



**World Food
Programme**

**Executive Board
Annual Session**

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RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For consideration

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ANNUAL REPORT OF THE AUDIT COMMITTEE



Executive Board documents are available on WFP's Website (<http://executiveboard.wfp.org>).

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.

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

DRAFT DECISION^{*}

The Board takes note of "Annual Report of the Audit Committee" (WFP/EB.A/2015/6-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

March 2015

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 Reference¹ decided at the 2011 Second Regular Session.

The report is intended as a summary of the principal activities and opinions of the Audit Committee from 1 April 2014 to 31 March 2015. The latter date coincides with finalization of the annual financial statements, a prime focus of the Audit Committee.

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

Antoine Antoun
Chairperson
March 2015

¹ [WFP Audit Committee Terms of Reference](#)

INTRODUCTION AND FUNCTION OF THE AUDIT COMMITTEE

Terms of Reference

1. The Audit Committee (AC) Terms of Reference were adopted by the Executive Board at its Second Regular Session on 15 November 2011. Supplementing these, the AC maintains Rules of Procedures, which provide additional guidance on its activities and are included as Annex I of this document.
2. The AC's responsibilities include advising the Board and the Executive Director on:
 - 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. A list of the AC's current members is provided in Annex II. This composition reflects gender and regional balances as determined by the Board. The Board is currently selecting three new members to fill upcoming vacancies on the AC resulting from expiration of members' appointments. To ensure a smooth transition and continuity, the AC has elected as Vice-Chairperson a member whose term is continuing.

Audit Committee Activities

4. The AC meets at least three times per year for two to three days at WFP Headquarters. In addition, the committee or some of its members may be required to assist in special assignments. Of special significance are the AC's executive sessions for members only, generally with WFP's Executive Director, on the first and last days of each meeting. These sessions focus on strategic issues and provide the AC with insights into WFP's priorities and needs. The sessions are also used to share the AC's concerns with the Executive Director and communicate matters requiring the Executive Director's urgent attention.
5. Since 2009, the AC has met the Executive Board Bureau during its meetings. This practice has been of immense value to the AC, which views these sessions as its essential link to the Board.
6. Meetings of the AC are usually attended by the Executive Director, the Deputy Executive Director, the relevant Assistant Executive Directors, the Inspector General and their officers.
7. This report covers the period from 1 April 2014 to 31 March 2015. It provides an overview of the work of the AC and highlights issues that require the attention of the Board and the Executive Director. The AC met three times during this period: in June and November 2014, and March 2015. Two telephone conferences were held with the Inspector General and WFP management regarding matters that required the AC's attention between formal meetings. In addition, the AC Chairperson spoke frequently with the Inspector General and

the Secretariat regarding the committee's plans. The Chairperson also spoke to the Board and the Finance Committee of the Food and Agriculture Organization of the United Nations regarding AC operations.

