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PROGRAMME OF WORK OF THE EXTERNAL AUDITOR FOR 2008–2009

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NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for information.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

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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).





National Audit Office

The National Audit Office (NAO), headed by the Comptroller and Auditor General of the United Kingdom, provides external audit services to the UN World Food Programme.

The External Auditor has been appointed by the Executive Board in accordance with the Financial Regulations. In addition to certifying the accounts of the WFP under Article XIV of the Financial Regulations, he has authority under the mandate, to report to the Executive Board on the efficiency of financial procedures, the accounting system, the internal financial controls and the general administration and management of WFP.

The aim of the NAO's audit is to provide independent assurance to the Executive Board; to add value to the WFP's financial management and governance; and to support the objectives of the Programme.

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WORLD FOOD PROGRAMME

Programme of Work of the External Auditor for 2008–2009

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INTRODUCTION

This paper provides the WFP Executive Board with information on our anticipated programme of audit work for the 2008-2009 biennial period, covering audit examination in support of our audit opinions on the expected financial statements for 2008 and 2009; and our likely audit reports on issues which we consider will merit the Board's attention.

1. Following the Executive Board's consideration in June 2008 of the World Food Programme's financial statements and audit report for 2006-2007, this paper provides the Board with an insight into our audit of WFP's financial statements and activities for 2008-2009. WFP expect to submit for audit annual financial statements prepared in compliance with International Public Sector Accounting Standards (IPSAS) for 2008 and 2009.
2. The United Nations General Assembly had decided in July 2006 to adopt IPSAS throughout United Nations organisations after its High-Level Committee on Management had approved IPSAS adoption to be effective no later than the financial reporting period starting 1 January 2010. The aim of the adoption of independent international accounting standards is to enhance the completeness, comparability, harmonization, transparency and accountability of financial reporting in the UN system. WFP's implementation of IPSAS as an early adopter with effect from January 2008 has been approved by the Executive Board.
3. Our audit planning included a comprehensive reassessment of the work completed in our previous audits and the responses by management and the Executive Board. Our audit will continue to take account of the particular nature and circumstances of WFP's operating environment; and to address issues relevant to the Programme in delivering food aid to meet emergency needs and support economic and social development.
4. This paper includes reference to the reports that we anticipate submitting to the Executive Board in relation to our 2008 and 2009 audit. We will continue to deliver reports on substantive management audit topics to the Executive Board on a staged basis, as requested by Board Members at the time of our initial appointment. We may however revise our programme, where we deem necessary, to take into account changing circumstances, our ongoing risk assessment and the Secretariat's response to new emergencies.
5. As in previous biennia, we will remain available for dialogue with the Executive Board where this can be helpful. We will attend Executive Board meetings as appropriate, and also meetings of the Audit Committee. We will continue to liaise and coordinate with the Office of Internal Audit and Oversight to avoid unnecessary duplication of effort. We review the work of Internal Audit, and seek to place reliance on their work where appropriate. We will continue to follow up on progress

in the implementation of recommendations from our reports to the Executive Board, to ensure that WFP continues to benefit from a consistent and rigorous audit scrutiny.

6. In addition, we will prepare separate reports to the Secretariat, including an audit strategy to the Executive Director on the identified risks arising in each annual audit, and management letters on the results of field and country office visits and other relevant matters.

FINANCIAL AUDIT APPROACH

7. The Comptroller and Auditor General of the United Kingdom is the independent External Auditor of the WFP, appointed under Financial Regulations 14.1 to 14.9. He is required to examine, certify and report on the WFP's financial statements, in accordance with International Standards on Auditing. Under the Financial Regulations, the External Auditor is completely independent and solely responsible for the conduct of the audit; and is authorised to report on matters relating to the economy, efficiency and effectiveness of the use of WFP's financial and other assets.

Financial Audit Objectives

8. The primary objective of our financial audit is to provide the Executive Board, the main users of the financial statements, with assurance that the accounts and underlying financial transactions are free from material error and comply with WFP's Financial Regulations, considering the impact on the financial statements as a whole, the level of interest from users of the accounts and the accuracy they would reasonably expect. The audit opinion also confirms whether sampled expenditure has been applied to the purposes intended by the donor and whether the transactions audited conform to the authorities which govern them. Annex 1 provides further information on our audit approach.

Audit Approach

9. 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 involve additional audit costs which we are discussing with the Secretariat.
10. We will obtain direct audit evidence by undertaking work in WFP's Rome Headquarters and by visiting a number of country and regional offices. Our review of expenditure examines the accuracy of transactions recorded in the WINGS accounting system, which is the primary source of financial information reported to the Executive Board.
11. We attach particular importance to testing the regularity of expenditure (compliance), ensuring that it complies with the intentions of the WFP as set out in approved budgets and pledge documents. The financial audit will include the examination of sampled income and expenditure

records; review of expenditure against budget; physical checks of food and other inventory and fixed assets disclosed for the first time in 2008 and 2009; review of advances; and examination of treasury and cash management.

