

برنامج
الأغذية
العالمي



Programme
Alimentaire
Mondial

World
Food
Programme

Programa
Mundial
de Alimentos

**Executive Board
Annual Session**

Rome, 12–16 June 2006

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For consideration



Distribution: GENERAL
WFP/EB.A/2006/6-E/1
11 May 2006
ORIGINAL: ENGLISH

PROGRESS REPORT ON THE RECOMMENDATIONS OF THE EXTERNAL AUDITOR

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 approval.

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, AD*: Ms S. Malcorra tel.: 066513-2007

Chief, ADFG**: Mr A. Diaz tel.: 066513-2230

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).

* Administration Department

** General Accounts Branch



PROGRESS REPORT ON THE IMPLEMENTATION OF THE EXTERNAL AUDIT RECOMMENDATIONS ON 2004–2005 OPERATIONS

1. The Executive Director is pleased to submit this progress report on the status of implementation of External Audit recommendations on 2004–2005 operations as summarized below:

Audit report	Report date	Total recommendations	Completed as at 31 March 2006	Percent complete
Review of Financial Reporting Standards	January 2005	1	1	100
Upgrade of the WFP Information Network and Global System	May 2005	9	4	44
Review of the Dubai Support Office and Fast Information Technology and Telecommunications Emergency and Support Team (FITTEST)	October 2005	8	2	25
Review of the Arrangements for Reporting Post-Delivery Food Losses to the Executive Board	January 2006	10	3	30
Review of the results-based management framework for monitoring and reporting results	June 2006	7	-	NA
Audit of the Financial Statements of the World Food Programme for 2004–2005	June 2006	10	-	NA
Total		45	10	22

2. With a view to improving the oversight of External Audit recommendations, the Secretariat now includes the recommendations on all External Audit reports received in advance of Board meetings. Although there may not have been time for the Secretariat to begin implementing the recommendations prior to the Board session, the Progress Report will provide the Secretariat's response and an initial indication of the implementation plans.
3. The recommendations in the following audit reports have been added to this progress report:
- Review of the Arrangements for Reporting Post-Delivery Food Losses to the Executive Board – presented to the Board during the First Regular Session in February 2006.
 - Review of the results-based management framework for monitoring and reporting results – to be presented to the Board during the Annual Session in June 2006.
 - Audit of the Financial Statements of the World Food Programme for 2004–2005 — to be presented to the Board during the Annual Session in June 2006.

4. The External Auditor of WFP is provided with the Progress Reports to the Board as a matter of routine. National Audit Office (NAO) representatives attend sessions of the FAO Finance Committee and the WFP Executive Board when external audit reports are presented to those bodies so that they can respond to issues raised in the progress reports. NAO have informed the Board that they review management's responses to audit recommendations as part of their own audit work for the financial period. The External Auditor's report on the financial period includes specific commentary on follow-up to previous audit recommendations.



PROGRESS REPORT ON THE IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS ON 2004–2005 OPERATIONS

External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
Review of Financial Reporting Standards (WFP/EB.1/2005/5-E)			
<p>Recommendation. Compliance with International Accounting Standards or International Public Sector Accounting Standards will ensure a quality and utility of financial reporting that in our view presents advantages over the United Nations Accounting Standards. We recommend that the secretariat and the Executive Board give consideration to the adoption of independent international accounting standards by the World Food Programme.</p>	<p>The Secretariat agrees with the recommendation and, on the basis of the Board's decision, will prepare a report to the Board on issues related to a move to international accounting standards, including action taken in the United Nations system.</p>	<p>A report was submitted to the Board, which endorsed the proposed move to international accounting standards at the Second Regular Session in November 2005.</p> <p>This recommendation is deemed complete.</p>	<p>Completed.</p>
Upgrade of the WFP Information Network and Global System (WFP/EB.A/2005/6-B/1/Rev.1)			
Assessment of risk and communicating management aims and direction			
<p>Recommendation 1. In view of the potential impact of the upgrade approach endorsed by management, we recommend that WFP ensures that the Phase 1 strategy supports a methodology for the implementation which encompasses: a robust risk assessment of the upgrade which takes into account the impact of other concurrent business initiatives; quantified estimates of the cost, benefits and an assessment of the associated risks of initiatives such as outsourcing of payroll or accounts payable; and Information technology initiatives in accordance with the Management Priorities endorsed by the Executive Board in May 2004.</p>	<p>Recommendation was addressed by Phase 1 (Strategy), which considered the impact of other initiatives and included a feasibility study for payroll options, including outsourcing.</p>	<p>Phase 1 has been completed. The methodology included assessment of the impact of other current and planned initiatives and associated risks. The Human Resources (HR)/payroll feasibility study has also been completed.</p> <p>This recommendation is deemed complete.</p>	<p>Completed.</p>





