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**Executive Board  
Annual Session**

**Rome, 8–12 June 2009**

# **RESOURCE, FINANCIAL AND BUDGETARY MATTERS**

**Agenda item 6**

*For consideration*



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## **PROGRESS REPORT ON THE IMPLEMENTATION OF THE EXTERNAL AUDITOR RECOMMENDATIONS**



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## 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 WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

Deputy Executive Director and Chief Financial Officer (CFO):      Ms G. Casar      tel.: 066513-2885

Director, Budget and Programming, and Deputy CFO:      Mr S. OBrien      tel.: 066513-2682

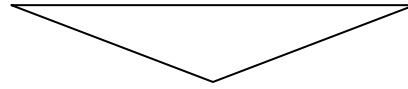
Chief, FLAG\* :      Ms M. Bautista-Owen      tel.: 066513-2240

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

\* General Accounts Branch



## DRAFT DECISION\*



The Board takes note of the “Progress Report on the Implementation of the External Auditor Recommendations” (WFP/EB.A/2009/6-D/1).

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\* 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.



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## PROGRESS REPORT ON IMPLEMENTATION OF THE EXTERNAL AUDITOR RECOMMENDATIONS

1. The Executive Director is pleased to submit this progress report on the status of implementation of the External Auditor recommendations on audits undertaken by the External Auditor.
2. As recommended by the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the Food and Agriculture Organization of the United Nations (FAO) Finance Committee, the Executive Board approved the Secretariat's proposal that a summary report be presented at each Annual Session of the Board (2008/EB.A/8).
3. This progress report includes the comments of the External Auditor on recommendations reported by the Secretariat to have been completed. It covers actions by the Secretariat in relation to the following audit reports issued to the Board by the External Auditor from June 2008 to April 2009:
  - i) "Audited Biennial Accounts (2006–2007): Section III" (WFP/EB.A/2008/6-A/1/3);
  - ii) "Managing for Results: A Second Review of Progress in Implementing Results-Based Management" (WFP/EB.2/2008/5-B/1);
  - iii) "Report of the External Auditor on Preparedness for IPSAS and WINGS II" (WFP/EB.1/2009/6-D/1)<sup>1</sup>; and
  - iv) "Audited Annual Accounts, 2008" (WFP/EB.A/2009/6-A/1).
4. Beginning with the 2008 Annual Session, the Secretariat has provided responses to external audit reports in the same session that the reports are presented to the Board. This report includes those reports to which the Secretariat has already provided responses – the first three of the reports listed in paragraph 3 – to apprise the Board of the status of Secretariat implementation of the recommendations. The Secretariat reiterates that it is committed in ensuring that audit recommendations are implemented in due course.
5. The following matrix summarizes those recommendations outstanding at the last reporting date and updates recommendations implemented during the reporting period.

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<sup>1</sup> IPSAS stands for International Public Sector Accounting Standards; WINGS II for WFP Information Network and Global System II.



| Audit report   | Report date    | Recommendations under implementation as at last reporting date | Completed as at present reporting period | Percent complete |
|--|----------------|--|--|------------------|
| Upgrade of the WFP Information Network and Global System (WINGS)                           | May 2005       | 1  | 0  | 0                |
| Audited Biennial Accounts (2004–2005): Section III   | June 2006      | 1  | 1  | 100              |
| Has Decentralisation Met the World Food Programme's Operational Needs?                     | September 2007 | 1  | 0  | 0                |
| Audited Biennial Accounts (2006–2007): Section III   | April 2008     | 10   | 10                                       | 100              |
| Managing for Results: A Second Review of Progress in Implementing Results-Based Management | September 2008 | 11   | 6  | 55               |
| Report of the External Auditor on Preparedness for IPSAS and WINGS II                      | January 2009   | 4  | 1  | 25               |
| Audited Annual Accounts, 2008  | April 2009     | 8  | 0  | 0                |
| <b>Total</b>   |                | <b>36</b>  | <b>18</b>                                | <b>50</b>        |

## PROGRESS REPORT ON THE IMPLEMENTATION OF THE EXTERNAL AUDITOR RECOMMENDATIONS

| External Auditor recommendations  | WFP response/Actions taken as at last reporting date  | Actions taken as at present reporting period  | NAO Comments |
|---|---|---|--------------|
| <b>Upgrade of the WFP Information Network and Global System (WFP/EB.A/2005/6-B/1/Rev.1)</b>   |   |   |              |
| <i>User system ownership and acceptance testing procedure</i>   |   |   |              |
| <p><b>1. Recommendation 8</b></p> <p>To enable a results-based assessment of the effectiveness by which the upgrade meets its objective to reduce overall maintenance costs, we recommend that WFP consider the: quantification of the costs savings expected from reduced Headquarters resource requirements arising from the upgrade and planned outsourcing of activities currently completed in-house; and preparation of a specific target for cost reduction in system maintenance against which the upgrade can be assessed.</p> | <p>The strategy phase included an overall estimate of potential cost savings at Headquarters and in the field. The analysis work will be used to build on the existing estimates and to define targets.</p> <p>The governance structure will be used to ensure that the scope selected for implementation and the solutions chosen are based on the business cases presented by the divisions.</p> <p>The estimate of potential cost savings has been completed and process objectives and targets were defined during the analysis phase. Process objectives and targets in the "to-be" analysis phase began in May 2006.</p> <p>The Business Blueprint will define the scope of SAP coverage and the extent of customization required.</p> <p>The Secretariat will be in a better position to estimate system maintenance costs once the business blueprint and the detailed design phase are completed in May 2007.</p> <p>The scope of applications and the number of gaps requiring custom development have been defined. These will be finalized when the fine-tuning of the project scope and ongoing re-design work is completed in October 2007. Once completed, the Secretariat will be able to better estimate overall system maintenance costs.</p> | <p>The SAP coverage of WFP's business processes has been significantly increased and so the costs of future maintenance and upgrade of the information system will need to be reviewed. However, it is anticipated that increases in SAP maintenance should eventually be offset by reductions in costs of legacy systems as they are discontinued.</p> |              |



