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REVIEW OF THE ARRANGEMENTS FOR REPORTING POST DELIVERY FOOD LOSSES TO THE EXECUTIVE BOARD

Report by the External Auditor

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NOTE TO THE EXECUTIVE BOARD

This document is submitted for consideration to the Executive Board.

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

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National Audit Office

International Audit

The United Kingdom National Audit Office (NAO) provides an external audit service to the World Food Programme. The External Auditor, Sir John Bourn, Comptroller and Auditor General of the UK, has been appointed by the Executive Board in accordance with the Financial Regulations. In addition to certifying the accounts of the WFP under Article XIV of the Financial Regulations, he has authority under the mandate, to report to the Executive Board on the efficiency of financial procedures and the general administration and management of WFP.

The NAO provides external audit services to international organisations, working entirely independently of its role as the Supreme Audit Institution of the United Kingdom. The NAO has a dedicated team of professionally qualified staff with wide experience of the audit of international organisations.

The aim of the NAO's audit is to provide independent assurance to Member States; to add value to the WFP's financial management and governance; and to support the objectives of the Programme's work.

Report by the External Auditor

World Food Programme - Review of the arrangements for reporting post delivery food losses to the Executive Board

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Executive Summary

This summary sets out the significance, nature and causes of post delivery food loss suffered by the World Food Programme, showing:

- *The very low level of detected or reported loss compared with food commodities handled;*
- *The need for assurance over the completeness and accuracy of food loss reporting; and*
- *Conclusions and recommendations to improve the monitoring and reporting of post delivery food loss.*

1. The World Food Programme's Core Programme Goal is to contribute to meeting the Millennium Development Goals through food-assisted interventions targeted on poor and hungry people. The successful delivery of food aid is vital to WFP's response to emergencies. In 2004, the Programme was responsible for the delivery of US\$2.9 billion worth of food aid to 113 million people in 80 countries.
2. Not all food aid reaches the intended beneficiaries. Post delivery commodity or food loss recognised by WFP occurs during handling, storage or internal transportation after the commodity arrives at the recipient country. Reported losses have mainly arisen through poor food handling or processing, natural disaster, civil strife, theft or deterioration. Food losses inevitably compromise the achievement of WFP's objectives; they dilute the humanitarian assistance that the Programme is able to provide; and may restrict the timely delivery of vital supplies to the hungry or starving beneficiaries to whom the World Food Programme has directed vital emergency aid. Undetected food loss can further limit the organisation's capacity to save lives in crisis situations - the first strategic objective approved by the Executive Board in the 2006-2009 Strategic Plan (document WFP/EB.A/2005/5-A/Rev.1).
3. WFP's procedures require all losses to be noted; and reporting to the Executive Board of post delivery losses that exceed two per cent of food handled in a country. Few countries report that their losses exceed this level. At the time of our review, the most recent post delivery loss report dated June 2005 identified food losses valued at \$4.6 million (0.37 per cent) for 2004, although food handled amounted to \$1.3 billion in net cost terms.
4. The effective management and minimisation of food losses requires assurance that WFP properly identifies, investigates and brings to the Board's attention contributions that do not reach the intended communities. Reliable, accurate reporting of management and financial information is therefore integral to the effective identification, monitoring and control of food loss. Unacceptable levels of loss, or the inadequate reporting and management of losses, would also present risks to the Programme: risks to the effectiveness of WFP's aid efforts and the achievement of objectives; and reputational risks in terms of donor confidence.

