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PROGRESS REPORT ON THE IMPLEMENTATION OF THE EXTERNAL AUDITOR RECOMMENDATIONS



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.

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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. Progress reports are provided to all sessions of the Board.
2. This progress report sets out the recommendations that were reported as outstanding in the last progress report and reports on actions taken and recommendations implemented subsequently. The report is also presented in line with the recommendations of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) in its report (WFP/EB.A/2006/6 (A,C,D,E,F,G,H,I,J,K)/2) and the Finance Committee of the Food and Agriculture Organization of the United Nations (FAO) (WFP/EB.2/2006/5(A,D,E,F,G,H,I)/3) that the progress report on the implementation of the External Auditor's recommendations should include observations of the External Auditor, in particular as to whether the completed status has been verified and accepted by the External Auditor.
3. In their reports to the Board during its first regular session in January 2007, both the ACABQ (WFP/EB.1/2007/6 (A, B, C, D, E)/2) and FAO Finance Committee (WFP/EB.1/2007/6 (A, B, C, D, E)/3) welcomed the Secretariat's implementation of the audit recommendations and expressed appreciation for the inclusion of comments of the External Auditor in the report and of the progress made. The ACABQ has also indicated that the successful implementation of audit recommendations is a work-in-progress while the FAO Finance Committee encouraged the Secretariat to complete the implementation of the recommendations.
4. The External Auditor will continue to provide comments on completed recommendations.
5. The following matrix summarizes these outstanding recommendations and also includes recommendations arising from the recent external audit report on the Review of Treasury Management (WFP/EB.1/2007/6-B/1):

Audit report	Report date	Recommendations under implementation as at December 2006	Completed as at April 2007	Percent complete
Upgrade of the WFP Information Network and Global System (WINGS)	May 2005	3	0	0
Review of the Dubai Support Office and Fast Information Technology and Telecommunications Emergency and Support Team (FITTEST)	October 2005	5	2	40
Review of the Arrangements for Reporting Post-Delivery Food Losses to the Executive Board	January 2006	3	1	33
Review of the Results-Based Management Framework for Monitoring and Reporting Results	June 2006	2	1	50
Audit of the Financial Statements of the World Food Programme for 2004–2005	June 2006	5	2	40
Report of the External Auditor on the Review of Treasury Management	January 2007	11	6	55
Total		29	12	41

PROGRESS REPORT ON IMPLEMENTATION OF THE EXTERNAL AUDITOR RECOMMENDATIONS

External Auditor's recommendations	WFP response	Actions taken as at December 2006	Actions taken to date or to be taken as at April 2007	NAO Comments
Upgrade of the WFP Information Network and Global System (WFP/EB.A/2005/6-B/1/Rev.1)				
<i>User System Ownership and Acceptance Testing Procedure</i>				
<p>1. Recommendation 7. To achieve these objectives, we recommend that Phase 1 includes plans for a robust user testing methodology in both Headquarters and country offices, that encourages user ownership, leadership and support of any related business process improvement. The approval process of changes and after user acceptance testing should be on the basis of support for any related business change.</p>	<p>The testing methodology was not defined in any depth in the Phase 1 strategy.</p>	<p>The high-level test approach was proposed by Accenture as part of the strategy phase.</p> <p>The analysis phase is underway, and includes the definition of training plans and approaches as well as responsibilities related to user testing and ownership.</p> <p>Stakeholder validation workshops were completed in September 2006 whereby proposed process changes covering all functional areas were tested, followed by signing-off by process owners of process designs and major process changes.</p>	<p>The user-testing test plans for release 1 are being prepared for some process areas and will be completed once the detailed-design and the business blue prints are completed in May 2007.</p>	
<p>2. Recommendation 8. 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</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>	





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<p>system maintenance against which the upgrade can be assessed.</p>				
<p>3. Recommendation 9. In accordance with good practice, we recommend that prior to the selection of a future contractor/partner and the further implementation of the upgrade process, the WFP undertakes an independent implementation review of lessons learned from Phase 1 by a specialist in the Information Technology field. We believe the implementation of the upgrade and the degree of achievement of the ultimate objectives can be assessed by addressing six main areas, these being: a clearly defined scope for the project; Management of WFP's culture to accept change; ongoing commitment of Senior Management; changes in the business processes to match the new functionality; management of the technology used in the project; and the extent to which the project achieved the ultimate business objectives.</p>	<p>WFP does not consider that it would be valuable to engage another specialist firm to validate the recommendations from Accenture.</p>	<p>Terms of reference have been agreed with a senior independent consultant to conduct a review of the project, with the objective of assessing WFP's capability and capacity to deliver the vision underpinning WINGS II.</p> <p>The project leadership decided that it would be more advisable and useful to measure WFP's capability and capacity to deliver the vision at the end of the analysis phase.</p> <p>There has been a delay in the selection and recruitment of a consultant to undertake the review of the project.</p>	<p>The review of the project by a senior independent consultant will start in May 2007 and is expected to be completed in June 2007. The result of such review will be reported to the Board at its Second Regular Session in 2007.</p>	



