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**Executive Board  
Annual Session**

**Rome, 9–12 June 2008**

# **RESOURCE, FINANCIAL AND BUDGETARY MATTERS**

**Agenda item 6**

*For approval*



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## **AUDITED BIENNIAL ACCOUNTS (2006–2007): SECTION IV**

**Response of the Secretariat to the Report by the  
External Auditor on the Audit of the Financial  
Statements of the World Food Programme for  
the Biennium 2006–2007**

## NOTE TO THE EXECUTIVE BOARD

**This document is submitted to the Executive Board for approval.**

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

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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms C. Panlilio, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).

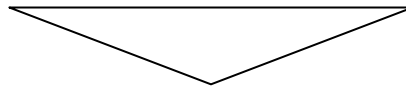
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This report – “Response of the Secretariat to the Report by the External Auditor on the Audit of the Financial Statements of the World Food Programme for the Biennium 2006–2007 (Section IV)” (WFP/EB.A/2008/6-A/1/4) – is the last of a set of four documents submitted to the Board in accordance with General Regulation XIV.6 (b) and Financial Regulation 13.1, which provide for the submission to the Board of the audited biennial financial statements of WFP. It sets out the Secretariat’s responses to the recommendations made by the External Auditor arising from the audit of the 2006–2007 biennial financial statements and the courses of action the Secretariat will undertake to implement these recommendations.

## DRAFT DECISION\*



The Board takes note of the audit recommendations made by the External Auditor and the responses made by the Secretariat as set out in the document “Response of the Secretariat to the Report by the External Auditor on the Audit of the Financial Statements of the World Food Programme for the Biennium 2006–2007 (Section IV)” (WFP/EB.A/2008/6-A/1/4), and encourages the Secretariat to implement these audit recommendations without delay.

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\* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document (WFP/EB.A/2008/16) issued at the end of the session.



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## OVERALL RESULTS OF THE AUDIT

1. The Secretariat notes that the External Auditor has rendered an unqualified audit opinion on WFP's Financial Statements for 2006–2007.
2. This report is based on an analysis of the issues that gave rise to the audit recommendations made by the External Auditor. It comments on the issues raised and informs the Board of the actions to be taken by the Secretariat to implement the audit recommendations, which are outlined in "Report by the External Auditor on the Audit of the Financial Statements of the World Food Programme, 2006–2007 (Section III)" (WFP/EB.A/2008/6-A/1/3).
3. A report on the implementation of the External Auditor's recommendations will be submitted to the Board at its 2009 Annual Session.
4. The Secretariat welcomes the observations and recommendations made by the External Auditor because they assist the Secretariat in efforts to further improve the financial management and governance of WFP's resources.

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## GOVERNANCE ISSUES

### Risk Management

#### *Issue*

5. The External Auditor noted that the systematic risk management arrangements developed by the Secretariat during 2006–2007 should be embedded as part of management's operational business processes.

#### Recommendation 1

6. *We encourage the Secretariat to continue to pursue the interrelated management of risk, performance assessment and operational requirements in accordance with the United Nations' governance reform agenda.*

#### Secretariat's response

7. The Secretariat agrees with the recommendation and will continue to pursue interrelated management through an increasingly formalized enterprise risk management (ERM) mechanism. WFP's *Corporate Risk Management Policy* outlines the objective of risk management. Guidelines have been disseminated and training has been conducted across WFP to activate the process of applying risk management systematically and proactively. The *Corporate Risk Profile* is being compiled with input from all levels in WFP to capture the macro-level risks that WFP faces and the actions to be taken to minimize risks.
8. An Executive Director's circular outlining managerial responsibility for risk management at all levels will be issued during the second quarter of 2008. It will also establish an internal committee for monitoring risk management and performance management.

