برنامج الأغذية العالمي

Programme Alimentaire Mondial

World Food Programme

Programa Mundial de Alimentos

**Executive Board
Third Regular Session**

Rome, 11–14 October 2004

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 5

For consideration

E

REPORT OF THE EXTERNAL AUDITOR ON MANAGEMENT MATTERS

This document comprises three reports:

- Report of the External Auditor on the Review of the World Food Programme's Air Operations (pages 3–21);

- Report of the External Auditor on the Review of the World Food Programme's Vulnerability Analysis and Mapping (pages 23–34);

- Report of the External Auditor on the Review of Corporate Governance at the World Food Programme (pages 35–43).

NOTE TO THE EXECUTIVE BOARD

This document is submitted for consideration to the Executive Board.

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 point indicated below, preferably well in advance of the Board's meeting.

Director, Finance Division (FS):   Mr S. Sharma   tel.: 066513-2700

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact the Supervisor, Meeting Servicing and Distribution Unit (tel.: 066513-2328).

REPORT OF THE EXTERNAL AUDITOR ON THE REVIEW OF THE WORLD FOOD PROGRAMME'S AIR OPERATIONS

EXECUTIVE SUMMARY

1.   The delivery of food aid is central to the World Food Programme's mandate and strategic priorities. Air services represent a vital element in the delivery of food aid in crisis situations and in supporting emergency, relief and recovery operations where alternative means of transport are inadequate or impractical.

2.   WFP's air services provide transportation for both food and passengers, and assist wider United Nations and diplomatic humanitarian missions. The operation of air services presents major business and financial risks to the organisation. Strong operational, financial and risk management, including the management of air safety, is important to ensure effectiveness of the air services and the achievement of good value for donors' funds. My staff therefore carried out a high-level review of this important activity, concentrating on financial management issues and developments since the Kosovo air accident in 1999.

3.   The audit review found inconsistent and ad-hoc application of controls in relation to the different air operations; and identified operational, financial and safety risks in the way air operations were being managed. In response to a request from the High Level Committee on Management, WFP has been considering the expansion of its air services to manage all United Nations humanitarian air operations. This entails taking on four air operations that are currently managed by the United Nations High Commissioner for Refugees, and any new humanitarian operations which the United Nations or its agencies may require in the future. Managing such an expansion requires reliable organisational controls to be in place, to secure sound financial management and to ensure the safety of operations. At the time of audit such an infrastructure was not yet in place.

4.   Based on the findings of the audit review, I have recommended that WFP should:

  ➢ improve the budgetary control of air operations generally, to ensure the adequacy and availability of funding for individual operations; and to ensure the accuracy and reliability of financial information to support effective budget management, through an appropriate standardised form of financial recording for all air operations;

  ➢ review the policy and practice on charging to improve cost recovery and cash flow in air operations;

  ➢ draw up comprehensive agreements with third parties to clearly identify the respective financial liabilities of all parties involved before expanding air operations to the wider humanitarian community;

  ➢ take prompt action to implement the recommendations of the reports issued by the International Civil Aviation Organization (ICAO) in 2000 and 2001 for the improved safety management of air operations, in order to fulfil the Programme's commitment to improving air safety controls;

  ➢ adopt comprehensive aviation standards, operating procedures and compliance arrangements, commensurate with ICAO standards;

  ➢ review its staffing and budget provision for air operations against the requirements indicated by the ICAO recommendations;

  ➢ establish systematic risk assessment procedures for air operations;

  ➢ carry out a central review of Memorandums of Understanding with government authorities to confirm or update their continuing validity; and

  ➢ strengthen internal systems for data collection and incident reporting.

INTRODUCTION

5. The World Food Programme uses air operations for the delivery of food aid, particularly in meeting refugee and other emergency food needs which are central to the Programme's mandate and strategic priorities; and involving the transport of significant quantities of basic commodities to beneficiaries around the globe. In addition, WFP extends passenger and limited cargo air transportation services to other members of the humanitarian community.

6. Transport by air represents a costly but vital element in the logistics of food aid delivery, particularly in securing rapid response to crises in emergency relief and special operations; and in supporting protracted relief and recovery operations where alternative means of transport may be insufficient, hazardous or impractical. During 2002-2003, air operations cost more than $55 million and involved 92,000 flying hours in the transport of more than 200,000 passengers and over 200,000 tonnes of cargo.

7. Strong operational, financial and risk management, including the management of air safety, is important to the successful achievement of the Programme's objectives and to ensure effectiveness and best value in air operations. My staff therefore carried out a high-level review of this important element of WFP's activities, through examination at headquarters and as part of a series of extensive country visits during the biennium, concentrating on financial management issues relating to air operations. The review was carried out by visiting three major air operations in Afghanistan, the Sudan and Angola; and conducting interviews with senior staff in headquarters associated with the management of air operations. The review covered:

    ➢ organisation and planning;

    ➢ the financial management of air operations; and

    ➢ operational management.

8. The procurement of air services – which represents a further influence on the value achieved for the funds spent on air operations – has been the subject of an audit by the Programme's Office of Internal Audit. This audit was conducted as part of the Office's internal audit programme for 2003 and included review of the contracting process; payments; reporting and co-ordination with Country Offices; and follow up on developments in relation to the recommendations made by the International Civil Aviation Organization after the Kosovo aircraft accident. Internal audit findings were not available to me at the time of finalising my report but my staff will take account of them, and report to the Executive Board as appropriate, in due course.

ORGANISATION AND PLANNING

9. During the 2002-2003 biennium, the World Food Programme managed humanitarian air operations in 12 locations across seven countries and with fleets varying in size from one to 15 aircraft, supporting food delivery programmes in countries with some of the least developed infrastructure, to assist far larger emergency relief operations in some of the least accessible parts of the world.

10.   The air operations managed by WFP include the movement of cargo – primarily food aid deliveries – and passenger flights for staff of the World Food Programme and other humanitarian agencies. The air cargo services are essential to WFP's work: in most locations forming a separate programme, usually conducted as a special operation; in one instance (in Angola, for the delivery of food) forming an integral part of the Protracted Relief and Recovery Programme; and in Southern Sudan (Operation Lifeline Sudan) being run as a trust fund. Table 1 shows the countries and programmes in which WFP carried out air operations during the 2002-2003 biennium.

TABLE 1:WFP AIR OPERATIONS DURING 2002–2003			
Project Ref.	**Description**	**Programme**	**Duration**
10061.0	West Africa (Passenger)	Special Operation in support of regional PRRO	7.10.02 – 6.10.03, extended to 6.10.04 by project 10061.1
10163.0	Afghanistan	Special Operation	1.04.02 – 30.06.03, extended to 31.12.04
10146.0	Angola (Passenger)	Special Operation	1.01.02 – 31.12.03, extended to 31.12.04 by project 10146.1
10054.0	Angola (Food)	Protracted Relief and Recovery Operation	July 02 – Dec 03, extended to 31.12.05 by project 10054.2
10149.0	Angola (Non food)	Special Operation	1.1.02 – 31.12.03, extended to 31.12.04 by project 10054.1
n/a	Operation Lifeline Sudan	Trust Fund	Continuous
10181.0	Sudan (Passenger)	Special Operation	1.4.02 – 31.3.03, extended to 31.3.04 by project 10181.1
10272.0	Iraq	Special Operation	25.03.03 – 25.09.03, extended to 14.7.04
10248.0	D R Congo (East)	Special Operation	10.11.02 – 30.07.03
10117.0	D R Congo (North)	Special Operation	14.9.01 – 30.06.03
10090.0	D R Congo (Humanitarian)	Special Operation	13.6.01 – 31.12.02
10173.0	Burundi	Special Operation	1.4.02 - 31.12.03
Source: WFP – SAP			

11.   Air operations are planned, costed and implemented by individual Country Offices, supported in terms of advice and expertise from WFP's Rome Headquarters, the Office of Transport, Response and Preparedness (OTP), under an organisational structure approved by the Executive Director in 2003. Under this structure, administrative reporting responsibilities of the various operations are to individual Country Directors; with operational reporting lines to OTP through a single Aviation Section comprising air transport and safety units. Annex 1 refers.

12.   In visits to the field, my staff noted a clear understanding in Regional Bureaux and Country Offices that individual country directors were solely responsible and accountable for all operational activity within the national borders of their assigned countries. In practice, therefore, authority and decision-making in the management of air operations is highly decentralised.

> Lokichoggio, Kenya – Operation Lifeline Sudan provides airlifts and air drops of food to remote locations within southern Sudan in a region under rebel control. The northern region of Sudan, under the control of the Sudan government, is serviced from Khartoum.
>
> The air operation is managed from Lokichoggio, at the edge of the Kenyan/Sudanese border, away from the Kenya Country Office in Nairobi. Operating with chartered companies from South Africa in Sudan from a Kenya base adds complication in line management reporting responsibilities. My staff found that WFP leaves all operational considerations to the air operator without seeking official reports, for example in relation to accident or incidents. Further, at the time of their visit in April 2003, my staff found no record of involvement with the national civil aviation authorities or with the contractors, although the situation has since improved. My staff were informed that the Memorandum of Understanding covering use of the airstrip in Loki was held in Nairobi; and that contract and insurance arrangements were controlled from Rome. Such arrangements do not support effective management at the local level.

13.   As part of the process of defining aims and objectives of a food aid operation in its initial planning phases, the Country Director and country team assess the possible means and mix of transport to achieve the operation's goal. The decision as to which means are the most appropriate will depend on a number of factors, for example the environment in which the programme is to operate; the number and location of beneficiaries; the type of commodity included in the food basket; the volume of food aid to be delivered/distributed; the urgency of the delivery (bearing in mind seasonal and emergency factors); and the existing delivery infrastructure available to WFP. Where air transport is considered the most appropriate means of delivery, these factors are considered by the programme office under advice from the Aviation Section of OTP in Rome, to determine the type and number of aircraft required.

14.   Once the need for a project has been defined at country level, proposals are examined by internal project review boards within the country. The review committee at country level is chaired by the Country Director, supported by other international professional staff including logistics and procurement staff, senior programme officers and the Deputy Director or senior administrative personnel. The programme office presents a proposal, seeking local approval before submitting the proposal to a regional project review board, consisting of the Regional Director, Regional Programme Officer, logistics staff, and Finance Officer. This regional committee considers the project proposals designed by the Country Office, taking into account the strategic priorities and availability of funding in the region. After this process, the project proposal is submitted to WFP's Executive Board in Rome, for consideration and final approval. Following Board approval, the Secretariat can begin pursuing funding and implementation of the project.

15.   Air operations are funded in several different ways. They may be financed through direct appeals for specific costs to donors, leading to the approval and creation of Special Operations; they may be funded from within established emergency or protracted relief programmes; or they may be funded by full recovery of costs from direct charging of users of the aircraft.

16.   WFP contracts with a number of aircraft service operators to provide fixed term leases of aircraft and staff, normally with a guaranteed minimum number of flying hours specified in the contract. This means that the aircraft operator is assured of a minimum fixed price for the duration of the contract. The contractor provides the aircraft, pilots and support staff; and WFP recruits management and operations staff directly to manage the operation.