External Auditor's recommendations	WFP response	Actions taken as at December 2006	Actions taken to date or to be taken as at April 2007	NAO Comments	
Review of the Dubai Support Office and Fast Information Technology and Telecommunications Emergency and Support Team (FITTEST) (WFP/EB.2/2005/5-G/1)					
Mandate					
1.	<p>Recommendation 2. I recommend that WFP clarify the reporting lines and accountability model for Dubai, and FITTEST; and update its guidance on the objectives of the operations; the process and the activities involved and stakeholder roles.</p>	Agree.	<p>A thorough review and evaluation of the WFP Dubai support office was undertaken; its functions and lines of responsibilities will be included in the Executive Director's circular which will be prepared for the purpose.</p> <p>The Deputy Executive Director (DED) for Administration announced in July 2006 the appointment of the Director for the WFP Dubai Office who will report directly to the DED for Administration. The office, however, will remain part of the Middle East, Central Asia and Eastern Europe Regional Bureau (ODC) for receiving communications that Headquarters normally distributes through regional bureaux and staff participation in regional workshops and training initiated by Headquarters or regional bureaux.</p> <p>The objectives and operational profile of the WFP Dubai office are being expanded and will be formally defined. WFP Dubai management would collaborate with The Boston Consulting Group (BCG) in defining the new operating model.</p> <p>The Executive Director has approved the establishment of the Dubai office as an administrative regional office that will provide expanded services to meet the needs of the country offices, particularly during emergencies. The Secretariat believes that the Executive Director's decision memorandum of 15 June 2006 defines the present role and reporting lines for the Dubai regional administrative office.</p>	<p>A new structure was formalized in 2006; the Dubai office has been renamed WFP Field and Emergency Support Office (FESO).</p> <p>FESO is in the process of preparing an ED circular that will formalize the reporting lines and ensure stakeholder participation.</p> <p>Expected completion dates: cost-recovery proposal – May 2007; ED circular – June 2007.</p>	

External Auditor's recommendations	WFP response	Actions taken as at December 2006	Actions taken to date or to be taken as at April 2007	NAO Comments	
Risk Management					
2.	<p>Recommendation 4. I recommend that any Secretariat review of telecommunications and non-food procurement service provision should address how responsibilities for priority setting are set at a senior management level and clear lines of responsibility established.</p>	<p>There are no current indications that the services provided by the Dubai support office for non-WFP activities would jeopardize responsiveness to WFP's emergency activities, but the risk exists in future, particularly in the area of FITTEST.</p>	<p>Management responsibility for priority setting and clear lines of responsibilities will be addressed in the Executive Director's circular which will include lines of responsibilities and delegation of authority.</p> <p>The ED decision memorandum of 15 June 2006 defines the current role and reporting lines of the Dubai regional administrative office. New procedures for offshoring non-food procurement from Headquarters to Dubai were also established. Procurement activities currently undertaken by the Dubai office has been part of this offshoring activity and under the responsibility of the Regional Director of the Dubai regional administrative office.</p>	<p>As mentioned above, a new structure has been formalized in 2006 and reporting lines have been defined. In addition, new procurement procedures have been initiated by AD with the off-shoring of non-food procurement to Dubai. An ED circular is also being prepared detailing FESO procurement activities. Dubai's existing procurement will also be subsumed into this service.</p>	
Value for money					
3.	<p>Recommendation 6. I recommend that WFP develop a robust cost identification model and basis for charging fees to enhance transparency and accountability before extending the principle of full cost recovery to other support functions.</p>	<p>The 2004 deficit of US\$600,000 mentioned in the report was mainly a result of fewer projects than anticipated being allocated to WFP Dubai. However, the system to estimate the projects for the subsequent year was reviewed quarterly and proved to work in 2005.</p> <p>The current cost-recovery model appears to work well, but a good deal of work is still needed in the area of monitoring indirect cost recovery and costs incurred.</p>	<p>The Secretariat has regularly reviewed the current cost-recovery model in terms of the results of operations.</p> <p>A review of the 2005 financial results of WFP Dubai indicated the appropriateness and efficiency of the current cost recovery model. Nevertheless, the Secretariat will continue to monitor and improve it.</p> <p>With the development of the Fast Administrative Support Team (FAST) and the Global Vehicle Leasing Pool (GVLP) and initiatives to outpost functions from Headquarters, the models and basis for charging fees have to be continuously reviewed.</p> <p>The BCG study indicated that for the WFP Dubai support office to generate income, it has to run off-shoring and outsourcing services for WFP and others and provide emergency-response capacity in emergencies.</p>	<p>The cost-recovery model was extensively reviewed in the first quarter of 2007. The review included process mapping, identifying the components of overhead costs, which increased in proportion to increases in all business activities. This information is being considered in the cost-recovery model being developed.</p> <p>The proposed cost-recovery mechanism is due to be completed by the end of May 2007. As of January 2007, FESO had implemented a more stringent method of tracking indirect overhead costs, which are compared monthly with cost recoveries.</p>	