5. In the light of the importance of food aid deliveries to WFP's strategic objectives, and the very low levels of post-delivery food loss reported, we carried out a review to assess the robustness of loss reporting; consider the procedures used for the assessment of losses; examine the sensitivity and completeness of loss reporting; and form a view on the quality of reporting mechanisms.
6. Our audit confirmed that WFP has enhanced its systems to identify and record post delivery food loss; and has established procedures to monitor food deliveries and recover the costs of food losses.
7. However, the results of our review also indicate that current procedures do not guarantee full post-delivery loss reporting, because the accuracy and completeness of reported food losses is affected by:
 - some implementing or cooperating partners failing to provide regular timely reports of food delivery, as required by their contracts with WFP;
 - country offices reporting nil or minimal losses without adequate assurance on the procedures by which the incidence of reportable loss has been avoided; and
 - not all losses identified during monitoring visits being reported.
8. We have concluded that there remains a risk that post delivery losses reported to the Executive Board do not represent the full extent of worldwide food loss. We believe that to further strengthen the reporting process requires wider understanding of the value of complete reporting; and encouragement for staff or interested parties to report food loss comprehensively, frankly and honestly, regardless of whether the loss is deemed to result from negligence.
9. The introduction of food delivery monitoring systems such as the Commodity Management Processing and Analysis System (COMPAS) represent an important development in maintaining up-to-date food distribution and storage information from offices throughout the world; and offer scope for improving the identification of food loss. However, the ambitious goal set out in 2003 in a WFP Directive (document OD/2003/003) for COMPAS to provide a complete and accurate picture of the entire food supply process at a global level has still to be achieved.
10. Our field visits confirmed that awareness at the school and parental level of how much food is intended for school feeding programmes has increased the effectiveness of monitoring and troubleshooting of distribution problems. The school feeding reporting system currently being piloted by WFP moves the monitoring of food delivery closer to the beneficiary, but may only be effective if supported by periodic confirmation by monitoring staff of food deliveries achieved.
11. This report makes ten recommendations to strengthen controls, in order to ensure that:
 - all post delivery losses are reported regardless of size, to present a more accurate picture of actual commodity losses;
 - monies due from partners responsible for food loss are collected; and
 - nil or minimal reporting of losses by country offices is investigated to confirm the completeness of food loss reporting.

Introduction

Covering:

- *The meaning of post delivery food loss;*
- *How WFP recovers the cost of food losses; and*
- *The extent of reported post delivery losses between 2002 and 2004.*

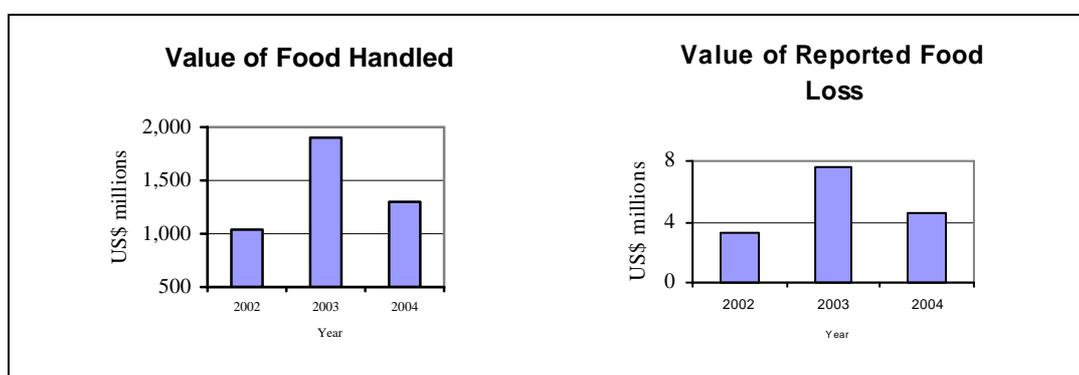
12. WFP defines post delivery food loss as any loss suffered after arrival at the delivery point, during handling, storage or internal transport: although any loss represents food aid not consumed by the intended beneficiaries. The point of delivery is the location in the recipient country where transportation contracts external to WFP are completed, or where food commodities are delivered from a sea-going vessel. From this location, WFP either itself delivers food directly to beneficiary organisations, or contracts cooperating partners to transport the commodities to the beneficiaries on its behalf.

13. Post delivery commodity loss is not covered by WFP's special insurance account, which insures commodities against pre-delivery loss from the time WFP takes possession until the delivery point. The cost of post delivery losses must be recovered from the liable party by the recipient government or the WFP country office.

14. In recognition of the potential impact of food losses on intended beneficiaries, the risk of undetected diversion of food for commercial or political gain and the potential impact on the reputation and performance measurement of WFP, we examined the robustness of the procedures by which the Secretariat monitors food delivery and reports food loss to the Executive Board. We have made recommendations to improve the effectiveness of reporting and increase the reliance which can be placed on the current systems.

15. Figure 1 illustrates the value of losses reported against the value of food delivered.

Figure 1: Value of Food Delivery and Reported Losses, 2002 - 2004



Source: Post delivery loss reports provided to the WFP Executive Board 2003 - 2005

16. Losses reported later than the year in which they occur are recorded in metric tonnes rather than value. These additional losses are shown at Figure 2, with the value of reported food loss represented as a percentage of the value of total food handled. The percentage of loss remained relatively static during the period, with the increased losses in value terms in 2003 resulting from the scale of emergency operations in that year.

