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de Alimentos

**Executive Board
First Regular Session**

Rome, 8–11 February 2010

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For consideration



Distribution: GENERAL
WFP/EB.1/2010/6-E/1
12 January 2010
ORIGINAL: ENGLISH

REPORT OF THE EXTERNAL AUDITOR ON THE IPSAS DIVIDEND: STRENGTHENING FINANCIAL MANAGEMENT

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NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for consideration.

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

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National Audit Office

WORLD FOOD PROGRAMME

IPSAS Dividend: Strengthening financial management

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

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

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

This report contributes to WFP's preparation of IPSAS-compliant financial statements by summarising lessons learned from our review of the interim statements covering the nine-month period January - September 2008.

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IPSAS Dividend: Strengthening financial management

Summary and key findings

1. Financial management is critical to good decision-making, the implementation of International Public Sector Accounting Standards (IPSAS) and the development of enhanced systems such as WINGS II underpin the process of financial management improvement within WFP. These developments have provided greater transparency and have begun to enhance the financial culture within WFP. They have also enhanced the quality of information in key risk areas such as inventory control; recognition of income; a greater link between the recognition of expenditure and the point at which resources are consumed; and an understanding of employee benefit liabilities.
2. We believe the benefits arising from the IPSAS dividend can be used to further consolidate improvement in financial management and governance, and support the better use of resources. This report is intended to provide the Executive Board with our opinion on the benefits of IPSAS implementation, and to identify the areas where we believe that further improvement can be secured.
3. In our review we have examined the financial management information currently provided to the Executive Director and the senior management team, and how that information has been used in running the business of the WFP. We have considered how the disciplines arising from IPSAS adoption and the information now available from WINGS II can be used to further strengthen decision-making.
4. We confirmed WFP have established arrangements for financial monitoring at all levels of management. For senior management, the focus has been on budget setting and monitoring; funding the programme of work; and performance reporting. We found that the advent of IPSAS supported by WINGS II offers a single corporate source of reliable business information which has been designed to assist in managing the business.

5. As a result of our work we are recommending that:

- corporate level financial information should be provided on a more regular basis to the Executive Director and senior management team. This reporting should incorporate enhanced narrative analysis on key areas of financial management risks or interest to gain greater engagement and focus. This will support the senior management team in monitoring financial performance, assessing trends against the budget and to inform decision-making;
- metrics in key areas of financial management risk should be further developed to report and gauge financial performance, such as stock levels, income generation and investment performance;
- a clear link between the resources and strategic objectives should be developed, building on the work currently being undertaken on the Annual Performance Report. The linkage between resource and outcomes is a critical part of performance management and the overall process of accountability, and
- the Executive Director and Deputies should develop a common corporate view on financial performance as a senior management group to ensure that they enhance their oversight of activities and to support better corporate decision-making in line with WFP objectives.

Introduction

6. The World Food Programme has an immensely challenging remit and in recent years has faced new pressures arising from global economic uncertainties, increasing pressures on food supply; and rising demands resulting from conflict, environment and population changes. Together with the sheer scale of WFP's operations across the globe there is a need for increasing emphasis on informed decision-making. This is underpinned by the organisation's desire to focus and utilise resources where it identifies the greatest need. Financial management and reporting is essential to support this process of resource allocation.

7. WFP has been at the forefront of IPSAS implementation in the United Nations and the drive to more transparent reporting. As a result WFP has secured many benefits in respect of financial management that are not yet within the grasp of other organisations. This places the WFP at a more advanced stage of financial maturity, and as such gives rise to the identification of improvements which could help secure further benefits in financial management.