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<p>4. Recommendation 7. I recommend that procurement costs and delivery times be provided for benchmarking purposes from all the major procurement facilities at WFP, at least for the high volume or value equipment and those available under long-term agreements agreed locally or centrally.</p> <ul style="list-style-type: none"> ➤ Country offices and regional bureaux be informed of the alternatives of direct delivery of equipment by Dubai or direct purchase through long-term agreements held at Headquarters; and ➤ the Secretariat ensure that the specifications of key equipment are regularly reviewed in terms of identified operational need. ➤ Any proposal to expand further the scale of non-food procurement through the Dubai support office are subject to a thorough cost-benefit appraisal. 	<p>Agree.</p>	<p>The Secretariat took additional steps to achieve more cost-effective procurement in WFP. A cost-benefit analysis was carried out that will be used to justify any expansion of services in Dubai.</p> <p>Benchmarking is available for comparable items that are high-value or high-turnover. Long-term agreement (LTA) prices and other information is available to regional bureaux and country offices.</p> <p>Several global LTAs initiated by Headquarters were awarded to the Dubai branch offices of global manufacturers, dramatically increasing service quality and minimizing response time.</p> <p>As part of the off-shoring of non-food procurement to the Dubai office, benchmarks for cost and delivery times are being evaluated and compared with Headquarters benchmarks to ensure that the Dubai office can deliver a comparable or better service at reduced cost. This study will be undertaken in the first quarter of 2007 in collaboration with the United Nations Office for Project Services (UNOPS).</p> <p>Field offices are made aware of equipment that is available from manufacturers through Procuweb; regular information bulletins are issued advising them of new LTAs.</p> <p>Specifications of ICT equipment are regularly reviewed and updated. Vehicle specifications have been standardized; other categories of non-food items are being reviewed.</p> <p>The Dubai office has expanded significantly as part of the off-shoring of procurement. This has been reviewed from business and cost-benefit perspectives and the resulting benefits have been established.</p>	<p>In terms of costs for end users, country offices have a choice whether to procure directly from suppliers or from Dubai for all purchases of up to US\$200,000. Any purchases from Dubai above US\$200,000 are at no cost to the end user. Alternatively, country offices can procure directly on the basis of the LTAs, which are posted on Procuweb. This applies to all items except vehicles, which are now provided through GVLP.</p> <p>An effort to standardize equipment is underway. The largest non-food items – vehicles, prefabs and ICT equipment – have now been standardized.</p> <p>WFP's decision to offshore Headquarters procurement activity to Dubai has demonstrated that procuring from Dubai is more cost effective than from Headquarters in terms of overhead costs.</p> <p>This recommendation is deemed complete.</p>	<p>The action taken by the Secretariat has addressed the recommendation. We will examine the impact on country office costs in our future field visits.</p>



External Auditor's recommendations	WFP response	Actions taken as at December 2006	Actions taken to date or to be taken as at April 2007	NAO Comments
Reporting and Performance Measurement				
<p>5. Recommendation 8. I recommend that WFP consider the introduction of the following performance indicators, measurement processes and assessment techniques:</p> <p>For assessment of operational efficiency in Dubai:</p> <ul style="list-style-type: none"> ➤ emergency situation categorized and prioritized by the appropriate management as a high priority could be set a stringent timeframe for delivery of communications and equipment and the percentage of delivery against these timeframes reported as results-based measures; and ➤ for less urgent projects, performance could be reported against service delivery criteria agreed in advance with recipients and donors. <p>For consideration of cost effectiveness:</p> <ul style="list-style-type: none"> ➤ Dubai calculated a cost for retention of stock as part of its charging procedure. To allow informed assessment of cost effectiveness, the charge for stock 	<p>Performance indicators have been defined for the 2006–2007 biennium and were based on the results matrices from the Strategic Plan and Management Plan. The Dubai support office, a provider of services on a full-cost-recovery basis, may need a set of performance indicators for its operations.</p>	<p>The Secretariat has taken into account the audit recommendations when performance indicators were established. This is aimed at promoting operational efficiency, cost effectiveness and economical use of resources for the Dubai support office.</p> <p>The Dubai office has reviewed its costing models to ensure that they reflect valid cost drivers. This can be used to match income and can be tied into performance indicators.</p> <p>The costing review was included in the BCG review, where the operating model for WFP Dubai has been defined. The operating model also includes a new costing approach, greater integration into corporate systems through WINGS II and performance indicators that reflect the quality of the services provided and the effectiveness of the office.</p> <p>The Dubai office has reviewed service-level agreements (SLAs) for services related to emergency and non-emergency requirements; SLAs are now tailored to meet the needs of business units, thus facilitating the setting of performance indicators based on clients' needs.</p> <p>Since April 2006, a customer-satisfaction survey has been carried out after each mission; the last was in the Lebanon crisis.</p> <p>The proportion of work related to operations is included in FITTEST annual reporting.</p>	<p>FESO has entered into SLAs for services related to emergency and non-emergency requirements; future response activities will be based on such SLAs. This facilitates setting up of performance indicators based on clients' needs. A new monthly management report called <i>Shared Appraisal and Performance</i> (SHAPE) has been developed to detail activities undertaken during a certain period and to highlight risks and action points.</p> <p>A complete costing review will be completed in May 2007. The efficiency of the costing model is expected to improve with the implementation of WINGS II in the areas of sales invoicing and inventory management.</p> <p>The measure of staff utilization has been defined and is part of the SLAs. Performance reports will be prepared annually, highlighting significant actions undertaken by FESO, including off-shored activities, and details of costs incurred and recoveries made from projects to support these activities.</p> <p>This recommendation is deemed complete.</p>	<p>The implementation of service level agreements and the establishment of the shared appraisal and performance has addressed the recommendation.</p>