17.   The main aircraft contracts are also supported by additional short term call-off contracts for air services, to help relieve pressure at busy times and provide flexibility to react to demand, although some additional costs to the programme are incurred in implementing them. WFP currently has contractors working in multiple locations, with different contractors providing specific types of aircraft to meet operational requirements. Given the way in which air operations have been funded, organised and managed, WFP has not been able to commit to a larger and more unified procurement process to achieve economies of scale across its global operations as a whole.

FINANCIAL MANAGEMENT OF AIR OPERATIONS

18.   My staff analysed the data available in the World Food Programme's WINGS system to determine the financial position of the various air operations, particularly with regard to the sufficiency of funding. Table 2 provides an analysis of the funding requirement identified by WFP for specific operations as presented for approval against the actual amounts pledged and received for each of the programmes.

TABLE 2: AIR SERVICE OPERATIONS – COMPARISON OF BUDGETS WITH ACTUAL FUNDS RECEIVED					
Project	Description	Operation Budget $ 000	Pledged $ 000	Receipts $ 000	Shortfall $ 000	Shortfall per cent (rounded)
10061	West Africa (Passenger)	1,173	625	380	793	68 %
10061	West Africa (Regional)	2,001	840	1,932	69	3 %
10163	Afghanistan	24,034	26,237	17,701	6,333	26 %
10146	Angola (Passenger)	5,735	4,555	4,233	1,502	26 %
10054	Angola (Food)	*	*	*	*	
10149	Angola (Non food)	3,207	2,353	2,110	1,097	34 %
10181	Sudan passenger (Loki)	970	1,040	789	181	19 %
10181	Sudan Khartoum	987	1,031	672	315	32 %
10272	Iraq	18,866	14,342	11,403	7,463	40 %
10248	DRC (East)	1,459	1,459	1,354	105	7 %
10117	DRC (North)	1,984	1,432	1,384	600	30 %
10090	DRC (Humanitarian)	1,967	264	235	1,732	88 %
10173	Burundi	1,926	1,248	1,614	312	16 %
10061	West Africa (Regional)	3,045	767	258	2,787	92 %

Operation Budget = budget prepared at country level and subsequently approved by the Executive Board.

Pledged = amounts pledged by donors for the operation.

Receipts = pledges received plus, where appropriate, receipts from direct charging of users.

Shortfall = the difference between Operation Budget and receipts at 26 March 2004 (date report finalised).

All figures rounded to nearest $000.

* Angola Protracted Relief and Recovery Operation (10054.0) – no analysis available from SAP system

Source: WFP SAP data as at 26 Mar 2004 & pledged amounts from RMS

19. The analysis shows that each of the air services exhibits a funding shortfall, ranging from 3 to 92 per cent of the requirement for each of the operations at 26 March 2004.

> In their review of the funding received for the active air operations, my staff noted that on average the special operations had a funding shortfall of approximately 35 per cent against predicted needs at any point in time. This shortfall poses a problem to WFP's ability to deliver the required level of assistance to the humanitarian programmes in an efficient, economic and safe manner.

20. My staff looked at the timing as well as the sufficiency of air operations' funding. There is inevitably a delay between pledges of funding and the corresponding cash receipts. Table 3 shows the elapsed funding time for the Afghanistan operation between the recording of pledges and their respective cash receipts. My staff calculated that for air operations as a whole there is on average a delay of three months from pledge to the receipt of funds.

TABLE 3: TIMING OF INCOME COMPARED WITH PLEDGES - EXAMPLE

Donor	Pledges and *Receipts* during 2002-03							
	1st Quarter 2002	2nd Quarter 2002	3rd Quarter 2002	4th Quarter 2002	1st Quarter 2003	2nd Quarter Apr-03	3rd Quarter Sep-03	4th Quarter Dec-03
EU	**1,936,317**	*1,576,440*						
EU		**983,284**		*792,864*				
EU		**2,428,147**			*2,045,929*			
Germany		**451,264**	*492,126*					
UK	**1,428,571**	*1,426,703*						
UK			**74,769**					*Not received*
UK			**420,659**				*420,693*	
USA	**300,000**			*300,000*				
USA			**2,400,000**	*2,230,155*				
USA		**1,500,000**	*1,500,000*					
USA		**5,362**	*5,362*					
USA			**10,330***					
			* pledge and receipt					

Timeline for project 10163 – Afghanistan

Source: WFP data.

21. In other WFP activities, there is some scope to manage under-funding by adjusting the number of beneficiaries or the size of the food basket to meet budget constraints without jeopardising the overall operation. Air services do not have this same flexibility and WFP are examining how to overcome time delays in funding as part of a business process review.

22.   The opportunities for revising or adjusting air services are limited within the variables of the individual operation: primarily in the number of aircraft utilised in the operation, affecting the scale of the service provided, or in reduction of non-flying costs. Given the level of fixed costs which have to be met in contracts for aircraft, under-funding of air operations can have a direct affect on WFP staff resources, which represent the only non-flying variable cost in most operations. This may be detrimental to the efficiency and effectiveness of management and air safety controls.

23.   In instances of funding shortfalls, management have to decide whether to revise the planned level of the air service in an operation or redirect funding from other sources to manage the shortfall. In programmes where air transport is an integral part of the relief operation, Country Directors have the opportunity to allocate available funds as they deem necessary. Where the air transport is a separate special operation, restrictions on the re-distribution of funding can have a detrimental effect on the success of the associated relief programmes.

24.   The WINGS accounting system does not allow the overdrawing of funds against approved budgets and my staff found that in most cases funding was in effect redirected at Country Office level. For example, the funds of an existing protracted relief and recovery operation may be used to fund air operations on the expectation that the funds will be reimbursed when received. This pragmatic practice of cross funding may ensure effective food aid intervention and support operational commitments; but also gives rise to inaccurate financial records, which may mislead the users of management information and introduce inaccuracies in subsequent donor reporting.

25.   WFP staff were unable to determine the full extent of this cross funding, since in many cases, Angola being the exception, no records were maintained of the amounts of funding utilised from other sources.

> **Angola:** The Country Office was entering data accurately for each operation in WINGS and maintaining separate management records. External audit review of the WINGS data confirmed that the Angola air operation was receiving funding from the country's Protracted Relief and Recovery Operation amounting to approximately 25 per cent of the costs of the air operation. This cross subsidization resulted in an understatement of the costs recorded for the Special Operation and ultimately a misstatement in the disclosure of expenditures incurred by programme type in the financial statements.

26.   In reviewing the financial management of ongoing air operations, my staff found that the WINGS system was not being used to directly or comprehensively record the details of financial transactions in relation to income and expenditure. During their field visits, they found that a variety of separate software programmes were being used by the different country offices to monitor and control their respective air operations. This practice reflects not merely the insularity and independence of the country offices but may also present a risk to the consistent application of management controls in WFP as a whole.

27.   Audit review at country offices also highlighted the use of a variety of systems for recording financial information. These ranged from paper records to specialised computer packages, operated outside WINGS, to record the financial transactions associated with aircraft operations. The use of different systems can pose risks. For instance, my staff found that the recording of income from cost sharing and ticket sales was poorly managed and documented in some offices. As these transactions occur within the field offices and sub-offices and are all cash based, there is a financial risk to WFP if adequate internal controls are not in place to ensure the completeness of recording and accounting for funds received.

My staff found that the Kenya Country Office received approximately $500,000 per month in income from charges for flight operations from Lokichoggio, levied on other United Nations agencies and Non-Governmental Organisations. The sales invoices and receipts for the air operation were being recorded and processed outside the WINGS system in an Excel spreadsheet.

This presents a control weakness in the recording and management of income, since there was an absence of appropriate controls over data input, processing and security. The controls for an effective audit trail in Excel are not the same as those in WINGS. There was, therefore, a relatively high risk that income could be incomplete due to lack of control over the prime accounting records at the distributed airstrips. No reconciliations were being carried out to agree income received and amounts banked to the bank statements.

In Afghanistan, cash receipts of $50-$100 per passenger were being collected at a variety of locations, either at the WFP main air operations office in Islamabad, or in Kabul, or at one of the sub-offices serviced by the operation within Afghanistan. In 2002-03 more than 80,000 passengers were carried.

Audit examination identified very poor controls over the receipt of money: for example in some cases no tickets were issued; there were significant delays in banking receipts; and no attempt was made to reconcile receipts against passenger numbers.

My staff noted that there was no financial operations manual setting out the relevant financial procedures to ensure effective control; there was no established procedure for debt recovery; nor was there a proper reconciliation procedure in cases where organisations paid lump sums in advance.

28.   The use of varying, non-standardised, local practices may indicate either that the WINGS system should be adapted to meet the needs of the air operations, or that an alternative single software system should be considered, to avoid the existing piecemeal approach to data recording at individual locations.

Recommendation 1. I recommend that WFP improve the budgetary control of air operations generally, to ensure the adequacy and availability of funding for individual operations; and to ensure the accuracy and reliability of financial information to support effective budget management, through an appropriate standardised form of financial recording for all air operations.

29.   The air operations visited as part of the audit review all applied a form of 'pay before you fly' policy for the recovery of costs from third parties. In respect of the Operation Lifeline Sudan service, full costs were being recovered; in Afghanistan and Angola, fixed fees were charged for reservation of seats to avoid inefficiencies from utilising planes with no passengers. Notwithstanding this policy, my staff's review of financial records - where they existed - revealed some large amounts of outstanding debt.

30.   For example, the Operation Lifeline Sudan service, operating on a budget of $17 million, had recorded more than $1.2 million in outstanding debts as at 30 June 2003 when the audit team visited, of which $0.5 million related to non-UN organisations. This situation had arisen despite an operational requirement for users to pay in advance. The information available from WFP was not sufficient to readily allow a comprehensive aged debtor analysis to be performed for audit purposes, although the debts accrued since the customer had last paid an advance were as set out at Table 4.

TABLE 4: AGED DEBTORS IN OPERATION LIFELINE SUDAN		
	US $	
Less than 3months old	(1,108,123)	88 %
Between 3 and 12 months	(69,884)	5 %
More than 12 months old	(39,369)	3 %
	(1,217,376)	
Unknown	(47,879)	4 %
	(1,265,255)	100 %

Source: External Audit data collected during field visit.

31.   If debtors are left un-managed, there is a clear risk to the liquidity of individual air operations. In such circumstances, WFP's cash resources will be required to finance this internal debt, in addition to supporting the operation of air services on an ongoing basis.

Recommendation 2. I recommend that WFP reviews the effectiveness of the present policy and practice on charging, to improve cost recovery and cash flow in air operations and minimise the risk of debts adversely affecting the services provided.

32.   As one of the largest humanitarian agencies with an extensive global presence, WFP has become the lead agency in many countries, with responsibility for the provision of air services to the wider humanitarian community operating in those countries. WFP has agreed with the United Nations centrally over the assumption of primary responsibility for the provision of air services to the UN humanitarian community as a whole. The expansion of air operations to the wider United Nations community gives rise to increased risks as well as opportunities; and places increased importance on the need for effective financial management, and sound financial and other controls.