External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
<p>Recommendation 2. We recommend that WFP determine the proposed duration of SAP support for the software version 4.7, to allow an informed risk and cost comparison of the alternatives of upgrading to SAP version 4.7 or 5 at this time.</p>	<p>Phase 1 included evaluation of target SAP software versions and recommended version 5.0 as the target version, which is the latest mature version and the SAP solution for non-profit organizations.</p>	<p>The target version of SAP 5.0 has been selected. The project plans to re-assess the target version at the end of the analysis phase to determine whether the project should upgrade to standard SAP 6.0 or PY-NPO on SAP 6.0.</p>	<p>A workshop was conducted with SAP AG expertise to help the organization decide whether to upgrade to standard SAP 6.0 or to PY-NPO on SAP 6.0. A final decision has not yet been made, as WFP is waiting to clarify a few issues with SAP to help the project steering committee take a decision by end June 2006.</p>
<p>Simplification of WINGS</p>			
<p>Recommendation 3. We recommend that senior management direct the prioritisation procedure to ensure that the objective of improvement of business performance results either from process changes to external to the WINGS system or a robust justification of the need for modifications which adapt standard SAP functionality.</p>	<p>The recommendation is supported; it is in line with senior management direction of the WINGS II project. Detailed project-governance processes need to be put in place to ensure that this principle is enforced.</p>	<p>The Phase 1 strategy recommended a process-based approach, starting with an analysis phase. Process owners have been appointed for each WFP process.</p> <p>Governance procedures and criteria for justifying modifications by March 2006 will be defined, and priorities for business improvements at end of analysis phase will be determined.</p>	<p>The analysis phase of the project has commenced. Eight process teams are mapping the organization's "as-is" processes. Issues and opportunities are being identified and were presented to the process owners for resolution mid-April 2006.</p> <p>The "to-be" analysis phase of the project will then commence. The project team is developing criteria to aid in making decisions about the scope of the first release. At the end of the analysis phase, the project steering committee will decide about the scope.</p>
<p>Selection of Partner in Upgrade</p>			
<p>Recommendation 4. Though this may initially be a more comprehensive task, we recommend that WFP consider the competitive tender of the full implementation for future major changes to information systems.</p>	<p>WFP did consider the recommended tendering option, but after review decided to tender for the strategy phase separately from the implementation phase.</p>	<p>Accenture was selected for the strategy phase, which has been completed. Requests for Proposal were issued for the implementation phases; four companies were selected to submit proposals for long-term agreements.</p> <p>The recommendation will be considered for future major changes and is therefore deemed complete for purposes of this progress report.</p>	<p>Completed.</p>

External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
Managing the IT Investment			
<p>Recommendation 5. We recommend that WFP consider the establishment of a full baseline cost estimate of the existing system maintenance, and, for informed management assessment of the resources required for the upgrade, that the Secretariat ensure that Phase 1 establishes a robust cost estimate of the full costs of the project.</p>	<p>This recommendation was addressed in Phase 1 (Strategy), which included estimation of current costs and the resources and costs required for the full project.</p>	<p>Baseline costs for system maintenance and the budgetary resource and cost estimates for the full project have been defined.</p> <p>This recommendation is deemed complete.</p>	<p>Completed.</p>
Managing Human Resources			
<p>Recommendation 6. We recommend that the Secretariat consider the introduction of a simple time recording mechanism for staff working on the project to assist cost calculation and the establishment of comprehensive knowledge transfer protocols to maintain the effective post implementation support of WINGS.</p>	<p>The strategy phase report also recommended introduction of project time recording, which has been introduced.</p> <p>Part of the approach to knowledge transfer is to include WFP staff in the implementation phases: business staff have been identified to lead process teams, with responsibility for rollout of process and solution changes to users. It is planned to assign ADI staff key technical roles to improve transition to support phase.</p>	<p>The project team includes WFP process team leaders, key business users and ADI analysts and architects.</p> <p>Detailed training, approaches, plans and responsibilities will be defined during analysis.</p> <p>Timesheet recording was introduced for staff working on the project.</p>	<p>Timesheet recording is being applied for all human resources working on the project.</p> <p>All staff working on the project have been trained in the project methodology.</p> <p>ADI staff and key business users have been seconded to the project on a full-time basis.</p> <p>With the above structure in place, the recommendation is deemed complete.</p>
User System Ownership and Acceptance Testing Procedure			
<p>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>Detailed training, approaches, plans and responsibilities will be defined during analysis.</p>	<p>The analysis phase is underway, and includes the definition of training plans and approaches, and plans and responsibilities related to user testing and ownership.</p>