Background and scope

8. Following the Executive Board's approval for the implementation of IPSAS reporting standards, we reported in February 2009 ¹ on WFP's progress in implementing IPSAS and on the systems upgrades to support this, primarily WINGS II. Our certification of the 2008 financial statements and our associated reports provided further assurance to management ² that IPSAS had been successfully implemented.
9. In our programme of work for 2008–2009, presented to the Executive Board in October 2008 ³, we undertook to examine and report on the management dividend provided by the implementation of IPSAS and to report more generally on the use of financial and management information.
10. We have assessed financial management within WFP in the context of our experience in helping WFP to implement IPSAS and we have drawn upon our own model of financial management, developed from experience with other international and United Kingdom not-for-profit organisations. Our report provides the Executive Board with our assessment of the:
 - importance of financial management;
 - the framework of high-level financial management;
 - benefits arising from IPSAS implementation, and

¹ Ref: WFP/EB.1/2009/6-D/1

² Ref: WFP/EB.A/2009/6-A/1

³ Ref: WFP/EB.2/2008/5-C

- how WFP can secure further benefits from the IPSAS dividend by further strengthening financial management.
11. The scope of our reporting has not extended to providing a full analysis of the adequacy of financial management within WFP, or to provide a full articulation of the benefits which can be secured through the implementation of WINGS II, aspects of which are still being embedded within the organisation.

The importance of financial management

12. Good financial management and governance drive performance by supporting sound decision-making; aiding the efficient running of the organisation, helping to maximise the most effective use of resources. Establishing a sound basis for financial reporting also reinforces stewardship and accountability over funds and other resources. The way in which the WFP collects, analyses and utilises financial information directly impacts on performance and the delivery of the strategic objectives.
13. The appropriate use of financial management information is therefore critical to delivering value for money from donated funds. This includes the regular use of financial data by senior managers, and the review of overall results by the Executive Board to hold the organisation to account. Previous reporting has highlighted the importance of accurate, consistent and timely financial information to support key decision-making. To enable the Executive Director to fulfil her responsibilities effectively, financial management information must be fit for purpose in terms of its scope, quality and presentation; and should be clearly linked to performance against objectives. In this respect the framework of reporting should be such that at Executive Director and Board level, the focus should be on high-level and corporate issues, with more detailed reporting being delegated to other appropriate levels of management.
14. Based on research within our client base of international and United Nations bodies, United Kingdom Government Departments and not-for-profit organisations, and from research on good practice elsewhere, we have developed a model ⁴ which we believe captures the

⁴ The details of the NAO's model of financial management reporting to Boards, is available from our website: http://www.nao.org.uk/areas_of_specialist_expertise/financial_management/support_for_boards.aspx

essence of good financial management practice at senior management level. It does this by addressing the extent to which financial information matches the requirements of senior management in scope; whether it is used effectively and with appropriate analysis; whether it is of sufficient quality and reliability; whether it is easily understandable and related to the operational context; and whether it is demonstrably engaged with as part of the decision-making process. We believe that these concepts are broadly consistent with the managerial framework and values adopted by the WFP.

15. We have used these concepts to support our evaluation of the processes currently being used by WFP. Our research included interviews with senior finance staff, Deputy Executive Directors and other Secretariat staff, and we also drew on our existing knowledge and experience of WFP.

The framework of financial management within WFP

16. The Executive Director is responsible for the application of the organisation's resources; supported by a Deputy Executive Director responsible for Resource Management and Accountability, who is supported by a Finance team. These functions are further supported through other staff in Headquarters and field offices with appropriate financial qualifications and experience of the operations of the WFP.
17. The Deputy Executive Directors play a dual role in financial management. They are responsible for corporate management of the WFP; and separately exercise responsibilities over their own departments. Our analysis of the WFP budget showed that responsibility for the majority of the expenditure lies primarily with the operational units which report to the Chief Operations Officer. Other Deputy Executive Directors have smaller direct budgets to control. However, as new policies and decisions arise and are implemented, there may be financial impacts across many aspects of the business, with expenditure involving different operational units. The financial impact of all new policies and decisions needs to be assessed at the corporate level before approval is given.
18. Over the years the WFP has developed reporting arrangements, drawing on financial information from the WINGS II system and other information sources such as COMPAS (commodities tracking); and performance delivery assessments. This information is used to support a variety of

reports to assist senior management in obtaining strategic oversight of performance, and to inform decisions.