33.   At present there are four air operations run by another UN Humanitarian agency (UNHCR) that WFP will take over: in West Africa, Tanzania, the Democratic Republic of Congo and northern Kenya. A further operation is being arranged in Chad. It is envisaged that the management of air operations on behalf of other UN agencies will be based on technical agreements including provisions for service specifications and costs.

34.   Costs will be predetermined based on hourly flight rates and will cover all safety and operational management expenses. Where aircraft support more than one project, flying hours will be recorded and the respective users charged accordingly. These agreements are yet to drawn up between WFP and other parties. To operate such a system will require a comprehensive and reliable information system and infrastructure to be in place, to ensure the accurate recording and attribution of costs. No such system exists at present.

Recommendation 3. I recommend that prior to undertaking additional activities in the management of air operations, WFP draws up clear and comprehensive agreements with the third parties involved, in particular to clearly identify the respective financial liabilities of all parties involved.

OPERATIONAL MANAGEMENT

35.   The management of air operations is the responsibility of the respective Country Directors, whose prime responsibility and concern is carrying out their own humanitarian mandates. The service provision, number and type of aircraft are determined at country office level and are based on the assumptions underlying the project proposal; the location and number of beneficiaries; and the environment in which the aircraft will operate.

36.   Table 5 indicates the volume of passengers and cargo carried by the air operations in the biennium.

Table 5: OPERATIONAL ACTIVITY IN 2002–2003						
		2002			**2003**	
Country	**Passengers**	**Cargo (kg)**	**Flying Hours**	**Passengers**	**Cargo (kg)**	**Flying Hours**
AFGHANISTAN	57,586	38,126	6,444	23,351	392,179	1,562
ANGOLA	26,132	75,659,000	16,722	19,777	24,864,867	9,404
BURUNDI	12,650	92,320	929	8,311	43,000	587
DRC	*	*	271	*	*	*
GUINEA	4,840	14,900	858	2,840	5,950	883
IRAQ	*	*	*	5,617	1,946,177	2,330
SIERRA LEONE	3,259	37,300	571	*	*	*
SOMALIA	7,070	747	2,116	6,001	63,880	2,170
SUDAN	21,857	58,653,000	26,855	16,502	42,150,210	20,672
Grand Total	133,394	134,495,393	54,766	82,399	69,466,263	37,608

= data not available

Source: Based on data from OTL, Unit, Rome

37.   In their visits to the field, my staff were unable to adduce sufficient data at any location to form an opinion on how utilisation varied over time by the number of aircraft and capacity available. However, audit review of the operations indicated that the country offices' assessments of numbers and type of aircraft appeared to be reasonable from the standpoint that the available aircraft were flying close to their full cargo capacity. As an illustration, the utilisation rates for aircraft flying out of Lokichoggio into the Sudan are set out at Table 6.

TABLE 6: UTILIZATION RATES OF AIRCRAFT USED IN SUDAN, 2002

Aircraft type	Caravans	Buffalo	Twin Otter	C130's	Dakota	Totals
Number of aircraft	5	2	1	2	1	**11**
Flights per year	1,115	796	300	1,513	356	**4,080**
Passengers per year	9,327	1,167	2,893	0	3,186	**16,573**
Cargo (metric tonnes) per year	628	6,142	298	25,018	1,035	**33,121**
Average passengers	8.37	1.47	9.64	0.00	8.95	
Passenger capacity	9	36	16	0	33	
Utilisation	93%	4%	60%	0%	27%	
Average cargo (MT)	0.56	7.72	0.99	16.54	2.91	
Cargo capacity (MT)	0.8	7.5	1.1	16.2	3.2	
Utilisation	70%	103%	90%	102%	91%	

38.   The environment in which the WFP operates its air services presents management with a range of significant business and financial risks to manage, not least in relation to safety. In November 1999, the Kosovo air crash cost 24 lives in human terms and cost millions of dollars in compensation, financed by a settlement package involving several parties, to which WFP contributed a portion by transfers from the Programme's financial reserves. Since then, WFP's air operations have experienced a number of air accidents, though none involving fatalities.

39.   As the Kosovo accident demonstrates, the very nature of air operations involves considerable reputational and financial risks which the Programme needs to manage if operational objectives are to be achieved and donor confidence maintained. Failure to adequately manage operational risks, including air safety issues, will have a direct effect on the financial management of air operations and on the Programme as a whole. My staff therefore examined the way in which WFP has approached air safety considerations and sought to learn lessons arising from the independent review processes which followed the Kosovo accident.

40.   An investigation into the accident was carried out by the Inspector General of Civil Aviation, France. The subsequent report of the Bureau Enquètes-Accidents concluded that the causes of the accident included the following contributory factors:

➢   teamwork which lacked procedural discipline;

➢   the aircraft being kept on track and then forgotten by a military controller;

➢   the air service operator's critical situation as a new company highly dependent on the lease contract, which favoured a failure to respect procedures;

➢ crew fatigue; and

➢ undertaking a flight with an unserviceable or disconnected GPWS.

41. A subsequent review of the safety of WFP's air transport operations by the International Civil Aviation Organization (ICAO) in November 2000 noted that the WFP operations are conducted in an environment where risks are higher that would normally be experienced in most commercial aviation operations. The ICAO report recommended a number of procedural and organisational changes to strengthen the controls over air safety, including:

➢ the establishment of a specialised aviation safety function;

➢ adoption of an air transport manual;

➢ the development of an air operator database at WFP headquarters to validate the credentials and speed the approval of the different operators; and

➢ review of insurance coverage for air operations, to ensure adequate financial coverage.

42. In February 2001, the Executive Director confirmed WFP's commitment to improving the safety of its air operations. However, the examination carried out by my staff in field visits and at headquarters confirmed that, at the time of audit, only limited action had been taken to address the ICAO recommendations, which are set out in more detail at Annex 2 to this report. In particular, recommendations relating to adequate insurance coverage for air operations and for the effective management of contractors had not been addressed.

43. Given the nature of air service operations, WFP need to achieve systematic risk analysis to evaluate the risks associated with the Programme's potential liability if insurance cover should prove to be inadequate. My staff were unable to adduce evidence of whether an assessment had been performed of the viability of the insurance cover provided. My staff found that management were not formally assessing and documenting whether insurance cover provided by contractors was sufficient and reliable to cover liabilities and transfer risks from WFP to the contractor.

44. In 2003, following an approach from the United Nations High Level Committee on Management for the WFP to oversee all humanitarian air operations, the Programme's Transport Preparedness and Response Division carried out an internal review of the progress made since 2001. In June 2003, the Division reported to the Executive Director that WFP did not yet have an effective aviation management system or a safety culture in place, since recommendations made by ICAO had not been implemented.

Recommendation 4. I recommend that WFP take more effective and prompt action to ensure implementation of the recommendations of the ICAO report for the improved safety management of air operations: specifically to ensure that it addresses issues concerning the contracting of appropriately qualified aircraft providers and the establishment of adequate insurance or liability cover arrangements.

45. In August 2001, ICAO followed up their November 2000 report by conducting a review of the nine carriers being used by WFP. This review concluded that all nine carriers failed, by a greater or lesser degree, to reach the minimum standards required by ICAO. After the ICAO review, WFP continued to use the nine aircraft operators, until the initiation of new contracts. WFP staff began to review the standards of each of the new operators by visiting the offices of each contractor within a year after the ICAO review. WFP have informed my staff that they have now instituted a safety surveillance programme which monitors the implementation of improvements. Nevertheless, at the time of finalising my report, all nine carriers were still providing services under contract to the Programme.

46.   Although commercial operators should comply with the rules and regulations of their state regulatory authority and, through these, with the ICAO standards, differences in national regulations and practices might exist that could potentially generate different standards of compliance. To avoid that possibility, WFP air transport staff, in collaboration with the United Nations Department of Peacekeeping Operations (DPKO), prepared draft Aviation Standards (AVSTADS) for the air services of both organisations. These standards have not been formally adopted by WFP and are seen by field operators as guidance rather than mandatory requirements.

Recommendation 5. I recommend that as a matter of priority, WFP should adopt coherent, comprehensive aviation standards and operating procedures commensurate with ICAO standards; and put in place appropriate arrangements to ensure compliance with the standards on a continuing basis.

47.   In relation to staffing, the Management Plan approved by the Executive Board in October 2003 gave WFP a mandate to improve staff capacity at regional level. This was implemented by a recent exercise carried out by the Programme's Human Resources Division to introduce competency profiles for staff posts. However, this review did not acknowledge the specialist skills required for certain posts, such as aviation officers, grouping such posts within the generic profile for logistics officers. There may be some risk that, by staffing specialist posts to satisfy a generic competency profile, the requirements for technical skills and experience in such positions might not be met.

48.   Information available to my staff indicated that meeting the ICAO recommendations for current operations may require a minimum of eight extra aviation specialists. The latest PSA budget, approved by the Executive Board in October 2003, includes financing for only one additional post. This is significantly less than the budget proposal for $426,000 to finance four posts in Rome; and a further $450,600 to finance three regional aviation safety officers, which in itself was less than ICAO's recommended minimum.

Recommendation 6. I recommend that WFP review the existing staffing and related budget provision for air operations against the requirements indicated by the ICAO recommendations, to ensure that the Programme benefits from appropriate levels of technical skills to deliver safe management of air operations.

49.   My staff found no evidence of any systematic risk analysis being undertaken prior to or during operations. The specific risks faced by WFP in each location are not catalogued at the onset of (or during) an operation; and therefore specific controls are not identified or put in place to mitigate these risks. Without a complete and relevant catalogue of operational risks undertaken by suitably qualified and experienced staff, the safety of air operations is exposed to a greater or lesser degree; and management may lack a clear view of actual and potential problems.

Recommendation 7. I recommend that WFP establishes systematic risk assessment procedures to be applied to each air operation, to identify and respond to areas of operational and safety risk, and move towards a safer operating environment for the Programme as a whole.

50.   WFP air operations cross many national borders and use contractors from a number of different countries. This operating environment does not readily assist clarity in the responsibilities of civil aviation authorities relative to WFP's air services. In most locations, the Programme agrees a Memorandum of Understanding (MOU) with the host government and local aviation authorities, in order to clarify the responsibilities of all parties. This ensures that WFP is legally authorised to fly within its prescribed area of operation and to use local airstrips, thus ensuring that staff, passengers and cargo have a minimum level of legal protection.

51.   From their audit visits and reviews, my staff noted instances where MOU's were out of date (Afghanistan) or had never been signed (Angola), and that goodwill had replaced the written agreements. WFP believes the present arrangement in Angola is functioning well and should remain in place until the host Government has formalised a national institution framework for aviation in general.

> During their visit to Afghanistan and Pakistan, my staff found that the air service had been required to reschedule the operation of its passenger service between Dubai, Kabul and Islamabad due to a lapse in the Memorandum of Understanding with the Pakistan authorities.
>
> The original service flew daily from Islamabad to Dubai via Kabul and returned over the same route. After the lapse of the Memorandum of Understanding, aircraft could no longer park overnight at Islamabad International Airport. In consequence, aircraft had to park at Kabul airport. This increased the operational costs because of the need for extra flights to and from Kabul at the start and end of each day, and a requirement for insurance cover for parking at Kabul due to additional security risks.
>
> Timely review and extension of the Memorandum of Understanding with the Pakistan aviation authorities might have prevented such cost increases.

