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INFORMATION NOTES

PROPOSED PROGRAMME OF WORK OF THE EXTERNAL AUDITOR FOR THE 2004–2005 BIENNIUM

**A paper by the External Auditor for the
Executive Board, October 2004**

This paper is submitted to inform the Executive Board on the planning for the External Auditor's work for 2004–2005; and to invite the Board's comments.

The paper covers:

- Introduction and background
- The financial audit scrutiny
- Financial audit issues
- Proposed management audit coverage
- Field visits
- The External Auditor's Report



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INTRODUCTION

1. This paper is presented for information to provide the Executive Board with an overview of the External Auditor's planning for the audit of the World Food Programme's financial statements and activities for the biennium 2004–2005.
2. The UK National Audit Office's resident external audit team has been in Rome since September 2002. During this time we have completed the audit of WFP's financial statements for the biennium ending 31 December 2003, providing a clear audit opinion. For 2002–2003, we provided 20 management letters on the financial management and operations of the organisation. In addition to the External Auditor's overall Report, we delivered management reports to the Executive Board on the Programme's Human Resources Strategy; vulnerability analysis and mapping; corporate governance and air operations. The last three of these are to be discussed at the October 2004 meeting of the Executive Board. These reports and management letters met the schedule outlined in our planning document provided to the Board in February 2003.
3. In planning our work for 2004–2005, we have reassessed our approach in the light of experience gained during the previous biennium's audit; the WFP Strategic Plan for 2004–2007 adopted at the May 2004 Executive Board; management initiatives currently being implemented; and our discussions with senior management of WFP.

BACKGROUND

4. The Comptroller and Auditor General of the United Kingdom is the independent External Auditor of the World Food Programme, appointed under Financial Regulations 14.1 to 14.9. He is required to examine, certify and report on each of the statements comprising the financial accounts of the World Food Programme, in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. Under the provisions of the Annex to the Financial Regulations on Additional Terms of Reference Governing External Audit (specifically paragraphs 6c and 7), the External Auditor is also required to report on matters relating to the economy, efficiency and effectiveness of the use of WFP's financial and other assets.
5. Under the terms of our engagement agreed with the Executive Board, we are committed to review activities in at least 12 countries; and to produce a total of 19 reports to management during each biennium, comprising management letters to the Executive Director on the three main phases of the audit (planning, interim and completion); management letters on the results of each country office visit; reports to the Executive Board on substantive value for money/management audit topics; and a final consolidated audit report to the Executive Board.
6. Our audit will continue to take account of the particular nature and circumstances of WFP's operating environment; and to address significant aspects of the Programme in delivering food aid to meet emergency needs and support economic and social development.
7. Our audit planning included a comprehensive reassessment of the work completed in our first biennium and the responses of the management and governing board. During this biennium, we will follow up on the recommendations from our reports to the



Executive Board, to ensure that WFP continues to benefit from a consistent and rigorous audit scrutiny.

THE FINANCIAL AUDIT SCRUTINY

8. The primary objective of our financial audit is to provide the Executive Board, the main users of the financial statements, with assurance that the accounts and underlying financial transactions are free from material error and comply with WFP's Financial Regulations. The audit opinion also confirms whether expenditure and income has been applied to the purposes intended and whether the transactions conform to the authorities which govern them.
9. In applying the highest professional auditing standards, we adopt a clear focus on risks and controls, with the aim of:
 - adding value through the external audit process; and
 - providing opportunities for improving efficiency and generating savings for the organisation.
10. Our audit approach is based on obtaining a thorough understanding of the operations and activities of the Programme in order to identify the main risks arising from its activities. Material risks may affect the ability of the Programme to achieve its business objectives and may influence the reliability and accuracy of the financial statements. Our audit approach therefore focuses on the concepts of materiality and risk, and on the needs of main users of the financial statements.
11. Materiality is a concept which recognises that financial statements can rarely be absolutely correct. A matter is regarded as material if its inclusion, omission, misstatement or non-disclosure is likely to distort the overall view given by the financial statements. Our work therefore concentrates on all key areas of activity, and the External Auditor's report on the financial statements is confined to substantive issues. Less important matters will be dealt with in discussion and correspondence with the Executive Director.
12. We carry out a thorough risk evaluation, which includes an assessment of the strengths and weaknesses of controls within the organisation's financial systems — taking account of developments such as the introduction of new computerised systems and changes in procedures - in order to determine the likelihood of material error, including fraud, occurring. The results of the assessment help us to determine the level of audit evidence needed to support the audit opinion; concentrate our efforts towards high-risk areas; and improve the cost-effectiveness of audit testing.
13. We will obtain direct audit evidence by undertaking work in Rome and by visiting a number of country and regional offices, especially those which carry out decentralised functions and have significant delegations of authority. We attach particular importance to testing the regularity of expenditure, ensuring that it complies with the intentions of the World Food Programme as set out in the approved budgets. Our selection of field offices for audit will take into account risk assessments completed by both Internal Audit and administration; and our field reports therefore enhance the effectiveness of future risk assessment.
14. As part of our audit approach, we liaise and coordinate with the Office of Internal Audit and Oversight to avoid duplication of effort. We will continue to evaluate the work of Internal Audit, and seek to place reliance on that work where appropriate. In August 2004, the Executive Director restructured the Audit Committee to include a majority of



