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WORK PLAN OF THE EXTERNAL AUDITOR FOR THE PERIOD JULY 2010 TO JUNE 2011

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NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for information

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 point indicated below, preferably well in advance of the Board's meeting.

Director of External Audit: Ms R. Mathai tel.: 066513-3071

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms I. Carpitella, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).

The Comptroller and Auditor General of India (CAG) was appointed as the external auditor for the period from July 2010 to June 2016 of the World Food Programme (WFP).

CAG's audit aims to provide independent assurance to the Executive Board of the World Food Programme and to add value to WFP's management by making constructive recommendations.

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Work Plan of the External Auditor

World Food Programme

For the period
July 2010 to June 2011



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COMPTROLLER AND AUDITOR GENERAL OF INDIA

World Food Programme

Work Plan of the External Auditor for the period July 2010 to June 2011

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Introduction

1. This document elucidates our work plan detailing the audit activities for the period July 2010 to June 2011. Adherence to International Standards on Auditing and proven audit methods will form the basis of our assurance of providing high quality services to WFP.

Financial Audit

Financial Audit Objectives

2. While the management is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards (IPSAS), we shall express an opinion on these financial statements.

Audit Approach

3. We will plan and perform our audit to obtain reasonable assurance that the financial statements present fairly the financial position as at the end of the period and the results of the operation for the period. We will perform procedures to obtain audit evidence about the amounts and disclosures in financial statements. We will also evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements.

Risk Areas

4. As this is our first year as external Auditor of WFP, our risk assessment is based on the reports/inputs received from our predecessor, review of WFP documents and interaction with key personnel of WFP.

Entity Risk

5. We perceive the organisational level risks to be as under:
 - WFP is funded entirely through voluntary funding that can lead to resource gaps that may impact achievement of programme objectives. The link reporting resource consumption matched against the achievement of its objectives is yet to be developed.

- We understand that the risk management framework is under the process of implementation. Statement of internal control demonstrating the management's commitment to internal financial control and accurate financial reporting is being put in place. The integration of the internal control framework across the WFP's entity-wide operations is yet to be completed.
- WFP Information Network and Global System (WINGS II) is a new system and needs to be fully reviewed to ensure that the controls are in place and the business processes have been captured correctly. The end-to-end integration of WINGS II is not yet complete and there are inherent risks in the transition period.
- WFP operations are located in insecure areas and delivery of services and programmes are managed through third parties. The operational needs may lead to deviations from standard operating procedures; they may also necessitate controls that may not always be provided through standard controls.
- The organisation will benefit from decentralized operations if the roles and responsibilities are clearly understood and the staff are equipped to meet the assigned responsibilities. The reports of the previous auditor point to the risks in oversight especially at the level of the regional bureaux.

Additional Risks: Accounts

- The upstream activities are captured in WINGS II and are interfaced with Commodity Movement Processing and Analysis System (COMPAS) in the country offices. Timeliness and accuracy in capturing the downstream data is vital while recording food inventories.
- Time lag in recovery of reimbursables such as VAT and its depiction in project accounts, is a risk area.
- Surplus has come down from 1389.7 (US\$ millions) in 2008 to 145.2 (US\$ millions) in 2009 indicating a fall of 90 percent. It is mainly because of fall in revenue (13 percent) together with increase in expenses (14 percent).

Compliance Audits

6. Our selection of field offices in operational locations of WFP is based on risk criteria such as the total active projects, number of beneficiaries, projected tonnage needed, operational budget/outlay and previous audit findings. This being the first year of our audit, we intend to cover locations to maximize our audit coverage in terms of volume of programme activity.

7. The 2010-2011 work plan envisages audit of three regional bureaux and eight country offices (Attachment I). In terms of expenditure, we would be covering 27 percent at the level of country offices and 72 percent at the level of regional bureaux. For the selected country offices and regions, we have also reviewed the risks highlighted in their risk management workshop reports which will be kept in view while selecting areas for examination within a country/regional office. We will continue to update our risk assessment in order to remain responsive to any changing circumstances which could affect our selection of field visits.

Performance Audits

8. The objectives of performance audit include whether the programmes and projects have achieved the desired objectives at optimum cost, that operations have been carried out with due regard to economy and efficiency and they have been effective. The areas of performance audit have been selected on the basis of quantum of resources allocated to them and the risk to efficient and effective operation of WFP. The rationale for selection of the topics has been explained under each heading.

