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**Executive Board
First Regular Session**

Rome, 8–11 February 2010

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6



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REPORT OF THE ADVISORY COMMITTEE ON ADMINISTRATIVE AND BUDGETARY MATTERS (ACABQ)

The Executive Director is pleased to submit herewith the report of the ACABQ pertaining to WFP. The report covers the following agenda items:

- Selection and Appointment of the External Auditor (WFP/EB.1/2010/6-A/1)
- Revised Fee for the External Auditor for the Biennium 2008–2009 (WFP/EB.1/2010/6-B/1)
- Report of the External Auditor on the Strategic Planning and Reporting at a WFP Country Office — Uganda and WFP Management Response (WFP/EB.1/2010/6-D/1 + Add.1)
- Report of the External Auditor on the IPSAS Dividend: Strengthening Financial Management and Response of the Secretariat (WFP/EB.1/2010/6-E/1 + Add.1)
- Update on the WFP Biennial Management Plan (2010–2011) (WFP/EB.1/2010/6-F/1)
- Final Update on the WINGS II Project (WFP/EB.1/2010/6-G/1)

COPY OF LETTER RECEIVED FROM THE UNITED NATIONS — NEW YORK

Reference: AC/1711

Advisory Committee on
Administrative and Budgetary Questions

5 February 2010

Dear Ms. Sheeran,

Please find attached a copy of the report of the Advisory Committee on your submissions concerning:

- Revised Fee for the External Auditor for the Biennium 2008–2009 (WFP/EB.1/2010/6-B/1)
- Report of the External Auditor on the Strategic Planning and Reporting at a WFP Country Office — Uganda (WFP/EB.1/2010/6-D/1)
- Management Response to the Recommendations of the Report of the External Auditor on the Strategic Planning and Reporting at a WFP Country Office — Uganda (WFP/EB.1/2010/6-D/1/Add.1)
- Report of the External Auditor on the IPSAS Dividend: Strengthening Financial Management (WFP/EB.1/2010/6-E/1)
- Response of the Secretariat to the Report of the External Auditor on the IPSAS Dividend: Strengthening Financial Management (WFP/EB.1/2010/6-E/1/Add.1)
- Selection and Appointment of the External Auditor (WFP/EB.1/2010/6-A/1)
- Update on the WFP Biennial Management Plan (WFP/EB.1/2010/6-F/1)
- Final Update on the WINGS II Project (WFP/EB.1/2010/6-G/1)

I would be grateful if you could arrange for the Committee's report to be placed before the Executive Board at its forthcoming session, as a complete and separate document. I also would appreciate it if a printed version of the document could be provided to the Advisory Committee at the earliest possible opportunity.

Yours sincerely,

Susan McLurg
Chairman

Ms. Josette Sheeran
Executive Director
World Food Programme
Via Cesare Giulio Viola, 68-70
00148 Rome, Italy
Encl.

WORLD FOOD PROGRAMME

Financial and Budgetary Matters

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee has considered the report of the World Food Programme on the revised fee for the External Auditor, as well as the report of the External Auditor on the IPSAS dividend along with the related response of WFP management. The Committee also had before it WFP reports on the selection and appointment of the External Auditor, a final update on WINGS II and an update of the WFP management plan for 2010-2011, as well as the External Auditor's report on strategic planning and reporting at a WFP country office and WFP's response. The complete list of the above-mentioned documents is annexed to the present report.
2. During its consideration of these reports, the Advisory Committee met with the representatives of the Executive Director of WFP who provided additional information and clarifications.

Revised fee for the External Auditor

3. The Committee notes that, in 2005, the Comptroller and Auditor General of the United Kingdom were reappointed by WFP's Executive Board as External Auditor for WFP for a second four-year term from 1 July 2006 to 30 June 2010. The proposed audit fee was estimated on the basis of an estimated workload of 6,500 hours per biennium, as follows:
 - £380,000 pounds sterling for the biennium 2006–2007 at an hourly rate of £58;
 - £398,000 pounds sterling for the biennium 2008–2009 at an hourly rate of £61.20.
4. As indicated in the report, the External Auditor is requesting an increase of fees for the biennium 2008-2009 to £512,000, or some 19 percent as compared to the estimate. The External Auditor indicates that the increase reflects a higher than planned workload of 7,765 hours as well as a higher hourly rate of £66. The reasons for the additional workload are set out in paragraph 4 of the report, namely the transition to International Public Sector Accounting Standards (IPSAS) and the implementation of the WFP Information Network and Global System II (WINGS II) at mid-year rather than at year-end. It is indicated that the increase in the fee of the External Auditor over the contract period is considered to be generally in line with the increase in the cost of living estimated by the Italian Institute of Statistics (ISTAT), which is the recognized index used for evaluating the costs of longer-period procurement contract in Italy.