| External Auditor recommendations   | WFP response/Actions taken as at last reporting date   | Actions taken as at present reporting period   | NAO Comments   |
|--|--|--|--|
| <b>Audited Biennial Accounts (2004–2005): Section III (WFP/EB.A/2006/6-A/1/3)</b>  |  |  |  |
| <b><i>Governance and internal oversight</i></b>  |  |  |  |
| <p><b>2. Recommendation 1</b></p> <p>To reinforce the independence of the Audit Committee and ensure a closer alignment of WFP's arrangements with best practice in governance, I recommend that the Executive Board formally acknowledge the role and mandate of the Audit Committee.</p> | <p>As noted by the External Auditor the Executive Director intends to enhance WFP corporate governance by extending the number of external members on the Audit Committee. The recommendation of the External Auditor is directed to the Executive Board and the Secretariat will act under the guidance of the Board.</p> <p>No action is planned by the Secretariat, pending consideration by the Board.</p>   | <p>At the request of the Executive Board, the External Audit provided an advice paper with recommendations on WFP's Audit Committee arrangements to the President of the Board on 10 April 2008. It was submitted to the Board for consideration at its First Regular Session in 2009 (WFP/EB.1/2009/6-B/1). In the same session, the Board endorsed the creation of the WFP Audit Committee as an independent advisory body reporting to the Board and the Executive Director. The Board also took note of the comments of the ACABQ (WFP/EB.1/2009/6 (A,B,C,D)/2) and the FAO Finance Committee (WFP/EB.1/2009/6 (A,B,C,D)/3).</p> <p>This recommendation is deemed completed.</p> | <p>The decision of the Executive Board to accept the External Audit paper and its recommendations, to endorse the Audit Committee and receive reports from the Audit Committee Chairman adequately addresses our recommendation.</p> |
| <b>Has Decentralisation Met the World Food Programme's Operational Needs? (WFP/EB.2/2007/5-C/1)</b>  |  |  |  |
| <b><i>Adequacy of guidance on oversight and management responsibilities</i></b>  |  |  |  |
| <p><b>3. Recommendation 2</b></p> <p>We recommend that the Secretariat develop improved management oversight frameworks, agreed between regional bureaux and country offices and reviewed by the Oversight Services Division (OSD), which:</p>   | <p>The existing guidelines on the management oversight framework indicated in the Operations Department (OD) directive "Guidelines for model structure, unit definitions, distribution and allocation of functions, functional statements, work flow and delegation of authority for the OD Bureaux" (OD 2000/004 dated 10 November 2000) and its subsequent review in "Report on the Findings of the Operations Review" dated April 2005 will be reviewed as recommended.</p> | <p>The Secretariat has undertaken the necessary background work and consultations to clarify the respective roles of Headquarters, regional bureaux and country offices in implementation of and support to operations. The respective roles and responsibilities will be reflected in the Management Plan (2010–2011).</p>  |  |



| External Auditor recommendations  | WFP response/Actions taken as at last reporting date   | Actions taken as at present reporting period  | NAO Comments   |
|---|--|---|--|
| <p>(i) Better clarify consistent responsibilities for management oversight of regional and country operations; and</p> <p>(ii) Maintain an appropriate and independent management oversight of regional projects.</p>                                 | <p>The Secretariat is committed in having the existing guidelines on management oversight framework as well as related issuances amended with expected completion date of December 2008.</p> <p>The Secretariat has undertaken discussions with concerned managers and preparatory work is being undertaken to review existing guidelines on management oversight framework, in line with the audit recommendation.</p>  |   |  |
| <b>Audited Biennial Accounts (2006–2007): Section III (WFP/EB.A/2008/6-A/1/3)</b>   |  |   |  |
| <b>Governance issues – risk management</b>  |  |   |  |
| <p><b>4. Recommendation 1</b></p> <p>We encourage the Secretariat to continue to pursue the interrelated management of risk, performance assessment and operational requirements in accordance with the United Nations' governance reform agenda.</p> | <p>The Secretariat agrees with the recommendation and will continue to pursue interrelated management through an increasingly formalized enterprise risk management (ERM) mechanism.</p> <p><i>WFP's Corporate Risk Management Policy</i> outlines the objective of risk management. Guidelines have been disseminated and training has been conducted across WFP to activate the process of applying risk management systematically and proactively.</p> <p>The <i>Corporate Risk Profile</i> is being compiled with input from all levels in WFP to capture the macro-level risks that WFP faces and the actions to be taken to minimize risks. An Executive Director's circular outlining managerial responsibility for risk management at all levels will be issued during the second quarter of 2008. It will also establish an internal committee for monitoring risk management and performance management.</p> | <p>The Performance and Accountability Management Division has been created to take forward the implementation of an ERM strategy throughout the Programme that is linked to implementation of the WFP Strategic Plan (2008–2011).</p> <p>Since the Division's establishment in December 2008, steps have been taken to review and expand the integration of ERM into WFP's core business processes. The Executive Director has approved the creation of an ERM Committee that will provide guidance on identification, prioritization and mitigation of corporate risks and will review operational risks that are escalated through regional bureaux. A review and update of the corporate risk profile will be undertaken during the first meeting of the ERM committee in 2009.</p> <p>A circular that further defines the role and responsibility for ERM within WFP's accountability framework is being finalized. A workshop was held in March 2009 to review interdivisional perspectives on the value and motivational levels for ERM in WFP.</p> <p>This recommendation is deemed completed.</p> | <p>External Audit (and the Audit Committee) will monitor how risk management arrangements operate in practice.</p> |





| External Auditor recommendations  | WFP response/Actions taken as at last reporting date  | Actions taken as at present reporting period  | NAO Comments   |
|---|---|---|--|
| <p><b>5. Recommendation 2</b></p> <p>We recommend that the Secretariat take steps to ensure adequate succession planning to address the impact expected to arise from foreseen loss of experienced Secretariat staff; and that coverage for key posts is available wherever possible to mitigate unforeseen departures or transfers between United Nations organizations.</p> | <p>The Secretariat has adopted an approach for succession planning that has allowed it to identify internal staff with the potential to assume higher responsibilities even at the senior level. In 2004 and 2006, the Secretariat undertook a confidential assessment of the performance and potential of middle managers; assessment results were used to identify candidates for senior positions and focus on their development opportunities. A similar assessment was undertaken for D1- and D2-level managers with the objective of identifying staff for succession into top-level positions. The results were also used to provide the Executive Director with an overview of her top management team. The Secretariat will continue to have unforeseen departures of staff and will institute a robust succession planning process for filling vacant positions, especially those at the senior level. However, selection procedures for certain posts require the involvement of the United Nations Secretary-General and the Director-General of the Food and Agriculture Organization of the United Nations (FAO), which makes succession planning at that level far more complex. In the event of a gap between the departure of a senior staff member and the appointment of his or her replacement, the Secretariat will ensure that the responsibilities of the post are covered adequately.</p> | <p>This recommendation was deemed completed at the time the initial response was made and no further action is required from the Secretariat. It will continue to ensure, however, that responsibilities for key posts are covered adequately.</p>                    | <p>In External Audit's view, staff turnover in key positions has continued to present challenges for WFP. We note the Secretariat's comments and encourage the ongoing consideration of key posts pending permanent replacements</p> |
| <p><b>6. Recommendation 3</b></p> <p>We recommend that the Executive Board consider whether it would be appropriate to solicit the Secretariat's position and initial response to audit recommendations at the same time that external audit reports are examined by the Board, so as to achieve a more useful dialogue and improve accountability.</p>                       | <p>The Secretariat has made significant progress in ensuring that timely responses are provided to audit recommendations made by the External Auditor in reports presented to the Board for consideration and has tried to provide a response at the same Board session.</p> <p>However, the Secretariat acknowledges that the timing of the reports sometimes leads to a delay in providing its response.</p> <p>The Secretariat will agree with the External Auditor on timelines whereby external audit reports for submission to the Board are received by the Secretariat in time to allow it to</p>   | <p>Since the External Auditor made this recommendation, the Secretariat has been providing responses to the External Auditor recommendations at the same session that the audit report is presented to the Board.</p> <p>This recommendation is deemed completed.</p> | <p>The provision of Secretariat responses to our recommendations at the same Board meeting to which our reports are given adequately addresses our recommendation.</p>   |