Field Visits to WFP Operations

12. Our selection of field offices in operational locations around the world is risk-based using our own risk criteria, such as the value of operational budgets, the type of operation in-country and audit findings from previous field visits.
13. Prior to each field visit, we review recent internal audit reports to identify risk areas for consideration and analytically assess project transactions, to obtain explanations from the offices or bureaux for unexpected or unusual transactions or trends.
14. In consideration of the schedule of field visits which we undertook in 2006-2007 and the planned visits by internal audit, we expect to visit a number of field locations (regional bureaux and country offices) for 2008-2009, including Thailand, Panama and South Africa. We will continue to monitor our risk assessment in order to remain responsive to any changing circumstances which could affect our selection of field visits, particularly in 2009.

Quality Review

15. We design our audit procedures to achieve a cost-effective audit and have well-established review procedures to ensure that audit work is undertaken efficiently and in accordance with auditing standards. The National Audit Office's standard procedures include internal quality control by experienced audit staff unconnected with the audit, which provides assurance that standards and efficiency are maintained. Furthermore we submit our audit procedures to external quality review and independent assessment by the UK organisation responsible for examining auditors' compliance with professional standards.

KEY AUDIT RISKS IDENTIFIED

16. The nature of the World Food Programme, its structure and operations, present particular audit risk factors. Our audit approach assesses how the Secretariat has addressed these risks, and their impact on the internal management control environment and the financial statements.

Implementation of International Public Sector Accounting Standards

17. The implementation of significantly changed accounting policies, procedures and financial reporting disclosures to comply with IPSAS represents a major change initiative which increases the risk of misstatement, error or omission in the financial statements. For 2008, for the first time, disclosures will include food commodity and equipment inventory stock; capitalised assets and new recognition of liabilities; income and expenditure in different categories; and budgets compared with actual results. We have already provided the Secretariat with NAO guidance on achieving compliance with IPSAS at the financial statements and supporting infrastructure levels;

and we will continue our regular meetings with, and support to, WFP's IPSAS team consistent with our independent role as external auditors.

18. In management letters to the Secretariat and financial reports to the Board for 2006-2007, we have reported weaknesses in management controls which could affect the accuracy of the accounting records on which the IPSAS-compliant accounts are to be based:

- Expenditure recording not based on evidence of service delivery as required by WFP's accounting policies; and
- Absence of timely update of the inventory databases providing the inventory figures.

19. We will examine the procedures for physical inventory checks and the timeliness of recording to these databases during our audit work, as the complete and timely updating of these records represents a key management control over the valuation of the inventory. Our programme of audit visits to field operations will also examine expenditure incurred locally and the effectiveness of key internal controls. At regional level, we examine the oversight arrangements in place for monitoring country office activities.

20. We will also consider the extent of IPSAS awareness in the field and examine the results of the preparation of trial financial statements to 30 September 2008, which will be reviewed by the Office of Internal Audit.

Decentralisation and Internal Control

21. The decentralisation of WFP's control structure remains a principal consideration for our audit. WFP has continued to seek to improve the effectiveness of the management of operations and internal management controls, in response to audit findings and concerns raised in our management letters and the findings of internal audit and management's own risk assessments. In financial control terms, decentralisation presents risks as well as rewards in the delivery of prompt and appropriate assistance to field offices and in the control and accountability of operations.

22. The Secretariat will continue to require each regional bureau to provide monthly reports against key financial indicators for each regional/country office. In 2007, the Secretariat introduced Dashboard, a financial management tool which highlights longstanding payables, receivables and outstanding accounting records for management clearance.

Reliance on Implementing Partners

23. WFP places widespread reliance on implementing partners to feed beneficiaries and report on food deliveries. By the nature of the arrangements, there is a risk of failure to completely report beneficiary receipt of food delivery and post delivery losses of food; and a reputation risk associated with using third parties to meet the organisation's corporate objectives. In June 2008¹, the Secretariat introduced a statistical sampling approach to review the completeness of post

¹ WFP/EB.A/2008/INF/6

delivery recording in response to our management report in June 2005 on post delivery loss recording.

24. Our audit field visits review the robustness of field monitoring information provided by implementing partners; and examine local records relating to the amount of food delivery and post delivery loss recorded in WFP's commodity-tracking system, COMPAS.

Voluntary nature of donations

25. Funding for WFP operations is entirely voluntary and as such presents an element of operational and cash flow risk to WFP, particularly in light of the increased risk environment arising from increasing fuel and food prices outlined by the Secretariat and considered in the 2008-2011 strategic planning exercise. We will continue to examine sampled income to verify that funds have been brought to account in accordance with the donors' intentions as specified in donor pledge documentation.