External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
<p>Recommendation 8. To enable a result-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.</p> <p>Process objectives and targets will be defined during the analysis phase.</p>	<p>The "as-is" analysis was completed in April 2006. Process teams have been asked to identify process objectives and targets during the "to-be" analysis phase, which began in May 2006.</p> <p>Once decisions have been made about the scope and extent of customization permitted, ADI will be in a position to more easily quantify ongoing maintenance costs.</p>
<p>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>This independent review is expected to be completed by March 2006.</p>	<p>The project decided after the analysis phase commenced that it would be more advisable and useful to measure WFP's capability and capacity to deliver the vision (including assessing the six areas highlighted by the External Auditor) at the end of the analysis phase.</p> <p>Engagement of a senior independent consultant, originally scheduled for March 2006, has been deferred to July 2006, enabling the review findings to be available before the realization phase of the project, which is planned to begin in October 2006.</p>

External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
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			
<p>Recommendation 1. I recommend that WFP obtain formal confirmation from its legal section that new contractual arrangements particularly in significant areas of activity remain within the general mandate of WFP.</p>	<p>The functions and scope of the Dubai support office have developed significantly since its establishment. Its mandate became an issue recently, particularly with respect to two contracts, one involving non-food procurement and the other provision of air transport service. The latter was clearly a humanitarian project involving demobilization / repatriation / reintegration, it was nevertheless felt necessary to obtain an extension of the mandate "on an exceptional basis" from the Executive Director for the Dubai office to enter into this agreement, given that there was nothing in their mandate that provided for such arrangements.</p>	<p>The original Executive Director's circular (ED2001/005) that established a special account for stand-by telecommunications equipment will be amended to define the expanded mandate of the Dubai support office. In the meantime, succeeding projects will have a contract clause, to be cleared by the Legal Department, that the activity is considered as part of WFP's mandate.</p>	<p>All contractual arrangements in significant areas of activity have been reviewed by the Legal Department, to ensure that they remain within the general mandate of WFP.</p> <p>Procedures are in place for new contractual arrangements to be passed on to the Legal Department for confirmation.</p> <p>This recommendation is deemed complete.</p>
<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>	<p>Agree.</p>	<p>A thorough review and evaluation of the WFP Dubai support office is being undertaken; its functions and lines of responsibilities will be included in the amendments to the Executive Director's circular mentioned above.</p>	<p>Effective March 2006, the Dubai support office reports directly to the Deputy Executive Director, Administration.</p> <p>The amended Executive Director circular, which will explain the reporting lines and accountabilities of the Dubai support office, among others, will be issued in the second quarter of 2006.</p>
Risk Management			
<p>Recommendation 3. I recommend that the Secretariat maintain rigorous and independent review of contractual procurement arrangements through the appropriate committee on contracts to continue addressing risks to propriety and transparency.</p>	<p>The Dubai-based group to which the adviser providing <i>pro bono</i> services to the Dubai support office is linked has been doing business with WFP since 2001, two years before any relationship between the individual and the support office, which started in September 2003.</p>	<p>WFP's non-food procurement procedures will be reviewed with the objective of continuously addressing risks to full transparency.</p>	<p>The review missions were completed and written recommendations received; appropriate actions are being taken. An important objective of these missions is to ensure that the procedures are in keeping with standards.</p>