52.   The lack of a valid Memorandum of Understanding in such circumstances may not directly impede the provision of air services but may leave WFP vulnerable to operational and legal risks (for example in relation to the validity of insurance cover); and give rise to uncertainty over the continuing access to facilities for air operations.

Recommendation 8. I recommend that WFP carry out a central review of the status of all Memorandums of Understanding with government authorities on air operations, to ensure that they are appropriate for the activities of the individual operations currently in place.

53.   The collection of data on air operations at a local level is an essential element in the maintenance of a sound control environment. For example, occurrence and incident reports are part of ICAO's recommended practices, and record non-fatal events occurring during routine operations. Without proper analysis of information, and appropriate action in response to that analysis, the value and effectiveness of collecting data to enhance safety within the organisation is reduced.

54.   During their visits to field offices, my staff found examples of inconsistent data collection; and that the quality of local records of incidents and occurrences varied considerably between the operations visited for audit. In Sudan, where comprehensive documentation was being maintained, over 90 incidents and occurrences had been recorded for the year 2002 (although my staff found no evidence of management review of data on a regular basis). Conversely, in Angola only eight incidents had been recorded for the 17 month period from January 2002 to May 2003, prior to the arrival of an air safety officer. Subsequent to his arrival, the number of incidents recorded averaged 20 a month.

55.   My staff found that the Operational Transport and Logistics unit (OTL) in Rome did not consistently collect or receive data from field locations to support meaningful analysis in a comprehensive or regular manner on an organisational scale. Without collection and analysis of the relevant data at a corporate level, it is difficult to see how operational risk and safety can be managed in a way that is other than reactive to events that occur.

Recommendation 9. I recommend that WFP strengthens its internal systems for data collection, incident reporting and data sharing, to facilitate appropriate evaluation by staff who are able to effectively interpret, implement and enforce operational and safety controls.
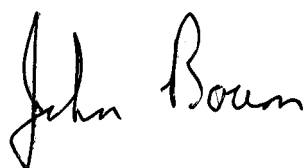
CONCLUSION

56. WFP currently operate significant air services under very difficult circumstances yet do not have appropriate controls in place on a consistent basis to manage the associated risks. The recommendations made following the ICAO report in November 2000 had not been implemented at the time of audit. In such circumstances, in my view, WFP is accepting significant risks with air safety that could have a major impact on the Programme's credibility should another fatal air crash occur.

57. With increasing operational demands and responsibilities, WFP needs to ensure that adequate systems of control and monitoring are established to provide greater assurance on the effective operation and management of air operations for the Programme as a whole.

ACKNOWLEDGEMENT

58. I wish to record my appreciation for the co-operation and assistance provided by the Executive Director and staff of the World Food Programme during the audit.
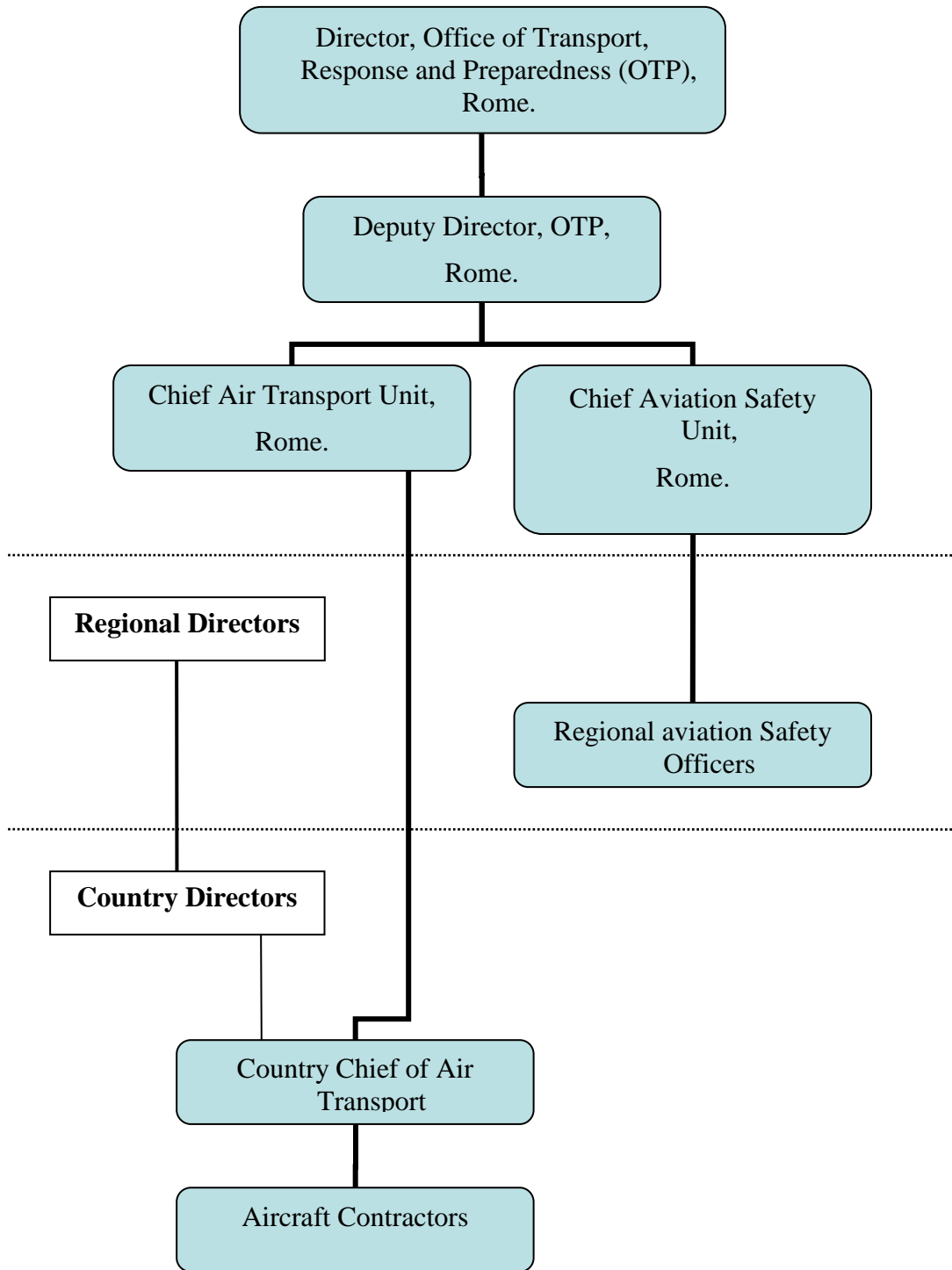
Sir John Bourn
Comptroller and Auditor General, United Kingdom
External Auditor

ANNEX I

WFP Aviation Management Structure

```
          Director, Office of Transport,
          Response and Preparedness (OTP),
          Rome.
                    |
          Deputy Director, OTP,
          Rome.
            |                    |
  Chief Air Transport Unit,   Chief Aviation Safety
  Rome.                       Unit,
                              Rome.
```

Regional Directors

Regional aviation Safety Officers

Country Directors

Country Chief of Air Transport

Aircraft Contractors

ANNEX II

Recommendations of the International Civil Aviation Organisation review, November 2000

ICAO Recommendations	Action taken by WFP	Audit findings
1. In order to manage the safety risks involved in its expanding air operations programme, it is recommended that WFP reorganize the need to establish a specialized aviation safety function.	WFP appointed an Air Safety officer and the Executive Director agreed to further enhance to Air Operations Unit. Four staff qualified as certified safety inspectors in December 2003.	The safety aviation function is not independent of the transport officer or country directors.
2. In establishing an aviation safety function, it is recommended that WFP: ▪ make an early decision on the structure that best meets their needs in providing an aviation safety function; ▪ ensure that the chain of command for the aviation safety function be at a level outside the air transport services reporting chain; ▪ staff the aviation safety positions with appropriately qualified personnel; and ▪ ensure that the structure contains a full and continuous functional linkage between Headquarters, the Regions and the Base operations.	A decision memorandum was signed in July 2003. Will remain within the remit of the Air Transport Officer. Aviation staff in Rome are now qualified. A decision memorandum was signed in July 2003.	The decision memorandum has yet to be implemented In the near future this will remain within the air transport service reporting chain. For most of the biennium staff in the country offices were not properly qualified. The decision memorandum has yet to be implemented.
3. In establishing an aviation safety function it is recommended that : ▪ an aviation Safety Manual be developed, approved and made available to all air transport and air safety officers at Headquarters, Regional Bureaux and Bases; and ▪ a corporate Emergency Response Plan be developed and tested.	A draft manual was developed in 2002 but not approved/available Developed but not approved/available	The manual has not been approved/distributed.
4. Within the aviation safety programme, it is recommended that WFP examine ways to develop synergies with other agencies in areas such as aviation safety and the pre-qualification assessment of air operators.	ATAG group formed.	To be strengthened and meetings regularised.
5. To effectively manage its air operator contracts and to provide appropriate oversight of its aviation operators, it is recommended that WFP recognise the need to establish a specialized air transport service within the Logistics Service at Headquarters, and at Regional Bureaux and Base levels.	It is planned that safety officers will be based in Regional Bureaux.	Funding for these posts and changes to the structure have not been agreed.

ICAO Recommendations	Action taken by WFP	Audit findings
6. In establishing the specialized air transport service, it is recommended that WFP: ▪ staff the air transport/safety positions with appropriately qualifies personnel; and ▪ ensure that the service maintains a full and continuous functional linkage between Headquarters, the Regions and the Base operations.	Cover by the ED decision memo. A training plan has been created	The Directive has yet to be issued. The training plan has yet to be formalized.
7. It is recommended that the WFP Air Transport Manual currently being developed be finalized and approved at an early date. The generic operational standards to be contained in the Air Transport Manual should be supplemented by regional and local operating instructions.	Developed but not approved/available.	Still to be issued.
8. It is recommended that the current Continuous Preventative Safety Surveillance (CPSS) programme be enhanced to provide a full operational and technical evaluation of air operators. Successful completion of such an evaluation would be a requirement to award or holding of a WFP contract.	The CPSS is operating and all contractors are pre-approved before being given a contract.	Achieved.
9. It is recommended that WFP establish an air operator database in Headquarters in order to manage the air operator approval process.	The database is still to be established.	Still to be established.
10. It is recommended that he generic air operator charter contract be finalized as soon as possible. This document, together with specific technical specifications, will form the contract.	A standardized air charter agreement is in use.	A standard agreement for short term contracts to be approved.
11. It is recommended that WFP, in co-ordination with its insurance broker, review coverage requirements to ensure they are adequate for all likely eventualities.	No developments.	Still to be considered.
12. To ensure that aircraft and crew members offered by the air operator conform with all specifications in the contract, it is recommended that a formal "acceptance into service" inspection be conducted by WFP air transport/safety officer.	All aircraft are now formally adopted into service.	Formal adoption started during 2003.