Figure 2: Percentage of total food reported lost from 2002-2004

	2002	2003	2004
Percentage	0.32	0.41	0.37
Metric tonnes lost in prior years and previously unreported	225	109	176

Source: Post delivery loss reports provided to the WFP Executive Board in 2003 - 2005

Scope of our Review

Setting out:

- *An overview of the audit examination; and*
- *The sources of evidence on which we have based our findings.*

17. In our audit planning paper provided to the Executive Board (document WFP/EB.1/2005/5-D), we noted that few countries report an occurrence of food loss above two per cent of the total food delivered in the country - the level at which specific mention is made in the Secretariat's annual loss report to the Executive Board. Accurate assessment of the impact of food loss on the Programme's delivery performance relies on an adequate level of assurance that the Secretariat has procedures in place to identify, investigate and report completely and accurately all food that fails to reach the intended communities.
18. We therefore looked at the systems which operate in regional bureaux and country offices, through which the Secretariat identifies and reports food loss to the Executive Board. We also considered the risk of non-reported loss occurring through an analysis of management responsibility at the time of food loss: a new disclosure introduced in the loss report dated June 2003. Finally, we considered the effectiveness of cost recovery in transportation losses.
19. Our findings are based on an examination of WFP's corporate commodity tracking system, COMPAS, in four regional bureaux and nine country offices, carried out in conjunction with our wider programme of work for the 2004-2005 biennium; visits to five warehousing facilities; attendance at two food monitoring visits; interview of senior managers; and sample-checking of losses reported in each region visited by the audit team. In addition, we interviewed Headquarters senior management; reviewed relevant reports from the office of internal oversight; and examined post delivery loss

reports which have been provided to the Executive Board from 2000 to the time of our audit in 2005.

Identification of Post Delivery Loss

We examined factors affecting the completeness and accuracy of reported food loss, through:

- *A review of the importance of WFP food monitors;*
- *Review of country office food loss reporting in 2004; and*
- *Consideration of the consequences of the lack of timely reporting by cooperating partners.*

20. Eighty per cent of commodity losses occur from problems in recipient countries rather than at point of origin. The highest proportion and value of attributable losses reported were in relation to poor handling or shortfalls in commodities landed; civil strife; processing; and theft. We initially examined key controls over the identification of losses which are the direct responsibility of WFP staff in their field monitoring visits to the beneficiaries and the reporting of food loss at country level. We also considered a further significant factor affecting the identification of post delivery food losses – the timeliness of reporting by cooperating partners.

WFP Food Monitors

21. WFP field food monitors follow up food deliveries by meeting a sample of beneficiaries to confirm receipt of the expected or reported food delivery. This represents an important management control to confirm the effectiveness of delivery arrangements and which may identify previously undetected post delivery food loss. This control is managed directly by WFP staff but limited by cost considerations to a small proportion of deliveries, from which WFP aims to gain overall assurance over food distribution. We consider that the effectiveness of food monitoring would be enhanced and strengthened using statistical sampling approaches based on risk profiling, and informed by cooperating partner records, beneficiary concerns and prior history.
22. We attended two monitoring visits in one country, which identified a half tonne post delivery loss of food from a fifty six tonne consignment (a loss of 0.9 per cent). The monitoring officer accepted the loss without recording the difference, informing us that WFP policy required the reporting of losses only in excess of two per cent of the total delivery. WFP Headquarters subsequently confirmed to us that all losses should be reported. Without monitoring and recording all identified losses, it is not possible to obtain a comprehensive and accurate assessment of the extent of loss on a country-wide basis: particularly where food is distributed widely to multiple destinations, and

where relatively small losses taken cumulatively could represent a more significant overall problem.

Recommendation 1: We recommend that WFP consider the use of risk profiling as a basis for focussed monitoring, on which a more sensitive and reliable statistical assessment of total food loss might be reported.

Recommendation 2: We recommend that field monitors report all identified food losses regardless of size, to assist more accurate estimates of the extent of post delivery losses for specific operations and for the World Food Programme as a whole.

Loss Reporting By Country Offices In 2004

23. We reviewed food losses by country office in 2004 as reported to the Executive Board in May 2005. We reviewed the food losses reported by 21 country offices, each with less than five metric tonnes of losses. Although these countries handled food totalling 193,176 metric tonnes, representing four per cent of the food handled worldwide by WFP, they reported a food loss of only 30 metric tonnes (0.016 per cent), well below the level of losses experienced by the Programme as a whole. Further, seven countries reported nil losses, despite handling 33,406 metric tonnes of food representing 0.7 per cent of the total 4.6 million metric tonnes worldwide.
24. To ensure that there is full reporting in all locations, and no hidden inconsistency in reporting standards or practice as applied in the different countries, we encourage WFP to review the procedures operating at country level, in order to confirm complete and accurate loss reporting; or alternatively to identify good practices which have eliminated or reduced food loss in particular locations and which could be extended to other countries.