5. The Committee requested further clarification as to the proposed increase in the hourly rate from £61.20 to £66 (some 8 percent), including in particular on the following elements: (a) whether the terms of the contract with the External Auditor provide a legal basis for such a review; (b) the rationale for the designation of the fee of the External Auditor in sterling; (c) the applicability of the index of the cost of living estimated by the Italian Institute of Statistics (ISTAT) given that the External Auditor is based in the United Kingdom; (d) further details on the evolution of the cost of living index during the 2008-2009 period; (e) the impact of exchange rate fluctuations on the increase of the hourly rate; and (f) industry standards for fees for comparable services. The Advisory Committee was provided with additional information on the contractual arrangements between WFP and the External Auditor, which is attached in the annex below. The Committee trusts that WFP will draw upon the relevant lessons learned in this context to incorporate any necessary additional safeguards into the terms of the contract to be established for the services of the next External Auditor.
6. The Committee also enquired as to the planning of the activities of the External Auditor, and whether current procedures require the External Auditor to inform the Executive Board of the additional costs related to extra work prior to undertaking any additional tasks. The Committee recommends that the Executive Board consider reviewing planning procedures in this regard and making any necessary adjustments prior to the appointment of the new External Auditor.
7. The Advisory Committee has no objection to the increase requested by the External Auditor for the biennium 2008-2009.

IPSAS dividend

8. The Committee notes that the External Auditor has certified WFP's 2008 financial statements and provided assurance to management that IPSAS has been successfully implemented¹. In his report entitled *IPSAS dividend: Strengthening financial management* (WFP/EB.1/2010/6-E/1) the External Auditor indicates that the implementation of International Public Sector Accounting Standards supported by WINGS II has provided a consistent framework for financial reporting, providing greater transparency and accountability. He further indicates that these developments offer a single corporate source of reliable information for managing the business and that the quality of information has been enhanced in key risk areas such as inventory control, recognition of income, understanding of employee benefit liabilities, and linking recognition of expenditure to the point at which resources are consumed. The External Auditor also confirms that WFP has established arrangements for financial monitoring at all levels of management.

¹ WFP/EB.1/2009/6-D/1; WFP/EB.A/2009/6-A/1; WFP/EB.2/2008/5-C



9. The External Auditor believes that the implementation of International Public Sector Accounting Standards supported by WINGS II can serve to further consolidate improvement in financial management and governance, and support the better use of resources. He has made five recommendations aimed at further improvement of business management processes and realization of the benefits of the IPSAS dividend. The recommendations include: the need for establishing a framework to provide more regular financial management reports focused at the corporate level on a monthly basis; providing greater focus on identifying risks to the achievement of objectives in the context of reporting to senior management; disclosure of key financial performance metrics such as income generation, stock levels and investment performance during the course of the financial period in addition to the annual financial statements; the need for senior management to meet on a monthly basis to provide a corporate view of financial performance; and the need to provide clear links between resources and strategic objectives. In its response to the External Auditor, WFP proposes to implement the recommendations of the External Auditor from the first quarter of 2010 (WFP/EB.1/2010/6-E/1/Add.1). The Committee is of the view that it would be useful to provide a more detailed response for each recommendation, including the nature of the actions to be taken and the timeframe for implementation.

10. With respect to the recommendation concerning the need to provide clear links between resources expended and strategic objectives, WFP indicates that it is difficult to establish such links because of the cross-cutting nature of those strategic objectives. While recognizing the inherent challenges in linking resources to strategic objectives, the External Auditor recommends that WFP consider an alternative approach which consists of identifying the expected results associated with each strategic objective, and linking resources to those expected results. The issues related to the integration of financial information and key performance data are outlined in paragraphs 44 to 50 of the External Auditor's report. The Committee shares the External Auditor's view that it is necessary to achieve a linkage between financial reporting and achievements in order to provide donors with greater clarity as to the deployment of resources provided, as well as accountability for the efficient and effective utilization of those resources. It emphasizes that the linkage of resources to accomplishments is an important part of an effective and transparent decision-making process of Member States and other donors, and that it is necessary for WFP to demonstrate how the resources provided contribute to achieving its objectives.

11. In this connection, the Committee notes the benefits and improvements expected from the 2009 edition of WINGS II, outlined in annex II of the report on the final update on the WINGS II project (WFP/EB.1/2010/6-G/1). Among these is the increased clarity and visibility of relationships between resources, outputs, outcomes and strategic objectives, as a result of the implementation of the performance planning and monitoring module for updating a repository on performance data. The Committee trusts that such a repository will serve as a basis for improved performance reporting.