External Auditor's recommendations	WFP response	Actions taken as at December 2006	Actions taken to date or to be taken as at April 2007	NAO Comments
<p>retention should be reported and added to the cost of supply when comparison is made against other procurement units internal or external.</p> <p>For consideration of the effective use of resources:</p> <ul style="list-style-type: none"> ➤ a measure of staff utilization; ➤ the proportion of effort related to WFP operations; and ➤ a survey of customer satisfaction (both internal and external). 				
<p>Review of the Arrangements for Reporting Post-Delivery Food Losses to the Executive Board (WFP/EB.1/2006/6-B/1)</p>				
<p>Identification of Post-Delivery Loss</p>				
<p>1. Recommendation 1. We recommend that WFP consider the use of risk profiling as a basis for focused monitoring, on which a more sensitive and reliable statistical assessment of total food loss might be reported.</p>	<p>Agree.</p>	<p>The Secretariat has explored methods and technical solutions for capturing losses at the distribution level through random sampling techniques, to be piloted in selected country offices in the second half of 2006.</p> <p>A working group has been established to assess sampling methods to address this recommendation. A mission will be conducted in one or two country offices during the second semester of 2006.</p> <p>Systematic random sampling in tracking and reporting commodity losses will ensure that data are obtained more quickly and by scientific and impartial means.</p> <p>A formal risk-profiling method for country offices will be developed as part of the risk-planning</p>	<p>A project document to assess the feasibility of applying statistical sampling methods to determine post-delivery losses has been presented and approved by the Institutional Strengthening Programme (ISP) Steering Committee. Research work will continue during the second and third quarters of 2007. One country office has been piloted; the sampling method is being systematically applied to determine post-delivery losses.</p> <p>An analysis of risk-profiling methods employed by country offices was incorporated into the annual reporting</p>	



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		strategies.	exercise that ended 31 March. A consolidation of this analysis began in April and will be developed in consultation with the Risk Planning Group. This will be the basis of recommending to country offices adoption of a corporate approach.		
Food Delivery Monitoring Systems					
2.	<p>Recommendation 7. We recommend continued development of and use of COMPAS to encompass complete reporting of the entire food supply chain, together with data validation and monitoring arrangements to ensure accuracy and reliability.</p>	<p>Agree. A number of initiatives are underway to enlarge the scope of COMPAS, the most important one being to amend COMPAS management guidelines to include:</p> <p>a) process control reports ensuring accuracy of WFP and country programme (CP) commodity tracking data in COMPAS; and</p> <p>b) quarterly release to CPs of post-delivery loss information as determined through COMPAS.</p> <p>A further project is being formulated to introduce sampling methodology to commodity tracking and monitoring of food utilization at final delivery point (FDP) level.</p>	<p>Process control reports are in place using the Discoverer reporting tool which can easily extract post-delivery losses.</p> <p>Country offices have completed quarterly commodity accounting reports reflecting post-delivery losses during the first three quarters of 2006. These reports are shared with cooperating partners.</p> <p>A new chapter has been included in the WFP distribution guidelines emphasizing the importance of verification and reconciliation of the data in cooperating partner distribution reports.</p>	<p>Country offices have completed all 2006 quarterly commodity accounting reports which reflect post delivery losses and these commodity accounting reports have been used in the preparation of standard project reports (SPRs).</p> <p>This recommendation is deemed complete.</p>	<p>Although the recommendation has been addressed, we will continue to review country office reporting of post-delivery loss in our future field visits.</p>
3.	<p>Recommendation 8. On the basis of the experience gained in the initial piloted installation of the ARGOS system, we</p>	<p>Agree. The School Feeding Service of the Policy Strategy and Programme Support Division (PDPF) is</p>	<p>PDPF focused on the completion of the roll-out and the consolidation/improvement of the current ARGOS system during 2006. PDPF ensured that the system is properly installed</p>	<p>The roll-out of the ARGOS system was almost complete during 2006: 13 out of 14 countries adopted it. There was delay in implementing</p>	