| External Auditor recommendations                                 | WFP response/Actions taken as at last reporting date  | Actions taken as at present reporting period   | NAO Comments  |   |
|--|---|--|---|---|
|  | prepare its responses and present them to the Board at the same session.  |  |   |   |
| <b>Thematic findings from field coverage – monthly reporting</b> |   |  |   |   |
| 7.   | <b>Recommendation 4</b><br>We encourage the Secretariat to further develop results-based performance targets based on key financial indicators recorded in monthly financial reporting and the Dashboard, against which Headquarters and regional management performance can be assessed. | The monthly oversight reports developed by the Secretariat provide adequate information to measure performance in terms of the timeliness and accuracy of financial transactions recorded in WFP records. These reports were developed to include accounts considered critical to ensuring the integrity of transactions recorded in field offices. Nevertheless, the Secretariat will continue to enhance such oversight tools for use in performance measurement at Headquarters and in the field. | The implementation of the Dashboard has helped the Secretariat exercise its oversight role; this tool will continue to be used to assess performance of WFP field offices.<br><br>This recommendation is deemed completed.  | Dashboard monthly reports represent key management financial controls, enabling regional and Headquarters oversight. We encourage periodic review of the financial indicators in Dashboard to maintain focus on financial corporate risk. |
| <b>Financial management</b>                                      |   |  |   |   |
| 8.   | <b>Recommendation 5</b><br>We recommend that the Secretariat maintain efforts to recover costs promptly from cooperating partners.  | Actions already taken by the Secretariat on timely recovery of advances will be extended, including to recovery from cooperating partners, in order to ensure greater timeliness and accuracy of recorded transactions. Adoption of IPSAS became effective in January 2008; timely recovery of advances is of utmost importance for complying with IPSAS.  | The Secretariat has been continuously monitoring the status of all accounts through the Dashboard; Headquarters and field offices perform additional monitoring actions. This ensures that accounts are accurate and up to date. Recovery action will continue to be pursued for past-due accounts.<br><br>This recommendation is deemed completed. | The Secretariat's monitoring of outstanding cost recovery using Dashboard addresses the recommendation.   |

| External Auditor recommendations  | WFP response/Actions taken as at last reporting date   | Actions taken as at present reporting period  | NAO Comments  |
|---|--|---|---|
| <p><b>9. Recommendation 6</b></p> <p>We recommend that the Secretariat introduce an appropriate level of structured regional procurement planning wherever it would be cost effective.</p>  | <p>The Secretariat agrees with the recommendation and will ensure that adequate planning in all aspects of procurement is strictly adhered to. The Secretariat expects that improved procurement planning will result in more cost-efficient procurement. In the past, some procurement actions resulted in WFP paying higher prices because of late availability of funding, but it has addressed the issue with the introduction of the Working Capital Fund and other financing mechanisms. Other initiatives such as the New Business Model and the Supply Chain Optimization project, which were introduced in 2007, would meet project requirements in a more timely and cost-efficient manner.</p>        | <p>The strengthening of the advance financing facility combined with the implementation of the Supply Chain Optimization Project allowed for better procurement planning and effecting purchases at the right time. It also enabled some forward delivery contracting and pre-positioning of stocks. This resulted in improvements in WFP's ability to meet the requirements of the beneficiaries in a cost-efficient and timely manner.</p> <p>This recommendation is deemed completed.</p>  | <p>The strengthening of Advance Financial Facility and the Supply Chain Optimization Project addresses the recommendation.</p>  |
| <b>Financial reporting and internal control</b>   |  |   |   |
| <p><b>10. Recommendation 7</b></p> <p>We reiterate the recommendation made after our review of the 2006 financial statements that the Secretariat could consider a shorter cut-off period for the recording of income and expenditure after the end of each year, prior to closure of the accounting records and preparation of the financial statements.</p> | <p>The Secretariat appreciates the External Auditor's acknowledgement of its work on improving management oversight in the preparation of the 2006–2007 financial statements and on ensuring the allocation of income and expenditures to the appropriate accounting period.</p> <p>The Secretariat accepts the External Auditor's recommendation to adopt a shorter cut-off period for the recording of income and expenditure after the end of each year. The Secretariat's agreement with the recommendation reflects experience in 2006–2007, which showed improved readiness and capability among field offices to ensure that financial transactions are recorded completely, accurately and promptly.</p> | <p>Following the External Auditor recommendation, an earlier cut-off was used for the 2008 financial closure. Secretariat preparations made during the last two years for IPSAS adoption in 2008 enabled WFP offices at Headquarters and the field to meet the rigorous requirements for closing accounts under IPSAS. The unqualified opinion rendered by the External Auditor on the 2008 financial statements were an indication of the accuracy and completeness of the accounts in all material respects and that they met all IPSAS requirements.</p> <p>This recommendation is deemed completed.</p> | <p>The audit opinion attests to the end result of financial procedures rather than the nature or quality of the procedures themselves. We further encourage the Secretariat to review the planned cut-off for the preparation of the 2009 financial statements.</p> |
| <b>Progress towards the introduction of International Public Sector Accounting Standards – presentational changes for 2007</b>  |  |   |   |
| <p><b>11. Recommendation 8</b></p> <p>We encourage the Secretariat to maintain its progress towards achieving financial statements in compliance with</p>   | <p>The Secretariat appreciates the External Auditor's comment and encouragement with regard to IPSAS compliance. The improvements introduced by the Secretariat since 2006 as part of the transition to IPSAS will help to ensure successful</p>   | <p>As indicated in the Secretariat update on the preceding recommendation, the 2008 financial statements were prepared in compliance with IPSAS. The major risk that was foreseen at that time that would</p>   | <p>Our clear audit opinion on the 2008 financial statements confirms that the Secretariat has addressed our recommendation.</p>   |





| External Auditor recommendations  | WFP response/Actions taken as at last reporting date   | Actions taken as at present reporting period   | NAO Comments   |
|---|--|--|--|
| <p>International Public Sector Accounting Standards (IPSAS), which has already supported improved consideration of unfunded staff liabilities and trends in increased staffing costs, and has improved the matching of expenditure to service delivery and associated funding.</p>                      | <p>adoption of IPSAS in 2008 and beyond. Preparation of the 2006–2007 accounts indicated that a major risk for successful IPSAS adoption — recognition of expenditure on the basis of goods and services delivered — has been fully understood and implemented by WFP offices.</p> <p>The “Update on the WFP Management Plan (2008–2009)” presented to the 2008 Annual Session of the Board discusses options for dealing with unfunded staff liabilities.</p>                         | <p>prevent a successful accounts closure – that is, recognition of expenses on the basis of the delivery principle – has been substantially complied with by all WFP offices. This is the result of continuous training and guidance provided by the Secretariat to relevant business units as part of the preparation for IPSAS adoption.</p> <p>This recommendation is deemed completed.</p> | <p>Our report accompanying the financial statements to this Board further considers our audit of the first IPSAS-compliant financial statements.</p>   |
| <p><b>Fraud, ex-gratia payments, amounts written off and contingent liabilities</b></p>   |  |  |  |
| <p><b>12. Recommendation 9</b></p> <p>We encourage the Secretariat to ensure the timely clearance of long outstanding receivables to reduce the risk of subsequent write-off being necessary where inadequate documentation remains to fully analyse and recover the funding.</p>                       | <p>Since 2006, the Secretariat has made significant progress in clearing long outstanding receivables; this will continue to ensure that financial transactions are recorded in compliance with IPSAS.</p> <p>The introduction of management oversight tools for monitoring accounts has helped WFP offices to achieve this objective.</p> <p>The Secretariat will intensify the clearing of these receivables to ensure recovery; write-off will be used only as the last resort.</p> | <p>The Secretariat has been using the Dashboard to monitor key financial indicators to ensure that accounts are accurate and up to date. While occasionally there may be write-offs, the amounts of write-offs during 2008 were greatly reduced compared with previous years.</p> <p>This recommendation is deemed completed.</p>  | <p>The Secretariat has addressed the recommendation. The IPSAS-compliant financial statements record the movement in doubtful receivables, which will assist Board assessment of funding recovery rates.</p> |
| <p><b>13. Recommendation 10</b></p> <p>We recommend that commodity losses be fully recorded in the annual post-delivery loss report to the Executive Board. Any action taken subsequently which results in the recovery of particular losses would be reported in later post-delivery loss reports.</p> | <p>The Secretariat continues to investigate the legal aspect of the seizure of commodities by a government, with a view to making recommendations to the Board as to the resolution of this issue.</p>   | <p>The Secretariat has been reporting to the Board on an annual basis concerning post-delivery losses, including recoveries made for such losses.</p> <p>This recommendation is deemed completed.</p>  | <p>The Secretariat has addressed the recommendation. The IPSAS-compliant financial statements report post-delivery food losses identified in 2008 (Note 9).</p>  |

