides with finalization of the 2013 Audited Annual Accounts, a prime focus of the Audit Committee.

The Audit Committee stands ready to discuss the report with the Board.

Antoine Antoun
Chair

April 2014

¹ See Annex I of WFP/EB.A/2013/6-D/1

INTRODUCTION AND FUNCTIONING OF THE AUDIT COMMITTEE

Terms of Reference

1. The Audit Committee (AC) serves in an expert advisory capacity and provides independent, expert advice to the Board and the Executive Director in fulfilling their governance responsibilities.
2. The specific responsibilities of the AC include advising the Board and the Executive Director on the following, as per paragraph 3 of its Terms of Reference (TOR):
 - internal audit;
 - risk management and internal controls;
 - financial statements;
 - accounting;
 - external audit;
 - values and ethics; and
 - allegations of inappropriate activity.

The AC has structured this report accordingly.

Composition of the Audit Committee

3. The composition of the current membership is given in Annex I. It will be noted that this composition reflects appropriate gender and regional balances.

Audit Committee Activities

4. This report provides an overview of the work of the AC from 1 April 2013 to 31 March 2014 and highlights issues considered to require the attention of the Board and the Executive Director. The AC met three times during this period, in June and December 2013 and in March 2014.
5. The AC meets at least three times a year for two to three days at WFP Headquarters. In addition, the AC, or some of its members, may on occasion be required to assist in a special assignment. Of special significance are the executive sessions – for AC members only – generally with the Executive Director, on the first and last days of each meeting. These sessions focus mainly on strategic aspects and help the AC acquire the desired sense of direction by providing insight into WFP priorities and needs. The sessions are also used to share with the Executive Director major concerns of the AC and matters requiring the Executive Director's urgent attention.
6. The AC also meets the Executive Board Bureau during its meetings. This is of immense value to the AC, which looks upon these meetings as its essential link with the Board.
7. Meetings of the AC are usually attended by the Deputy Executive Director, relevant Assistant Executive Directors, the Inspector General, and their officers.
8. The AC is grateful to the Executive Director, her team and the Executive Board Bureau for all the assistance accorded to the AC in the discharge of its duties. Audit committees, including in the corporate world, are continuously evolving and there is an emerging feeling that the new requirements being imposed on audit committees, which go far beyond examination of financial statements and oversight of the internal audit function, almost

render the term “audit committee” a misnomer. An audit committee is increasingly looked upon as an essential tool for leveraging the working of the Board and giving top management independent advice on the efficacy and cost-effectiveness of the various policy initiatives and the range of strategic, operational, financial reporting and compliance risks across these initiatives.

9. The AC is pleased to note progress in planning for observation visits to selected field operations in 2014, as per its TOR and Rules of Procedure. As previously noted, the AC believes that these activities are critical to AC members’ ability to know the organization for which it has an oversight fiduciary responsibility. Consultation and coordination with the Deputy Executive Director and country leaders are under way. Liability will be covered within the current AC budget. The AC hopes to report on its first visit at its June meeting with the Executive Board Bureau.

INTERNAL AUDIT AND INVESTIGATIONS

10. After taking office in April 2013, the Inspector General introduced several initiatives aiming to deliver more value to the organization and to make his office a valuable business partner and adviser to WFP management. The AC welcomes the Inspector General’s commitment to focusing on business-critical risk assurance and increasing the share of flexible assurance advice.
11. In particular, the AC welcomed the introduction of clearer, shorter and risk-focused audit reports, which in the context of public disclosure of internal audit and inspection reports have been assessed positively by management and core partners.
12. The AC noted with satisfaction the high acceptance rate of internal audit recommendations by management. As the result of joint efforts between the Oversight Office (OIG) and WFP management a significant number of internal audit recommendations have been implemented and closed.
13. The AC supports the Inspector General’s efforts to strengthen the investigation function, notably by improving the investigative methodology, to extend the mandate of the Office of Inspections and Investigations (OIGI) to focus on third-party vendor/supplier fraud, and increasing the use of technology and data analytics.

RISK MANAGEMENT AND INTERNAL CONTROLS

14. The AC welcomes WFP’s efforts to strengthen its enterprise risk management (ERM). An effective ERM programme seeks to identify, assess and mitigate all manner of strategic, operational, financial and compliance risks that may have impacts on WFP’s objectives, assets and staff. WFP is well in line with other public and private sector organizations that have developed ERM programmes. While no management programme can eliminate risk or prevent all negative events, continuing to develop ERM mechanisms will improve WFP’s resiliency and the probability that objectives will be successfully achieved.
15. **Third-year statement of internal control:** The AC noted that the draft statement on internal controls to be signed by the Executive Director and supported by sub-attestations by managers continues to be an excellent practice, setting an important standard regarding governance, risk, control and compliance expectations and accountability. The AC noted no material concerns regarding internal controls from the External Auditor or the Internal Auditor. The Board should be encouraged by having such a process in place.