Timeliness of Reporting by Cooperating Partners

25. Accurate reporting of food losses also depends on the timely receipt and accuracy of food delivery reports from cooperating (previously “implementing”) partners. COMPAS guidelines require offices to ensure that cooperating partners supply regular distribution and monitoring reports, including reports on losses that have occurred at the cooperating partners’ warehouses or during transportation that the partners have arranged (WFP document OD/2003/003).
26. Of the nine country offices working with cooperating partners which we visited, seven had not received timely reports from all partners in compliance with the memorandum of understanding or agreement between WFP and the partners. The response rate for one office was less than 25 per cent of that required; and five had not received all the reports due up to six months after the contracted response time. In all cases, we found that the country offices were having to chase outstanding reports from non-governmental organisations or governmental partners.

27. Lack of timely food delivery reporting weakens any assurance that post delivery losses are completely and accurately reported to the Executive Board. We therefore consider that any informed year-on-year comparison of post delivery loss needs to take account of outstanding reports from cooperating partners of food delivered.

Recommendation 3: In order to increase transparency and accountability in the reporting procedures, we recommend that at the time of the annual post delivery loss report to the Executive Board, WFP also report the value and amount of commodities in respect of which cooperating partners reports have not been received.

28. We noted that timely reporting by governmental partners was hampered by a lack of management capacity and resources, language difficulties or lack of experience in report preparation. In all the offices we visited, WFP staff were actively assisting these partners with training and report preparation.

29. To monitor the receipt of cooperating partner reports, and in the absence of organisation-wide arrangements, four of the nine offices were separately developing databases in which to maintain records of cooperating partner performance. We encourage WFP to review those monitoring systems currently in operation and assess whether the most cost-efficient system would be suitable for worldwide use.

Recommendation 4: We recommend that WFP review local country office systems being used to monitor cooperating partner reporting, with a view to adopting a single system which could be made available worldwide.

Post Delivery Food Loss Reporting

Setting out our analysis of post delivery loss reporting, noting:

- *The criteria against which WFP reports to the Executive Board; and*
- *Accountability for food losses in 2002 – 2004 by management responsibility.*

Reporting to the Executive Board

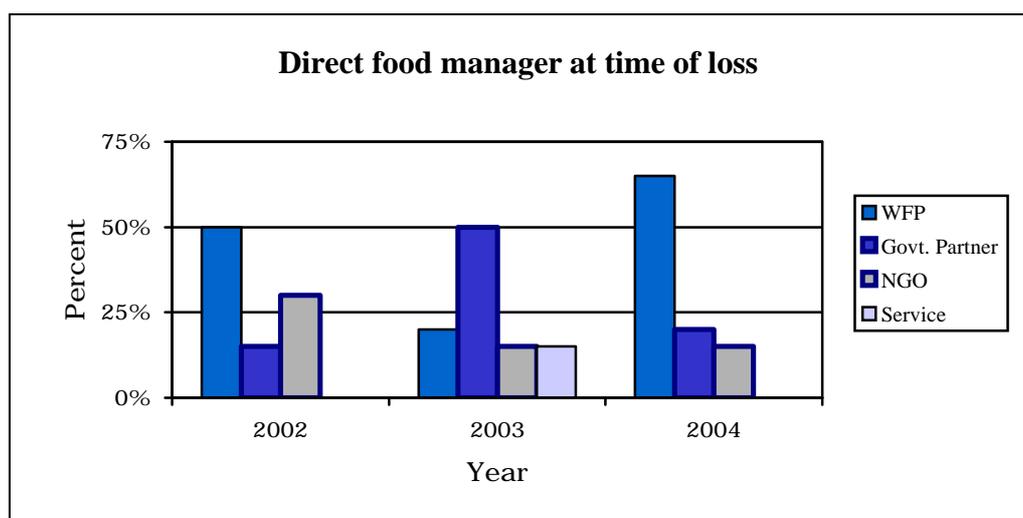
30. Losses that are equal to, or greater than, two per cent of the total net cost (price, insurance and freight value) of commodities handled in any country and greater than US\$20,000 in absolute value are reported to the Executive Board individually on an annual basis, as are significant but proportionally smaller losses in countries where large programmes are being implemented.
31. WFP requires that all earlier food losses found in subsequent financial periods should be reported at the time of identification, if necessary by estimation of the volume of the loss. Recipient countries or cooperating partners may, however, have a vested interest in the understatement of prior period food loss for which they can be held responsible, or which may be seen as adversely affecting future funding. To address this risk, the robustness of the valuation of losses and the estimation of prior period food loss needs to be confirmed.

