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PROGRAMME OF WORK OF THE EXTERNAL AUDITOR FOR THE 2002–2003 BIENNIUM

**A Paper by the External Auditor for the
Executive Board, February 2003**

Note to the Executive Board

This document is submitted for consideration to the Executive Board.

The attached paper has been provided by the External Auditor for consideration by the Executive Board. The External Auditor will be attending the Board Session to present the paper to the Board members. Members of the Board who may have questions with regard to this document are invited to contact the External Auditor's staff at WFP:

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UNITED NATIONS WORLD FOOD PROGRAMME

PROGRAMME OF WORK OF THE EXTERNAL AUDITOR FOR THE 2002-2003 BIENNIUM

A PAPER BY THE EXTERNAL AUDITOR FOR THE EXECUTIVE BOARD, February 2003

This paper is submitted to inform the Executive Board on the scope and approach of the External Auditor's work for 2002-03; and to invite the Board's comments. The paper covers:

- **Proposed areas for management audit review and report;**
- **The context and scope of the financial audit, including risk factors;**
- **The extent of field visits; and**
- **Proposals on reporting arrangements.**

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 2002-03.
2. The UK National Audit Office's resident external audit team has been in Rome since September 2002. We have completed a successful hand-over with our predecessors, the Cour des Comptes, and have familiarised ourselves with the Programme's business and its administrative systems.
3. In addition to substantial work at Headquarters, our planning process has included visits to two Country Offices (Afghanistan and Pakistan) and a Regional Office (Cairo), to establish an understanding of the Programme's work at the point of delivery. As a part of our work in Rome, we have also undertaken a review of the information systems utilised by the Secretariat. Resulting from this work we have issued three management letters to the Executive Director, with findings and recommendations for management consideration.

Background

4. The Comptroller and Auditor General of the United Kingdom is the independent External Auditor of the organisation, 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), appended to this paper, 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); draft reports on substantive value for money/management audit topics (three were envisaged); management letters on the results of each country office visit; and a final consolidated audit report to the Executive Board.
6. In addition to the initial planning visits we have carried out in Afghanistan, Pakistan and the Regional Office in Cairo, we have identified a total of some 16 countries to visit for audit purposes, subject to the need to remain responsive to WFP's operational activities. Each of these will result in a management letter addressed to the Executive Director, copied to the relevant WFP staff including the Regional and Country Directors. We will also issue management letters resulting from our headquarters work in Rome and as a result of our management audit work during the biennium.
7. The audit will take account of the particular nature and circumstances of WFP's operating environment; and will address all aspects of the Programme in delivering food aid to meet emergency needs, and supporting economic and social development.
8. Our audit planning has included a comprehensive assessment of the work undertaken by our predecessors. During the biennium, we will follow up on their comments and recommendations made in their reports to the Executive Board, to ensure that WFP continues to benefit from a consistent and rigorous audit.
9. In accordance with the Executive Board's request for more frequent reporting, we will provide interim reports to the Board in addition to a consolidated end-of-audit report on the biennium as a whole.

The Financial Audit

10. 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.
11. We apply the highest professional auditing standards. This approach adopts a clear focus on risks and controls, and produces an audit that:
 - adds value for our clients; and
 - provides opportunities for improving efficiency and generating savings for the client organisation.

12. The 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.
13. Materiality is a concept which recognises that financial statements can rarely be absolutely correct. A matter is regarded as material if its inclusion, omission, mis-statement 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.
14. 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.
15. 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 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.
16. As part of our audit approach, we liaise with the internal oversight services and co-ordinate our work with internal audit to avoid duplication of effort. We will evaluate the work of the internal oversight services, and seek to place reliance on that work where appropriate.
17. Our audit procedures are designed to achieve a cost-effective audit to a high professional standard. We have well established review procedures to ensure that appropriate audit work is undertaken efficiently and in accordance with auditing standards. The National Audit Office's standard procedures include a routine independent internal quality control process, by experienced audit staff unconnected with the audits, which provides additional assurance that standards and efficiency are being maintained.
18. We will attend all Annual and Regular Executive Board meetings and FAO Finance Committee meetings during the biennium; and be available to attend as observers the meetings of the Audit Committee.

Financial Audit Issues

19. A number of key developments or operational aspects of 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 has so far identified the following areas to which we intend to give particular attention.

Implementation of WINGS

20. Our predecessors had examined the implementation of the Financial Management Improvement Programme, FMIP, and its subsequent evolution into WINGS. This is a system customised to the Programme's needs, for example to reflect the peculiarities of the UN system in terms of pay and conditions of service. WINGS is currently in place in some 20 per cent of the Programme's offices, including the regional bureaux, covering some 50 per cent of the planned expenditure for the biennium. 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

fails to operate as envisaged. Currently we are working with WFP's Finance Division in reviewing the mid-biennium closure procedures of the new financial systems.