External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
	<p>The External Auditor reportedly found no evidence of undue influence on contracts with WFP obtained by the group, but considered that a reputational risk exists at the corporate level. Consequently, the contract with the adviser has been terminated, effective September 2005. It should be noted that this individual provided very valuable contributions to the Dubai support office.</p> <p>Regarding the tyre purchase, the External Auditor noted that the requisition had been based on earlier prices quoted by the supplier, thereby reducing the likelihood of fully open competition for all suppliers. This arose from the fact that the country office requesting the tyres obtained quotations from a supplier informally and used the specifications from this when asking the Dubai support office for tendering. This situation was discovered in the normal review of large contracts by the Contracts Committee at Headquarters, an indication that the governance function is effective.</p>	<p>In the meantime, the Dubai support office has initiated regular review missions from the departments concerned: finance, budget, procurement, FITTEST, travel, HR and logistics. One purpose of these missions is to review the oversight in relation to compliance with WFP rules and regulations.</p>	<p>The standards for procurement rules and regulations are set by Headquarters and the Dubai support office is making every effort to ensure that these are adhered to.</p> <p>Considering that the standard procurement rules and regulations will be adhered to and that a review process is in place, this recommendation is deemed complete.</p>
<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 above.</p>	<p>The amended Executive Director's circular will include lines of responsibilities and delegation of authority.</p>

External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
<p>Recommendation 5. I recommend that the Secretariat consider whether the available functionality and connectivity in WINGS could address the requirements of Dubai without system replication.</p>	<p>Agree.</p>	<p>In connection with the WINGS II upgrade project, a review will be undertaken to determine the best option for WFP Dubai's inventory system requirements, including a cost and management accounting system for projects that are on a full-cost-recovery basis.</p>	<p>The structure of the special account in WINGS has been revised and new procedures have been implemented to better meet the requirements of the Dubai support office. The Secretariat is further investigating how WINGS II could help with the tracking of cost recovery.</p>
<p>Value for money</p>			
<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 will continue to review the current cost-recovery model in terms of the results of operations to improve the model.</p>	<p>A review of the 2005 financial results of WFP Dubai indicates that the current cost recovery model is appropriate and forms a basis for cost-efficient operations. Nevertheless, the Secretariat will continue to monitor and improve on the cost-recovery model.</p>
<p>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. 	<p>Agree.</p>	<p>In the light of the recommendations, the Secretariat will take additional steps to achieve the objective of promoting more cost-effective procurement in WFP.</p>	<p>The costing calculation is being revisited. This will pay particular attention to the warehousing cost-benefit analysis.</p> <p>This approach will be used to justify any expansion of services in Dubai.</p> <p>Benchmarking will be made available for comparable items that are high value or high turnover.</p> <p>Long-term agreement (LTA) prices are available to all offices and the marking from Dubai is clearly identified. Regional bureau and country offices have the necessary information.</p> <p>Equipment specifications are regularly reviewed and updated.</p>





External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
<ul style="list-style-type: none"> ➤ Any proposal to expand further the scale of non food procurement through the Dubai support office are subject to a thorough cost benefit appraisal. 			
Reporting and Performance Measurement			
<p>Recommendation 8. I recommend that WFP consider the introduction of 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 categorised and prioritised 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 result-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 retention should be reported and added to the cost of supply when comparison is made against other procurement units internal or external. 	<p>Performance indicators have been defined for 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 will take account of the recommendations in determining the performance indicators to determine the operational efficiency, cost effectiveness and effective use of resources for the Dubai support office.</p>	<p>The Dubai office will review its costing models to ensure that they reflect valid cost drivers and can be used to match income, which will allow for a cost-versus-income analysis to be done to focus the business. This will then be tied into performance indicators.</p> <p>The intention is to move towards a full service-level management approach to business. However, the prioritization of projects and emergencies is done by the business owners, not by the Dubai office.</p> <p>Because the Dubai office is based on cost recovery, implementing these new approaches will depend on resourcing. The customer satisfaction survey is a good idea and will be done once resourcing has become clearer.</p>

External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
For consideration of the effective use of resources: <ul style="list-style-type: none"> ➤ A measure of staff utilization, ➤ The proportion of effort related to WFP operations ➤ A survey of customer satisfaction (both internal and external). 			
Review of the Arrangements for Reporting Post-Delivery Food Losses to the Executive Board (WFP/EB.1/2006/6-B/1)¹			
Identification of Post-Delivery Loss			
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.	Agree.		The Secretariat will explore methods and technical solutions for capturing losses at distribution level through random sampling techniques to be piloted in selected country offices in the second half of 2006.
Recommendation 2. We recommend that field monitors report all identified food losses regardless of size, to assist more accurate estimates of the extent of post-delivery losses for specific operations and for the World Food Programme as a whole.	Agree. The Operation Department's Annual Report Exercise Guidelines state: "It is important that WFP report all post-delivery losses, irrespective of the manner in which they have come to the Programme's attention." Guidelines will be reinforced to ensure that all losses are reported correctly and that country office (CO) programme units reconcile field monitoring reports on identified losses with losses reported in the Cooperating Partner (CP) distribution reports.		The Operations Department will issue a directive in the second half of 2006 to country office programme units that they should reconcile reports from food aid monitors and CP before inserting the data into COMPAS and should ascertain that loss data are captured in COMPAS.