Recommendation 5: Where food losses are identified after the post delivery loss report for the relevant year has been provided to the Executive Board, we recommend that for comparative purposes an estimated valuation of commodities in addition to the metric tonnage should be reported.

Recommendation 6: If losses are found to have occurred during prior years, we recommend that the methodology for estimation of the total loss valuation should be reported to the Executive Board.

Management accountability for food loss

32. WFP's post delivery loss report dated June 2003 included information on the organisation holding management responsibility over food stocks at the time of loss. We welcome the enhanced accountability which this information supports. Figure 3 shows that the percentage of reported food loss under the direct management of WFP has increased by comparison with losses occurring when food is managed by governmental partners, non governmental organisations or service providers such as transporters. It appears reasonable to expect greater accuracy in identifying and reporting food loss when food delivery is under the direct management of WFP, which should avoid any risk that vested interests from cooperating partners or countries could result in unreported food losses for which they could otherwise be held accountable.

Figure 3: Control over food at time of reported loss

Source: Annual post delivery loss reports to Executive Board

33. As indicated in Figure 2, reported food losses as a percentage of food delivered fell from 0.41 per cent in 2003 to 0.37 per cent in 2004, but we consider that the greater losses arising from the increased volume of food handled in 2003 make it too early to confirm whether this overall reduction resulted mainly from direct management of food delivery by WFP, less accurate reporting of food loss, or other factors.
34. To enable more robust review of the comparative performance of WFP and cooperating partners in identifying, reporting and reducing food loss, we encourage WFP to review the benefit and cost of extending the present country loss reporting in Annex III of the post delivery loss reports so as to clearly identify management responsibility at the time of loss.

Food Delivery Monitoring Systems

Audit comments on monitoring systems:

- *On enhancements to the commodity management processing and analysis system; and*
- *On WFP's electronic reporting system covering school feeding.*

35. In its post delivery loss report dated 2005, the Secretariat described steps that it had taken to reduce reliance on reporting by cooperating partners. These steps involved the enhancement of WFP's commodity management processing and analysis system (COMPAS); and use of the Advanced Research and Global Observation Satellite (ARGOS), which aimed to monitor school feeding programmes by empowering on-site teacher monitoring of food delivery to schools (WFP/EB.A/2005/12-A). We reviewed the enhanced version of COMPAS from which WFP had prepared standard project reports at the end of 2004; and we examined the capacity of the ARGOS system to provide monitoring of food loss at the point of delivery.

Commodity Management Processing and Analysis System, COMPAS

36. The COMPAS system represents an important development in maintaining up-to-date food distribution and storage information, uploaded overnight from offices throughout the world. Primary responsibility and accountability for the administration of COMPAS lies with country directors who are required to include the cost of adequate resources for commodity tracking in project budgets. Under the terms of contracts with cooperating partners delivering food to beneficiaries, WFP requires the provision of reports of food distribution giving the numbers of beneficiaries and other relevant information countersigned by representatives of the final beneficiaries. WFP programme units are responsible for the collection, monitoring and compilation of these reports which are loaded into COMPAS.
37. In 2003, a WFP operations directive (OD/2003/003) set out the goal for COMPAS to provide a complete and accurate picture of the entire food supply process at a global level. This ambitious goal has still to be fully attained, in part because COMPAS records rely on prompt reporting by cooperating partners of food delivery. In addition, to record the entire food supply process requires the extension of COMPAS recording from food delivery by the cooperating partner through to receipt by beneficiaries, confirmed worldwide by food monitoring or directly by beneficiaries themselves.
38. Since COMPAS records form the basis of year-end standard project reports provided to donors and recipients, the accuracy and completeness of COMPAS recording is important for sound governance, oversight and performance measurement. Therefore we encourage the ongoing development of COMPAS to provide scope for efficient management of food stocks at WFP and for accurate reporting of the entire food supply process.