externally experienced professional advisors, with new terms of reference aimed at providing advice to the Executive on financial management and accounting. We are working with the Chair of the Committee to support and contribute to the Committee's efforts; and to ensure a productive partnership between the Audit Committee and External Audit. We welcome the potential enhancement of corporate governance shown in these developments and will consider the Committee's impact and operation during the biennium.

15. Our audit procedures are designed to achieve a cost-effective audit. We have well established review procedures to ensure that appropriate audit work is undertaken efficiently and in accordance with auditing standards. Quite separately, the National Audit Office's standard procedures include routine independent internal quality control by experienced audit staff unconnected with the audits, which provides additional assurance that standards and efficiency are being maintained.
16. We will attend annual and regular Executive Board meetings and FAO Finance Committee meetings during the biennium; and be available as observers to the meetings of the Audit Committee.

FINANCIAL AUDIT ISSUES

17. A number of key developments in the World Food Programme's operations present particular audit risk factors, which will be addressed in the context of our overall audit approach and testing. The audit approach generally is directed at taking account of the nature of WFP's activities in providing emergency response in crisis conditions, with the special challenges and risks that this operational environment brings. Our planning work and the experiences of our first biennium audit has so far identified a number of areas to which we intend to give particular attention. These are particularly related to information systems, internal financial control, accounting for expenditure, and operational risk areas.

System Upgrade for WINGS

18. The WFP Information Network and Global System (WINGS) is a system customised to the Programme's needs. WINGS is currently in place in all but 3 WFP offices. 34 offices have a "view only" access, where data input is made through the Regional Bureaux or through WFP's COAGSAPINT system. During 2004-2005, management intend that the underlying system of WINGS will be upgraded to ensure the continued support by the supplier and to introduce identified business enhancements.
19. At this planning stage, we consider that given the extent of the current customisation of WINGS, any subsequent upgrades involve a significant degree of risk due to the complexity of the tasks involved. Given the field structure of WFP, there would be significant risks to financial control, and to the completeness, accuracy and integrity of the financial statements, if the system upgrade fails to operate as envisaged. We therefore have advised the Secretariat on the desirability of establishing a systematic change methodology to address the risks; and have discussed the requirements with management staff responsible for the upgrade process.

Strengthening Financial Management Internal Controls

20. In 2004, the Executive Director has introduced an initiative to strengthen financial management capacity throughout the organisation, with the objective of improving the effectiveness and efficiency of the Programme in the long term. The initiative, outlined in



the Strategic Plan, focuses on the strengthening of the controller and financial analysis functions; improving managers' financial expertise and access to information for decision making; improving the effectiveness of financial experts in all locations; and providing a repository of financial policies, procedures and guidelines to all staff. Our audit will consider the impact of this management initiative with a view to commenting on the internal control mechanisms and assessing the effectiveness of the operation of the new financial controls across the organisation.

Accounting Issues for Programme Expenditure

21. During our audit field visits in 2002-2003, we were unable to obtain adequate assurance over the accounting treatment of programme expenditure in the different categories of EMOP, PRRO, to support a clear audit opinion on the separate disclosures. As a result, management chose to combine programme category funds in Statement 1 to the financial statements. We also identified inconsistency in the recognition and application of direct support costs, and programme and administrative costs. We concluded that this could give rise to a risk to the completeness and accuracy of disclosures of these costs in the financial accounts and in reporting to the Executive Board. We will continue to appraise the situation during 2004-2005, on the basis of our field visits and work at Headquarters.