REPORT OF THE EXTERNAL AUDITOR ON THE REVIEW OF THE WORLD FOOD PROGRAMME'S VULNERABILITY ANALYSIS AND MAPPING

EXECUTIVE SUMMARY

1.   The World Food Programme (WFP) has to make the best use of donors' contributions in maximising support and deploying limited funds to best effect in the face of challenging circumstances and conflicting priorities. In these circumstances, reliable needs assessment is important for informed decision making and prioritisation of the use of funds. Vulnerability Analysis and Mapping (VAM) is one of the key elements in the targeting and planning of food aid intervention.

2.   As part of their audit visits to the field and at Rome headquarters, my staff examined the role of VAM and the way in which it is applied to support the Programme's targeting of food aid interventions. Their findings confirmed the value of VAM as an assessment process and decision tool but noted that WFP still lacks a wholly effective strategy for using the work of VAM to best effect. The audit review identified aspects where I believe there is scope for WFP to improve the way in which vulnerability analysis is used by the organisation.

3.   Based on these findings, I have made a number of recommendations, in particular towards improvement of the effectiveness and benefits of vulnerability analysis; ensure the cost-effectiveness of VAM methodologies; expand the role of headquarters VAM staff; achieve a sounder funding base for VAM; and develop measurable targets against which the performance of the VAM procedures can be evaluated.

INTRODUCTION

4.   The World Food Programme has established a core programme goal, to contribute to meeting the United Nations Millennium Development Goals through food-assisted interventions targeted on poor and hungry people. At strategic plan level, WFP has identified an operational focus on Least Developed Countries, defined as a product of their gross domestic product and rates of malnutrition as calculated by the World Bank and the World Health Organization. The strategic plan identifies a need to provide WFP with a strengthened knowledge base through the development of vulnerability analysis to establish the need for food assistance intervention. Vulnerability Analysis and Mapping (VAM) is the tool developed to provide this knowledge base.

5.   VAM is intended to link the analysis of vulnerability of a developing country with WFP's programme strategy to address food insecurity. VAM is therefore a key tool for the design of WFP development and relief activities and projects. Its primary functions are:

➢   Problem analysis: understanding the probable causes of food insecurity and vulnerability existing at any given time in a particular geographic region or population group;

➢   Beneficiary analysis: determining the characteristics of food insecurity in vulnerable populations, and whether food assistance can improve their conditions;

➢   Geographical targeting: assessing the degree of food security of specified geographic areas so that WFP can determine where to prioritise further analysis and response;

➢   Assessing the role of food aid: identifying whether the use of food aid has a comparative advantage in addressing the basic causes of food insecurity and vulnerability in a target population; and
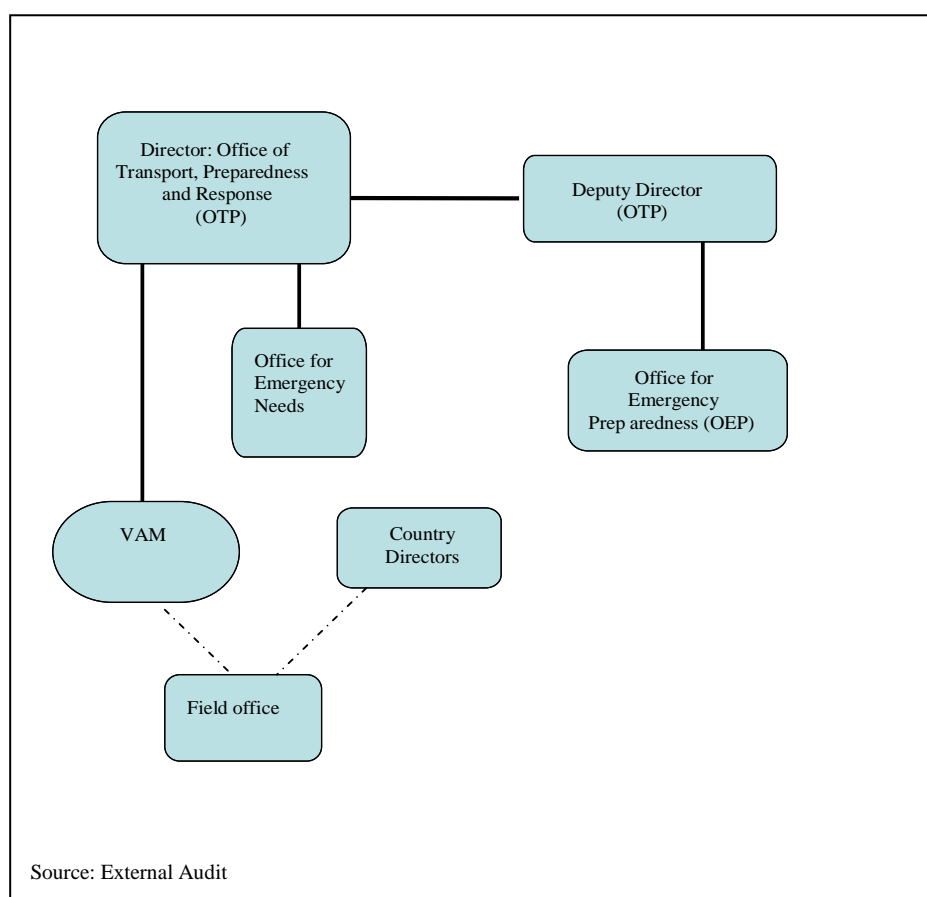
> ➤ Advocacy for the hungry poor: assisting the hungry poor by accurately representing their conditions to others who may be able to provide assistance.

6.   VAM assists the Programme in identifying where to target its relief operations. VAM also assists WFP in achieving the strategic priority necessary to help governments establish and manage national food-assistance programmes. WFP vulnerability assessment reports are used in the humanitarian community as planning tools by host governments in preparing their annual plans; and by other UN agencies, such as the FAO, to target their operations. This help is limited, however, as VAM only produces results in countries where WFP currently operates and, more crucially, is often restricted to specific locations where programmes already exist. VAM analysis and active partnerships with implementing partners and host governments can inform WFP in its strategic planning for the reduction of food intervention and in assessing when the need for WFP operations in a location or country comes to an end.

ORGANISATIONAL STRUCTURE

7.   Vulnerability Analysis and Mapping represents one of three units that provide information to WFP management for operational awareness and decision making and is complemented by Emergency Needs Assessment (OEN) and Emergency Preparedness (OEP). Each of these units has its own role in supporting the operational direction of the organisation. The aim of all three units is to provide information which allows management to determine whether food aid intervention is required in response to disasters, shocks and emergencies. The VAM unit is the only one of the three that has a permanent field presence and provides baseline data from its surveys on which OEN and OEP can build in their respective areas of work.

Source: External Audit

8.   Currently two of the three units report to the Director of Transport and the third to the Deputy Director for Transport (see figure above). There is a certain degree of interdependency between the units for the provision of data in WFP's programming cycle. VAM is the unit that provides baseline data from which the impacts of emergencies and shocks can be measured by the work of the other two units; and there is therefore a strong need for close liaison and cohesion.

9.   To be effective, the VAM reports need to be able to identify the root cause of the vulnerability of food; and to provide assessments on the likely scale and nature of the impact that action by WFP might have. The Programme's strategic plan for 2002-03 recognised the need to improve needs assessment through better integration of the variety of units deployed in data collection and knowledge enhancement, although this was deferred until the 2004-05 because of the volume of emergency work during the biennium.

APPLICATION OF VULNERABILITY ANALYSIS AND MAPPING

10. The role of the VAM staff at headquarters is to establish guidance which standardises methodology and approach across the organisation for the production and analysis of VAM work. VAM staff in the field are tasked principally with carrying out surveys, collating data and analysing results. The present staffing structure of VAM places emphasis on the field activities, with five staff in headquarters supporting 38 staff in the field, based in WFP's Regional Bureaux and country offices. In smaller country offices, the role of vulnerability analysis occupies only part of the time of one member of staff, usually combined with the role of logistics officer or programme officer. My staff's examination of VAM activities in the field indicated that this arrangement can lead to the work of vulnerability analysis and mapping being under-resourced, since emergency-orientated tasks such as immediate food assessment and delivery are given necessary precedence over analysis work.

11. The Iraq conflict illustrates the application of VAM in the preparation for emergencies.

Preparing for the Iraq conflict

The VAM unit based in Cairo covering the Mediterranean, Middle East and Central Asia region carried out an assessment of vulnerability prior to the conflict in Iraq, to alert WFP to the potential operational capacity requirements. The nature of this emergency was unique in that WFP had time to assess the situation prior to the outbreak of hostilities.

VAM assessment examined the current situation where, with no effective economy in Iraq, the whole population of some 24 million was being fed by the WFP from food purchased under the UN resolution covering Oil for Food. WFP had the role of monitoring distribution in the 15 provinces of central and southern Iraq, where food is distributed by the local authorities. In the remaining three provinces in the north (population about 3 million), WFP had full access and were running the programme directly.

Lack of proper access to the southern and central provinces made it very difficult to achieve any sort of vulnerability assessment. In the north, WFP staff had some information from their other activities. To assemble more data, national observers in the south and central region were asked to make an assessment of the level of poverty and hunger based on their experience and judgement, since the circumstances precluded a more scientific basis for assessment.

WFP did not know if, or when, a conflict would start, or on what scale. Their planning was based on a number of assumptions agreed in negotiations with other UN humanitarian bodies.

WFP analysis was directed at assessing where the population was located and the most likely areas of emergency conditions and migration. WFP's criteria addressed rural and urban populations; and proximity to military installations, royal palaces and borders with neighbouring countries. Probable migration paths and the likely numbers of people affected by the resulting emergency were plotted on the assumption that military installations and palaces would be affected before cities.

WFP estimated some 300,000 refugees moving into neighbouring countries and about 4.6 million being affected in country, of which 0.6 million would be displaced. WFP estimated that at worst some 10 million people could be affected.

Based on this assessment, WFP predicted the volume and location of food requirements. Some food, such as pulses and oil, was then stockpiled in neighbouring countries to cope with the expected migration. It was considered that neighbouring countries selling food at the time would meet additional needs and contract negotiations were taken forward with Syria to provide the large quantities of wheat needed.

12.   The work of VAM at headquarters and in the field over the past biennium has been principally working alongside or in support of operations providing assessments to assist in the direction of existing programmes. At the time of my audit, neither headquarters nor the Bureaux - with the exception of the Regional Bureau in Kampala (ODK) - maintained a database of VAM reports. My staff asked the Regional Bureaux to prepare a list of VAM reports for the 2002–03 biennium and to comment on the involvement of headquarters in the report process. Table 1 shows the number of reports prepared and the extent to which VAM staff at headquarters had been involved in or aware of the respective studies. (No response was received from two Regional Bureaux, in Panama and Cairo.)