¹ The External Auditor submitted this report to the Board in February 2006 and therefore the third column on actions taken or to be taken as at December 2005 is grayed out.





External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
<p>Recommendation 3. In order to increase transparency and accountability in the reporting procedures, we recommend that at the time of the annual post-delivery loss report to the Executive Board, WFP also report the value and amount of commodities in respect of which implementing partners reports have not been received.</p>	<p>Agree. Some COs have inserted estimated distribution by CPs on COMPAS if this was not covered by CP reports. This means that WFP's corporate systems allow reporting of distribution figures flagged as 'estimated' in terms of tonnage and in terms of cost of the commodities.</p>		<p>The Secretariat will report the cost and quantity of commodities not covered by CP reports, starting with the 2005 Annual Post-Delivery Loss Report to the Board in June 2006.</p> <p>This recommendation is deemed complete: the annual report is being finalized and will be submitted to the Board in June 2006.</p>
<p>Recommendation 4. We recommend that WFP review local office systems being used to monitor implementing partner reporting, with a view to adopting a single system which could be made available worldwide.</p>	<p>Agree. Currently the cooperating partner reports are entered in COMPAS according to the cost-sharing arrangement between WFP and its CPs.</p>		<p>The Secretariat will explore the most appropriate means of monitoring CP reporting and adopt a single system by 2007.</p>
Post-Delivery Food Loss Reporting			
<p>Recommendation 5. Where food losses are identified after the post-delivery loss report for the relevant year has been provided to the Executive Board, we recommend that for comparative purposes an estimated valuation of commodities in addition to the metric tonnage should be reported.</p>	<p>Agree</p>		<p>Comparative figures will be included in the 2005 Annual Post-Delivery Loss Report to be submitted to the Board in June 2006.</p> <p>This recommendation is deemed complete when the annual report is submitted to the Board in June 2006.</p>
<p>Recommendation 6. If losses are found to have occurred during prior years, we recommend that the methodology for estimation of the total loss valuation should be reported to the Executive Board.</p>	<p>Agree</p>		<p>The Secretariat will investigate the best methodology for estimating the total cost of loss that occurred during prior years and report this to the Board starting in June 2006 with the 2005 Annual Post-Delivery Loss Report.</p> <p>This recommendation is deemed complete when the annual report is submitted to the Board in June 2006.</p>

External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
Food Delivery Monitoring Systems			
<p>Recommendation 7. We recommend continued development of and use 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 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>The Secretariat is following up with country offices on the first quarter 2006 project status report on commodity accounting and advising them to submit the first quarter loss report to cooperating partners.</p> <p>During the second half of 2006, the Secretariat plans to do pilot tests in country offices (to be selected through random sampling techniques) to capture losses at FDP level.</p>
<p>Recommendation 8. On the basis of the experience gained in the initial piloted installation of the ARGOS system, we recommend WFP ensure that:</p> <ul style="list-style-type: none"> ➤ 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>Agree. The School Feeding Service of the Policy Strategy And Programme Support Division (PDPF) is 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 12 countries² and 980 of them have been installed. There are 750 devices still to be installed. Three countries³ remain to be trained).</p>		<p>PDPF will concentrate on the completion of the roll-out and the consolidation / improvement of the current ARGOS system by the end of 2006 and will neither purchase additional devices nor expand its use.</p> <p>PDPF will also:</p> <ul style="list-style-type: none"> ➤ ensure that the system is properly installed and used; ➤ ensure that school staff, counterpart staff and CO staff are properly trained and familiar with the use of the system; and

² Afghanistan, Cape Verde, Chad, the Congo, Djibouti, El Salvador, Guinea-Bissau, Lesotho, Malawi, Mozambique, Pakistan, São Tomé and Príncipe.

³ Guinea, Mauritania, Sudan.