Decentralization

22. The decentralisation of WFP's control structure remains a principal consideration for our audit. WFP has continued to seek to improve the effectiveness of the management of operations and internal management controls. This has been in part a response to audit findings and concerns raised in the previous biennium; the findings of internal audit and oversight; and also to management's own risk assessment. To date WFP has recruited or transferred additional financial controllers and financially experienced staff to support the decentralised operations during 2004, and is introducing financial monitoring procedures at Headquarters to focus attention on areas of concern.
23. In financial control terms, decentralisation can present risks as well as rewards in the delivery of assistance in emergency conditions and in controlling and accounting for aid. Our audit work will continue to keep this aspect of the internal control environment under review. At the planning stage, we encourage WFP to consider the introduction of a checklist of regular financial monitoring actions with which Regional Bureaux can confirm that the framework of decentralised accountability is operating effectively.

Cargo Preference

24. WFP has established an agreement to separately record funds for cargo preference enabling these funds to comply with the policies required for a third party agreement. We will review the separate funding and accounting arrangements to ensure that adequate separation of the funds exists to confirm that the cargo preference arrangement can be audited as a third party fund agreement.

PROPOSED MANAGEMENT AUDIT COVERAGE

25. To assist our focus on the key priorities agreed by the Executive Board at its October 2003 meeting, we have drawn on our understanding of WFP's activities, selecting areas which are of high importance in terms of their significance to the efficient and effective operation of the organisation and the scale of resources devoted to them. We have identified five potential subjects for management report on the 2004-2005 biennium.



26. The WFP Strategic Plan included five strategic priorities. To provide a solid foundation for delivering these strategic programme objectives, in May 2004 the Executive Board approved nine management priorities based on an analysis of the organisation's existing weaknesses:
- MP1: Strengthening Partnerships — within the UN family, Bretton Woods institutions, NGOs and the private sector;
 - MP2: Human Resources Management — develop further the HR strategy inline with the developments in the organisation;
 - MP3: Results based management and reporting — to implement RBM throughout WFP in the period.
 - MP4: Strengthening WFP's knowledgebase — improve monitoring, evaluation and needs assessments to more actively feed into the decision making process;
 - MP5: Strengthening operational support — to improve the organisation's capacity to react to emergencies;
 - MP6: Business process review — to review the workflow and funding models used by WFP;
 - MP7: Increased transparency and accountability — this includes two aspects, improved financial management and training, and improved capacity for oversight functions;
 - MP8: Communication and advocacy — improve WFP's media image; and
 - MP9: Increased resources for increased needs — improve the funding and resource mobilisation, outside of the traditional donor base to other governmental and private/corporate donors.
27. We intend, therefore, to focus our attention for this current biennium on areas that address strategic priorities, and to address our management reports to the management priorities identified by the organisation. The report topics we have identified include results based management; a review of WINGS; review of the FITTEST operation; WFP's control of post delivery losses; and the benefits of the introduction of International Accounting Standards at the WFP. We will also provide a follow up to our previous recommendations and will also endeavour to continue to provide a staged delivery of our report to the Executive Board during the biennium.

Results Based Management

28. Results based management (RBM) represents a major initiative aimed at the enhancement of the monitoring and reporting of WFP activity organisation-wide. RBM provides a degree of direction and accountability in financial management that offers improvements in the quality of governance that can be achieved. Senior management identify RBM as key to delivering the future success of WFP and have set up a separate division in Rome to deliver training, implement RBM and evaluate the results. Given that RBM is to operate throughout WFP, we will consider whether the appropriateness of the methodology and the effectiveness of the roll out procedures. This report item would primarily address Management Priority 3, although it would also have reference to Priorities 4, 5, 6 and 7.



WINGS

29. WFP is continuing to develop WINGS. Our report will consider WFP's preparedness to undertake the upgrade of the system and the upgrade methodology. We will consider the use of WINGS in the field and its functionality in supporting the WFP business model. Internal Audit has prepared a number of reports on system security and control which will inform our work and enhance our cooperation with Internal Audit. The report addresses Management Priorities 3, 4, 5, 6 and 7, as WINGS has a major impact on the work of WFP.