Procurement of Landside Transport Services

9. The landside transport, storage and handling (LTSH) operations are a significant part of the entity's operations and are vital to the delivery of services. In terms of value, the LTSH costs contribute significantly. They accounted for US\$903.8 million in 2009, which represented 38 percent of the total expenditure. These costs are thus only second to the food costs.

10. WFP's operations are largely decentralized with regard to LTSH services. Country offices are responsible for all internal transport arrangements and contracting, including payments for these services. All operational decisions such as routing, truck scheduling, warehouse arrangements and tactical diversions of trucks according to local exigencies are made by the country/regional offices. However, they function within the ambit of guidelines provided by the Operations Department in Headquarters.

11. The reports on Somalia of the Inspector General and Oversight Office (OS) highlight the risks in procurement of transport services. These include flaws in short listing of transporters, issues of conflict of interest with the co-operating partners as well as inadequacies in review of performance. The OS report titled, "Functional Audit of WFP Operations in Liberia (AR/10/17)" also reported on the risk that arises from dependence on a limited number of transporters.

12. We recognize that in a decentralized framework, the management will benefit from a review of implementation of the guidelines on procurement in the country offices and the regional bureaux. The risk of deviations from the guidelines will impact the economy and efficiency of services, increasing the cost of delivery. It will also impact the budgeting process. Reduced transparency also renders the entity vulnerable to the risk of reputational damage.

Management of Project Budgets

13. In 2009, WFP could utilise only 58 per cent of the budget. Against the food budget of US\$3104.9 million, the actual consumption was 54 percent at US\$1676.8 million. The budget utilization is limited by the amount and timing of confirmed contributions from donors. In the event that the contributions are not confirmed or not confirmed on time, the programmes will need to be curtailed. The country office in Somalia had funding shortfalls of over 60 percent in 2008.

14. The risks associated with project budgets are as to whether, (a) projects are predicated on a needs assessment through a standardised process (vulnerability analysis and mapping - VAM), (b) WFP has clearly laid down matrices to assess the costs with reasonable accuracy, (c) the commitment to a project is preceded by well-planned strategies for resource mobilisation with responsibilities distributed at levels best suited to shoulder them across country offices, regional bureaux and Headquarters, (d) the budgets are communicated on time, the budget availability at the field level being adequate and timely, (e) the income and expenditure streams are reviewed periodically to keep a watch over project-level red balances and the impact of mismatch, if any, on the project, its achievement of objectives, and measures to minimise the impact.

Somalia Operations

15. We have been requested by the Executive Board to review WFP's Somalia operations and make recommendations for strengthening of controls. Major risk areas to be covered in the audit of Somalia operations are (a) controls in respect of distributing food aid to the intended beneficiary, (b) selection of co-operating partners, (c) food diversion, (d) conflict of interest between transporters and WFP/its co-operating partners, (e) transport operations, (f) inventory management etc. Our audit approach is attached as Attachment II.

Quality Review

16. We have an Audit Quality Management Framework (AQMF) for our Organization, compliance with which is mandatory. To ensure high standards of audit we implement rigorously several quality assurance procedures. The procedures relevant to the present assignment are as under:

- compliance with documented auditing standards and audit methods and procedures;
- rigorous scrutiny of audit findings both at field offices and Headquarters by persons not involved in audit fieldwork so as to ensure that audit findings meet standards of materiality and evidence;
- review of working papers; and
- structured mid-term review of operations.

Individual Audit Assignments

17. The details of audits covered under this Work Plan are as below:

Serial no.	Type of audit assignment	Location	Deliverable
1.	Compliance	Country offices in Ethiopia, Kenya and Uganda	Management letter on each country office
2.	Compliance	Country offices in Afghanistan, Bangladesh and Myanmar	Management letter on each country office
3.	Compliance	Regional bureau in Johannesburg and country office in Malawi	Management letter on regional bureau and country office
4.	Compliance	Regional bureau in Bangkok and country office in Nepal	Management letter on regional bureau and country office
5.	Compliance	Regional bureau in Sudan	Management letter on regional bureau
6.	Performance audit of procurement of landside, transport, storage and handling	WFP Headquarters in Rome	Performance audit report
7.	Performance audit of management of project budgets	WFP Headquarters in Rome	Performance audit report
8.	Financial audit	WFP Headquarters in Rome	Final consolidated report along with opinion on financial statements
9.	Review of Somalia operations	WFP Headquarters in Rome and country office in Nairobi	Report on assessment of controls