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<p>recommend WFP ensure that:</p> <p>A suitable environment is available for all new implementations; and country offices determine the most appropriate and effective use of the monitoring system, to confirm the results of cooperating partner reports; to act as an auxiliary monitoring control in addition to monitoring visits; or as the main monitoring mechanism on which loss reports will be prepared.</p> <p>For each of these alternatives, a robust confirmation of the predetermined advantages, cost savings and results expected from the installation should be made to support ongoing monitoring of the system's effectiveness.</p>	<p>working to improve the quality of information collected, entered and analysed locally by schools, cooperating partners and country offices.</p> <p>The roll-out of the ARGOS system is expected to be completed by the end of 2006 (1,690 devices have been delivered to 15 countries¹ and 980 of them have been installed. There are 750 devices still to be installed. Three countries² remain to be trained).</p> <p>ARGOS is promoted as an auxiliary monitoring tool to complement and verify the data generated through other monitoring systems and contained in cooperating partners' reports. It is integrated as such into WFP's Common Monitoring and Evaluation Approach (CMEA).</p>	<p>and utilized, ensured that school staff, counterpart staff and country office staff are trained and familiar with the use of the system and reviewed the current use of the data collected, including the data analysis methods, to evaluate the current stage of implementation.</p> <p>A suitable environment has been developed by PDPF using the new support system set up in mid-2006 to enable closer contacts with the 15 country offices. This allowed PDPF to provide prompt technical support and guidance.</p> <p>Good progress was made in 2006 in the roll-out of ARGOS: 14 of 15 countries installed it to transmit data collected in the field; 1,158 of the 1,690 devices delivered are operational.</p> <p>Most of the devices to be installed are in countries where difficult security and emergency situations impede installation.</p> <p>With the exception of Mauritania, all countries identified have received the devices; training of trainers (TOT) for WFP staff, government staff and teachers has been undertaken.</p>	<p>ARGOS in Sudan because of insecurity, but it is expected that ARGOS implementation will be completed in 2007.</p> <p>During roll-out, it was noted that the web-based data processing system is not fully user-friendly: formula calculation of some indicators is not consistent with WFP's other monitoring and evaluation (M&E) system. This led to a modest use of ARGOS data for actual reporting by many country offices.</p> <p>PDPF has therefore planned for 2007 the following actions to enhance the use of the ARGOS system:</p> <ul style="list-style-type: none"> ➤ develop automated easy-to-use processing and reporting tools that will allow country offices to optimize the use of the data offered by ARGOS; ➤ prepare guidelines on how to use the ARGOS data for existing monitoring systems and for corporate reporting requirements such as SPRs; ➤ extend <i>Collecte Localisation Satellite</i> (CLS) technical support service to attend mechanical problems with ARGOS devices; ➤ advocate the use of ARGOS system within and outside WFP. 	

¹ Afghanistan, Cape Verde, Chad, the Republic of Congo, Djibouti, El Salvador, Guinea-Bissau, Lesotho, Malawi, Mozambique, Pakistan, São Tomé and Príncipe.

² Guinea, Mauritania, Sudan.



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Review of the results-based management framework for monitoring and reporting results (WFP/EB.2006/A/6-D/1)				
<p>1. Recommendation 6. We recommend that the Secretariat ensures that the Internal Evaluation Committee improves the integration of assessment, programming and monitoring in order to strengthen the reliability of performance information.</p>	<p>Agree. In the course of its routine deliberations the Internal Evaluation Committee is pursuing the integration of assessments, programming and monitoring.</p>	<p>The Internal Evaluation Committee was established in early 2006 and had its first meeting in March 2006.</p> <p>At its December meeting, the committee discussed this recommendation and referred it to the Programme Quality Assurance (PQA) team for action. The PQA team would report to the committee on ways to improve the integration of these activities.</p>	<p>The PQA team and the Evaluation Committee are developing a mechanism to provide closer linkage between needs assessment, programming and monitoring.</p>	
Cost effectiveness				
<p>2. Recommendation 7. We recommend that wherever possible the Secretariat should use performance indicators that are supportable by systems of data collection which already exist, or by data that can be cost-effectively gathered.</p>	<p>Agree. Output and process indicators should be embedded and derived from corporate systems. The data thus generated should form the basis for performance analysis and management.</p> <p>Data for outcome-related information (as defined by WFP and required by the Board) is not usually supported by systems and needs to be generated through surveys and/or research. In cases where national statistics are gathered comprehensively (rare in WFP operation areas), opportunities may exist to use and interpret existing data.</p>	<p>The recommendation will be addressed as part of the strategic planning process and in WINGS II, in consultation with relevant units.</p> <p>A cost-effective approach to outcome measurement is being developed.</p>	<p>Effective use of data is being discussed as part of management improvement, including corporate indicators and data collection/analysis tools. Common monitoring and evaluation approaches are being incorporated in WINGS II, which will reduce costs and increase efficiency</p> <p>This recommendation is deemed complete.</p>	<p>The plans to streamline performance monitoring and derive performance data from the WINGS II upgrade addresses the recommendation.</p>