19. Important sources of financial and performance information are provided to senior management on a regular basis and include:

- The biennial management plan and updates, including income projections, changes in underlying costing assumptions, and progress on delivery;
- Investment Committee reports on the status and performance of WFP's cash and investment management. This will be developed further through the introduction of performance measures and external experts in 2010;
- "Dashboard" reports identifying key financial information including the number of open purchase orders and the number (but not value) of receivables;
- The WFP Annual Performance Report, which we understand is being strengthened to provide more linkage to strategic objectives and resource consumption, and
- Ad hoc meetings which frequently address WFP's income position and new funding requirements.

20. Financial monitoring reports are currently compiled for the Executive Director on a quarterly basis. This document summarises and comments on the income and expenditure position, and the financial position at the end of the period. These reports are distributed to the Deputy Executive Directors and other senior staff. Additional financial information and analysis is provided in response to any queries. An annual financial statement is externally audited to provide assurance over the accuracy of financial records.

21. We sought the views of the Deputy Executive Directors, as key corporate users of financial information, and they confirmed that they were content with the information currently reported. The Chief Operations Officer, who has familiarity with the detail of financial information provided by WFP systems identified improvements from WINGS I, in areas such as the valuation of food commodities in stock. He was confident that the

implementation of IPSAS and WINGS II represented a significant improvement in the quality of financial and other information available to run the business. The Deputy Executive Directors trusted the information and analysis provided, and felt able to seek clarification from the Finance team as the need arose.

22. There have been specific good examples of how WFP has used financial monitoring to manage its business, especially during 2008 when the organisation faced particular pressures from rising food and fuel prices. Finance monitored the situation and their response included the preparation of revised budgets. The budget projections indicated that the cost of delivering the programme of work agreed in December 2007 had risen from a budgeted US\$2.9 billion to US\$4.3 billion by the end of March 2008. This represented an increase of almost 50 percent in three months. Table 1 shows the chronology of this increase.

Table 1: Timeline for budget amendments January to March 2008

Date	Budget Amendment	Financial Impact
December 2007	Budgeted cost of WFP's original programme of work	US\$2.9 billion
February 2008	Budget expansion because of High Food Prices	+ US\$0.5 billion
March 2008	Further budget expansion because of High Food Prices and new operations approved since 1 January 2008	+ US\$0.9 billion
End-March 2008	Revised programme total	US\$4.3 billion

Source: External Audit Analysis of WFP Records

23. The Executive Director, Deputies and other senior staff considered the financial information, the level of response appropriate to the situation, and what tools WFP could use to stem food insecurity. Based on their analysis, action taken included the preparation of a revised budget for Executive Board approval and the Executive Director led a major initiative to seek additional resources from donors.
24. In this case the financial management processes used by senior management were successful in meeting a strategic financial and operational challenge. WFP is facing a period of rapid world change and increasing food insecurity which increases the importance of regularly reviewing the adequacy of financial management processes. There is no guarantee that the processes that have served the WFP well in the past will

continue to be effective in the future. Financial management needs to adapt to changes in business needs, priorities and the general operating environment. The implementation of IPSAS provides the means and opportunity to enhance the Programme's business management.

The benefits arising from IPSAS implementation

25. The implementation of IPSAS within WFP has provided a consistent framework for financial reporting, providing greater transparency and accountability. Our review identified that WFP is using the opportunities presented by IPSAS and the associated improvements in business systems. Without the impetus and culture provided by IPSAS, wider improvements to financial processes might not be achieved.
26. The benefits of the new framework go well beyond the presentation of more accurate financial statements. The disciplines provided by implementation of IPSAS have enhanced WFP's opportunity to engage management and other stakeholders in key financial issues. The application of a framework to record the assets and liabilities of the organisation has enabled WFP to acquire more accurate and reliable financial data on which to make decisions. Our work has identified a number of key areas where the organisation has profited from the IPSAS dividend, and which will provide further opportunity to secure benefits as the organisation continues development of financial management.