Decentralisation

21. WFP has pursued a process of de-centralisation to improve the effectiveness of the management of operations in recipient countries, on which our predecessors reported in 2000-01. De-centralisation depends on a management framework that has devolved financial and management authority across different countries and structures. In financial control terms, such arrangements can present risks as well as rewards in the delivery of assistance in emergency conditions and in controlling and accounting for aid, and our audit will keep this aspect of the internal control environment under review.

Government counterpart cash contributions (GCCC)

22. Contributions from recipient countries in cash as well as in kind are provided for under the WFP's Financial Regulation 4.7, to meet a proportion of the costs of WFP country offices. The effectiveness of action by WFP to recover these contributions from host countries is therefore of significant importance. Our predecessors had raised this issue frequently in their reports, and our planning audit visits have indicated that this remains an area for attention.

Income recognition

23. WFP have decided to move from a cash to an accruals basis in accounting for income and a detailed policy on income recognition has been under consideration by management for application to the 2002-03 biennium. It is important for reporting purposes that income should be recognised on a consistent and transparent basis, in order to ensure the completeness and accuracy of disclosures in the financial statements. The full commitment made by donors, and the total funds available to WFP, should not be understated in the Programme's financial reporting. Our audit will include a review of the Programme's application of the new arrangements.

Support Costs

24. During audit planning, we 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, and in reporting to the Executive Board. We will therefore review this further during the 2002-03 audit.

Special Accounts

25. Given the specific and individual nature of contributions to special accounts, there may be particular risks in relation to compliance with the governing conditions of these operations. Our audit will examine this further for 2002-03.

Payroll

26. Payroll administration is carried out either by the WFP directly (in the case of international staff) or by UNDP on the Programme's behalf (for national staff, for example). Payroll administration for international staff was transferred from FAO to WFP from 1 January 2002. Given the inherent complications of the payroll structure and staff entitlements, the payroll function presents a number of risks to be addressed by the audit examination. Contract staff in country offices are usually paid through UNDP, which removes, or at least distances, the extent of direct control provided by WFP over those payments. We will take account of these factors in our audit of payroll and staff costs.

Cash and Investments

27. By the very nature of its activities, WFP operates in many countries where there are no formal banking arrangements, necessitating extensive reliance on cash in emergency situations. In such emergency conditions, the risk of fraud and misappropriation of funds rises significantly, since conventional control arrangements may be compromised and difficult to secure. We will consider the security of cash and other assets further in the course of the audit.

Management Audit Issues

28. In identifying topics for our management audit review and report, we have drawn on our understanding of the WFP's business, 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 also reviewed the areas covered by our predecessors, the Cour des Comptes, in their reports to the Executive Board over the past two biennia.
29. In 2000-01, the Cour des Comptes reviewed treasury management following the transfer of this function from FAO; the decentralisation process and its impact on the management of WFP; and the implementation of the Financial Management Implementation Plan. During our work this biennium, we will review the progress made by WFP in respect of the recommendations made on these subjects.
30. In 1998-99 the external audit report included a review of the decentralisation policy which examined the creation and modification of "clusters"; the funding of regional offices; and an evaluation of the results of the decentralisation policy. The report also covered human resources management, which looked mainly at budget and post control, and post creation and recruitment issues. There was a review of the Financial Management Improvement Programme and progress made in the biennium; and in addition there was a review of the management of the Office of the Executive Director.
31. Having reviewed the work previously carried out, we have considered the potential for undertaking report topics which will add value by providing the Executive Board and the Executive Director with useful and timely commentary and recommendations on WFP's activities. We have identified four potential subjects for management report on the 2002-03 biennium:

Operational Planning and Logistics

32. This topic would be directed at understanding and appraising the relationship between vulnerability assessment, operational planning, budgeting and logistics, in ensuring that food is delivered to target populations efficiently. This work will cover the full scope of WFP's activities and we propose to review the subject as four elements, to be examined over two biennia:
 - Vulnerability assessment;
 - Operational planning;
 - Budgeting processes; and
 - Logistics.
33. Under vulnerability assessment, we propose to consider the success of methodologies applied by WFP in the monitoring of food security and famine, especially in relation to transient populations; and in relation to operational planning, we intend to look at the methodologies used for the prioritisation of programmes, evaluation techniques, and the introduction of performance based measures.
34. Subsequently, we will review the processes used in formulating budgets and the accuracy of forecasting and monitoring of variations, including an examination of the introduction of zero-based budgeting. On logistics, we will look at WFP's implementation of operational plans: internal and external liaison for emergencies; delivery and distribution; and post-emergency review and monitoring arrangements.