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The Audit of the Financial Statements of the World Food Programme for 2004–2005 (WFP/EB.A/2006/6-A/1/3)					
<i>Governance and internal oversight</i>					
1.	Recommendation 1. 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.	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.	No action is planned by the Secretariat, pending consideration by the Board. The issue is for consideration by the Board.	The issue is for consideration by the Board.	Under Board consideration.
2.	Recommendation 2. I recommend that the Office of Internal Audit (OSDA) finalize an implementation plan for the Institute of Internal Auditors (IIA) recommendations, setting out priorities and time-lines against which progress can be monitored.	Agree.	OSDA will include the recommendations of the IIA in its implementation plan on recommendations from both external and internal quality assessment work. OSDA has identified nine internal projects to implement the IIA recommendations, and these are formally established in OSDA's project-tracking system. At end of 2006, five projects were ongoing.	Seven of the nine projects are completed; the two remaining projects are expected to be completed in mid-2007.	

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Financial management control					
3.	<p>Recommendation 8. I recommend that the Secretariat takes steps to establish improved arrangements for the effective quality review of the financial statements for the consistent disclosure and fair WFP valuation of services-in-kind contributions in compliance with the appropriate accounting standards.</p>	<p>Agree. This recommendation is timely in that WFP has received increasing levels of services-in-kind contributions in recent years. The valuation of services-in-kind contributions is a complex process that requires clear policies and procedures to arrive at a fair valuation of the contribution.</p>	<p>The Secretariat will enhance the <i>Private Donor Guidelines</i>, particularly on the acceptance of services-in-kind contributions. The Chief Financial Officer (CFO) and the Fundraising and Communications Department (FD) are discussing the most appropriate way of valuing services in-kind.</p>	<p>Discussion is ongoing between the CFO and FD on the recording of services-in-kind (SIK) revenues and expenditures. A proposal will be made to senior management as to which SIK should be recorded in the Financial Statements, having regard to International Public-Sector Accounting Standards (IPSAS) requirements from 2008; once approved, this will become WFP policy.</p>	
Transactions with the United Nations Development Programme (UNDP)					
4.	<p>Recommendation 9. I recommend that the Secretariat maintains its efforts to clear outstanding items from the UNDP account 60015 to provide assurance that records of expenditure are complete and payments valid.</p>	<p>Reconciliation of the UNDP account is an ongoing activity that was impacted by problems with the monthly statements of account from UNDP following the implementation of their Atlas system in 2004.</p>	<p>The Secretariat has improved recording and reconciliation of UNDP transactions to ensure correctness of expenditures incurred and paid through UNDP.</p> <p>As part of the exercise, transactions reported by UNDP in 2004 and 2005 were reviewed to identify the causes of differences between WFP and UNDP records. Recording, clearing and reconciling of UNDP transactions by country offices are being monitored by Headquarters.</p> <p>Subsidiary ledger accounts are created for each country office to record UNDP transactions so that country offices can manage their own transactions and to facilitate reconciliation and clearing of UNDP transactions.</p>	<p>With effect in 2007, individual ledger accounts have been created and assigned to regional bureaux and country offices to facilitate recording and clearing of UNDP transactions and to monitor finance officers' performance.</p> <p>A global reconciliation was submitted to UNDP in early 2007; reconciling items that were identified were referred to UNDP for adjustment. UNDP is undertaking its own verification of these reconciling items. These reconciliation and clearing activities take place regularly between WFP and UNDP headquarters and between Headquarters and its field offices to ensure that accounts are accurate and up to date.</p> <p>In view of the ongoing nature of monitoring UNDP transactions and taking into account the improvements introduced by the Secretariat in the</p>	<p>The Secretariat actions have significantly reduced outstanding items with UNDP but we consider the recommendation ongoing pending the resolution of balances amounting to US\$4.9 million referred to UNDP for adjustment.</p>