8. The AC is pleased to note the completion of a field visit in 2014. Committee members believe these visits to be critical to their understanding of WFP, and they were planned in consultation with the Deputy Executive Director and Country Directors. Expenses were covered under the AC budget.
9. AC member James A. Rose visited Haiti in April 2014. His visit included discussions with six country office staff and accompanying the Deputy Country Director on a project observation visit to commodity warehouses, schools where WFP feeding programmes were being implemented and food-crop terracing projects to reclaim hillsides. Mr Rose also observed WFP's tracking of commodities from port to recipient. Country office staff demonstrated the systems used for administration, monitoring, programme expenditures and reporting. Local staff – several of whom had more than ten years' experience with WFP – were engaged in setting goals and programme implementation.
10. Through the visit, AC members gained:
 - a fuller understanding of commodity tracking and metrics on the numbers of schoolchildren fed daily;
 - greater appreciation of national staff leadership and its impact on country programme operations;
 - insights into the complexity of WFP's multiple systems for tracking administration and programming, including their diversity – from cloud-based enterprise resource planning systems to spread sheets and paper – and the lack of tracking options for some newer modalities such as food assistance for assets;
 - first-hand observation of the long-term development challenges involved in meeting the Millennium Development Goals, and the implications for long-term food assistance; and
 - an appreciation of WFP's impact on beneficiaries' daily lives.
11. Committee member Kholeka Mzondeki is scheduled to visit the Democratic Republic of the Congo in April 2015. As part of the AC's commitment to minimizing costs, field visits will continue to be undertaken by AC members based in the region visited.
12. The AC is grateful to the Executive Director, her team and the Executive Board Bureau for the assistance it has had in discharging its duties. Audit committees around the world are continuously evolving to assist management and governing bodies in dealing with the broad nature of governance, risk, compliance, ethics and control matters that have impacts on an organization's objectives. There is a belief that the new requirements imposed on audit committees, which go far beyond examining financial statements and providing oversight of internal audit, almost render the term "audit committee" a misnomer. Audit committees are increasingly looked upon as essential for supporting the work of governing bodies and giving top management independent advice on the efficacy and cost-effectiveness of policy, strategy and compliance initiatives.

INTERNAL AUDIT AND INVESTIGATIONS

13. Since taking office in April 2013, the Inspector General has introduced several initiatives for delivering greater value to WFP as a valuable business partner and adviser to management. The AC welcomes the Inspector General's focus on business-critical risk assurance and increasing flexible assurance advice.
14. The AC particularly welcomed the introduction in 2014 of clearer, shorter and more risk-focused audit report formats, which were assessed positively by management and partners. The AC noted that while public disclosure of the Inspector General's reports has resulted in some media attention, it does not appear to have had any negative implications.
15. The AC noted with satisfaction the continued high rate of acceptance of internal audit recommendations by WFP management, and the follow-up on implementation of outstanding high-risk recommendations.
16. AC members were pleased to note the appointment of two experienced deputies to the Inspector General's office – one for audit and one for investigations. This solid staffing will enhance WFP's overall governance, risk and control environment.
17. The AC supports the Inspector General's efforts to strengthen the investigation function. Committee members took note of the adoption of new fraud and vendor oversight policies designed to ensure continued attention to addressing irregularities across WFP and its partners.
18. The AC also took note of advisory assurance reports, which provide management with insights and guidance in important areas of WFP's operations. Many of these reports have been developed with the support of an external accounting firm, bringing valuable expertise in management consulting to WFP. The reports are coordinated with management, and are valuable for the AC and for the Board.

RISK MANAGEMENT AND INTERNAL CONTROLS

19. The AC welcomes WFP's efforts to continue strengthening its enterprise risk management (ERM) programme. An effective ERM programme would identify, assess and mitigate all strategic, operational, financial and compliance risks that may have impacts on WFP's objectives, assets and staff. WFP is in line with other public- and private-sector organizations that have developed ERM programmes. While no management programme will eliminate risk or prevent all negative events, building ERM mechanisms will improve WFP's resiliency and increase the probability that it achieves its objectives.
20. The AC noted management's work in late 2014 and early 2015 to capitalize on insights provided by the advisory assurance report from the Inspector General on WFP's ERM framework. These efforts continue to improve WFP's ERM programme in line with those of other organizations.
21. *Fourth-year Statement on Internal Control.* The AC noted that the drafting of a Statement on Internal Control, signed by the Executive Director and supported by management, is an excellent practice that sets an important tone regarding governance, risk, control, compliance and accountability throughout WFP. The Board should find it reassuring to have such a process in place. The AC noted no material concerns regarding internal controls by the External or Internal Auditors.