16. The AC looks forward to exploring the methodology for generating an internal control opinion from OIG that provides a positive opinion – in alignment with control frameworks such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO) – on one or more control objectives (financial reporting, compliance, etc.) in alignment with the opinions provided by management, the External Auditor and the AC. This issue will be extensively reviewed with the Inspector General in December 2014.
17. **Risk management focus:** The AC discussed with the Inspector General the focus of OIG's work for 2014 and concurred with this focus, particularly regarding risks related to:
 - food manufacturing and safety;
 - large infrastructure projects; and
 - cash and voucher programmes.
18. The AC anticipates that future discussions with management will include consideration of:
 - information technology infrastructure and architecture;
 - coordination of Level 3 (L3) events, given the multiple simultaneous L3 events; and
 - human capital management at Headquarters and in the field.

Treasury and Investment Oversight

19. The AC received from management information related to the performance of the short-term investments portfolio and a copy of the 2013 Annual Report on WFP Investment Management. After consideration of the specific investment guidelines and restrictions and the risk profile of these investments, the AC is in a position to advise that they are satisfactory.
20. The AC noted with pleasure that the Investment Committee had met three times to review critical aspects such as asset allocation of the liquidity portfolio. It noted that the WFP Investment Advisory Panel – composed of four external investment experts – met on 31 January 2014, but not in 2013. The AC noted that in addition to the WFP advisory panel, the World Bank Treasury has also advised WFP on a range of issues in which WFP may have limited expertise, including a full review of the investment policy and a review of the performance of, and selection process for, investment managers of the liquidity portfolio.
21. However, the AC believes that WFP should continue to improve its practices for managing commodity pricing risks. As noted by the AC in previous years, the volatility of commodity markets and pricing structures presents an opportunity to lay the foundation for enhanced leadership and oversight regarding commodity trading, hedging and forecasting.

FINANCIAL STATEMENTS

22. After careful consideration of the information made available to the AC at its March 2014 meeting by WFP management on preparation of the annual financial statements and by the External Auditor on its audit, the AC was in a position to advise that the draft financial statements were appropriate for transmission for the final sign-off by WFP management and audit finalization by the External Auditor, as no issues of a material nature had been reported to the AC.

ACCOUNTING

23. The AC was informed by WFP management that three International Public Sector Accounting Standards (IPSAS) – IPSAS 28 Financial Instruments: Presentation; IPSAS 29 Financial Instruments: Recognition and Measurement; and IPSAS 30 Financial Instruments: Disclosures – applicable from January 2013 had been followed, and appropriate disclosures had been made in WFP’s financial statements. To ensure adherence to IPSAS, WFP engaged external accounting consultants.
24. The AC noted with satisfaction WFP’s commitment to following IPSAS development closely, its active participation in the United Nations Task Force on IPSAS, and its readiness to implement the latest updates in WFP accounting and financial statements.

EXTERNAL AUDIT

25. This is the fourth year that the Auditor General of India is carrying out the external audit. The AC was able to conduct a productive discussion of the External Auditor’s work and draft opinion – unqualified – with OIG and WFP financial management in attendance. In the opinion of the External Auditor, no material matter had compromised the integrity of reporting on the true financial affairs of WFP. Based on the information presented at its meetings, the AC agrees with this position. The AC is satisfied that any of the matters warranting additional disclosure in the notes to the financial statements that were brought to the AC’s attention have been disclosed in those notes.
26. The External Auditor presented verbally two special reports, which were still in draft form, on the following topics:
- the United Nations Humanitarian Response Depot; and
 - food procurement.
27. These reports were to be finalized once the External Auditor had received feedback from the Operations Services Department (OS), but the AC was informed by the Assistant Executive Director of OS, who was attending the meeting, that he is in general agreement with the recommendations included in these reports.
28. The AC reiterates the value of obtaining a copy of special reports prepared by the External Auditor, even in draft form, as this would allow AC members to review the reports before the AC meeting and to be better prepared to participate in discussions, bringing added value to the process.

VALUES AND ETHICS

29. The AC noted no concerns regarding the values and ethics of WFP.

ALLEGATIONS OF INAPPROPRIATE ACTIVITY

30. In its report for last year, the AC stressed the importance of improving the judicial process to ensure the timeliness of actions and provide greater transparency.
31. The AC noted with approval that a panel of four independent experts had been nominated by the Executive Director in the fourth quarter of 2013 to assess the internal justice process and provide recommendations for improving the process.