TABLE 1: INVOLVEMENT OF THE VAM UNIT AT HEADQUARTERS IN REGIONAL AND COUNTRY REPORTS		
Bureau	**Reports prepared**	**Reports reflecting Headquarters involvement**
Bangkok	29	0	0%
Cairo	N/A	N/A	N/A
Dakar	19	19	100%
Johannesburg	41	17	41%
Kampala	39	2	5%
Panama	N/A	N/A	N/A
	128	38	

Source: returns from Regional Bureaux

13.   Further analysis by my staff indicated that the scope of the reports was in most cases limited to aspects of vulnerability assessment rather than analysis. While this assists management in assessing the quantative need for food aid intervention, it does not necessarily provide information to assess the long term qualitative needs in the locations or countries reviewed. For example, of 39 VAM reports issued during 2003 by the East and Central Africa region and its associated country offices, 24 related solely to food security assessment. My staff noted a similar position in other regions that provided responses. The absence of an overall database for reports makes the comparison of the types of reports issued, the types of methodologies applied and their results difficult to analyse across the countries in which VAM is utilised. It may also give rise to inefficiencies in planning approaches, rendering the discussion of common problems and the dissemination of good practice more difficult than would otherwise be possible.

14.   Where a comprehensive vulnerability analysis has been carried out, the resulting data offers a benchmark against which to measure progress and improvements at the country level. A complete database, allowing comparison of vulnerabilities between countries and providing a basis from which to build programme proposals, would assist in the decision making process for fund raising efforts by focusing WFP resources into emphasising specific appeals.

Recommendation 1. To improve the effectiveness and benefits of the analyses carried out, I recommend that WFP improve knowledge management through systematic collation and dissemination of the information and good practice gained from VAM studies.

15.   In the past three years, the VAM unit at headquarters has responded to requests for assistance from regional directors by preparing comprehensive analysis in relation to only eight countries: Mali, Sierra Leone, Liberia, Cote d'Ivoire, Cape Verde, Malawi, Haiti and the Dominican Republic. Seven of these eight countries are in regions where the established VAM unit has only limited capacity. The reports formulated with headquarters input utilised a framework adopted following a pilot study, and set a standard for country offices to follow. The headquarters VAM unit was involved in focused studies for a further 30 reports in regions without an established VAM presence, and also in Southern Africa where the regional emergency required significant staff input.

16.   The VAM unit performs two roles in assisting country offices: firstly through vulnerability analysis, which reviews the need for food within a country and identifies whether WFP has a role to play with food aid intervention; and secondly through vulnerability assessment, which appraises food security issues and assists in targeting food aid to those in need. In some instances, the vulnerability assessment may identify risks to food security for a given population, while the analysis of the issues behind the risk may indicate that WFP does not have an intervention role to play. In such circumstances, VAM is complemented by the emergency needs and emergency preparedness units, which are called in to action in specific circumstances.

17.   WFP's standard approach in carrying out an analysis is to review available secondary data - that which is readily available from the national government and non-governmental organisations in situ – in order to map where vulnerability is likely to occur. This review is reinforced the collection of primary data, usually using household surveys, and by early warning systems provided by the FAO's Global Information and Early Warning System and USAID's Famine Early Warning System.

18.   Decisions on where to conduct primary data collection surveys are based on initial analysis by the VAM officer and judgements on the indications of vulnerability from secondary data. The data collated consists of subjective indicators (such as disposable income) and empirical results (for example malnutrition and stunting rates). Subsequent analysis of this data and its translation into useful management information involves the exercise of judgement and experience by VAM officers.

19.   This approach is useful as a proxy indication for assessing the degree of vulnerability in a given population, though it is not definitive since poor secondary data may skew the focus of the primary study. For example, in situations involving internally displaced people or refugees, the use of secondary data is less effective, because irregular population movements require constant updating of base data. In Angola, where a careful and considered review of the role of VAM has been conducted by the local staff, limitations on the reliability of data have been acknowledged. Limitations that have been identified by the Programme include the following:

➢   Where large populations of internally displaced people are moving spontaneously, reliable estimates of the numbers of beneficiaries in areas of food insecurity are difficult to determine;

➢   Data on the health and nutrition status of a population is based on the institution that collects the data, rather than the population concerned. This data does not reflect where patients live and therefore may bias the targeting of Programme action;

➢   In areas inaccessible to humanitarian groups, reliance is placed on information gathered by local traders, military or church leaders;

➢   Data on income and coping strategies is limited and time sensitive.

20.   A weakness with secondary data is that it is usually out of date due to the time and resources needed to collect and collate it. For example, surveys conducted by WFP in Northern Iraq in 2003 relied on data collected by UNICEF and FAO between 1998 and 2000 to assist targeting. However, the costs and time involved in the collection and collation of primary data is much higher than that associated with the use of secondary data. My staff noted that the cost/benefit relationship in collecting up to date information from independent sources was not always examined by WFP when collating primary and secondary data for VAM studies. If assurance can be taken from reliable sources of secondary data, the costs in monetary terms and in the time taken to obtain primary data would be defrayed.

Recommendation 2. I recommend that, at the beginning of VAM studies, WFP assess the relative cost benefits of using primary and secondary data.

21.   Notwithstanding the limitations on the reliability of data (in terms of age and relevance), they do not rule out the use of VAM as a valid analytical tool for WFP. In such instances, VAM is used in conjunction with other information, such as local knowledge, when analysing whether food aid intervention is required and assessing where to target food aid. The establishment of a benchmark database in association with an assessment of the reliability of data from other, secondary, sources could help to filter information and safeguard against the need to resort to unnecessary collection of primary data.

22.   The quality of the interpretation of data is dependent on the training and capacity of the staff undertaking the analysis work. WFP have staff specifically trained for this role in the VAM unit in headquarters and in some country offices. However, their use and involvement elsewhere relies on requests from country offices. The success of VAM studies at a national level depends on the capacity of the local VAM unit and WFP's VAM work plan for 2003 included a review of capacity in the field. Training assessments of national and junior professional officers identified weaknesses in their data analysis skills; and a survey conducted in support of preparing the Programme's Emergency Needs Assessment guidelines identified a need for training in generic assessment skills rather than just vulnerability assessment.

23.   The present technical capacity of WFP staff in the field does not readily support statistical analysis and extrapolation, especially where VAM is carried out by staff who are not dedicated exclusively to VAM work. During an audit visit to Colombia, for example, my staff noted that household questionnaire surveys had not incorporated weightings for the questions included in the survey, implying that each question had an equal impact on the assessed vulnerability. They also noted that the selection of households for survey was not statistically sound, in that the selection of districts and villages had been based on the indications of secondary data which was not up to date.

24.   At a national level, VAM is seen as a programme support mechanism and has been developed as a field tool rather than as an activity directed from headquarters. This has led offices to develop in different ways with different emphases. For example, the Southern Africa region prepared regular rolling assessments in conjunction with other partners, focusing on analysis; whereas most reports prepared by the Asia Bureau concentrated on assessment and the geographical targeting of resources. While this is useful to cover the variety of issues that arise in each region, it illustrates the importance of headquarters taking responsibility for quality control and for ensuring the relevance of the reports and methodology used.

25.   At present there is no formal requirement within WFP for country offices to seek input from VAM headquarters or the regional bureaux for guidance on the implementation of VAM studies. There is currently no mechanism in place to implement quality control of studies produced or to encourage the field to involve headquarters in their surveys. It may be the case, therefore, that the established capacity and skills available in the headquarters VAM unit could be more fully utilised in this respect.

26.   The quality control role of the VAM unit at headquarters is not clearly defined within the current framework of arrangements. The headquarters VAM unit operates on an ad hoc basis and is dependent on being involved at the initial stages of an analysis to check that proposed approaches are in line with established methodologies. Early involvement, and an oversight of quality, would help establish a more consistent and therefore reliable approach to VAM generally; and allow for more effective and useful comparative analysis. Consistent quality can enhance the reputation and utility of VAM studies, both within and

outside WFP. My staff found that, in some cases, the information collated for their audit on reports prepared during the biennium represented the first time that the VAM unit at headquarters had been aware of the existence of some of the reports and papers.

27. In the absence of substantive quality controls from an established headquarters unit to ensure that the appropriate methodology is applied to individual studies, and that the evaluation of data is reliable, there may be an increased risk of efforts being misinterpreted or misdirected. Improved quality control will ensure consistency of standards and the application of appropriate methodology to the VAM process.

Recommendation 3. I recommend that WFP strengthen the role and use of the VAM unit in headquarters, to provide advice and quality control in all VAM studies.

Recommendation 4. I also recommend that WFP establish arrangements to ensure that feedback from local surveys is channelled through the VAM unit in headquarters, so that best practice may be identified, promoted and incorporated into training courses, manuals and the VAM website.

PARTNERSHIPS

28. In September 2000 WFP, with other partners in the international humanitarian community, committed itself to the United Nations Millennium Development Goals, which among other things, included reducing hunger by half by the year 2015. The indicators against which performance will be measured are:

➢ the prevalence of underweight in children under 5 years of age; and

➢ the proportion of population below minimum level of dietary energy consumption.

29. FAO's report "The State of Food Insecurity in the World 2003" identified where the hungry of the world are located, showing that more than 60 per cent are in the Asia and Pacific region. This differs notably from where WFP target their food aid based on the Least Developed Country criteria since, over the past four years, only 30 per cent of WFP operations have been focused on Asia and the Pacific. This lack of correspondence reflects the difficulty WFP have in matching their role in using food aid intervention to prevent chronic crisis with that of the Millennium Development Goal of halving hunger by 2015. This also highlights where WFP can target advocacy and raise the issue of the hungry poor with other agencies or partners; and influence the focus of their operations towards working together to meet Millennium Development Goals.

30. WFP's focus of operations tends to be in the more rural and isolated areas of countries, while partners from other UN agencies have a greater presence in urban areas. The two areas of expertise complement each other in drawing up an overview for a particular region. The benefits of joint operations include better coverage; more cost effective and efficient use of resources; and a broader view of issues. For example, in Afghanistan a survey was carried out between July and September 2002 involving 19 agencies/NGOs, two local university agricultural faculties and the co-operation of the national government, with WFP leading the project. The number of parties involved enabled a comprehensive review of food security for the first time of all 329 Districts of the country. Unfortunately the review also exemplified one of the weaknesses of joint operations: that the report was limited to determining food needs and did not address whether food aid intervention was required. Nor did it address internally displaced populations and nomadic communities or returnees, which are the more complex and difficult groups to analyse.

31.   Angola has a WFP country office with a well developed VAM unit, where the partnership with other agencies and NGO's is well established but differs from that adopted in Afghanistan. In Angola, WFP direct the whole operation keeping the focus clearly on WFP's objectives and using NGO's for the express purpose of data collection over a wide area. The methodology has been carefully considered and documented; and training has been given to the partners, to ensure that their staff on the ground understand what WFP requires. The analysis is carried out by WFP staff and is regularly reviewed and updated. Comprehensive quarterly VAM reports are published by the country office for use by all humanitarian organisations in the country. My staff noted that the country office had developed a capacity building program to enable field staff and implementing partners to better understand and use food security information.

32.   The scale of the emergency in Southern Africa demanded a different approach by the humanitarian community, where a Vulnerability Assessment Committee of national professionals working together at a regional level was established. In August 2001, Ministers of Agriculture from within the Southern Africa Development Community encouraged member states to establish cross-sectoral and inter-agency vulnerability assessment groups to better understand and target intervention.

33.   There are potential gains for WFP from partnerships organised amongst a cohesive group of similarly orientated organisations and partners. Where there are many partners or no clear methodologies, the likelihood of successful information from studies is diminished.