External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
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.	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).		➤ review the current use of the data collected, including the data analysis methodology, to evaluate the current stage of implementation.
Promoting Cost Recovery			
Recommendation 9. To assist the full reporting of commodity transportation losses to the Executive Board, we recommend that WFP maintains its efforts to record and report all post-delivery food loss in cases where the transportation company suffers the financial loss	Agree. This depends on the strict application of the invoice processing module in COMPAS.		The Transport and Procurement Division (ODT) encourages country offices through circulars and regional logistics meetings to use the COMPAS invoicing module.
Recommendation 10. To assist appraisal of the recovery of the cost of food losses, we recommend that the Secretariat consider the merits of developing performance indicators for expected recoveries by region.	Given the different types of programme in each region and the large tonnages distributed through our emergency operations it is difficult to determine the overall benefit of performance indicator by region. Where reimbursements have been negotiated between CO and government partners, the specifics of the agreement should be included in the work plan for the country office.		Effective 2007, CO work plans will include recoveries of post-delivery losses in accordance with the negotiations between the CO and government partners concerned.
The Audit of the Financial Statements of the World Food Programme for 2004–2005 (WFP/EB.A/2006/6-A/1/3)			
Governance and internal oversight			
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.

External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
<p>Recommendation 2. I recommend that OSDA finalise an implementation plan for the IIA recommendations, setting out priorities and time-lines against which progress can be monitored.</p>	Agree.		Internal Audit (OSDA) will include the recommendations of the Institute of Internal Auditors (IIA) in its implementation plan on recommendations from both external and internal quality assessment work.
Emergency operations - Tsunami			
<p>Recommendation 3. I recommend that the Secretariat take forward its plans for the establishment of a flexible administrative workforce for emergency-operations, which could ensure the establishment of adequate financial controls in a timely fashion for future emergency situations.</p>	Agree.		The Administration Department is setting up a rapid administrative response group. One of the tasks of this group will be to ensure the implementation of financial controls that will be applied in each emergency and to ensure that they are adhered to globally. This service will be run out of Dubai based on the FITTEST model.
Preparation of financial statements			
<p>Recommendation 4. As part of the accounts preparation planning, I recommend that the Secretariat establish improved and timely procedures to allow for review and reduction of any unexplained adjusting items in the figures reported in the financial statements, and to facilitate an effective quality review by management of the financial statements prior to submission for audit.</p>	Agree. The Guide to the 2004–2005 Closure Process and Preparation of Financial Statements contained a timetable designed to allow sufficient time for review by management. The strategy (which worked well in the 2002–2003 closure) was to prepare a complete set of interim financial statements by 30 September 2005 and to have them audited by Internal Audit in order to resolve financial or accounting issues at an early stage. Delays in the schedule compressed the time available for review by management.		<p>The Secretariat will ensure that in the future closure timetables are strictly followed and that the process includes quality review throughout.</p> <p>This will be implemented for the annual financial statements for 2006, which will be subject to External Audit and Board review and approval.</p>





External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
Accounting and disclosure of project expenditure – commodity loans			
<p>Recommendation 5. I recommend that the Secretariat ensure that any commodity loans between programme categories for operational reasons should be made subject to:</p> <ul style="list-style-type: none"> ➤ Realistic risk assessment of the likelihood of recovery; ➤ Confirmation on a case-by-case basis that the loans do not conflict with any original donor restrictions on their use; and ➤ Disclosure of the balance of such loans in the financial statements, so long as this information can be obtained cost-effectively. 	<p>Guidance for Commodity Loans is to be reviewed and enhanced to facilitate regional bureau and country office assessment of recovery to support their operational decision-making.</p> <p>This information will be made available through the Programme Guidance Manual, which will also highlight the need to comply with donor restrictions.</p> <p>Agree.</p>		<p>The improved Guidance for Commodity Loans will be completed by December 2006. This will address the first two bullet points.</p> <p>As part of the guidelines for the closure of the 2006 accounts, the Secretariat will request information concerning commodity loans from country offices.</p>
Indirect support costs			
<p>Recommendation 6. In the interests of transparency and completeness of financial reporting, I recommend for the future that the Secretariat consider estimating and disclosing the extent of waiver of indirect support costs in the Notes to the financial statements.</p>	<p>Agree.</p>		<p>Starting with the 2006 Financial Statements, the Secretariat will disclose waivers of indirect support costs in the Notes to the financial statements.</p>
Financial management control			
<p>Recommendation 7. I recommend that the Secretariat consider improving financial monitoring and control to:</p> <ul style="list-style-type: none"> ➤ Complete the clearance of longstanding bank reconciliation items and ensure prompt clearance in future; 	<p>Agree. The bank reconciliation review is an ongoing activity closely monitored by the regional bureaux and Headquarters through the monthly reporting package from field offices.</p> <p>Agree.</p>		<p>The Secretariat will address the recommendations in the following manner:</p> <ul style="list-style-type: none"> ➤ Bank reconciliation: The Secretariat will develop an improved monitoring system to identify uncleared items with a view to significantly reducing outstanding items by end 2006.