22. The AC noted the discussions between management and the Inspector General regarding positive assurance opinions. Such opinions from the Inspector General would provide a higher level of confidence in the processes under review than the negative assurance opinion that is commonly provided. Positive assurance opinions require a higher level of process control by management and verification testing by the auditor. The Executive Director is considering the trade-offs necessary if a higher level of assurance is desired for a major process or initiative of WFP. The AC acknowledges that this is a decision for management to make taking into consideration the priorities of WFP.
23. *Risk management focus.* The AC discussed with the Office of Inspector General the focus of its work for 2014 and its work planned for 2015 and concurs with both. Discussions centred on:
- cash and voucher issues including processes and controls, training, procedures and the growing materiality to WFP's overall humanitarian assistance budget;
 - human resource management, including development of the emergency roster and support for staff posted to hardship duty stations; and
 - information technology and communication infrastructure and architecture, including an overview of its organization, benchmarking activities and process management.
24. In future discussions with management the AC anticipates considering:
- follow-up on the internal justice process review conducted in 2014;
 - continued review of cash and voucher processes and controls;
 - deeper assessment and understanding of information technology and communication infrastructure efficiency and effectiveness.

Treasury and Investment Oversight

25. The AC received information on the performance of WFP's short-term investment portfolio; a copy of the 2014 Annual Report on WFP Investment Management; and information included in the Assurance Advisory Report on Treasury Operations. After considering the investment guidelines and restrictions, and the risk profiles of these investments, the AC is in a position to advise that they appear satisfactory.
26. The AC noted that WFP utilizes various options for commodity trading and hedging based on its conservative risk management practices. Current practices should continue to be monitored to ensure their consistency with WFP policies and risk tolerance. Alternative commodity management strategies should be evaluated periodically to determine their advantages to WFP.

FINANCIAL STATEMENTS

27. Considering the information made available to the AC at its March 2015 meeting – by WFP management on preparing the annual financial statement, and by the External Auditor on its audit – the AC was able to advise that the draft financial statements were appropriate for finalization by WFP management and the External Auditor. No significant issues were reported to the AC.

ACCOUNTING

28. The External Auditor assured the AC that the financial statements had been prepared in accordance with International Public Sector Accounting Standards (IPSAS) and that there were no changes in the application of IPSAS by WFP as no new IPSAS or recommended practice guidelines came into effect in 2014.
29. The AC noted with satisfaction that WFP continues to follow IPSAS development by participating in the United Nations Task Force on IPSAS.

EXTERNAL AUDIT

30. This is the fifth year that the Auditor General of India has carried out WFP's external audit. The AC discussed the audit and formed an opinion on the reliability of WFP's annual accounts. Based on the information presented, the AC concurs with the draft unqualified opinion of the External Auditor.
31. At the AC's March 2015 meeting, the External Auditor verbally presented two draft special reports on warehouse management and management of corporate emergencies. The discussion with the External Auditor did not reveal any matters requiring the attention of management or the Board.
32. The term of the Auditor General of India as WFP's external auditor will end in 2016. WFP is currently selecting a new external auditor. The AC has delegated Mr Rose to represent it in the selection process.
33. The AC reiterates the importance of obtaining copies of reports prepared by the External Auditor, even in draft form, in advance of its meetings. This allows committee members to prepare for discussions with the External Auditor. Most audit committees receive copies of high-level work plans, strategies, draft reports and draft management comments from the external auditor in order to offer their expertise. This practice has no impact on the external auditor's independence in determining the final content of its work plans and reports. At its March meeting, the AC was pleased to receive a draft document on financial statement matters from the External Auditor, which was easy to follow and facilitated efficient use of the AC's time.

VALUES AND ETHICS

34. The AC noted no concerns regarding the values and ethics of WFP. At the November 2014 meeting, committee members were pleased to meet the newly appointed ethics officer, who outlined her thoughts on her office's work plan.
35. In conformity with Article 17 of the Audit Committee Terms of Reference, in March 2015 every member of the AC signed and submitted to the President of the Board the annual declaration of independence and statement of financial interests.

ALLEGATIONS OF INAPPROPRIATE ACTIVITY

36. The AC supported the conclusions of the internal justice process review and endorsed the concept of accountable process owners, which would make internal justice procedures objective, prompt and efficient. The AC approved of the Office of Inspector General's commitment to aiming for an average investigation deadline of six months, and will continue to monitor implementation of internal justice mechanisms.