Recommendation 5. I recommend that WFP ensure the availability of timely, consistent and reliable information, through an established VAM methodology, to all parties for the support of operations and to monitor the need for food aid intervention.

FUNDING

34.   Funding for VAM reports is provided either as part of a project, in which case the costs are recorded as direct support costs, or from donor grants or trust funds. The amount of funding available for management to meet needs which are not directly targeted or specified by donors (multilateral contributions) has remained relatively static at about $360 million a year over the past four calendar years. Much of the funding that WFP receives has been directed by donors towards specific country programmes and appeals. Table 2 refers.

TABLE 2: BREAKDOWN OF FUNDING BY FUND TYPE				
	2000	**2001**	**2002**	**2003**
	$ m	**$ m**	**$ m**	**$ m**
Bilateral	N/A	57.3	45.6	1,193.5
Directed Multilateral	N/A	1,542.5	1,479.8	2,245.6
Multilateral	359.9	371.0	381.0	367.0
Source: WFP RMS as at 12 January 2004				

35.   The restrictions associated with the use of bilateral and directed multilateral funding underline the importance of effective targeting of resources and the relevance of VAM in providing information for decision makers at global and national level.

36.   VAM is funded primarily funded from within existing country programmes, though some bilateral sources are made available. The inclusion of VAM within a programme establishes a certain degree of conflict with the role of determining whether food-assisted intervention is required in the first instance. However, unless funding is made available separately, this represents the only means of financing VAM work. The arguments in favour of the existing approach are that it also provides a benchmark against which to monitor the impact of intervention; and guidance in redirecting the thrust of an operation during its lifetime. It also brings benefits in signalling an exit strategy, by showing the changing role of food aid intervention.

37.   The work plan for the VAM unit in Rome for 2003 set a target of updating 8 to 10 baseline assessments and supporting 4 to 5 emergency needs assessment surveys, to be funded using Programme Support and Administration (PSA) resources. The work plan was not based on any risk assessment and, given the limited funding available outside programme budgets, it did not address the establishment of a vulnerability database from which to benchmark performance.

38.   The main financial challenge facing vulnerability analysis is to obtain funding to enable the analysis to take place before a decision to establish a programme is made. This is particularly relevant for analysis at a global level and in the context of building a benchmark database from which to prioritise operations and measure performance. WFP's management plan for 2004-2005 includes financial support to strengthen the Programme's knowledge base and improve needs assessment.

Recommendation 6. I recommend that WFP review the adequacy of the funding arrangements for VAM against its context as a strategic and management priority in strengthening the organisation's knowledge base and advocacy of food-assisted intervention.

PERFORMANCE MEASUREMENT

39.   WFP's 2004 – 2007 Strategic Plan includes a performance results matrix to help WFP focus on critical results derived from its activities. The matrix identified outputs and outcomes for each of the five strategic priorities in terms of qualitative rather than quantitative performance indicators. The organisation's results-based management initiative supports the strategic priorities by co-ordinating the focus of each division to a common aim and measuring its impact. WFP's Results-Based Management Orientation Guide, issued in November 2003, recognises the need to set measurable targets against project objectives; and the need to define measurable outputs and desired outcomes for each project. Performance indicators published in the Programme's management plan identify response time as a key indicator but do not address issues such as quality of products or whether the right study is undertaken.

40.   Measurement of the impact of VAM as an output or outcome is difficult given the wide range of factors outside WFP's control that can influence vulnerability. A useful measure of VAM at the strategic level would be achievement against the Millennium Development Goals over the medium term, to demonstrate whether WFP is identifying and taking action where the hungry people are identified. The operational environment in which WFP works is very complex and the failure to end an emergency in a given time period may not reflect well against performance indicators. However, VAM studies can help in understanding the contributory factors that necessitate the need for continued food-assisted intervention.

41.   At a national level VAM is used to endorse or refocus current programmes. The success of VAM is again difficult to measure and the Results Based Management initiative has yet to agree outputs and outcomes for VAM activity. Using key indicators such as mortality rate or malnutrition rates would not necessarily reflect the impact of VAM, although these could be indirectly linked to, or influenced by, VAM action over time. In addition, a VAM recommendation against food aid intervention may be measured as a success if no crisis arises within a given timeframe.

Recommendation 7. I recommend that WFP develop measurable targets against which the performance of VAM can be judged, so that the data collected by VAM can establish a benchmark against which the operational success of WFP may be measured.
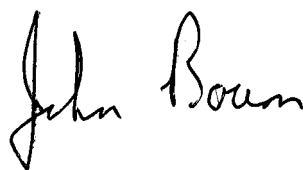
CONCLUSION

42.   At present WFP lacks an effective strategy for using the work of VAM proactively for prioritising or measuring the work of the organisation. At a national level VAM is predominantly being used to refocus existing programmes (from which VAM is currently funded) and for supporting proposals for extensions to existing programmes.

43.   Where a comprehensive vulnerability analysis has been performed, the resulting data establishes a benchmark against which to measure the improvements within a country. A complete database of such studies would allow WFP to undertake a comparison of vulnerability across countries and form a foundation from which to build strategic programme proposals. This would assist in the decision making process; in enhancing strategic direction; and for fund raising efforts by focusing WFP resources into emphasising specific appeals.

ACKNOWLEDGEMENT

44.   I wish to record my appreciation for the co-operation and assistance provided by the Executive Director and the staff of the Programme during the audit.

Sir John Bourn
Comptroller and Auditor General, United Kingdom
External Auditor

REPORT OF THE EXTERNAL AUDITOR ON THE REVIEW OF CORPORATE GOVERNANCE AT THE WORLD FOOD PROGRAMME

EXECUTIVE SUMMARY

1. Sound corporate governance, and the effective systems of internal control that go with it, are essential to effective financial management, accountability and transparency. Good corporate governance is necessary to support the achievement of the organisation's objectives and in the creation and maintenance of donor confidence, on which that achievement depends.

2. There has been a considerable evolution in corporate governance in recent years, in both the private and public sectors. The WFP secretariat has also placed emphasis on good governance and is seeking to improve WFP's arrangements in this important area. In the light of these developments, and in this first financial period of my appointment, my staff carried out an initial review of the Programme's corporate governance arrangements to inform future developments at the WFP.

3. There is impetus for change and improvement in WFP, as reflected in the deliberations of the Executive Board and the measures introduced by the Executive Director. My recommendations are intended to assist in this debate. This is an ongoing process but most immediately WFP can strengthen its governance arrangements by:

   ➢ establishing stronger audit committee processes, with the inclusion of non-executive, independent members and better defined reporting to the Executive Director and ultimately, as the arrangements are developed, to the Executive Board;

   ➢ clarifying and formalising the governance roles and responsibilities in the decentralised field structure; and

   ➢ making better use of internal oversight mechanisms, by improving line management accountability for effective responses to audit recommendations.

INTRODUCTION

4. High standards and good practice in corporate governance are relevant to all organisations, whether in the private or public sector. Successful organisations have clear objectives; a focus on risk management; operate effective internal control systems; and report their performance reliably and credibly. Confidence in good governance is necessary for achievement and success.

5. Good corporate governance encompasses the fundamental principles of sound accounting and financial management, proper stewardship, accountability and integrity through strong internal controls and transparency of reporting. For the WFP, strong corporate governance provides donors, implementing partners and the beneficiaries of aid with a degree of confidence in the way in which the World Food Programme uses its financial resources.

6. Major corporate failures in several parts of the world and subsequent work to articulate best practice in the private sector, and the high standards required in the public sector, have provided new focus on improvement in governance arrangements to make them more effective and more transparent than ever before.

7. The WFP has been alert to theses developments. A Governance Group was established by the Executive Board comprising of members of the Board and other Rome based International Organisations to focus on the administrative and constitutional arrangements for the Board. The scope of the Group covers the role of the Board and its relationship with

the Executive Director and senior management, but does not extend to areas within the competence of the Executive Director.

8.   In October 2003, proposals put to the Executive Board by the Executive Director (reference EB3/2003/5-D/1), setting out best practice in oversight mechanisms were welcomed by the Executive Board, which:

➢   recognised that WFP had an opportunity to become a leader in corporate governance in the United Nations;

➢   appreciated the commitment of the Executive Director to introduce a Statement of Internal Control; and

➢   welcomed the Executive Director's proposal to discuss with the Governance Group the possibility of creating an improved Audit Committee arrangement.

9.   The proposals raised four areas for immediate consideration: codes of conduct, reporting arrangements, internal oversight committees and risk management. The Office of Oversight is currently working with the Governance Group on these four areas to formulate a business strategy. I commend the initiative being undertaken by the Secretariat in this area.

10.   In particular, a Statement on Internal Control (SIC) published with the organisation's financial statements would focus senior executive's responsibilities for ensuring that effective systems of internal control were in place within the organisation and were in operation for the reporting period. To date no UN/International Organisation has produced such a statement in its annual report or financial statements.

11.   WFP's Oversight Services Division, OEDO, have recently taken some steps towards the review of best practice in oversight mechanisms, including an initial consideration of governance and risk management issues. Against the background of these developments, my staff looked at the current governance arrangements within the Secretariat focussing particularly on those areas within the scope of the Audit Committee, to inform the current debate and support WFP's development in this important area.

AUDIT COMMITTEE

12.   The Executive Director carries ultimate accountability for the management of risk and the system of internal control within the organisation. An effective and challenging audit committee is a key element in securing good corporate governance and can be a prime source of assurance for the Executive Director in discharging this responsibility. Internationally there is an emerging consensus on the role of audit committees. In the United Kingdom the Financial Reporting Council[1] defines the purpose of such a committee as being to:

➢   monitor the integrity of the financial statements of the organisation;

➢   review the organisation's internal financial control system and, risk management systems;

➢   monitor and review the effectiveness of the organisation's internal audit function; and

---

[1] Audit Committees - Combined Code Guidance, January 2003.

> ➢ monitor and review the role and engagement of the External Auditor with the organisation. However, at the WFP this role is undertaken directly by the Executive Bureau and Executive Board.

13. The audit committee should include members who should be non-executives, who should be independent of senior managers.

14. The Audit Committee at WFP has been an entirely internal body, composed of a chairperson (currently the Deputy Executive Director, Operations) and three members (though currently the members have been confirmed by the Secretariat as: the Deputy Executive Director, Operations; the Deputy Executive Director, Policy and External Affairs; the Associate Director, Operations; the Director, Food Security, Safety Nets and Relief Service; the Chief of Staff and Director, Office of the Executive Director; and the Director, Office of the Deputy Executive Director, Policy and External Affairs). These members are all WFP staff members and all are subject to internal audit oversight.

15. WFP's Audit Committee has as its terms of reference an objective to ensure the independent role of the internal audit function; and to review their work and consider action in the light of their recommendations. This role includes review and approval of the annual work plan of internal audit and would cover issues pertaining to corporate governance or risk management should they be included in the work plan. WFP has two further internal reporting arms. The investigations unit of the Office of Oversight currently reports directly to the Executive Director; and the evaluations office reports to the Director responsible for results based management.

16. The present terms of reference of the Audit Committee do not include any formal reporting of their findings or deliberations to the Executive Director or to the Executive Board. Reporting is undertaken on an informal basis from the chairperson of the Audit Committee to the Executive Director. Though this is useful, it does not allow for the fullest discussion and analysis of problems identified by the Audit Committee; nor does it provide an effective and transparent assurance mechanism for the Executive Board as the Programme's top management forum.