| External Auditor recommendations  | WFP response/Actions taken as at last reporting date   | Actions taken as at present reporting period   | NAO Comments  |  |
|---|--|--|---|--|
| <b>Managing for Results: A Second Review of Progress in Implementing Results-Based Management (WFP/EB.2/2008/5-B/1)</b> |  |  |   |  |
| <b>Setting objectives, outcomes, outputs and indicators</b>   |  |  |   |  |
| 14.   | <p><b>Recommendation 1</b></p> <p>As the Secretariat and Executive Board revise or adapt the Strategic Plan, they could consider revisiting the Strategic Objectives to clarify their role as overarching aspirations; and consider introducing a level of objectives, underpinning the current Strategic Objectives, against which it would be able to measure its performance.</p> | <p>The Secretariat believes that the Strategic Objectives approved by the Board provide adequate guidance for the development of objectives, outcomes and outputs at other levels. The Secretariat agrees with the recommendation and has introduced a subsidiary level of measurable objectives to measure WFP's performance. The Strategic Results Framework (SRF) (2008–2011) reflects these changes.</p> | <p>The SRF was endorsed by the Board at its First Regular Session in February 2009.</p> <p>The SRF, which was rolled out in January 2009, incorporates subsidiary levels of measurable results – outputs and outcomes – and associated indicators that will permit measurements and reporting of WFP's programme-level performance.</p> <p>This recommendation is deemed completed.</p> | <p>The Board's approval of the Strategic Results Framework addresses the recommendation.</p> |
| 15.   | <p><b>Recommendation 2</b></p> <p>The Executive Board and Secretariat could consider devising Management Objectives that feed into specific Strategic Objectives, for example by incorporating them into the new level of objectives described in Recommendation 1.</p>  | <p>In view of the complexity of linking Management Objectives to particular Strategic Objectives, the Secretariat intends to redefine the current Management Objectives to align them with the results measurement system being developed for the Strategic Results Framework (2008–2011) mentioned above.</p>   | <p>Internal consultations are being held on the formulation of Management Objectives, with a view to compiling the Management Plan (2010–2011); the latter will be presented at the Second Regular Session of the Board in November 2009.</p>   |  |
| 16.   | <p><b>Recommendation 3</b></p> <p>When it finalises the new Strategic Plan for 2008–2011, the Secretariat could consider using the opportunity to update the Indicator Compendium by, for example, revising the indicators so that they clearly focus on fully measuring WFP's performance against its objectives.</p>   | <p>The Secretariat believes that there is significant value in updating the Indicator Compendium and that parts of it could be expanded to enable full measurement and demonstration of WFP's performance against objectives. The Secretariat will update the current Indicator Compendium following approval of the Strategic Results Framework (2008–2011).</p>  | <p>The Indicator Compendium has been updated to reflect the Strategic Results Framework for the WFP Strategic Plan 2008–2011. The Indicator Compendium is available in the <i>Programme Guidance Manual</i> (PGM), and online on the WFP internal website as a Wiki document.</p> <p>This recommendation is deemed completed.</p>   | <p>The updating of the Indicator Compendium addresses the recommendation.</p>                |





| External Auditor recommendations  | WFP response/Actions taken as at last reporting date   | Actions taken as at present reporting period  | NAO Comments  |
|---|--|---|---|
| <b>Measuring and reporting performance against objectives, outcomes and outputs</b>   |  |   |   |
| <p><b>17. Recommendation 4</b></p> <p>The Secretariat could consider further developing the project documents so that they include details of what outputs and outcomes the project will deliver; how these will be measured (i.e. the indicators); and annual targets for delivery that can be monitored in the Standard Project Reports for each project.</p> | <p>The Secretariat agrees with the recommendation and is committed to developing project documents that include details of outputs, outcomes and targets to facilitate the measurement and reporting of results in SPRs. Country offices are required to map outcome and output measurement frameworks in project documents.</p>   | <p>The design of all project documents follows the logical framework, which includes the outputs and outcomes to be achieved during project implementation. All project documents are reviewed by the Programme Review Committee to ensure that they include logical frameworks with project outputs, outcomes and targets that will measure project performance.</p> <p>An RBM checklist has been prepared to guide country offices and regional bureaux during project design and to assess newly designed projects on whether they are results-oriented.</p> <p>This recommendation is deemed completed.</p> | <p>We will review and report on a major field-based project as outlined in our Programme of Work presented to the Executive Board in October 2008 (WFP/EB.2/2008/5-C).</p> <p>The report will aim to provide organization-wide lessons from the assessment of project planning and reporting.</p> |
| <p><b>18. Recommendation 5</b></p> <p>The Secretariat has made improvements to the performance monitoring of projects since the introduction of Standard Project Reports but it may wish to consider taking further steps to improve the monitoring of outcomes.</p>  | <p>The Secretariat recognizes the need to improve project performance monitoring and outcome measurement. Ongoing work to refine the monitoring and evaluation (M&amp;E) toolkits includes provision for results measurement. Harmonization of assessment and vulnerability-analysis tools will continue with a view to improving outcome measurement and reporting in SPRs. The Secretariat is collaborating with United Nations agencies and partners to develop methods for collecting outcome data and documenting progress on the outcomes of multi-agency interventions.</p> | <p>The modifications in the DACOTA architecture for data collection will be made during the last quarter of 2009 in line with the 2009 reporting schedule.</p> <p>Ongoing M&amp;E capacity-building efforts will be provided to country offices and regional bureaux through formal, informal and on-the-job training, bilateral discussions and field missions during 2009. Guidance notes on outcome measurement, monitoring and reporting will be issued in the third quarter of 2009.</p>   |   |
| <p><b>19. Recommendation 6</b></p> <p>In developing a new evaluation policy, the Secretariat may consider the number of evaluations that can feasibly be carried out and undertake to</p>   | <p>The Secretariat agrees that a realistic evaluation policy is vital for the success of RBM, and steps have been taken to enhance the current policy. The revised draft evaluation policy proposes that 30 operations should be evaluated each year, 10 by the Office of Evaluation (OEDE) and 20 on a decentralized basis. The lessons learned will be</p>   | <p>The evaluation policy was approved during the Second Regular Session of the Board in 2008; it specifies the number of evaluations to be undertaken.</p> <p>The selection process (also defined in the evaluation policy) is designed to ensure</p>   |   |