Stewardship of physical inventory resources

27. At 31 December 2008 the WFP identified that it held inventory items in excess of US\$1 billion, which had never been previously valued or brought to account. The new systems established to support IPSAS accounting have driven significant improvements in the accountability of stock assets, providing more accurate information on the location and extent of the Programme's resources. This will enable management to deploy existing resources to better effect, and raise awareness of the extent of physical inventory items. This provides management with better information to discharge stewardship.
28. The benefits arising from improved stock information can be further maximised by using this information to identify performance metrics on stock utilisation, holdings and analysis of stock by location. This will

further improve WFP's capacity to better ensure that food stocks and levels are matched to need. The valuation of food stock has also provided important information to enable management to better understand the cost of interventions and to assess the adequacy of programme budgets.

Income generation

29. The voluntary funding which forms the basis of WFP's resourcing creates an environment where accurate income measurement is essential. For the year to 31 December 2008 the WFP reported income of US\$5.1 billion. IPSAS has provided a framework for more accurate identification of cash and in-kind contributions. Together with the introduction of WINGS II, management now has much greater capacity to monitor and report on pledges, cash receipts and in-kind contributions on a more timely and accurate basis.
30. These developments have provided the opportunity for enhanced information on the pace at which programme needs are being met by pledges, and the speed at which they are converted from receivables to cash or commodities in-kind. This information provides a basis for management to better reflect the success in obtaining funds over a reporting period. There is scope to report more of this information in management reporting now that information can be provided in a more timely and consistent manner and in a way which can provide more meaningful and disaggregated data.

Expenses

31. The IPSAS framework and the implementation of WINGS II has significantly enhanced the capacity to obtain accurate information on the level of resource consumption for a given period. It has also helped to reinforce a culture whereby management decisions and the timing of the receipt of goods and services are understood to have an impact on the period in which they are charged, resulting in more rigour and accountability. There is scope to reinforce this discipline by more regular reporting of resource consumption and to obtain engagement from managers in understanding the profile of their spending against the forecast for the year. Such comparisons are facilitated by ensuring that budgets are profiled by month and that financial reporting and budgeting are aligned on a consistent basis. WINGS II could facilitate this analysis in

future, while we understand the implementation of aligned budgets is a management aspiration, we feel it is an important component in securing a robust financial framework.

32. The enhanced transparency of IPSAS accounting provides stakeholders and donors with a better understanding of the reasons for the final operating results of WFP, and provides better analysis to underpin the surpluses and deficits in a given period. This enhances accountability and provides the opportunity to better measure the performance of the organisation. The June 2009 Executive Board demonstrated a much greater level of engagement in key financial issues, which is an important development in the maturity of governance arrangements.

Cash and investment assets

33. While the value of cash and investments held by WFP is often driven by the timing of receipts and payments, the amounts involved represent a very substantial asset to be managed by WFP. At 31 December 2008 cash and investment assets totalled US\$1.6 billion. IPSAS provides enhanced transparency of the composition of WFP's cash and investment portfolios as well as interest and investment income. This includes for example the temporary loss of value on investments at 31 December 2008 due to unrealised losses at the height of the global financial crisis. Furthermore enhanced disclosures in the Executive Director's Statement allow stakeholders improved insight in WFP's financial risk management.
34. The enhanced transparency created by IPSAS has enabled management to focus on the key issues impacting on investment performance, and encouraged the review of market prices on a more regular basis, thereby creating a more accurate assessment of asset values. This approach provides greater assurance in a climate of investment and currency volatility. We understand that together with the investment committee, management will further develop key metrics which can be monitored on a regular basis to assess investment performance and to inform decisions.

Employee liabilities and employment levels

35. There were in excess of US\$240 million of employee benefits identified as a result of actuarial valuations at 31 December 2008. Until IPSAS, management had not obtained an accurate and consistent analysis of

liabilities incurred by the organisation and payable in future financial periods. This has provided critical information to identify the scale of these commitments and their potential impact on the organisation's overall resources. As a consequence management and Member States have begun to focus on these risks; to improve understanding on how they may be better managed; and mitigate their impact in the future. Similarly, improved systems and IPSAS disclosure requirements have created an environment which has encouraged management to more accurately identify the total number of staff working on the Programme. This is especially true with regard to the level of employment of local staff across operations, which had not previously been accurately captured and reported.