12. On a related matter, the Committee notes the report entitled Strategic planning and reporting at a WFP Country Office – Uganda (WFP/EB.1/2010/6-D/1), in which the External Auditor considers the Country Strategy and the plans articulated by a field operation for meeting



its strategic objectives, facilitating the targeting of vulnerable groups and measuring performance. The External Auditor notes that the Country Strategy provides an opportunity for linking project activity to corporate objectives and that there is scope for allocating project expenditure to priority areas and strategic objectives, so as to better identify the cost of delivery and facilitate results-based management at the local level. The External Auditor has recommended that WFP include improved costing information to enable a better understanding of costs attributable to the achievement of strategic objectives and to measure cost-effectiveness, which would in turn have a wider effect in moving WFP towards the achievement of results-based management. The Committee notes that WFP proposes to implement this recommendation by the end of December 2010.

13. The Committee welcomes the progress made thus far in improving financial management and business processes pursuant to the adoption of IPSAS and implementation of WINGS II. It encourages WFP to maximize the opportunities offered by the modernization of its financial management framework and enterprise resource planning system (WINGS II) to secure the benefits arising from the IPSAS dividend by strengthening its business processes, focusing on analysis of financial information, increasing emphasis on achieving well-informed and timely decision-making, and utilizing resources most efficiently and effectively. The Committee considers that the move towards results-based management and the enhancement of performance reporting, including through the integration of financial information with key performance data, are key elements of that dividend. It looks forward to future updates on management improvements and benefits attained through the adoption of IPSAS and implementation of WINGS II.

Final Update on the WINGS II Project

14. As indicated in the report on the final update on the WINGS II project (WFP/EB.1/2010/6-G/1), expenditures incurred for the project as at December 2009 amounted to \$54.8 million, some \$1.7 million lower than the total allocated amount of \$56.8 million. As indicated, the estimated asset value of WINGS II at the end of December 2009 totals \$45.4 million. The anticipated annual investment for new editions of WINGS II beyond 2009 is estimated between \$5 to \$6 million.

15. In paragraphs 43 to 47 of the report WFP proposes an approach for assessing and reporting on the benefits of WINGS II. The Committee notes in particular WFP's intention to assess the value of the WINGS II investment around results and indicators clearly established at the corporate level rather than at the divisional/unit level or in relation to specific processes. The Committee recognizes the usefulness of a corporate level assessment of the benefits of WINGS II. However, in its view, such an assessment does not obviate the need for a more detailed analysis of benefits derived at the divisional/unit level or through the improvement of specific processes. The Committee is of the view that corporate and divisional perspectives are complementary, and would provide a more comprehensive picture of achievements. It recognizes however that it may be desirable to select the most relevant divisional entities and processes to be assessed and included in the performance reporting on the benefits of WINGS II.



16. The Committee considers that there are valuable lessons to be learned from WFP's experiences in implementing IPSAS and WINGS II, and encourages sharing of knowledge among the entities of the United Nations system engaged in a similar effort.

Update on the WFP Biennial Management Plan (2010–2011)

17. The Committee was informed that it would be necessary to revise the WFP biennial management plan for 2010-2011, which was established prior to the devastating earthquake that struck Haiti on 12 January 2010, taking into account its tragic aftermath and effects on the lives of the people of Haiti. The Committee stands ready to take up consideration of the revised biennial management plan as required.

18. The Advisory Committee recognizes the important role that WFP is playing in providing emergency relief in response to immediate needs and will continue to play in supporting the long-term effort for the rehabilitation and reconstruction of Haiti. It expresses its gratitude to the staff of WFP for their dedication and tireless work to help the victims of this natural disaster. The Committee also takes this opportunity to express its deep appreciation for the courage and unwavering commitment demonstrated by WFP staff in reaching and providing assistance to people in distress everywhere, and to share their sorrow over the loss of their colleagues.



Documentation

For approval

1. WFP/EB.1/2010/6-B/1 Revised fee for the external auditor for the biennium 2008-2009

For consideration

2. WFP/EB.1/2010/6-D/1 Report of the external auditor on the strategic planning and reporting at a country office - Uganda
3. WFP/EB.1/2010/6-D/1/Add.1 Response of the Secretariat to the report of the external auditor on the strategic planning and reporting at a country office - Uganda
4. WFP/EB.1/2010/6-E/1 Report of the external auditor on the IPSAS dividend: strengthening financial management
5. WFP/EB.1/2010/6-E/1/Add.1 Response of the Secretariat to the report of the external auditor on the IPSAS dividend: strengthening financial management

For information

6. WFP/EB.1/2010/6-A/1 Selection and appointment of the external auditor
7. WFP/EB.1/2010/6-F/1 Update of the WFP biennial management plan (2010-2011)
8. WFP/EB.1/2010/6-G/1 Final update on the WINGS II project





World Food
Programme Memorandum

2 February 2010

To: Ms Gina Casar
Deputy Executive Director

From: Bartolomeo Migone
General Counsel and Director, Legal Office

Subject: **External Auditor Revised Fee for 2008-2009**

Following consideration by the Advisory Committee on Administrative and Budgetary Questions of *Revised Fee for the External Auditor for the Biennium 2008-2009* (WFP/EB.1/2010/6-B/1) (the “Paper”), you have requested certain clarifications with regard to contractual arrangements between WFP and the External Auditor (the “Contract”).