| External Auditor recommendations  | WFP response/Actions taken as at last reporting date   | Actions taken as at present reporting period   | NAO Comments   |
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| <p>conduct only as many as is achievable. The new policy could, ideally, provide for an even spread of evaluations to allow the widest possible scope for learning across projects and between countries and regions.</p>   | <p>presented in an annual report (see Recommendation 10) and will supplement good practice identified through monitoring (see Recommendation 7).</p> <p>See implementation plans under Recommendations 7 and 10.</p>   | <p>that the sample of operations is as representative (in terms of geography, category and size) as possible. A total number of 30 evaluations is necessary to ensure the sample size is sufficiently large to make analyses of corporate issues and subsequent learning possible and meaningful.</p> <p>OEDE circulated its annual evaluation report in February 2009. The report highlights common findings (strengths and weaknesses) and thus contributes to learning. In addition, OEDE launched in 2008 an initiative to improve the use of evaluation findings for institutional learning.</p> <p>This recommendation is deemed completed.</p>  |  |
| <p><b>20. Recommendation 7</b></p> <p>The Secretariat may find it useful to identify all good practice in monitoring performance across WFP and share it with other divisions, country offices and regional bureaux, rather than expecting and resourcing each work area to devise its own methods of performance management.</p> | <p>The Secretariat believes that it is important to enhance performance monitoring, and has recently done so through the Common Monitoring and Evaluation Approach (CMEA). The RBM Coordination Unit and the Programme Design and Support Division have been sharing good performance measurement and monitoring practices across WFP through workshops and guidance and learning materials published in WFPGo. The Secretariat will introduce tools that reflect good practice to ensure timely and harmonized performance monitoring and communication of results information throughout WFP. These measures will continue as part of capacity-building to enhance RBM in the Secretariat. The Secretariat will implement a performance management information system and will adopt revised RBM learning tools.</p> | <p>RBM e-learning tools are being developed. Demand-driven RBM training workshops to increase capacity for work planning and improve understanding of RBM terminology and tools have been conducted in two country offices. A comprehensive performance management training programme will be implemented during the second half of 2009 and beyond to further enhance adoption and augment capacity for performance management in WFP.</p> <p>The Secretariat is exploring an appropriate performance management approach and tool to be adopted to harmonize performance planning and analysis and to communicate performance results.</p> <p>Revision of RBM learning tools is ongoing.</p> | <p>The Board approval of the evaluation policy completes the recommendation. We encourage the Secretariat to ensure ongoing achievement of the 30 evaluations intended to analyse corporate issues and provide global lessons.</p> |
| <p><b>21. Recommendation 8</b></p> <p>The Secretariat could take steps to make it easier for staff to engage with the Performance and Competency</p>  | <p>The Secretariat considers the completion of PACE by all staff and managers to be an important accountability requirement that is vital to the success of an RBM system. The Secretariat is exploring technology to simplify and improve access to the PACE system: the details will be set</p>  | <p>The Executive Board approved the human resources strategy at the Board's First Regular Session in February 2008. The web-based PACE system was launched at the end of March 2009; data will be analysed and the use and completion of</p>   |  |





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| <p>Enhancement (PACE) system and encourage the completion of PACE meetings and assessments to a high quality by:</p> <ul style="list-style-type: none"> <li>• simplifying the PACE system and documentation;</li> <li>• making PACE equally accessible to all staff;</li> <li>• introducing performance related pay based on the results of the PACE assessment; and</li> <li>• including the completion of staff PACE assessments, to a high standard, as a personal objective for each manager, so that they are assessed against their delivery of this objective.</li> </ul> | <p>out in the forthcoming strategy paper on human resources to be presented at the Board's 2008 Second Regular Session. Refined PACE tools and procedures will be introduced to improve the monitoring of staff performance and provide feedback.</p> <p>As part of the United Nations Common System, WFP will continue to follow the collective agreement on introducing performance-related pay: when that happens, PACE will continue to be the basis for measuring performance. But serious challenges remain in terms of compliance, and the Human Resources Division (OMH) is looking into ways of addressing them.</p> <p>These enhancements will be introduced in 2009.</p> | <p>PACE assessments will be monitored. PACE tools and procedures are being refined and adapted for implementation.</p> <p>This recommendation is deemed completed.</p>         |   |
| <p><b>22. Recommendation 9</b></p> <p>The Secretariat might consider conducting a review of a random sample of PACE assessments each year and use the results to provide guidance to managers on how to improve the quality of assessments where necessary.</p>  | <p>The Secretariat recognizes that good quality PACE assessments can support workforce development and retention. PACE assessments will from now be reviewed biennially rather than annually because of funding and resource constraints.</p> <p>These changes will be implemented immediately.</p>   | <p>The Human Resources Division will finalize a framework and procedure to randomly monitor the PACE assessments of staff members to improve their quality and completion.</p> | <p>The web-based PACE system addresses the recommendation. We encourage the Secretariat to further consider performance-related pay in conjunction with other United Nations organisations.</p> |



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| <b>Learning from results</b>   |  |  |  |
| <p><b>23. Recommendation 10</b></p> <p>The Secretariat may wish to implement a systematic process to allow lessons learned from its monitoring of results and evaluation of projects to be shared between divisions, projects, countries and regions. The Secretariat could also consider whether it needs both of the annual reports that summarise the data from the SPRs: the Standard Project Report: an evaluation; and the Annual Performance Report.</p>  | <p>The Secretariat agrees with the first part of this recommendation and will improve the collection and dissemination of lessons learned from the monitoring and evaluation of project performance. An exchange of information on monitoring practices occurs through the PASS-it-on tools and annual reporting workshops, which develop staff awareness of such practices.</p> <p>The Secretariat will continue to prepare the two performance reports separately because they serve different purposes: the SPR evaluation reports project-level results to donors and the public; the APR conveys corporate results to the Board and the global audience.</p> <p>The Secretariat does not prepare evaluation reports for SPRs, but an internal document is prepared to share with managers lessons learned during the preparation of SPRs.</p>   | <p>The two types of accountability reports – the Annual Performance Report (APR) and Standardized Project Reports (SPRs) – are produced as separate reports in line with Executive Board governance requirements.</p> <p>This recommendation is deemed completed.</p>  | <p>We note the outcome of action taken in response to the audit recommendation</p> |
| <b>Next steps</b>  |  |  |  |
| <p><b>24. Recommendation 11</b></p> <p>Senior management of the Secretariat may wish to take further steps to clearly demonstrate to staff their continued commitment to results-based management, for example by:</p> <ul style="list-style-type: none"> <li>• rewarding achievement of results;</li> <li>• updating the results-based management documents; and</li> <li>• continuing to make use of the expertise built up in the RBM division by setting up a formal network of RBM experts across WFP.</li> </ul> | <p>The Secretariat agrees that continued commitment by senior management to RBM is central to the success of WFP's governance framework. RBM has been mainstreamed, and an RBM Coordination Unit has been created in the Office of the Executive Director that will: i) be the focal point for RBM in WFP; ii) guide RBM staff; iii) build the capacity of staff, government counterparts and partners; iv) update RBM policies, guidelines, documents and tools for performance planning; v) review performance and provide feedback for internal and external users to enhance transparency, understanding and adoption; and vi) provide guidance on RBM objectives, responsibilities, authorities and operational procedures as necessary to advance RBM practice. The unit will continue to provide technical support and backstopping to increase the capacity of RBM task managers and focal</p> | <p>Country offices and regional bureaux have nominated RBM task force and focal points and they will form part of a group of RBM experts across WFP.</p> <p>The work plan template for country offices has been amended to bring it in line with the Strategic Results Matrix for 2008–2011. Completion of the revision of the RBM orientation guide and the work plan template for Headquarters divisions and regional bureaux is pending finalization of the management results framework.</p> |  |