Risk Management

26. In 2004-2005 and 2006-2007, the Secretariat set out to develop new, systematic risk management arrangements to provide improved management information and control. This process of improved, structured, enterprise-wide risk management arrangements lost momentum during 2007. We will generally monitor progress on risk management procedures and consider the extent to which the current arrangements identify, prioritise, and effectively address organisational and strategic risk.

PROPOSED MANAGEMENT AUDIT COVERAGE

27. The Financial Regulations provide authority for the External Auditor to examine management or performance audit issues as part of his remit and to report on these to the Executive Board. Our Reports to the Executive Board are intended to address subject areas which are of importance in terms of their significance to the efficient and effective operation of the organisation, the delivery of WFP's objectives and the scale of resources devoted to them. We have selected future Report subject areas based on these factors (in particular the major development represented by IPSAS), taking account of discussions with the Secretariat from time to time, and any suggestions and views offered by Executive Board members. List D has offered a number of suggestions for topics that might be covered by our audit. We have taken these into account in preparing our programme and in planning our financial audit, and we will comment on these areas in presenting this present paper to the Executive Board.

28. Our likely major Report deliveries are set out in Table 1.

<i>EB Meeting</i>	<i>Report Subject</i>
October 2008	Forward programme of work of the External Auditor 2008-2009 Results-Based Management (2 nd Report) Audit Committee advice paper
February 2009	Review of WINGS II and preparedness for IPSAS
June 2009	Financial report on the 2008 financial statements and compliance with IPSAS
October 2009	Report on the management dividend offered by the implementation of IPSAS-compliant accounts and the use of financial and management information at senior management and Board level
February 2010	Vertical review of a major field-based project
June 2010	Financial report on the financial statements for 2009 and matters arising

Results-Based Management (2nd Report)

29. This report is the second element in a two stage independent review of WFP's progress in implementing results-based management, submitted to the EB following receipt of the Secretariat's comments. Our initial report in March 2006 considered the framework established by the Secretariat to monitor and report results. This second report examines progress in mainstreaming results-based management and how well it is being implemented across the organisation.

Audit Committee advice paper

30. The integrity of the World Food Programme's financial and governance arrangements represent an important factor in the Programme's reputation and its ability to attract voluntary donations and funding to pursue its humanitarian objectives. The Executive Board sets and maintains the strategic direction of the organisation and the allocation of its resources; and monitors management and the operation of the entity. In any organisation, good governance requires effective monitoring and oversight of control processes, including internal and external audit, executive management's handling of resources and financial control, and risk management.

31. Audit committees provide an experienced and focussed forum which meets regularly to deal with issues in depth from an expert perspective; and which delivers a level of oversight, challenge to

management and assurance to the governing body that the governing body itself does not have the capacity to achieve. Although since July 2004 the World Food Programme has had a fully functioning and effective Audit Committee, consistent with most aspects of good governance arrangements, the present Committee has been established by the Executive Director rather than by or under the auspices of the Executive Board; and the Executive Board, as the Programme's principle governing body, has not had a direct relationship with or made use of the Audit Committee, as would be appropriate for consistency with good governance arrangements and to benefit the Board and WFP most effectively.

32. In response to a request for independent guidance from the Executive Board President in 2007, in April 2008 we provided an advice paper on audit committees in which we set out proposals to improve the Programme's financial and governance arrangements and assist the Board to decide on its relationship with the Audit Committee. The advice paper has been distributed to EB members and we are available for discussion with the EB at its October 2008 meeting.

Review of WINGS II and preparedness for IPSAS

33. The upgrade of WINGS is important to the effectiveness and reliability of future financial accounting and reporting under IPSAS, although the implementation of WINGS II has been delayed beyond the Programme's first year of IPSAS implementation. We will examine WFP's progress in project management with the design of the application and report on the extent to which WINGS II appears to be fit for purpose, with audit observations for the EB as appropriate on progress with IPSAS implementation.

Financial report on the 2008 financial statements and compliance with IPSAS

34. We will provide a report on the 2008 Financial Statements and compliance with International Public Sector Accounting Standards, with audit findings and recommendations from our examination of the accounts.
35. We believe this approach will provide assurance to the Executive Board; contribute to the IPSAS implementation at WFP; and identify lessons to assist the introduction of the United Nations Reform Agenda requiring all United Nations organisations to implement IPSAS-compliant financial statements from 2010.

Report on the management dividend provided by the implementation of IPSAS-compliant accounts and the use of financial and management information at senior management and Board level

36. The implementation of financial statements in compliance with IPSAS not only offers enhanced transparency in reporting to the Executive Board but also a significant opportunity for improved accountability and better management and decision-making. We will present an assessment of how the improved accounting and reporting of financial information under IPSAS can be used for better financial decision-making and to improve WFP's business management.