32. During its March meeting, the AC learned that the panel had provided WFP management with verbal feedback on the results of its review and that the final report would soon be finalized. The AC plans to have this topic on the agenda of its June meeting.

ADDITIONAL PERSPECTIVES AND INSIGHTS

33. **Rules of Procedure:** In accordance with article 27 of its TOR, the AC adopted Rules of Procedure after appropriate communication to the Executive Director and the Executive Board Bureau on behalf of the Board. (Please refer to Annex 2 of the minutes of the December 2013 meeting.)
34. **Indirect support cost:** The AC noted WFP management's overview of its assessment of the adequacy of the approach for calculating the indirect support cost (ISC) rate – including the methodology and actual rate. The AC discussed various aspects of ISC collection and related Programme Support and Administrative costs, including the trade-offs between having a single ISC rate and having different rates by modality or country. The AC discussed management's ongoing consideration of what other United Nations agencies are doing and the differences in funding mechanisms available to different United Nations agencies. While it endorses management's recommendation for maintaining a single rate at this time, the AC recommends that the Board encourage management to continue demonstrating, each year, improvements in the granularity and transparency of WFP's actual indirect overhead, its direct overhead and its programme costs by modality and location.
35. Regarding the single ISC rate, the AC believes that the complexities of calculating various rates by modality, and engaging stakeholders in conversations regarding the basis for having various rates in general – and then in further conversations as modalities are selected – are potentially taxing beyond the benefit that would be derived from using multiple rates. That said, the Board and WFP management should take note that the expectations of both donors and beneficiaries for full transparency in reporting the costs of delivering humanitarian assistance will only increase over time. Such transparency will need to show the fully loaded cost – indirect and direct overheads – necessary to deliver assistance, such as commodities, vouchers, policy advice or project implementation, in relation to the outcome obtained from the assistance. Accordingly, the AC encourages management to pilot mechanisms for improving the tracking of costs by modality/country using current systems or the departments and staff units that are most suitable for such cost identification efforts. The AC encourages the Board to require that reporting on these efforts be made available to the Board regularly. Over time, WFP should be perceived as a leader in such reporting and transparency.
36. **Working capital financing:** The AC also took note of management's presentation of the review of methodologies for working capital financing, the intent of which is to extend WFP's ability to provide humanitarian support during times when anticipated donor commitments have not yet been formalized or received in WFP accounts. The AC noted that advance financing efforts do not create any new funding but simply allow WFP to expend funds not yet received and that using the forward purchasing facility enables WFP to convert available cash into inventory, thus substantially reducing the time-lag in delivering food to beneficiaries.
37. The AC welcomes management's continued work to maximize its working capital and, in turn, the number of days over which WFP can maintain humanitarian assistance pipelines in the absence of donor funding receipts. The AC looks forward to reviewing with management the consultant's report on the options for expanding working capital. The AC recommends that any current or future mechanisms be kept simple and transparent. Furthermore, it notes

that while the risk of write-off is perceived to be low – a write-off being an event in which WFP expends funds on a project without ever receiving donor funds to cover such expenditures – the Board, through the authority it delegates to management, is accountable for setting the level of risk of write-off that WFP is allowed to take.

ANNEX I

COMPOSITION OF AUDIT COMMITTEE

- Antoine Antoun: a French/Lebanese national. His term is 7 July 2012 until 6 July 2015.
- Elvira Edith Lazzati: an Argentinean national. Her term is 9 June 2012 until 8 June 2015.
- Kholeka Mzondeki: a South African national. Her term is 10 November 2012 until 9 November 2015.
- Irena Petruškevičienė: a Lithuanian national. Her term is 30 July 2011 to 29 July 2014.
- James A. Rose: a United States national. His term is 30 July 2011 to 29 July 2014.

ANNEX II

AUDIT COMMITTEE ACTIVITIES			
APRIL 2013 – MARCH 2014			
	JUNE 2013	DECEMBER 2013	MARCH 2014
Executive Session with Executive Board Bureau	√	√	√
Executive Session with Executive Director	√	√	
Operations	√	√	√
Evaluation matters			√
Investment Committee			√
Oversight matters:			
– External Audit	√	√	√
– Internal Audit	√	√	√
Financial statements			√
Accounting			√
Performance and risk management	√	√	√
Human resources matters			√
Internal control	√	√	√
Ethics matters		√	
Legal matters	√	√	√
Allegations of inappropriate activity			√
Financial and budgetary matters	√	√	√

ACRONYMS USED IN THE DOCUMENT

AC	Audit Committee
ERM	enterprise risk management
IPSAS	International Public Sector Accounting Standards
ISC	indirect support costs
OIG	Oversight Office
OS	Operations Services Department
TOR	Terms of Reference