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|   | <p>points in regional bureaux, country offices and Headquarters.</p> <p>The Secretariat will: i) issue an Executive Director's circular; ii) reconstitute the RBM task managers and focal points network; iii) update the RBM Orientation Guide; and iv) update the work planning and performance review guidelines and tools.</p> <p>The Secretariat cannot implement pay for performance in the current United Nations Common System, but it will continue to recognize and reward achievement of results through the Annual Merit and Efficiency Award for staff, teams and offices.</p> <p>The proposed implementation timeframe is:</p> <ul style="list-style-type: none"> <li>• December 2008: issue of the Executive Director's circular on RBM and reconstitution of the RBM task managers and focal points network</li> <li>• First quarter of 2009: update of the RBM Orientation Guide</li> <li>• Last quarter of 2009: issue of updated work planning and performance review guidelines and tools.</li> </ul> |   |   |
| <p><b>Report of the External Auditor on Preparedness for IPSAS and WINGS II (WFP/EB.1/2009/6-D/1)</b></p>   |   |   |   |
| <p><b>Preparedness for IPSAS</b></p>  |   |   |   |
| <p><b>25. Recommendation 1</b></p> <p>To ensure that the necessary steps are taken, and to make sure that figures and disclosures in the financial statements are supported by evidence which is sufficient to stand up to audit examination, WFP needs to establish a clear route map with deadlines to address the issues raised by</p> | <p>It should be noted that the purpose of the preparation and audit review of accounts for the first nine months of 2008 was to highlight issues and risk areas prior to the final closure, thus allowing the Secretariat to adopt its final closure plans with the benefit of lessons from the September interim closure.</p> <p>WFP is currently addressing all issues raised by the External Auditor during their reviews of the interim financial statements of September 2008.</p>   | <p>In preparing for the 2008 year-end closure of accounts, the Secretariat ensured that the 2008 accounts could stand the rigours of an audit examination. The early adoption in 2006 of one major accounting policy – expense recognition on the basis of the delivery principle – helped to ensure that the policy was fully understood by those implementing it throughout WFP. Detailed closure guidelines were issued for the September and December closures; IPSAS</p> | <p>Our clear audit opinion on the 2008 financial statements confirms that the Secretariat has adequately addressed the recommendation.</p> <p>Our report accompanying the financial statements to this Board considers key issues arising from our audit of the first IPSAS-compliant financial statements.</p> |



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| <p>our review and by Office of Internal Audit (OSDA), particularly in relation to the following actions:</p> <ul style="list-style-type: none"> <li>• Amend WFP's Financial Regulations to provide for IPSAS.</li> <li>• Include a Foreword to the financial statements.</li> <li>• Review and confirm appropriate accounting policies on the recognition of income from investments and in-kind contributions.</li> <li>• Establish acceptable accounting policies, with adequate disclosure, for asset capitalisation limits, defined contribution pension schemes, related parties, and discounting loans and other long-term liabilities, and financial commitments in respect of unexpended direct donations.</li> <li>• Review accounts' figures and disclosures against IPSAS requirements using guidance we have provided.</li> <li>• Ensure commodity and stock valuations in the accounts reflect physical stocks held.</li> <li>• Ensure the completeness of expenditure figures by accurate and complete verification at country offices, regional bureaux</li> </ul> | <p>In response to the recommendations listed above:</p> <ul style="list-style-type: none"> <li>• Although the preparation of financial statements under IPSAS would comply with United Nations system accounting standards (UNSAS) and therefore with Financial Regulation 13.1, an amendment to Financial Regulation 13.1 will be proposed to the Board during its Annual Session together with submission of the financial statements.</li> <li>• As was the case with the nine months accounts, a foreword and a section on financial performance will be included in the final 2008 financial statements.</li> <li>• The accounting policies on revenue from investments and in-kind contributions have been redrafted and reviewed with the External Auditor prior to finalization of the final 2008 financial statements;</li> <li>• A disclosure of the asset capitalization threshold has been added to the relevant note disclosure. Existing accounting policies for defined contribution pension schemes, related parties and other long-term liabilities have been redrafted and reviewed with the External Auditor. An additional paragraph related to the discounting of loans has been added. WFP will disclose its obligation of unexpended direct donations as a note disclosure.</li> <li>• IPSAS checklists have been used since 2007 as a benchmark for the design of IPSAS-compliant disclosure. An internal review was performed of the nine months financial statements against the guidance provided. An official review for the year-end closure and a submission of such documents to the External Auditor and senior management will be performed during the 2008 year-end closure.</li> <li>• A valuation of inventory will be reconciled with that of the physical count and the</li> </ul> | <p>and finance training was conducted before and during 2008. These actions proved very useful in ensuring the success of the year-end closure of accounts.</p> <p>The 2008 accounts were prepared taking into account the recommendations made by both the external and internal auditors in their reviews of the nine-month accounts; lessons learned in the past; and recent accounts closures. During the preparation and finalization of the accounts, the Secretariat maintained regular dialogue with the External Auditor, and sought advice from the Audit Committee.</p> <p>Having considered all actions taken by the Secretariat and recommendations incorporated in the 2008 accounts, these recommendations are completed.</p> |              |



| External Auditor recommendations  | WFP response/Actions taken as at last reporting date   | Actions taken as at present reporting period | NAO Comments |
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| <p>and Headquarters of goods and services provided before the year end.</p> <ul style="list-style-type: none"> <li>• Monitor and review expenditure and income, to ensure that all accruals, creditors and debtors are recognised.</li> <li>• Take steps in country offices, regional bureaux and Headquarters to ensure the completeness and accuracy of reporting on property, plant and equipment.</li> <li>• Ensure that training is delivered to the necessary number of staff to properly support the transition to IPSAS.</li> </ul> | <p>difference will be adjusted as per the year-end physical count. If after reconciliation differences persist, commodity inventories will be adjusted to reflect actual physical quantities.</p> <ul style="list-style-type: none"> <li>• Finance is working closely with country offices, regional bureaux and units in Headquarters to ensure accurate and complete records of goods and services provided before the end of the year.</li> <li>• Revenue and expenses will be reviewed for proper cut-off and verified during the year-end closure.</li> <li>• The Management Services Division, with the assistance of Finance, is working closely with country offices, regional bureaux and Headquarters' units to ensure the accuracy of data on property, plant and equipment.</li> <li>• Training material has been provided to all country offices and is also available online. Active follow-up on this included presentations to country directors after the WFP Global Meeting and coordination by the Chief Financial Officer.</li> </ul> <p>The Secretariat accepts and appreciates the External Auditor's recommendations, which will assist the Secretariat in achieving IPSAS compliance. Improvements introduced by the Secretariat since 2006 as part of the transition to IPSAS have helped in the preparation of the 2006–2007 accounts and in going ahead with the adoption of IPSAS as of 1 January 2008.</p> <p>Proposed implementation timeframe. All of the above recommendations are being implemented during the closure of 2008 accounts, which will be submitted to the External Auditor by 31 March, as outlined in Financial Regulation 13.3.</p> |  |              |