Human Resources

35. The main resource of WFP is its staff, the management of which directly affects the Programme's ability to provide aid to recipient countries. WFP fills its requirements for emergency operations by selecting individuals willing to go on short-term missions. In reviewing human resource management, we propose to review how staff are selected for missions; the consequential impact of their absence from permanent duty stations; and how they are assessed for future missions. We

note that there is also a reliance on utilising consultants to fill gaps in field structures, which can bring additional organisational challenge and risk to a difficult emergency structure. We will examine why and how WFP use consultants in preference to the recruitment of permanent staff.

Corporate governance

36. We propose to review the current framework in place for corporate governance within WFP, examining the Programme's arrangements for addressing and managing organisational and operational risk. As a matter of course, we will review the internal control environment and assess how the organisation compares with current good practice arrangements for international and United Nations organisations. The review will look at financial monitoring and accountability, including reporting to donors; and will examine the level of assurance provided to donors on the regularity of the funds utilised on their behalf.

Air service special operations

37. During our planning visit to Afghanistan and Pakistan, we undertook a short review of the United Nations Humanitarian Air Service (UNHAS) operated by WFP. The Programme operates similar services in other countries, to meet its own mandate and also as a service to donors and other humanitarian organisations. The audit will review the management of operational risk, controls and protocols applied by WFP; and will evaluate the accounting, control and reporting frameworks in place, particularly in the case of what are sometimes quite significant receipts generated by the self-funding operations.

Field visits

38. Financial audit and management report work will be conducted 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.
39. We intend to carry out a programme of audit visits to review field operations in some 16 countries - representing a total coverage for 2002-03 of some 19 countries including those visited during approach planning. The initial selection of locations has been based on our assessment of the types of operations in the countries; 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. In terms of specific locations, this coverage may evolve in light of the need to remain responsive to the demands of WFP's operational activities and any changing circumstances.
40. 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: Angola, Armenia, Burundi, Cambodia, Columbia, DPR Korea, Mali, Mauritania, Mozambique (also the cluster office for Zimbabwe and Malawi), Nicaragua, Panama, Rwanda, South Africa, Tanzania, Thailand and Uganda.

The External Auditor's Report

41. 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.
42. 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.

43. 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.
44. In November 2002, the Executive Board requested that if possible the External Auditor issue report findings to the Executive Board as they arise during the biennium, rather than altogether at the end. We are happy to follow this arrangement by providing interim reporting to the Executive Board during the biennium; and by raising management letters on management report topics with the Executive Director as they arise. We will produce a consolidated report for consideration at the end of the biennium, to accompany the financial statements and audit opinion, and to comply with the Financial Regulations.
45. I intend to present an interim report to the Executive Board in October 2003, which will cover progress of the audit; financial issues to date; and the management report on human resources outlined above.

**FINANCIAL REGULATIONS OF THE WORLD FOOD PROGRAMME
(EXTRACT)**

XIV: EXTERNAL AUDIT

Financial Regulation 14.1: The Board shall appoint an External Auditor to perform the audit of the accounts of WFP. The External Auditor shall be the Auditor-General (or official holding the equivalent title) of a State Member of the United Nations or FAO.

Financial Regulation 14.2: The External Auditor shall be appointed for a four-year period covering two financial periods. He or she may be reappointed for only one further four-year term.

Financial Regulation 14.3: The audit shall be conducted in accordance with Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency and in accordance with the additional terms of reference set out in the Annex to these Regulations.

Financial Regulation 14.4: The External Auditor may make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of WFP.

Financial Regulation 14.5: The External Auditor shall be completely independent and solely responsible for the conduct of the audit.

Financial Regulation 14.6: The Board may request the External Auditor to perform specific examinations and issue separate reports thereon.

Financial Regulation 14.7: The Executive Director shall provide the External Auditor with the facilities he or she may require in the performance of the audit and any specific examination requested by the Board.

Financial Regulation 14.8: The External Auditor shall issue a report on the audit of the financial statements and relevant schedules relating to the accounts of the financial period, which shall include such information as the External Auditor deems necessary with regard to the matters referred to in Financial Regulation 14.4 and in the additional terms of reference.

Financial Regulation 14.9: External audits will be conducted exclusively by the External Auditor appointed by the Board, provided that for the purpose of making a local or special examination or of effecting economies of audit cost, the External Auditor may engage the services of any national Auditor-General (or person exercising an equivalent function) or commercial public auditors of known repute or any other person or firm who, in the opinion of the External Auditor, is technically qualified.