The IPSAS dividend

36. The benefits of IPSAS and WINGS II have enabled WFP to access more accurate financial information to facilitate improved management of the business. These are real and tangible benefits arising from the IPSAS dividend. We recognise that WFP is still determining how to better use this enhanced information within its Financial Framework Review, by securing an improved reporting and governance framework for financial management.
37. To secure the IPSAS dividend it is essential that the benefits of enhanced reporting are not limited to year-end processes, but that information is used on a more regular basis, and by a wider group of managers. The value of these processes will be secured through analysing the more robust information and using it to identify appropriate management responses to the risks which are identified. If the opportunities of IPSAS are fully embraced then WFP will further enhance the efficiency of its resource utilisation, improve confidence amongst donors and maximise the achievement of its objectives. The advent of IPSAS and WINGS II provide management with the tools to use management information to realise these benefits.

Securing the IPSAS dividend - strengthening financial management processes

38. To build upon the implementation of IPSAS, the management of WFP needs to ensure that the full benefits of the improved functionality in the

WINGS II system are utilised. WINGS II became operational in July 2009, and, while some aspects of the system are being introduced progressively, many new features are now available, which will improve financial management and reporting. These benefits include:

- integrated information on the mobilisation of resources, including pledges and actual contributions;
- simplified project management tools in areas such as donation forecasting and the matching of beneficiaries to the corresponding quantities of commodities used to assist them;
- improvements in supply chain management to facilitate improved procurement management, the tracking of commodities by value, and improvements in the management of stocks, and
- strengthening of the budget framework.

In addition, because WINGS II has reduced reliance on other business systems not fully integrated with the accounting modules, it provides a central source of authoritative and consistent business information.

39. WFP are enhancing the framework of financial governance to consolidate the benefits of IPSAS. Actions taken include the appointment of a Deputy Executive Director charged with oversight of resource management and accountability; the commissioning of a financial management review to identify areas where improvements can be made; and developments in performance reporting through the Annual Performance Report. The intention is to bring forward detailed proposals for approval by the Executive Board.
40. We discussed with senior management how financial and non-financial information generated by WINGS II might be utilised to strengthen financial management. We focused our discussions on the criteria of the NAO model of financial management, and our observations are structured on this basis.

Frequency and timeliness of financial reporting needs to be enhanced

41. The present expenditure budget for 2009 is some US\$5 billion, equivalent to US\$1.25 billion per quarter. The Executive Director and

Deputies currently receive information on a quarterly basis. During 2009 the first report covering the period January to March was available at the end of June. The report on the second quarter was available in mid-August. We understand from the Director of Financial Reporting that WFP aims to produce quarterly accounts two weeks after the conclusion of the end of the quarter.

42. In the context of WFP's operating environment, the difficult economic environment and volatility in food prices create an environment where more frequent reporting will help to manage risk. The availability of more frequent and timely information at the level of senior management will aid them in making more informed decisions on the use and allocation of resources, enhance accountability and encourage the engagement of managers in financial issues throughout the year.

Information should meet the requirements of different users

43. Financial reporting should meet the needs and requirements of users, and communicate financial issues in an understandable way. Our review of the quarterly information identified that it comprised a significant level of detail, and that the supporting information and analysis did not fully provide for a focus to identify key themes, performance against budget or areas which might require further attention by senior managers. This reduces the benefit that the information provides in supporting decision-making. The Deputy Executive Director for Resource Management and Accountability told us that there was a wide recognition that focused issue analysis would add value to the decision-making process. As the WFP looks at improving its financial frameworks, a focus on the analysis of financial results, variations and risks flowing from the financial data will help to encourage engagement and provide focus for senior management attention.