Communication Systems

30. WFP is heavily reliant on Information Technology communications in emergencies. There is a special team based in Dubai, FITTEST, which is funded by a five per cent levy on equipment that it sets up for emergencies and PRROs. Given the value of communications to the organisation both operationally and economically, FITTEST is a significant area for review in relation to Management Priority 5, in assessing the effectiveness of support to WFP field operations, and to Management Priority 7, in looking at the accountability of the funding model used.

Post Delivery Losses

31. Post delivery losses (PDL) concern the management of losses of food and related internal accounting. The current guidelines state that PDL should not exceed two per cent of food in a country, and few countries report that their losses exceed this level. Our review will consider the methodology used for the assessment of losses; and the potential risks to the organisation in respect of inaccurate reporting. This topic covers primarily Management Priority 7 addressing accountability issues but also impacts on Priority 5 in helping to address issues of more efficient management.

International Accounting Standards (IAS)

32. Executive management has expressed an interest in introducing International Accounting Standards (IAS) as the basis of financial recording and reporting in future periods. Depending on internal developments during the biennium, we will prepare a brief report on the impact of IAS for WFP. This would address Management Priority 7 but could have significant future impact on Priorities 8 and 9, by defining WFP as a progressive UN agency in this regard.

Follow Up on Recommendations from 2002-2003 Reports

33. As part of our standard procedures, we will consider action taken in response to our reports in 2003-2004 on Human Resources, Air Operations, Corporate Governance, Vulnerability Analysis and Mapping, and Financial Issues.

FIELD VISITS

34. We will carry out financial audit and management report work both in Headquarters and in the field. The financial audit will include, for example, the audit of income and expenditure records in local offices; review of expenditure against budget; physical checks of inventory assets; review of advances; and review of bank reconciliations. Management report work in the field will support the main topics to be included in the published audit



report and will therefore focus on issues affecting the economic, efficient and effective delivery of food aid.

35. We intend to carry out a programme of audit visits to review field operations in some 16 countries. We have based our selection of locations on our assessment of the types of operations in the countries; the history of visits by external or internal audit; the extent to which operations have been decentralised; the delegation of authority to field offices; and the materiality of expenditures and incomes passing through the various offices. We will remain responsive, however, to the demands of WFP's operational activities and any changing circumstances.
36. Subject to the need to adjust the programme in response to changes in circumstances, we anticipate that the following countries will be visited during the biennium: Afghanistan, Cote D'Ivoire, Democratic Republic of Congo, DPR Korea, Egypt, Ethiopia, Mozambique, Nicaragua, Panama, South Africa, Senegal, Sudan, Tajikistan, Thailand, Uganda and Zambia.

THE EXTERNAL AUDITOR'S REPORT

37. The published report of the External Auditor on WFP's financial statements will include significant matters arising from our financial and management reports, as provided for in the Financial Regulations. Where necessary we draw upon the services of specialists to augment the skills of the audit team.
38. As provided by the Financial Regulations, we would be fully prepared to carry out additional specific examinations, and issue separate reports on the results, at the request of the Executive Board.
39. In accordance with the Financial Regulations, the Executive Director will be given the opportunity to comment on audit findings before transmission of our reports to the Executive Board. The procedure for clearing our reports is a well-established feature of our work in the United Kingdom and in the international environment. We operate a "no surprises" policy of fully discussing our audit findings with the organisation, and seeking to agree the facts on which the conclusions and recommendations of the audit report are based. This facilitates governing body consideration of the issues raised in the External Auditor's report in the confident knowledge that they are based on sound, reliable and fairly presented facts. In addition, the process gives the Executive Director and his staff the earliest possible opportunity to act on practical recommendations made by the External Auditor.
40. We intend to present an interim report to the Executive Board in May 2005 and October 2005, which will cover progress of the audit; financial issues to date; and our management report on WINGS and on communications respectively.



ACRONYMS USED IN THE DOCUMENT

WINGS	WFP Information Network and Global System
EMOP	emergency operation
PRRO	protracted relief and recovery operation
NGO	non-governmental organization
RBM	results-based management
FITTEST	Fast Information Technology and Telecommunications Emergency and Support Team
PDL	post delivery losses
IAS	International Accounting Standards