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| <p><b>26. Recommendation 2</b></p> <p>We believe WFP should revisit their decision not to assess the savings arising from the introduction of WINGS II and capture information at a sufficient level of detail to demonstrate that the project expenditure represents money well spent.</p>            | <p>The Secretariat recognizes the importance of demonstrating the value of the investment and intends to do so once sufficient time has elapsed after the go-live and users have become fully conversant with the new systems and processes. It should further be noted that given that the WINGS II has been planned as a number of yearly editions the full value will not be apparent with the introduction of the 2009 edition only, and it may be more appropriate to wait for future release.</p> <p>The Secretariat will develop an approach for measuring the benefits realized from the upgrade around the following principles:</p> <ul style="list-style-type: none"> <li>• A set of qualitative and, where possible, quantitative measures will be defined and baselines established prior to WINGS II go-live.</li> <li>• The relevant business areas and roles will be surveyed after a suitable period of time has elapsed; to assess level of benefits delivered.</li> </ul> <p>The results will be used to help inform future investment decisions and a summary of the conclusions may be presented to the Executive Board around the end of 2010.</p> | <p>During March 2009, the approach for the assessment of benefits was discussed by the WINGS II project steering committee.</p> <p>It was proposed that the indicators to be used to assess the benefits of WINGS II be defined before go-live, in consultation with the Performance and Accountability Management Division (OEDAM) and the Office of Evaluation (OEDE). The framework and indicators defined will be shared with the Board in due course.</p> |              |
| <p><b>27. Recommendation 3</b></p> <p>WFP needs to establish a clear and costed timetable for the implementation of the elements of WINGS II which are currently deferred. This action is necessary to support improved efficiency and a sound level of internal financial control for the future.</p> | <p>Under IPSAS, the cost of the WINGS II as an asset will be capitalized. The Secretariat plans to make a yearly investment, representing a certain percentage of the cost of this asset, to maintain and upgrade it. The Secretariat plans to introduce a limited set of functionality improvements through annual editions of WINGS II.</p> <p>The improvements that were deferred from the initial WINGS II go-live scope will have priority for the 2010 and subsequent editions, especially the deferred improvements that improve internal financial controls and operational efficiency. However, their priority will have to be weighed against new business requirements that may have arisen in the meantime.</p>  | <p>The Secretariat will implement certain functionality improvements starting in 2010.</p>   |              |





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| <p><b>28. Recommendation 4</b></p> <p>Urgent attention is needed to implement the planned improvements to the systems for the control and valuation of commodities.</p> | <p><u>Solution for go-live:</u></p> <p>One of the main reasons for deferring adoption of the integrated full SAP solution for tracking and valuation of commodities was the estimated two to four years needed to roll out such a solution to hundreds of field offices.</p> <p>An interim – but still integrated – solution using WFP'S Commodity Movement Processing and Analysis System (COMPAS) and SAP is being implemented at go-live to support the IPSAS commodity tracking requirements of WFP until the full SAP-based solution can be rolled out.</p> <p>The proposed solution is robust, fully integrated and based on an automated two-way interface between SAP and COMPAS. This interface includes a daily synchronization of stock quantity in SAP with that recorded in COMPAS. This solution is complemented by an automated capitalization of relevant costs into inventory, which is based on the financial transactions recorded in SAP as part of the regular stock procurement, transport and handling processes.</p> <p>The solution was designed to utilize the inventory and related financial data that is already recorded as part of the logistical and financial processes.</p> <p><u>Full SAP solution:</u></p> <p>Budget has been set aside to complete the configuration and testing of the full SAP solution, to allow a pilot of the new solution to be carried out in a few field offices before embarking on a full roll-out.</p> | <p><u>Solution for go-live:</u></p> <p>As at March 2009, user validation testing of the solution was in progress. This involves end-to-end testing of the integrated solution within an environment that includes data migrated from the current systems.</p> <p><u>Full SAP solution:</u></p> <p>The Secretariat has no further actions for the full SAP solution planned until after go-live.</p> |              |

| External Auditor recommendations                           | WFP response/Actions taken as at last reporting date   | Actions taken as at present reporting period | NAO Comments  |
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| <b>Audited Annual Accounts, 2008 (WFP/EB.A/2009/6-A/1)</b> |  |  |   |
| <b>Changes arising from IPSAS</b>                          |  |  |   |
| 29.  | <p><b>Recommendation 1</b></p> <p>We recommend that WFP take account of the information provided in the financial statements in reviewing and managing the performance of the Programme's investment portfolio, updating the Investment Guidelines, and monitoring the disposal of the legacy investments.</p> |  | <p>The financial markets' crisis and related extreme risk-aversion caused realized and unrealized losses to exceed interest income during 2008. The under-performance of the external investment managers in the very difficult market environment was due primarily to unrealized losses in the short-term investment portfolios. The Secretariat wishes to point out that all investments made by the Programme are in full compliance with WFP's investment policy.</p> <p>While investment performance over the medium term has been quite positive, the volatility faced in 2008 has forced the Secretariat to adopt a number of measures outlined below. In the Management Plan update for the 2009 First Regular Session (WFP/EB.1/2009/6-A/1/Corr.1), the Secretariat informed the Board that the following actions were taken to limit the risk profile of the short-term investments:</p> <ul style="list-style-type: none"> <li>➤ termination of the contract of the investment manager responsible for the largest proportion of under-performance holdings;</li> <li>➤ reduction in the size of the short-term investment portfolio and correspondingly increased money market holdings; and</li> <li>➤ adoption of more conservative investment guidelines.</li> </ul> <p>Certain asset classes that suffered the losses (primarily housing-related asset-backed and mortgage-backed securities, which were all rated AAA at time of purchase) and therefore no longer comply with WFP's investment policy are being disposed of gradually when market liquidity arises. At 30 April 2009, the legacy</p> |



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|  |  | <p>securities accounted for only 7 percent of the cash and short-term investments, compared with 11 percent at the end 2008; the proportion of cash and cash equivalents to short-term investments was 74 percent to 26 percent, compared with 68 percent to 32 percent at the end of 2008. The economic and financial market outlook remains uncertain and interest rates are near zero; however, the risk profile of the short-term investment has been reduced significantly and the overall investment return for the first four months of 2009 is slightly positive.</p>   |              |
| <p><b>30. Recommendation 2</b></p> <p>Now that the financial statements report reliable information on the quantity and value of food commodities held at 31 December, WFP may wish to use this information to confirm that the amounts held were appropriate for the effective discharge of the Programme's responsibilities.</p> |  | <p>The overall level of stocks held by WFP at 31 December 2008 was 1.6 million mt, which represents 4.7 months of the food commodities required to sustain WFP operations. The average lead time between purchase and delivery of food commodities is 138 days or 4.6 months.</p> <p>To avoid pipeline breaks and mitigate food shortages, WFP pre-positions food in warehouses at various locations. These warehouses are mainly in countries where the food-insecurity level is very high and where moving food takes a long time. Of ten countries sampled by the External Auditor, representing 65 percent of WFP stocks, eight were in such countries.</p> <p>Considering the average lead time between the purchase and delivery of food and the need to pre-position food at unsecured locations, the Secretariat deems the level of stocks on hand at the end of 2008 to have been appropriate. The Secretariat will continue to monitor food procurement to improve lead times in the procurement process and ensure that appropriate stock level is maintained.</p> |              |