ANNEX TO THE FINANCIAL REGULATIONS

ADDITIONAL TERMS OF REFERENCE GOVERNING EXTERNAL AUDIT

1. The External Auditor shall perform such audit of the accounts of WFP, including all trust funds and special accounts, as deemed necessary in order to satisfy himself or herself:

(a) that the financial statements are in accordance with the books and records of WFP;

(b) that the financial transactions reflected in the statements have been in accordance with the rules and regulations, the budgetary provisions and other applicable directives;

(c) that the securities and monies on deposit and on hand have been verified by certificate received direct from WFP's depositories or by actual count of WFP;

(d) that the internal controls, including the internal audit, are adequate in the light of the extent of reliance placed thereon; and

(e) that procedures satisfactory to the External Auditor have been applied to the recording of all assets, liabilities, surpluses and deficits.

2. The External Auditor shall be the sole judge as to the acceptance in whole or in part of certifications and representations by the Executive Director and may proceed to such detailed examination and verification as he or she chooses of all financial records including those relating to supplies and equipment.

3. The External Auditor and the External Auditor's staff shall have free access at all convenient times to all books, records and other documentation which are, in the opinion of the External Auditor, necessary for the performance of the audit. Information classified as privileged and which the Executive Director (or designated senior official) agrees is required by the External Auditor for the purposes of the audit and information classified confidential shall be made available on application. The External Auditor and his staff shall respect the privileged and confidential nature of any information so classified which has been made available and shall not make use of it except in direct connection with the performance of the audit. The External Auditor may draw the attention of the Board to any denial of information classified as privileged which, in his or her opinion, was required for the purpose of the audit.

4. The External Auditor shall have no power to disallow items in the accounts but shall draw to the attention of the Executive Director for appropriate action any transaction concerning which he or she entertains doubt as to legality or propriety. Audit objections to these or any other transactions arising during the examination of the accounts shall be immediately communicated to the Executive Director.

5. The External Auditor shall express and sign an opinion on the financial statements of the World Food Programme. The opinion shall include the following basic elements:

- (a) the identification of the financial statements audited;
- (b) a reference to the responsibility of the entity's management and the responsibility of the auditor;
- (c) a reference to the audit standards followed;
- (d) a description of the work performed;
- (e) an expression of opinion on the financial statements as to whether:
 - (i) the financial statements present fairly the financial position as at the end of the period and the results of the operations for the period;
 - (ii) the financial statements were prepared in accordance with the stated accounting policies; and
 - (iii) the accounting policies were applied on a basis consistent with that of the preceding financial period;
- (f) an expression of opinion on the compliance of transactions with the financial regulations and legislative authority;
- (g) the date of the opinion;
- (h) the External Auditor's name and position; and
- (i) should it be necessary, a reference to the report of the External Auditor on the financial statements.

6. The report of the External Auditor to the Board on the financial operations of the period should mention:

- (a) the type and scope of the examination;
- (b) matters affecting the completeness or accuracy of the accounts, including where appropriate:
 - (i) information necessary to the correct interpretation of the accounts;
 - (ii) any amounts which ought to have been received, but which have not been brought to account;
 - (iii) any amounts for which a legal or contingent obligation exists and which have not been recorded or reflected in the financial statements;
 - (iv) expenditures not properly substantiated; and
 - (v) whether proper books of accounts have been kept; where in the presentation of statements there are deviations of material nature from the generally accepted accounting principles applied on a consistent basis, these should be disclosed.
- (c) other matters which should be brought to the notice of the Board, such as:
 - (i) case of fraud or presumptive fraud;
 - (ii) wasteful or improper expenditure of WFP's money or other assets (notwithstanding that the accounting for the transaction may be correct);

- (iii) expenditure likely to commit WFP to further outlay on a large scale;
 - (iv) any defect in the general system of detailed regulations governing the control of receipts and disbursements or of supplies and equipment;
 - (v) expenditure not in accordance with the intention of the Board after making allowance for duly authorized transfers within the budget;
 - (vi) expenditure not in conformity with the authority which governs it.
- (d) the accuracy or otherwise of the supplies and equipment records as determined by stock-taking and examination of the records;
- (e) in addition, the reports may contain reference to transactions accounted for in a previous financial period concerning which further information has been obtained or transactions in a later financial period concerning which it seems desirable that the Board should have early knowledge.

7. The External Auditor may make such observations with respect to his findings resulting from audit and such comments on the Executive Director's financial report as he deems appropriate to the Board or to the Executive Director.

8. Whenever the External Auditor's scope of audit is restricted, or whenever he or she is unable to obtain sufficient evidence, the External Auditor shall refer to the matter in his opinion and report, making clear in the report the reasons for his comments, and the effect on the financial position and the financial transactions as recorded.

9. In no case shall the External Auditor include criticism in his or her report without first affording the Executive Director an adequate opportunity to explain the matter under observation.

10. The External Auditor is not required to mention any matter referred to in the foregoing which, in his opinion, is insignificant in all respects.