ADDITIONAL PERSPECTIVES AND INSIGHTS

37. Financial Framework Review, Method to Determine the Indirect Support Cost Rate and determination of the Programme Support and Administrative budget: The AC noted management's overview of its assessment of financial arrangements and will continue to monitor management's presentations to the Board.

ANNEX I

Audit Committee of the World Food Programme (WFP) Rules of Procedures

Authority: Article 27 of the Terms of Reference (TOR) for the Audit Committee (AC) of the World Food Programme as approved by the Executive Board on 15 November 2011.

27. Subject to these TOR, the AC shall establish its own rules of procedures to assist its members in executing their responsibilities. The AC rules of procedure shall be communicated to the Executive Board and the Executive Director for their information.

Procedure 1: Development, Review and Consultation of Rules of Procedure.

- 1.1 The Audit Committee shall determine the necessity of rules of procedure, draft such procedure, and provide them for consultation to the Executive Board and Executive Director.
- 1.2 The Rules of Procedure shall be kept to the minimum level necessary.
- 1.3 Consultations shall consider inquiries regarding alignment of the procedure with the TOR as well as how the procedure furthers – in an efficient and effective manner – the mission of WFP and role of the Audit Committee to enhance the Governance, Risk, Control, and Compliance processes of WFP. As noted in the TOR, this includes “ensuring the effectiveness of WFP’s internal control systems, risk management, audit and oversight functions, and governance processes”. Except for extraordinary circumstances, the consultation period shall be a minimum of one month.
- 1.4 After the consultation period, the Audit Committee may officially adopt the procedure – with any appropriate modification – at the next regularly scheduled meeting.
- 1.5 Annually, the AC secretariat shall place on the Audit Committee agenda a review of all rules of procedure – in addition to the TOR - to ensure they continue to be relevant and aligned to the needs of WFP and the Audit Committee.

Procedure 2: Appointment of the Chairperson.

- 2.1 In order to ensure the independence of the Audit Committee, the Committee endeavours to have continuous leadership that can organize and speak for the Committee. The Committee members realize that – in the absence of a chairperson – the Committee’s independence and ability to operate is impaired.
- 2.2 Selection of the chairperson shall be in accordance with Article 23 of the TOR.
- 2.3 If there is an absence in the role of chairperson between meetings due to resignation or expiration of the member’s term, the vice-chairperson shall act in the capacity of the chairperson until such time as the Committee is convened and selects a new chairperson.
- 2.4 If the chairperson is not available for requested meetings with management, Executive Board, Executive Bureau, or other official events, the chairperson shall in consultation with the members designate another member of the committee to represent the committee in the same manner and capacity as the chairperson.

Procedure 3: Observations of WFP Operations.

- 3.1 The Audit Committee firmly believes the ability of the Committee members to optimize their role requires observation of WFP operations outside of formal Audit Committee meetings in accordance with the authority in the TOR article 4.
4. The AC shall have all the necessary authority to fulfil its responsibilities including access to WFP information, records, facilities, and staff.
- 3.2 The purpose of observations shall be to further the comments and conclusions for the Audit Committee regarding the Governance, Risk, Control, and Compliance processes of the WFP.
- 3.3 The manner of observations may include site visits to WFP regional or country offices, site visits to partner offices or operations, inclusion in WFP staff meetings, attendance at consultation sessions, shadowing of internal audit staff during assignments, or other events or activities which further the purpose of observations.
- 3.4 Considerations in determining the appropriateness of observations shall include but not be limited to:
- Impact on WFP operations including but not limited to the ability to support Committee members in the field or in meeting locations, the impact Committee members may have on normal open dialogue among staff, and ability to coordinate logistics and transportation,
 - Safety and security of Committee members,
 - Healthcare needs, restrictions, and inoculations,
 - Language requirements,
 - Identification of and consultation with the WFP or partner leader who will host the observation,
 - Overall cost of the observation effort including transportation, subsistence and support costs,
 - Geographic and operational representation of the site to be visited to overall WFP operations,
 - New programs and initiatives of WFP,
 - Specific focus areas of interest by the Audit Committee members such as technology systems, human resources, procurement, logistics, partner operations...
 - Recent or current audits, evaluations, or other oversight activities of the office or program,
 - Expected insights that will inform the Audit Committee's recommendations and Annual Report,
 - Number and timing of observation missions in a given calendar year.
- 3.5 Observations shall require approval of the Executive Director, designee of the Executive Director, or Executive Board Bureau.
- 3.6 Identification and scheduling of observations shall involve consultations with the Executive Director and his/her designee.