Vertical review of a major project, examining how the Secretariat have planned for and succeeded in meeting project objectives

37. We plan to select a major country-based project for which we can provide our independent assessment of how the Secretariat have planned for and succeeded in meeting project objectives; compliance with policy and procedures; and the identification of any constraints on the effectiveness and efficiency of project activities. By selecting a particular project, we hope to assess risks, weaknesses and good practice from which organisation-wide lessons may be available.

REPORTING TO THE EXECUTIVE BOARD

External Audit Reporting to the Executive Board

38. For the 2006-2007 biennium, we had provided a series of management letters to the Secretariat on financial management and operations from audit field visits; and reports to the Executive Board on treasury management (February 2007); the costs and benefits of profile raising (June 2007); preparation of the financial statements for 2006 – progress towards IPSAS (June 2007); a special audit requested by the Executive Board on WFP activities in the Democratic People's Republic of Korea (October 2007); decentralisation and WFP's operational needs (October 2007); and an advice paper on audit committees . We also provided our financial report and audit opinion to the Executive Board covering the biennial financial statements for 2006-2007 (June 2008).
39. For our Report deliveries to the EB for 2008-2009, we will continue to give the Executive Director the opportunity to comment on our audit findings before reporting to the Executive Board. We will maintain our "no surprises" policy of fully discussing our audit findings with the organisation prior to reporting, and seeking to agree the facts on which the conclusions and recommendations of the audit reports are based.
40. This policy allows the Executive Board to consider the issues arising in External Auditor's reports in the confident knowledge that they are based on sound, reliable and fairly presented facts. It also provides the Executive Director and her staff with the earliest possible opportunity to act on practical recommendations made by the External Auditor.

Statement on Internal Control

41. The introduction of audited annual financial statements in compliance with IPSAS provides scope for improvement in the format previously used for biennial statements. WFP's financial statements are prepared in accordance with General Regulation XIV.6 (b) and Financial Regulation 13.1 which requires the format of the financial statements to be such as may be appropriate to clearly show the financial position and meet the managerial requirements of the Board and the Executive Director.

42. One avenue by which the Secretariat could offer improved management assurance to the Executive Board is through the preparation of a Statement on Internal Control presented with the financial statements. Statements on Internal Control represent an element of best practice in financial reporting; and strengthen corporate governance by acknowledging the Executive Director's responsibility for establishing an effective system of internal controls based on corporate risk assessment, and highlighting any areas of concern that the Executive Board should take into account when assessing the financial statements presented by the Secretariat.
43. The Strategic Plan for 2006-2009² referred to the introduction of a Statement on Internal Control during the period covered by the Plan. We encourage the Secretariat to consider as soon as possible the provision of a Statement on Internal Control to accompany the financial statements prepared under IPSAS and we stand ready to provide advice and guidance as necessary.

² WFP/EB.A/2005/5-A/Rev.1

Annex 1

Financial Audit Methodology

1. In applying the highest professional auditing standards, we adopt a clear focus on risks and controls, with the aim of :
 - Adding value through the external audit process; and
 - Providing opportunities for improving efficiency and generating savings for the organisation.
2. Our audit approach is based on obtaining a thorough understanding of the operations and activities of the Programme in order to identify the main risks arising from its activities. Material risks may affect the ability of the Programme to achieve its objectives and may influence the reliability and accuracy of the financial statements. Our audit approach therefore focuses on the concepts of materiality and risk, and on the needs of users of the financial statements.
3. Materiality is a concept which recognises that financial statements can rarely be absolutely correct. A matter is regarded as material if its inclusion, omission, misstatement or non-disclosure is likely to distort the overall view given by the financial statements. We assess materiality by value, by nature, and by context. Our work therefore concentrates on all key areas of activity, and the External Auditor's report on the financial statements is confined to substantive issues. Less important matters are dealt with in discussion and correspondence with the Executive Director.
4. We carry out a thorough risk evaluation, which includes an assessment of the strengths and weaknesses of controls within the organisation's financial systems - taking account of developments such as the introduction of new computerised systems and changes in procedures - in order to determine the likelihood of material error, including fraud, occurring. The results of the assessment help us to determine the level of audit evidence needed to support the audit opinion; concentrate our efforts towards high-risk areas; and improve the cost-effectiveness of audit testing.

ACRONYMS USED IN THE DOCUMENT

COMPAS	Commodity Movement Processing and Analysis System
IPSAS	International Public Sector Accounting Standards
NAO	National Audit Office
OSDA	Office of Internal Audit
WINGS	WFP Information Network and Global System