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| <p><b>31. Recommendation 3</b></p> <p>Noting that the balance of cash and investments held at the end of the year stood at US\$ 1.6 billion reflecting the growth in the level of operations of the WFP in 2008, we recommend that WFP confirm that the level of cash holdings remains appropriate to the Programme's needs, and how these funds will be utilised in the future.</p> |  | <p>The Secretariat appreciates the recommendation of the External Auditor on WFP's cash balances and the increase of US\$220 million in 2008, an increase of approximately 15 percent over the cash balance level at the end of 2007. It stresses that included in the cash balances are long-term investments earmarked to fund a portion of employee benefit liabilities and other long-term liabilities. Of the total cash and short-term investments of US\$1.4 billion, US\$1.2 billion relates to programme categories and bilaterals, with the balance of US\$200 million related to the General Fund and special accounts.</p> <p>As mentioned under recommendation 5 below, WFP's total revenue for 2008 was US\$5 billion, 70 percent higher than the 2007 revenue of US\$2.9 billion, with cash balances increasing 15 percent.</p> <p>The External Auditor rightly pointed out in his report that at the end of 2008 WFP had US\$970 million in cash and cash equivalents, reflecting the Secretariat's expectation of disbursements required in the short term to meet operational needs. There were also the short-term investments of US\$458 million earmarked to fund future programme and support costs, which would be liquidated to fund WFP activities. At the end of 2008, WFP had current payables of US\$613 million and nearly the same level of open purchase orders at US\$600 million. It is expected that these payables will be settled gradually during 2009 with the current cash level augmented by cash receipts during 2009.</p> <p>The Secretariat considers the cash level of WFP as reported in the 2008 accounts to be appropriate. While the level at the end of 2008 was slightly higher than at the end of the previous year, the cash balances will be used to meet the operational requirements of WFP.</p> |              |



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| <p><b>32. Recommendation 4</b></p> <p>In considering the financing of liabilities for staff benefits, and noting that the existing liabilities are already fully funded through the General Fund, we recommend that WFP actively manage the financing options.</p>                      |  | <p>The Secretariat is committed to the full funding of employee-benefit liabilities.</p> <p>During the Annual Session of the Board in 2008, noting that WFP had fully recognized employee-benefit liabilities from the end of 2007, the Secretariat presented four options for achieving full funding of the liabilities.</p> <p>Preliminary indications are that the most appropriate option is to include an amortization amount in the Management Plan or in standard staff costs. The Secretariat continues to study the options before presenting its recommendation to the Board.</p>  |              |
| <p><b>33. Recommendation 5</b></p> <p>Noting the substantial surplus reported by WFP for 2008, and accepting the necessary delay between funding and expenditure, we recommend that WFP review the extent to which balances and surplus need to be held against future expenditure.</p> |  | <p>The External Auditor has appropriately described the underlying reasons for the US\$1.4 billion surplus reported by the Secretariat in the 2008 financial statements; there is often a time lag between the confirmation and spending of a contribution.</p> <p>Contributions for 2008 amounted to an unprecedented level of over US\$5 billion. Of this, over US\$1 billion was attributable to WFP's appeal to address high food and fuel prices.</p> <p>With the adoption of IPSAS in 2008, certain transactions that were treated as expenses are now capitalized, such as inventories and fixed assets. At the end of 2008, these items had a combined value of US\$1.1 billion.</p> <p>Concerning the principle of expense recognition on the basis of delivery: purchase orders issued by WFP where deliveries were not made by the end of 2008 will be charged against the surplus when deliveries are made. At the end of 2008, outstanding purchase orders were</p> |              |



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|  |  | <p>valued at US\$600 million.</p> <p>In addition, the average lead time for contributions (explained earlier) means that contributions received after August in a given year is generally spent in the following year; these form part of the surplus balance at the end of the year.</p>  |              |
| <p><b>34. Recommendation 6</b></p> <p>To support transparency and best practice in financial reporting, we recommend that in future WFP disclose separately the senior staff remuneration and benefits applicable to the Executive Director and each of the Deputy Executive Director posts.</p>                   |  | <p>The current presentation of key management personnel remuneration is in accordance with the required disclosure under IPSAS. Additional disclosure over and above the IPSAS requirements need to be discussed with the rest of the United Nations agencies as the recommended disclosure may need to be uniformly adopted by all agencies.</p> <p>In the preparation of the 2008 financial statements, the Secretariat's main goal was to ensure full compliance with IPSAS. The Secretariat also reviewed disclosures made on this subject by several public sector entities that had adopted IPSAS and arrived at the conclusion that the public sector had not adopted a uniform practice of presenting related party disclosures in its financial statements.</p> |              |
| <b>Recommendations made by the External Auditor in previous reports</b>  |  |  |              |
| <b>WINGS II</b>  |  |  |              |
| <p><b>35. Recommendation 7</b></p> <p>In following up our earlier report on the implementation of the WINGS II system, we recommend that the Secretariat should:</p> <ul style="list-style-type: none"> <li>➤ Demonstrate the value of the investment in the WINGS II system by preparing an assessment</li> </ul> |  | <p>Please see responses to recommendations 2 (item 26) and 3 (item 27) above.</p>  |              |



| External Auditor recommendations   | WFP response/Actions taken as at last reporting date | Actions taken as at present reporting period  | NAO Comments |
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| <p>of estimated savings, and then tracking the savings actually realised; and</p> <ul style="list-style-type: none"> <li>➤ Prepare a timetable for the implementation of those elements of WINGS II functionality postponed until after the main implementation date.</li> </ul> |  |   |              |
| <b><i>Fraud, ex-gratia payments, amounts written off and losses</i></b>  |  |   |              |
| <p><b>36. Recommendation 8</b></p> <p>To improve transparency, we recommend that in future, the Secretariat include in the financial statements a comprehensive note on losses and special payments, showing as a minimum the amounts written-off in a year.</p>                 |  | <p>The Secretariat accepts the recommendation of the External Auditor and will ensure that with effect from 2009, a comprehensive notes disclosure on losses and special payments, including amounts provided and written off in a year, will be incorporated in the financial statements. The contents and format of the notes disclosure will be discussed with the External Auditor.</p> |              |



## ACRONYMS USED IN THE DOCUMENT

|        |  |
|--------|--|
| ACABQ  | Advisory Committee on Administrative and Budgetary Questions |
| CMEA   | Common Monitoring and Evaluation Approach                    |
| COMPAS | Commodity Movement Processing and Analysis System            |
| ERM    | enterprise risk management                                   |
| FAO    | Food and Agriculture Organization of the United Nations      |
| IPSAS  | International Public Sector Accounting Standards             |
| ISC    | indirect support costs                                       |
| M&E    | monitoring and evaluation                                    |
| NAO    | National Audit Office (United Kingdom)                       |
| OD     | Operations Department [superseded]                           |
| OEDAM  | Performance and Accountability Management Division           |
| OEDE   | Office of Evaluation   |
| OSD    | External Auditor and Oversight Services Division             |
| PACE   | Performance and Competency Enhancement                       |
| PRC    | Programme Review Committee                                   |
| RBM    | results-based management                                     |
| SAP    | [software company and system]                                |
| SPR    | Standardized Project Report                                  |
| SRF    | Strategic Results Framework                                  |
| WINGS  | WFP Information Network and Global System                    |