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**Executive Board
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RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For consideration

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RESPONSE OF THE SECRETARIAT TO THE REPORT OF THE EXTERNAL AUDITOR ON PREPAREDNESS FOR IPSAS AND WINGS II

This document is printed in a limited number of copies. Executive Board documents are available on WFP's WEB site (<http://www.wfp.org/eb>).

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.

Chief Financial Officer and Mr A. Abdulla tel.: 066513-2401
Director, FL* :

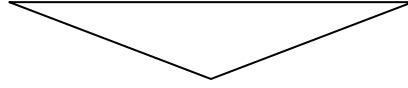
Deputy Chief Financial Officer a.i . Mr S. O'Brien tel.: 066513-2682

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).

* Finance and Legal Division



DRAFT DECISION*



The Board takes note of the audit recommendations made by the External Auditor in his report (WFP/EB.1/2009/6-D/1) and the responses made by the Secretariat as set out in the document “Response of the Secretariat to the Report by the External Auditor on Preparedness for IPSAS and WINGS II” (WFP/EB.1/2009/6-D/1/Add.1), and encourages the Secretariat to implement these audit recommendations without delay.

* 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.



INTRODUCTION

Further to “Report by the External Auditor on Preparedness for IPSAS and WINGS II” (WFP/EB.1/2009/6-D/1), this document sets out the Secretariat’s responses to the recommendations made by the External Auditor in relation to WFP’s adoption of International Public Sector Accounting Standards (IPSAS) – effective 1 January 2008 – and implementation of WFP Information Network and Global System II (WINGS II) in 2009. This document also sets out the courses of action the Secretariat will undertake to implement these recommendations.

OVERALL RESULTS OF THE AUDIT

1. This document is based on an analysis of the issues that gave rise to the audit recommendations made by the External Auditor. Status on the implementation of these audit recommendations will be included in a progress report on the implementation of external audit recommendations to be submitted to the Board at its 2009 Annual Session.
2. The Secretariat welcomes the observations and recommendations made by the External Auditor because they assist its efforts to further improve the financial management and governance of WFP’s resources.

PREPAREDNESS FOR IPSAS

Recommendation 1

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 our review and by OSDA, particularly in relation to the following actions:

- (i) *Amend WFP’s Financial Regulations to provide for IPSAS.*
- (ii) *Include a Foreword to the financial statements.*
- (iii) *Review and confirm appropriate accounting policies on the recognition of income from investments and in-kind contributions.*
- (iv) *Establish acceptable accounting policies, with adequate disclosure, for asset capitalisation limits, defined contribution pension schemes, related parties, discounting loans and other long-term liabilities, and financial commitments in respect of unexpended direct donations.*
- (v) *Review accounts’ figures and disclosures against IPSAS requirements using guidance we have provided.*
- (vi) *Ensure commodity and stock valuations in the accounts reflect physical stocks held.*



- (vii) *Ensure the completeness of expenditure figures by accurate and complete verification at country offices, regional bureaux and Headquarters of goods and services provided before the year end.*
- (viii) *Monitor and review expenditure and income, to ensure that all accruals, creditors and debtors are recognised.*
- (ix) *Take steps in country offices, regional bureaux and Headquarters to ensure the completeness and accuracy of reporting on property, plant and equipment.*
- (x) *Ensure that training is delivered to the necessary number of staff to properly support the transition to IPSAS.*

Secretariat's Response

3. 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.
4. WFP is currently addressing all issues raised by the External Auditor during their reviews of the interim financial statements of September 2008.
5. In response to the recommendations listed above:
 - i) Although the preparation of financial statements under IPSAS would comply with United Nations system accounting standards (UNSAS)¹ 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.
 - ii) 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.
 - iii) 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;
 - iv) 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.
 - v) 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.

¹ Compliance with IPSAS automatically means UNSAS compliance.



- vi) A valuation of inventory will be reconciled with that of the physical count and the 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.
 - vii) 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.
 - viii) Revenue and expenses will be reviewed for proper cut-off and verified during the year-end closure.
 - ix) 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.
 - x) 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.
6. 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.
7. *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.

PROGRESS IN IMPLEMENTING WINGS II

Recommendation 2

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.

Secretariat's Response

8. 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.
9. The Secretariat will develop an approach for measuring the benefits realized from the upgrade around the following principles:
- A set of qualitative and, where possible, quantitative measures will be defined and baselines established prior to WINGS II go-live.
 - The relevant business areas and roles will be surveyed after a suitable period of time has elapsed, to assess level of benefits delivered.



10. 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.

Recommendation 3

WFP need 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.

Secretariat's Response

11. 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.
12. 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 mean time.

Recommendation 4

Urgent attention is needed to implement the planned improvements to the systems for the control and valuation of commodities.

Secretariat's Response

⇒ *Solution for go-live*

13. 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.
14. 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.
15. 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.
16. The solution was designed to utilize the inventory and related financial data that is already recorded as part of the logistical and financial processes.



⇒ *Full SAP solution*

17. 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.

ADDITIONAL CLARIFICATIONS

Paragraph 33 of the External Auditor's Report

The first progress report (November 2006) indicated an increase in cost from US\$39 million to US\$49 million, with no changes to the scope of the project or delivery timetable.

Secretariat's Response

18. A 2006 External Auditor's report noted the need for replacing or extensively reconfiguring COMPAS to incorporate the requirements of IPSAS for monetary valuation of stock. Though not a change in scope of requirements, there was a change in the delivery of the system which gave rise to the additional \$ 10 million.

Paragraph 44 of the External Auditor's Report

We continue to support the decision taken by WFP to introduce WINGS II based on standard SAP processes; and it is important that the system is only implemented in live running once it has been thoroughly tested, rather than to risk disruption of operations with a system which is not ready for deployment.

Secretariat's Response

19. The Secretariat welcomes the support for the decision to introduce WINGS II based on standard SAP processes. It also strongly supports the need to sufficiently test the system before introducing it, especially given that WFP has already put in place an interim IPSAS compliance solution and process.



ACRONYMS USED IN THE DOCUMENT

COMPAS	Commodity Movement Processing and Analysis System
IPSAS	International Public Sector Accounting Standards
WINGS II	WFP Information Network and Global System II