- 3.7 The AC Secretariat shall ensure that subsequent to any observation missions, that the Audit Committee agenda includes a discussion of the observation. The Committee shall discuss insights identified during the observation as well as lessons learned about the efficacy and efficiency of the observation mission. Such insights shall be used to:
- further additional agenda items of the Audit Committee as well as recommendations and the annual report of the Audit Committee, and
 - inform the nature, timing, efficiency and effectiveness for any future observations.
- 3.8 The Audit Committee shall note the highlights of all observations in its annual report to the Executive Board.

Procedure 4: Declaration of Independence and Statement of Financial Interests.

- 4.1 The Secretariat of the AC shall ensure that annually all members of the Audit Committee are asked to acknowledge in writing their independence, statement of financial interests, and confidentiality requirements per the following TOR articles:
14. Since the role of the AC is to provide objective advice, members shall remain independent of the WFP Secretariat and the Executive Board, and shall be free of any real or perceived conflict of interest.
 17. Members of the AC shall sign and submit to the President of the Executive Board an annual declaration of independence and statement of financial interests, following a process that the AC shall establish under its Rules of Procedure.
 31. All confidential documents and information submitted to or obtained by the AC shall remain confidential unless otherwise determined. Members of the AC shall acknowledge this obligation in writing at the time of their appointment.
- 4.2 The manner and form of the acknowledgement shall be via Attachment A of the AC rules of procedure which shall be collected by the Secretariat of the AC and submitted to the President of the Executive Board with a copy to the Deputy Executive Director/Assistant Executive Director for External Relations.

APPENDIX A to Rules of Procedure for the Audit Committee of the World Food Programme

Declaration of Independence and Statement of Financial Interests

Article 17 of the Audit Committee (AC) Terms of Reference (TOR): Members of the AC shall sign and submit to the President of the Executive Board an annual declaration of independence and statement of financial interests, following a process that the AC shall establish under its Rules of Procedure.

I, _____, a member of the Audit Committee of the World Food Programme do affirm to the best of my knowledge the following:

- I do not hold positions with companies that maintain a business relationship with WFP.
- I have not and shall not engage in activities that might impair, or appear to impair, my independence in carrying out my duties as a member of the AC.
- I do not have financial interests which may impair, or appear to impair, my independence in carrying out my duties as a member of the AC.
- I continue to acknowledge my responsibility to maintain to the best of my ability the confidentiality of documents provided to me in the course of my work on the Audit Committee.
- I serve in my personal capacity and do not seek or accept instructions for my work on the AC from any governance or other authority internal or external to WFP.

(Additional Information I Wish to Acknowledge – Optional)

Signature: _____

Date: _____



ANNEX II**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 2014 to 29 July 2017.
- James A. Rose: a United States national. His term is 30 July 2014 to 29 July 2017.

ANNEX III

| AUDIT COMMITTEE ACTIVITIES | | | |
|---|-----------------------|----------------------|-------------------|
| APRIL 2014 – MARCH 2015 | | | |
| | JUNE–JULY 2014 | NOVEMBER 2014 | MARCH 2015 |
| 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 resource 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 |
| TOR | Terms of Reference |