Financial information should be integrated with key performance data

44. The benefit of improved financial reporting is enhanced when it is linked to achievements and outcomes. This provides donors with greater clarity on how their resources are being deployed and provides accountability by matching resources to the approved objectives of the organisation. In the case of the WFP there is currently an annual assessment of the consumption of resources against strategic objectives and the themes

identified in the Corporate Plan, in the Annual Performance Report. The complex nature of activities and the cross-cutting nature of many of the objectives have made it difficult for management to achieve this linkage, and there is currently limited information on the assessment of the costs incurred against outputs and outcomes throughout the year. We have previously commented on the need to strengthen performance monitoring in our reports on results-based management.

45. In our view there are three systemic factors which now need to be addressed if WFP is to be able to match expenditure to outputs and outcomes on a regular basis for improved management:

- The procedures for assessing outputs and outcomes will need to be more fully developed and work will need to be undertaken to enhance the link to resource consumption;
- Although IPSAS does not require alignment of budgets to financial reporting, accruals budgets would enable better comparison of performance against the year-end position on an ongoing basis throughout the year; and
- The structure of programmes does not directly link to strategic objectives: this necessitates a process of estimating the allocation of resources to objectives which involves significant judgement and uncertainty.

46. WFP management are aware of these issues and the complexities which underpin them. We understand that work is being undertaken to improve the Annual Performance Report and to improve the linkage between outcomes and resource consumption. However, management are yet to determine how financial resources will link to performance results and are currently working on the development of performance measures.

47. Some other organisations have developed the concept of expected results, and have focused cost allocation to these as a means of demonstrating how resources are linked to deliveries. We would encourage WFP to explore the potential to link resource utilisation to either outputs, or ideally, strategic objectives. Linking financial and performance data more closely back to deliverables or a strategic

objective enhances accountability and provides a more accurate measure of performance.

A more holistic and corporate consideration of financial performance would enhance financial management and decision-making

48. At present, the senior management team at WFP bring a wide range of skills to the business, including financial and operational experience. In order to maximise the benefits of this corporate knowledge, good financial practice assumes that senior management will deliberate on financial performance as part of the overall consideration of the delivery of corporate objectives. In this way financial information becomes an integrated part of business management.
49. At present, the senior management team of Executive Director and Deputies, supported by other senior staff, does not meet on a regular basis to review financial performance. In addition, the current detailed quarterly financial information is not supported by sufficient analysis to enable a clear view to emerge. The risk is that members of the senior management team will act upon their own interpretation of the financial information in commissioning remedial action rather than forming a considered view within the context of the wider corporate pressures of the organisation as a whole.
50. To ensure a consistent corporate view of financial performance we believe that the senior management team should meet more regularly to review financial performance. The fast changing environment in which WFP operates necessitates a need for corporate financial information to be prepared and discussed on a more frequent basis by the senior management team. The information should be focused and summarised at a high level, including linkages to quantitative and not merely financial analysis, drawing attention to any areas of concern.

Acknowledgements

51. We wish to record our appreciation for the cooperation and assistance provided by the Executive Director and the staff of the WFP in Headquarters.

Recommendations:

The implementation of IPSAS supported by WINGS II provides the opportunity for the WFP to further improve business management processes and the following actions will assist in realising those benefits:

- Finance should establish a framework to provide more regular financial management reports focused at the corporate level on a monthly basis;*
- Reporting to senior management should provide focus, through the use of appropriate metrics and qualitative analysis on trends or risks, to ensure that the combined strength of the senior management is focused on identifying risks to the achievement of objectives;*
- The enhanced information now collated by WFP to support IPSAS disclosures should be used as a basis for identifying and reporting key financial performance metrics during the course of the year, for example - stock levels and wastage, income-generation and investment performance;*
- There is an acknowledged need to provide clearer links between resources expended and the strategic objectives - given the difficulty in these objectives being cross cutting, management may wish to consider alternative performance reporting, for example identifying expected results which can be linked to one or more strategic objectives and reporting against these as a measure of performance, and*
- The senior management team should meet on a monthly basis to provide a collective and corporate overview of financial performance using qualitative analysis as well as financial information drawn from WINGS II.*

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