Electronic monitoring of school feeding using ARGOS

39. Our field visits confirmed that an awareness at school and parental level of how much food is intended for schools and for each child increased the effectiveness of monitoring and troubleshooting distribution problems through parent-teacher groups and other school management units. Use of the Advanced Research and Global Observation Satellite, ARGOS, moves the monitoring of food delivery closer to the beneficiary, allowing school teachers using on-screen pictures to enter beneficiary details including attendance, gender, teacher and children attendance into transmission devices in the schools. The information is transmitted by satellite via France before being provided to WFP where the information is retained on WFP's Intranet.
40. In its post delivery loss report presented in June 2005, the Secretariat indicated that by the end of 2004, 1,028 ARGOS devices had been delivered to 12 countries including Afghanistan, where it had been installed in a sufficient number of WFP-assisted schools to assure a scientifically representative sample for the whole country. Our examination of the installation of the monitoring device in Afghanistan confirmed that the accuracy and preciseness of the ARGOS information is dependent on:
- an adequately widespread sample of schools providing regular accurate information on which statistically sound conclusions are possible;
 - full training and ongoing update of the teachers who are required to enter the information; and,

- a stable environment, which may not always be available in emergency situations.
41. In two of the country offices we visited, managers expressed concern over the maintenance costs of the equipment; a lack of ongoing maintenance capacity; and difficulties caused by the transfer of teachers previously trained in the use of the equipment. We noted that ARGOS was not used in Afghanistan at the time of our visit in August 2005. Management informed us that this resulted from:
- lack of acceptance by the local population, who were concerned that the equipment could transmit confidential information in addition to that relating to the school feeding of beneficiaries;
 - operating difficulties with the equipment in cold weather; and
 - problems in the transportation of the equipment to remoter regions.
42. We conclude that the ARGOS system could enhance the monitoring of school feeding but may only be effective in confirming food delivery where it is periodically supported by confirmation of the results by food monitoring staff. Where current monitoring was not considered adequate, the system could inform management of those schools where follow up action was necessary.

Recommendation 7: We recommend continued development of and use COMPAS to encompass complete reporting of the entire food supply chain, together with data validation and monitoring arrangements to ensure accuracy and reliability.

Recommendation 8: On the basis of the experience gained in the initial piloted installation of the ARGOS system, we recommend WFP ensure that:

- ***A suitable environment is available for all new implementations; and***
- ***Country offices determine the most appropriate and effective use of the monitoring system, to confirm the results of cooperating partner reports; to act as an auxiliary monitoring control in addition to monitoring visits; or as the main monitoring mechanism on which loss reports will be prepared.***

For each of these alternatives, a robust confirmation of the predetermined advantages, cost savings and results expected from the installation should be made to support ongoing monitoring of the system's effectiveness.

Promoting Cost Recovery

In this section we assess the effectiveness of procedures aimed at recovery of the costs of food loss during transportation and the effective assessment of the extent of cost recovery.

Recovery of the costs of food loss during transportation from delivery point

43. In the period from November 2004 to September 2005 we visited thirteen country offices and regional bureaux in the course of our audit of WFP's financial statements. During these visits we also confirmed that WFP generally makes transportation food loss the responsibility of either the transportation companies or the cooperating partners contracted to transport food aid. WFP effectively transfers responsibility for transportation food loss by paying the transportation companies only for the amount of food delivered, which could encourage the understatement of food losses by companies wishing to maximise revenue. We confirmed that, to mitigate this risk, WFP generally uses its own scales to weigh food deliveries for which payment will be made.
44. In eight of the 13 field offices visited, we found that programme units retained records of cooperating partners' performance - including food delivery, timeliness of reporting, and reliability - which had informed management when contracts with individual partners were under review. We encourage this monitoring, which could be shared with cooperating partners at an early date, to encourage improvement without impairing management's ability to terminate contractual arrangements with partners should a predetermined improvement not be achieved.

***Recommendation 9:** To assist the full reporting of commodity transportation losses to the Executive Board, we recommend that WFP maintains its efforts to record and report all post delivery food loss in cases where the transportation company suffers the financial loss.*

Measurement of Cost Recovery

45. Annex 1V to the most recent post delivery loss report describes each regional bureau's annual results-based work plan, which includes objectives to monitor post-delivery losses. The Secretariat currently reports significant recoveries of funds from partners found responsible for food losses, often in subsequent years to when the actual food loss occurred. To assist in robust assessment of the extent of recovery of the costs of food loss, we consider regional performance indicators could be established, setting the expected recovery of the costs of food loss against which regional results could be reported year-on-year.

Recommendation 10: To assist appraisal of the recovery of the cost of food losses, we recommend that the Secretariat consider the merits of developing performance indicators for expected recoveries by region.