External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
<ul style="list-style-type: none"> ➤ Ensure an adequate audit trail for cash and short term investments from the general ledger to the analysis by fund category at Statement II; ➤ Review receivables and payables to write off uncollectible amounts and delete invalid liabilities in a timely fashion; ➤ Grant new advances only when earlier advances are fully liquidated; ➤ Ensure complete and up-to-date recording of inventory in the central database; ➤ Consider the benefits of accounting system changes to eliminate errors which require inefficient manual review and correction; and ➤ Review the underlying reasons for write downs and ensure the prompt redirection of unspent cash balances of financially closed projects with the appropriate donor approval. 	<p>The Secretariat agrees that regular reviews of receivable balances should be undertaken in Headquarters and field offices and that obligations should be deleted when they prove to be invalid and no further obligation exists.</p> <p>Regarding staff advances for such categories as education grant and salary advance, the existing policy requires liquidation of previous advances before new ones are granted. For travel advances, the policy is for the staff to settle the advance within 60 days upon completion of the trip. Vendor advances are granted based on purchase orders and are offset against the settlement of invoices.</p> <p>Agree.</p> <p>Agree.</p> <p>Because write-downs reflect unutilized confirmed contributions (not yet received in cash), a review of WFP's implementation of project budgets needs to be undertaken to identify the underlying reasons for write-downs as well as for unspent cash balances. Procedures have been developed that improve the process of project closure and reprogramming or refund of unspent cash balances.</p>		<ul style="list-style-type: none"> ➤ Audit trail for cash and short-term investments: The balance sheet readjustment process in WINGS will be mainstreamed in the closure process for 2006; the cash balance per programme category will be supported by a WINGS process that allocates all transactions to fund categories. ➤ Receivables and payables: The Secretariat will enhance the monitoring procedures to ensure regular review of the receivables and payables, with adjustments done in a timely manner. ➤ New advances: The policies on staff and travel advances will be strictly enforced effective immediately. A review of vendor advances will be made and existing procedures will be enhanced and enforced as required. ➤ Recording of inventory: The inventory of WFP's heavy equipment fleet will be included in the Asset Management Database by the second half of 2006. ➤ Accounting system changes: Certain quick fixes such as increasing the number of automatic bank uploads will be implemented immediately. Other system changes identified in the analysis of improvements required will be implemented in conjunction with the WINGS II project. ➤ Write-downs: A review involving the Fundraising and Communications Department (FD), Operations (OD) and the Finance Division (ADF) will be undertaken before the 2006 closure to identify the reasons for, and propose steps to minimize, write-downs of contributions.



External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
Accounting for contributions of services-in-kind			
<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 Private Donor Guidelines, particularly on the acceptance of services-in-kind contributions, to include detailed policies and procedures on the valuation of such contributions by the end of the third quarter 2006.</p>
Transactions with the United Nations Development Programme			
<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 is taking the following steps to ensure correctness of expenditures incurred and paid through UNDP:</p> <ul style="list-style-type: none"> ➤ reconciliation of the account on a global basis, to be done at least annually; ➤ reconciliation of detailed transactions per country office: both UNDP and WFP are making efforts to resolve the reporting problems so that transactions in the UNDP statement can be cleared against the related transactions in the WFP books; ➤ creation of subsidiary ledger accounts in WINGS for each country office to facilitate reconciliation (to be completed by the third quarter of 2006); ➤ improvement of contractual arrangements with UNDP through development of service level agreements for each type of service in order to define expectations and accountabilities.