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			recording and clearing of UNDP transactions, the Secretariat deems that this recommendation has been substantially addressed.	
Fraud, ex-gratia payments, amounts written off and contingent liabilities				
<p>5. Recommendation 10. I recommend that the Secretariat:</p> <ul style="list-style-type: none"> ➤ confirm the adequacy of internal controls at regional level; ➤ consider the need to improve the extent and quality of management oversight by Headquarters to ensure that controls are applied in practice; and ➤ consider whether there is a need to respond more effectively to audit findings and recommendations. 	<ul style="list-style-type: none"> ➤ The Secretariat recognizes that sound internal control processes are required in all WFP Offices. In addition to the systems controls introduced in 2005 as noted by the External Auditor the Secretariat also strengthened controls through the recruitment of additional finance staff, training of Country Directors in financial management and through the introduction of a monthly reporting package designed to strengthen controls at Regional and Country Office levels. ➤ The improvement of controls including management oversight by Headquarters of the adherence by managers to financial rules, directives and financial management procedures is an ongoing priority. ➤ Action plans on the implementation of 	<p>The monthly reporting package from country offices and regional bureaux will be enhanced to provide early warning to management of potential control weaknesses. Action has been taken to introduce enhanced procedures for the WINGS Vendor Master record by centralizing the finance related information, thereby avoiding the possibility of error or fraud through weak controls. Electronic payment processes have been enhanced by introducing a system of pre-approved suppliers and matching these with WINGS Vendor Master Files. Directives on these two control improvements were issued in the second quarter of 2006.</p> <p>A more rigorous process of monitoring external audit recommendations was introduced in regional bureaux and country offices; progress reports were reviewed by Headquarters.</p> <p>Information included in the monthly reporting package is being used by management to identify potential control weaknesses in country offices or regional bureaux. The monthly report to management focuses on the age of the accounts as one of the performance indicators.</p> <p>The monthly financial reporting package from country offices was streamlined to enhance its efficiency as a control tool. The first version of the consolidated performance report will be available from the first quarter of 2007, providing early warning to managers regarding financial risks in field offices.</p> <p>Training workshops on financial management were held for country directors in all regional bureaux during the last quarter of 2006 with a</p>	<p>A "consolidated performance report" is prepared monthly by the CFO. This new report streamlines the monthly financial reporting package from country offices to enhance its efficiency as a control tool; it also provides early warning to managers regarding financial risks in field offices.</p> <p>This recommendation is deemed complete.</p>	<p>We will continue to assess the adequacy of the monthly reporting and action taken on identified financial risk during our future field visits.</p>



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	<p>External Audit recommendations are drawn up by the Managers of the offices receiving such recommendations. All managers are expected to act on the recommendations and to implement them without delay.</p>	<p>view to enhancing their skills and increasing awareness of financial controls. Internal controls and management oversight will remain priorities, but the actions taken in 2006 are considered to have been completed implementation of the recommendation.</p>			
<p>Report of the WFP External Auditor on Treasury Management (WFP/EB.1/2007/6-B/1)</p>					
<p>1.</p>	<p>Recommendation 1. We encourage the Secretariat to ensure that treasury cash forecasts provide adequate support for existing programmes or for immediate operational requirements by:</p> <ul style="list-style-type: none"> - encouraging understanding in all units of the benefit of promptly sharing information; - the timely recording of expenditure or commitments; and - encouraging the earliest income notification by donor states. 	<p>Agree.</p>		<p>The Secretariat is committed in improving its business processes as well as introducing enhancements to its current accounting system. Both recommendations 1 and 2 are being addressed in the context of the WINGS II project.</p>	



External Auditor's recommendations		WFP response	Actions taken as at December 2006	Actions taken to date or to be taken as at April 2007	NAO Comments
2.	<p>Recommendation 2. We endorse the planned standardization of cash forecasting and reporting to be implemented by the WINGS accounting system upgrade; and we recommend the global standardization of procedures, roles and responsibilities, wherever possible, as a prerequisite for consistent forecasting.</p>	Agree.		The Secretariat is committed to improving its business processes and introducing enhancements to its current accounting system. Recommendations 1 and 2 are being addressed in the context of the WINGS II project.	
3.	<p>Recommendation 3. We encourage the Secretariat to continue to produce the analysis of expenditure in a regular and timely manner, to help inform the governing body on the adequacy of resources provided for WFP core operations and endorse the moves to fully separate staff costs for review.</p>	Agree. The Secretariat is actively engaged in improving cost reporting to the Board.		<p>This issue has been discussed with the Bureau and an approach to cost reporting has been agreed. Accordingly, the cost analysis section of the 2006 Annual Performance Report (APR) has adopted the same method as that used in the "Analysis of WFP Cost Components". It has also been agreed with the Bureau that the 2008–2009 Biennial Management Plan will address this issue and that a similar report on cost components will be produced in 2008 covering the 2006–2007 biennium.</p> <p>This recommendation is deemed complete.</p>	The agreement with the Executive Board Bureau related to cost component reporting fully addresses the recommendation.
4.	<p>Recommendation 4. We welcome the enhanced control procedures being introduced for electronic payments and encourage the extension of timely linkage of banking statements and the accounting system to assist identification of areas of increased fraud risk.</p>	Agree.		<p>Full compliance with mandatory use of pre-approved vendors in the electronic banking system is planned for April 2007.</p> <p>Automatic bank statement uploads for local bank accounts of field offices is being analysed as part of the WINGS II project.</p>	