Planned Field Audits

Attachment I

S. #	Field audit	Total active projects 2010	Number of beneficiaries 2010 (million)	Co-operating partners/ NGOs	Projected total mt 2010–2011 (million)	Total expenditure in 2010–2011 (US\$ million)	Expenditure as % of total WFP expenditures
1	Regional Bureau Southern, Eastern and Central Africa, Johannesburg	50	31.31	654	4.08	3811.45	31.84
2	Regional Bureau Asia, Bangkok	40	37.23	297	3.21	3137.11	26.20
3	Regional Bureau Sudan	6	11.07	174	1.37	1652.66	13.80
4	Country office, Ethiopia	5	9.53	99	1.60	1168.64	9.76
5	Country office, Kenya	3	4.73	36	0.57	504.82	4.22
6	Country office, Uganda	4	2.31	28	0.13	172.90	1.44
7	Country office, Malawi	3	1.06	9	0.10	78.08	0.65
8	Country office, Afghanistan	3	7.05	79	0.50	776.64	6.49
9	Country office, Bangladesh	3	4.52	31	0.26	204.88	1.71
10	Country office, Myanmar	1	1.29	31	0.98	76.92	0.64
11	Country office, Nepal	3	2.23	20	0.15	209.67	1.75

Review of Somalia Operations**Attachment II****Background**

1. In June 2009, a Channel 4 News programme made allegations on the operations of World Food Programme (WFP) food in Somalia. The Office of Inspections and Investigations (OSDI) investigated the allegations during September–October 2009. In March 2010, the United Nations Monitoring Group on Somalia (MGS) echoed the allegations made by Channel 4 and added fresh allegations.

2. The Executive Board requested National Audit Office of the United Kingdom (NAO), the then External Auditor, to prepare the terms of reference for a review of Somalia operations. The terms of reference emphasized five-step review of the operations by the management, geared not as a retrospective assessment but towards recommendations. This review would form the basis for the audit conducted by the new External Auditor, Office of the Comptroller and Auditor General of India (CAG).

3. The Executive Board requested the CAG in June 2010 to undertake the audit. This paper provides the approach of the review to be undertaken by CAG.

Objectives

4. The broad objectives of our review are to:
- verify whether controls have been designed
 - based on risk assessment and
 - keeping in view the risk appetite of WFP;
 - verify whether the controls are implemented as designed;
 - recommend
 - additional controls
 - modification of existing controls and
 - annulling controls; and
 - recommend lessons from Somalia operations for similar critical operations elsewhere.

Methodology and Anticipated Output

5. A team of three members will conduct the review for six weeks from 11 October to 19 November 2010. We intend to cover the Somalia operations relating to the period January 2009 to date of audit. The review would follow the objectives laid down in the approved terms of reference for the Somalia operation. Accordingly the team will aim to make use of original work done by the management and oversight on the five steps.

6. While reviewing the level of risk, we will do vulnerability and impact analysis to understand the requirements of risk mitigation. The risks would then be mapped with controls in place to assess the adequacy of risk mitigation strategies. The review of controls will cover Accounting controls, operational controls and administrative controls with specific emphasis on the following areas:

- contracting of services;
- delivery of food including security of delivery corridors, pilferage of food;
- distribution of food including identification of beneficiaries, tracking of food upto the final point of delivery;
- external liaison and partnership – conflict of interest, risks from delivery partners etc; and
- support services – record maintenance, human resources controls, etc.

7. While evaluating the strength of controls, we would focus on control elements which could be classified as preventive, detective or corrective.

8. Our output would also conform to the expectations stated in the terms of reference. Apart from commenting on the status of controls, our recommendations would focus on strengthening the risk management framework of WFP keeping in view the eight interrelated components of enterprise risk management of the COSO Framework. We will also recommend lessons from the Somalia operations for similar critical operations of WFP elsewhere.

Audit Discretion

9. The overview elaborated above is based on the information available with us now and it is provisional. Our final audit methodology, scope and output may undergo significant changes depending on the ground realities and available evidence.