External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
<i>Fraud, ex-gratia payments, amounts written off and contingent liabilities</i>			
<p>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; ➤ Consider whether there is a need to respond more effectively to audit findings and recommendations. 	<ul style="list-style-type: none"> ➤ The Secretariat recognises 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 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. 		<ul style="list-style-type: none"> ➤ The monthly reporting package from country offices and regional bureau will be enhanced to provide an early warning (dashboard) to management of potential control weaknesses. The Secretariat expects to have these management reports operational by September 2005. Action has also been taken to introduce strengthened procedures for the WINGS Vendor Master record by centralising the finance related information thereby avoiding the possibility of error or fraud through weak controls. Electronic payment processes will also be strengthened by introducing a system of pre-approved suppliers and matching these with WINGS Vendor Master Files. Directives on these two control improvements will be effective by end June 2005. ➤ A more rigorous process of monitoring of external audit recommendations will be introduced in regional bureaus and country offices with progress reports being reviewed by headquarters.



External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
Review of the results-based management framework for monitoring and reporting results (WFP/EB.A/6-D/1)			
<i>Focus on WFP's aims and objectives</i>			
<p>Recommendation 1. We encourage WFP wherever possible to incorporate joint outcomes with implementing partners into the RBM framework, for example through integration of development projects into national poverty reduction strategies and encouragement of joint United Nations' strategies to accomplish the Millennium Goals.</p>	<p>Agree. Development projects and country programmes are usually jointly designed with national authorities and sometimes national and international NGOs. To the extent the projects and programmes are conceived and implemented within the Poverty Reduction Strategy Papers, appropriate indicators are identified to measure the intended outcomes. WFP's own Strategic Objective Indicators are then 'additional' (but obligatory) and dependent on the activities chosen to support the programmes.</p>		
<i>Appropriateness for management and operational requirements</i>			
<p>Recommendation 2. We encourage the Secretariat to put in place structured procedures to obtain systematic feedback from recipient and donor countries on their level of satisfaction with the way WFP is reporting on its results.</p>	<p>Agree. Systematic feedback and performance reviews are part of the RBM framework. Donor countries receive standard project reports (SPRs) on an annual basis and are invited to provide feedback. Some COs also disseminate and review the SPRs with their local donor representatives and host governments. The Annual Performance Report invites Board members to provide feedback on corporate performance.</p>		<p>'Structured procedures to obtain systematic feedback' has been identified as an 'activity to be started'. This is in accordance with Critical Success Factor Number Two⁴ laid out by the United Nations Joint Inspection Unit in 2004. Implementation depends on the scope and contractual framework by which such feedback could be 'systematic' for host governments (as part of formal project agreements).</p>



⁴ CSF2 states, 'The respective responsibilities of the organization's main parties are clearly defined.'

External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
<i>Balance and comprehensiveness of the system</i>			
Recommendation 3. We recommend that the Secretariat maintains its efforts to develop a suitable resource monitoring methodology to allow effective reporting of expenditure against objectives throughout the Programme.	Agree. An opportunity to implement an allocation and attribution methodology exists within the WINGS II design.		A high-level executive decision on the issue is being pursued
<i>Robustness</i>			
Recommendation 4. As part of the continuing development of an integrated financial and budgetary management accounting system, we encourage the Secretariat to consider the prioritization necessary for reporting under results based management in the ongoing development of WINGS and COMPAS.	Agree. The development of the various WINGS II processes is a good opportunity to redesign financial and budgetary systems to integrate results-based reporting as elements for management decisions.		The Results-Based Management Division (OEDR) is pursuing the recommendation as the process owner of the 'Strategic Management Process' of the WINGS II project, and has seconded staff resources to the WINGS II Team.
<i>Integration with business and management processes</i>			
Recommendation 5. We recommend that, as part of improving performance monitoring generally, the Secretariat maintains efforts to match the results of performance assessment to the timeframe of projects or programmes on which reporting is based.	Agree. The timing of projects is determined by actual needs and programme cycles. For all projects, standard project reports (SPRs) report on performance indicators pertaining to the project. In practice most projects report on outcome and output indicators at least once during the calendar year.		Project closure procedures have been accelerated and timely performance reporting is therefore possible. The SPRs on closed projects are finalized and published on a quarterly basis.
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.	Agree. In the course of its routine deliberations the Internal Evaluation Committee is pursuing the integration of assessments, programming and monitoring.		The Internal Evaluation Committee was formally established in early 2006 and had its first meeting in March 2006.



External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005	Actions taken to date or to be taken as at March 2006
Cost effectiveness			
<p>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>		