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<p>5. Recommendation 5. We recommend that Finance ensure the cost-effective usage of zero-balance accounts (ZBA) which support effective cash management by:</p> <ul style="list-style-type: none"> - investigating overdrawn accounts in a timely manner; - ensuring that any bank accounts not required are promptly closed; and - extending zero balance accounts for any countries on the basis of a business case which would consider the costs of training, communications linkage and the expected volume of transactions passing through the account. 	<p>Agree. In 2006, 86% of bank replenishments from Headquarters to field offices was provided through ZBA. This cash pooling structure limits the locally held cash balances in order to optimize interest income and reduce counterparty risk. The Secretariat does not immediately foresee any significant expansion in the number of ZBAs.</p>		<p>New database containing all bank accounts, bank signatories and electronic banking users has been implemented in November 2006 and information has been reconciled with field offices in the first quarter of 2007.</p> <p>Bank account usage is periodically reviewed and four ZBA accounts have been closed since the conclusion of the audit.</p> <p>This recommendation is deemed complete.</p>	<p>The establishment of enhanced oversight through the new database and the closure of bank accounts addresses the recommendation.</p>
<p>6. Recommendation 6. We recommend that following the appointment of a fourth investment manager by competitive tender, financial service contracts should be subject to periodic competitive tender on a rotational basis, which enables continuity of financial service provision and transparent confirmation of cost efficiency and investment performance.</p>	<p>Agree. Obtaining competitive financial services and limiting the dependency on any financial services providers are both high on the Secretariat's agenda. The recommended tender process on a rotational basis has already been considered by the Investment Committee.</p>		<p>Competitive search for additional investment managers for short-term investment portfolios and for the investment adviser has started; it is expected to be completed before the end of 2007.</p>	



External Auditor's recommendations		WFP response	Actions taken as at December 2006	Actions taken to date or to be taken as at April 2007	NAO Comments
7.	<p>Recommendation 7.</p> <p>We encourage the Secretariat to continue the refinement of performance indicators set out in the new investment policy so as to enable investment managers to be reliably and realistically assessed.</p>	<p>Investment performance indicators were developed in coordination with the World Bank Treasury in its role as investment adviser. The performance benchmarks were validated by the investment adviser, approved by the Investment Committee and the Executive Director in mid-2006 and implemented as of January 2007.</p>		<p>Periodic review of strategic asset allocation and benchmarks has been included in the new Investment policy (ED2006/010).</p> <p>This recommendation is deemed complete.</p>	<p>The implementation of the performance benchmarks from January 2007 addresses the recommendation.</p>
8.	<p>Recommendation 8.</p> <p>We recommend the Secretariat to ensure that funds which are invested for long periods are recoverable in the event of unforeseen needs that comply with Board-approved usage of particular funding.</p>	<p>The Secretariat believes that this recommendation is covered by the investment guidelines for short-term investment portfolios, which state that any security should be able to be 'marketable' (i.e. could be liquidated within five days).</p>		<p>The investment guidelines for short-term investment portfolios states that any security should be able to be 'marketable' (i.e. could be liquidated within five days). This therefore already addresses the recommendation.</p> <p>This recommendation is deemed complete.</p>	<p>The Secretariat confirmation of the capacity for timely recovery of any investments made over the longer term would address the recommendation.</p>
9.	<p>Recommendation 9.</p> <p>We recommend that the Secretariat periodically confirms that the performance resulting from the new investment policy net of investment fees continues to exceed the results of more simplified investment banking arrangements.</p>	<p>Agree.</p>		<p>An analysis of performance resulting from the new investment policy was undertaken and forms part of the Investment Committee Annual Report which has been submitted to the Executive Director in March 2007. This analysis will be conducted on an annual basis.</p> <p>This recommendation is deemed complete.</p>	<p>The annual reports of the Investment Committee can adequately address the recommendation by comparison with returns on simple investment net of investment costs.</p>

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<p>10. Recommendation 10. In view of the need for clear accountability and the maintenance of Treasury operational capacity, we recommend that key treasury guidance be prepared and approved at the earliest opportunity to:</p> <ul style="list-style-type: none"> - enable flexibility in staff coverage and training; and - effectively manage treasury procedures. 	Agree.		Following revision of treasury policies in 2006, preparation of treasury procedures is deemed necessary and is scheduled to be completed before the end of 2007.	
<p>11. Recommendation 11. We encourage the Secretariat to introduce clearly defined objectives for the Treasury Unit, directed towards the cost-effective achievement of corporate goals, namely:</p> <ul style="list-style-type: none"> - reduction in percentages of cash held without interest earned at least at the overnight interest rates; - percentage reduction in losses due to foreign exchange transactions; and - targets for improved returns on investment taking account of those set for investment managers. 	The objectives of the Treasury Unit are clearly defined and are an integral part of the Investment Policy document. As well as in the Treasury Unit's Annual Workplan.		<p>The new investment policy includes performance benchmarks and guidelines relating to investment of WFP's cash balances.</p> <p>Reduction in foreign exchange (FX) losses (or gains) target is subject to donors providing information to WFP about exact timelines of contribution payments and enhanced WINGS II capabilities.</p> <p>This recommendation is deemed complete.</p>	We will periodically review the alignment of the new investment strategy and annual plans to corporate goals.