In particular, you requested advice on the approval of additional fees under the Contract.

The Contract

The National Audit Office of the United Kingdom was first appointed as External Auditor by WFP’s Executive Board in 2002. At that time, the terms of the NAO’s appointment were laid out in an exchange of letters between the NAO and the President of the Executive Board.

At its Second Regular Session in 2005, the Executive Board reappointed the NAO for a second four-year term. At this time a new letter of engagement recalling the 2002 exchange of letters and the External Auditor’s responsibilities under WFP’s Financial Regulations was executed. This agreement was supplemented by a later exchange on estimated fees to be paid for audit services.



The fees that were approved by the Board corresponded to an “*estimated*” fee for the External Auditor to complete the audit in the biennium 2008-2009 of £ 398,000, at an average hourly fee of £ 61.

The inclusion of an “*estimated*” fee rather than a “*ceiling*” fee can, without further definition in the Contract, be found to allow the External Auditor to carry out, necessary and reasonable additional work pertaining to its agreed audit functions² – without the parties having to agree to an amendment of the Contract.

The fees resulting from such work would, when they are presented for payment, need to be approved by the Board – which would retain the ability to reject amounts that are not reasonable, that have not been properly justified, or that are not covered by the scope of the contract.

Additional Work Claimed by the External Auditor

In 2009 the External Auditor informed the Board, through the WFP Secretariat, that the following factors had caused a significant increase in the number of working hours necessary to complete the audit service:

1. Need to conduct the migration of data from WINGS into WINGS II at mid-year, rather than at year end, due to the delayed implementation of WINGS II;
2. Unforeseen additional work on systems and processes outside of WINGS, such as the Commodity Movement Processing System and the Asset Management System; and
3. Need to conduct a full review of the nine-month financial statement, an essential step towards compliance with International Public Sector Accounting Standards (IPSAS).

As discussed above, under the Contract if such additional work fell *within* the scope of the External Auditor’s audit responsibilities, and was reasonable under the circumstances, the NAO could perform it without a prior amendment of the contract.

In this respect, we have been informed that work described under points 1 and 2 above resulted from developments in data management systems attributable to WFP, over which the External Auditor had no control, and which increased the efforts that the External Auditor had to exert in order to provide audit services under the Contract. It follows that the External Auditor could legitimately have sought payment from WFP of the fee corresponding to the additional work without a previous amendment of the Contract (provided that the extent of the increase is reasonable).

Different considerations could apply to the additional work described at point 3, above.

In 2008, WFP resolved to prepare the financial statements for 2008 in accordance with the International Public Sector Accounting Standards (IPSAS). It should be

² The External Auditor has described how it will at times revise its work programme “where [it] deems necessary, to take into account changing circumstances, [...] ongoing risk assessment and the Secretariat’s response to new emergencies.” WFP/EB.2/2008/5-C



noted that the External Auditor had informed the Board as early as November 2008 that preparation for IPSAS would cause an increase in workload:

“The adoption of IPSAS involves revised and more rigorous accounting policies; the establishment of new and revised systems and procedures to support accruals accounting; and more extensive and rigorous disclosure requirements for the financial statements, *all of which have to be audited*. Accounting and the preparation of financial statements under IPSAS therefore *will require additional audit effort* and procedures compared with accounts previously prepared under United Nations System Accounting Standards. This will include *additional audit costs* which we are discussing with the Secretariat.” (WFP/EB.2/2008/5-C, paragraph 9)

This language implies that IPSAS-related work also fell within the External Auditor’s audit responsibilities as laid in the Contract, and states that the transition to IPSAS caused an increase in audit-related work. If this was the case, and if the work was reasonable under the circumstances, it would not have been necessary for it to be covered by a separate contractual arrangement.

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As described above, the Contract between WFP and the External Auditor provides to the latter some flexibility to conduct reasonable additional work falling within its mandate. This would not affect the External Auditor’s obligation to justify the requested increase and the Board’s ability to refuse to pay the related fees if the justification does not prove to be proper.

This advice may be shared with the Administrative Committee on Administrative Questions.