17. Good governance practice advocates the inclusion of independent, non-executive members on the audit committee, with the position of chairperson being taken by an independent member. While the inclusion of executive management on the audit committee can provide valuable information, their presence at every meeting can sometimes inhibit discussion on sensitive areas. The current wholly internal membership of WFP's Audit Committee could also – at least in theory and perception - present issues of conflict of interest, when the subject matter of the committee touches on areas that are or have been the direct responsibility of a member. An independent, non-executive appointee can bring independence and objectivity as well as valuable knowledge and experience to the work of the committee.

Recommendation 1. I recommend that WFP revise the practice and terms of reference of the Audit Committee to include appropriate arrangements for reporting formally to the Executive Director. In conjunction with the Governance Group, an informal working group of the Bureau, it might also consider its reporting relationship to the Executive Board.

Recommendation 2. To afford a greater level of independence and objectivity in the advice available to corporate management, I recommend that WFP should introduce non-executive independent members to the Audit Committee, but I recognise that this is another matter where the practical implementation would need to be considered fully by the Executive Board.

MONITORING OF FINANCIAL STATEMENTS

18. The audit committee should review the significant financial reporting issues and judgements made in connection with the preparation of the organisation's financial statements, and also review the clarity and completeness of disclosure in the financial statements.

19. Where, following its review, the audit committee is not satisfied with any aspect of the proposed financial reporting by the organisation, it shall report its views to the board. The audit committee should monitor the integrity of the organisation's financial controls. The audit committee, in the absence of other arrangements, e.g. a risk committee, should assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non financial risks.

20. The Executive Director committed the WFP to submitting its financial statements to the Executive Board in May 2004. During the closure of the 2002-03 biennial accounts, the Audit Committee was involved in the review of the financial statements produced by the Financial Services Department. The Audit Committee's review was based upon the work conducted by Internal Audit on the financial statements in January 2004, prior to them being transmitted to my staff based in Rome. The Audit Committee tasked the Director of Finance Services to address and clarify specific issues raised by Internal Audit.

21. At the end of March 2004, the Audit Committee met once again to review progress in the finalisation of the financial statements. This meeting was attended by Internal Audit, Finance Services and my staff, as observers. At the end of their deliberations which included issues raised by the External Auditor, the Chair of the Audit Committee concluded that the Executive Director could be advised to sign the financial statements and submit them for final external audit. This was an effective and valuable process.

REVIEW OF THE INTERNAL CONTROL SYSTEMS

22. The Executive Board approved the decentralisation of WFP to establish Regional Bureaux in the field, to improve communication with host governments and to ensure closer links with the country offices. The decentralisation of the operational aspects of WFP's business has progressed. The administrative aspects have not yet been fully decentralised, with the human resources, budget, fundraising and oversight and evaluation functions still being very centralised.

23. My staff reviewed the internal control and governance structures at headquarters and at each of the Bureaux and country offices visited during the biennium. In doing so it drew upon the work of Internal Audit and the Audit Committee. As a basis for our opinion on the financial statements we were satisfied that the current internal control arrangements were adequate. However there were a number of broader issues relating particularly to the Regional Bureaux and country offices arising for our work.

24. In practice, Country Directors are responsible and accountable for all transactions and operations within the national borders of their assigned country. The Programme's six Regional Bureaux were established to oversee field operations and provide support, guidance and advice to the country offices, while routing project proposals and reporting the collective results and operational performance to headquarters in Rome. Headquarters is responsible for strategic direction and global support and guidance, especially for functions that have not been decentralised, such as oversight and evaluation.

25.   Each WFP office at regional and country level reflects the operational structure of Rome headquarters in maintaining programme, finance, procurement functions and so on. Finance officers at country level, for example, have responsibilities to maintain proper and reliable accounting records for the organisation. They have a reporting link to their own country director, but are also responsible to the regional finance office and finance division at headquarters. This applies similarly for other specialists such as procurement. This type of matrix reporting and arrangement of management responsibilities make it important to have clear delegations and responsibilities for individuals, to avoid conflict between programme responsibilities and operational demands on the one hand, and other requirements and regulations on the other.

26.   My staff noted that oversight of the implementation of high level strategy, and compliance with directives and regulations, was spread among many individuals within the organisational structure, leading to a lack of clarity over where ultimate responsibility lies and who has ownership of tasks and compliance. During audit visits to each of the Regional Bureaux, my staff found a distinct lack of clarity over roles and responsibilities between different levels of the organisation. The perceived role of the Bureaux was to provide support and guidance to country offices. My staff found that in practice the support and guidance provided was, on the whole, in response to requests from country offices. They noted that some country offices were not seeking support from the Regional Bureaux, under the false assumption that they did not require support or guidance in the implementation of their work.

27.   My staff also noted that the operating culture at the country offices seemed to indicate that each office regarded itself as a stand alone business entity, rather than as an integral part of the WFP. They found that many country offices were unaware of the implication of their actions on the financial position of the organisation: while they were acting in the best interests of the country programmes, this sometimes acted contrary to the rules and regulations set up to protect the organisation.

28.   My staff found that this problem was to some extent exacerbated by the lack of clarity in guidelines and procedure manuals. As WFP has undergone considerable change in structure and in management control systems with the introduction of WINGS, little work has been carried out on the updating of relevant guidance in a cohesive and holistic manner throughout the organisation.

Recommendation 3. I repeat the recommendation made by my predecessor that WFP define the respective roles and responsibilities of the Regional Bureaux and country offices and delineate clearly the accountability and monitoring arrangements necessary to ensure the delivery of the Programme's objectives.

RISK MANAGEMENT

29.   One of the most important internal objectives of the WFP must be to retain the credibility of its reputation and ensure that a high degree of donor confidence remains with the Programme. Potential risks which are left unmanaged could damage the operational effectiveness of the organisation, and have consequential effects on the level of future funding that donors are willing to provide to the Programme's operations.

30.   WFP do not currently undertake a systematic organisational risk assessment and do not maintain a risk register; although they have comprehensive contingency plans for operations, and their emergency needs assessment work attempts to identify where future operational requirements may arise. The value of a risk register and systematic risk

management arrangements is to provide the means to identify and tackle the factors that could adversely effect the organisation and the achievement of its objectives. A risk register allows for assessment of the impact of risks and the allocation of ownership to manage those risks as required.

31.   Robust risk management procedures, informed and overseen by the audit committee, are an important role for the committee in achieving improved governance arrangements. The audit committee plays a vital role in raising awareness and communicating senior management commitment to improved corporate governance and effective, systematic risk management. Risk management should not be seen as the province of internal audit and oversight but should:

> Be actively and visibly supported by senior management;

> Be reinforced by an organisational culture which supports well thought-through risk taking and innovation;

> Be reflected in the communication of risk management policies to all staff;

> Be embedded in the organisation's management processes;

> Be linked to the achievement of objectives; and

> Include the assessment and management of risks associated with working with other organisations.

32.   Within their current work plan, Internal Audit are actively promoting the need to revise the terms of reference of the Audit Committee and is sponsoring the initiative to introduce a formal risk assessment methodology across the organisation. The introduction of corporate governance and risk management should not be seen as the sole province of the internal audit service. While Internal Audit has a role to play in providing assurance to the Executive Director on specific aspects of internal control, good practice indicates that the impetus for improvement in governance, internal control and risk management should come from senior management; and should be implemented through the line managers at headquarters and country office level who will ultimately be responsible for addressing the key risks identified. The Audit Committee thus offers a forum for review of the Internal Audit work plan and outputs; the major findings of internal investigations and management's response; management's response to external audit observations and recommendations; internal control systems; and risk management.

33.   I welcome the initiatives driven by the Executive Director to place a stronger focus on risk management, and would encourage strongly further developments in this area.

OVERSIGHT ARRANGEMENTS

34.   Good governance requires adequate provision for oversight outside the executive process, represented by internal and external audit arrangements. The role of the Office of Oversight Services (OEDO) changed during the biennium with the Evaluation Unit, responsible for oversight of operational best practice, being put under the responsibility of the Results Based Management Division. The remaining elements of OEDO – Investigations and Internal Audit – remained within the responsibility of the Inspector General. The complement of staff was two in the Office of the Inspector-General, four in Inspection and Investigations and 12 in Internal Audit. In October 2003 the Executive Board, by approving the 2004 budget, approved an increase in this staff complement.

35.   The approach adopted by Internal Audit is to focus on areas that they have assessed as the most vulnerable in terms of current developments in the organisation, or which directly support ongoing strategic initiatives. The table shows the areas in which Internal Audit has focussed its activity over the past three years.

INTERNAL AUDIT REPORT AREAS:		
2002	**2003**	**2004**
2000-01 Financial Statements	Programme Review Committee	Procurement follow up
Data migration to WINGS – legacy systems	WINGS	Computer and telecommunications
Data migration to WINGS – HR/payroll	2002-03 financial statements	Internal controls
Hiring of consultants	Post-delivery commodity losses	Ocean transport services
	Procurement of food and non-food items	Personnel management
	Air transport operations	Fund raising
		Travel entitlements
		HQ inventory management
10 Country office visits	14 Country office visits	24 Country office visits
Source: OEDA		

36.   My staff reviewed the action taken by WFP in response to agreed audit recommendations, from both internal and external audit. The results of this review indicated a marked time lag from the date of the recommendation to the agreed implementation by management. Statistics available under the current Internal Audit monitoring system indicate that of the recommendations made in the past year, 11 out of 22 (50 per cent) of the Fundamental recommendations; 152 out of 253 (60 per cent) of the Significant recommendations; and 394 out of 476 (83 per cent) of the recommendations that merit attention, remained outstanding. A total of 15 fundamental and 48 significant recommendations remain outstanding from reports issued over the four years to 2002.

37.   Similarly, review of the issues and recommendations raised by my predecessors, the Cour des Comptes, from their audits of the 1998-1999 (reference EB.3/2002/5-A/1/4) and 2000-2001 (reference EB3/2002/5-A/1/5) biennia indicated that there were respectively 16 and 15 recommendations remaining outstanding at the time of preparing this report; and that less than 30 per cent of the recommendations had been implemented fully.

38.   The reports currently prepared by Internal Audit for the Audit Committee highlight outstanding issues by each individual quarter but do not give an indication as to the age of the outstanding recommendations or the reason behind their delayed implementation. In the absence of formal reporting by the Audit Committee to the Executive Director and the Executive Board, there is no effective way in which failure to respond to audit recommendations can be addressed.
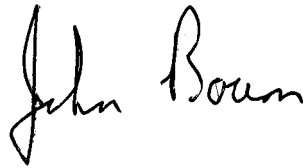
Recommendation 4. I recommend that WFP consider what steps might be taken to improve accountability and the effectiveness of line management's response to audit recommendations.

ACKNOWLEDGEMENT

39. I wish to record my appreciation for the co-operation and assistance provided by the Executive Director and the staff of the Programme during the audit.

Sir John Bourn
Comptroller and Auditor General, United Kingdom
External Auditor