Proposed implementation timeframe: Immediate



### *Issue*

9. The External Auditor reports on the need for WFP to establish succession planning for the loss of experienced staff.

### Recommendation 2

10. *We recommend that the Secretariat take steps to ensure adequate succession planning to address the impact expected to arise from foreseen loss of experienced Secretariat staff; and that coverage for key posts is available wherever possible to mitigate unforeseen departures or transfers between United Nations organizations.*

### Secretariat's response

11. The Secretariat agrees with the recommendation.
12. The Secretariat has adopted an approach for succession planning that has allowed it to identify internal staff with the potential to assume higher responsibilities even at the senior level. In 2004 and 2006, the Secretariat undertook a confidential assessment of the performance and potential of middle managers; assessment results were used to identify candidates for senior positions and focus on their development opportunities. A similar assessment was undertaken for D1- and D2-level managers with the objective of identifying staff for succession into top-level positions. The results were also used to provide the Executive Director with an overview of her top management team.
13. The Secretariat will continue to have unforeseen departures of staff and will institute a robust succession planning process for filling vacant positions, especially those at the senior level. However, selection procedures for certain posts require the involvement of the United Nations Secretary-General and the Director-General of the Food and Agriculture Organization of the United Nations (FAO), which makes succession planning at that level far more complex. In the event of a gap between the departure of a senior staff member and the appointment of his or her replacement, the Secretariat will ensure that the responsibilities of the post are covered adequately.

Proposed implementation timeframe: Immediate

### *Issue*

14. The External Auditor reports a frequent time lag between the Board's consideration of external audit reports and subsequent reporting of the Secretariat's response to audit recommendations.

### Recommendation 3

15. *We recommend that the Executive Board consider whether it would be appropriate to solicit the Secretariat's position and initial response to audit recommendations at the same time that external audit reports are examined by the Board, so as to achieve a more useful dialogue and improve accountability.*

### Secretariat's response

16. The Secretariat has made significant progress in ensuring that timely responses are provided to audit recommendations made by the External Auditor in reports presented to the Board for consideration and has tried to provide a response at the same Board session.



However, the Secretariat acknowledges that the timing of the reports sometimes leads to a delay in providing its response.

17. The Secretariat will agree with the External Auditor on timelines whereby external audit reports for submission to the Board are received by the Secretariat in time to allow it to prepare its responses and present them to the Board at the same session.

Proposed implementation timeframe: Immediate

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## THEMATIC FINDINGS FROM FIELD COVERAGE

### Monthly Reporting

#### *Issue*

18. The External Audit report discusses the monthly oversight reports which were developed by the Secretariat.

#### Recommendation 4

19. *We encourage the Secretariat to further develop results-based performance targets based on key financial indicators recorded in monthly financial reporting and the Dashboard, against which Headquarters and regional management performance can be assessed.*

#### Secretariat's response

20. The Secretariat agrees with the recommendation made by the External Auditor.
21. The monthly oversight reports developed by the Secretariat provide adequate information to measure performance in terms of the timeliness and accuracy of financial transactions recorded in WFP records. These reports were developed to include accounts considered critical to ensuring the integrity of transactions recorded in field offices. Nevertheless, the Secretariat will continue to enhance such oversight tools for use in performance measurement at Headquarters and in the field.

Proposed implementation timeframe: September 2008

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## FINANCIAL MANAGEMENT

#### *Issue*

22. The External Auditor noted the oversight actions taken by the regional bureaux, but reported that the recovery of costs from host governments and vendors is neither timely nor efficient. The External Auditor also observed the need for a more structured and effective procurement planning.

#### Recommendation 5

23. *We recommend that the Secretariat maintain efforts to recover costs promptly from cooperating partners.*



#### Secretariat's response

24. Actions already taken by the Secretariat on timely recovery of advances will be extended, including to recovery from cooperating partners, in order to ensure greater timeliness and accuracy of recorded transactions. Adoption of IPSAS became effective in January 2008; timely recovery of advances is of utmost importance for complying with IPSAS.

Proposed implementation timeframe: Immediate

#### Recommendation 6

25. *We recommend that the Secretariat introduce an appropriate level of structured regional procurement planning wherever it would be cost effective.*

#### Secretariat's response

26. The Secretariat agrees with the recommendation and will ensure that adequate planning in all aspects of procurement is strictly adhered to.
27. The Secretariat expects that improved procurement planning will result in more cost-efficient procurement. In the past, some procurement actions resulted in WFP paying higher prices because of late availability of funding, but it has addressed the issue with the introduction of the Working Capital Fund and other financing mechanisms. Other initiatives such as the New Business Model and the Supply Chain Optimization project, which were introduced in 2007, would meet project requirements in a more timely and cost-efficient manner.

Proposed implementation timeframe: Immediate

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## FINANCIAL REPORTING AND INTERNAL CONTROL

### The Financial Position and Management Control over Preparation of the Financial Statements

#### *Issue*

28. The External Auditor reported on the financial results for the biennium and the financial position. He commented on the efforts of the Secretariat to improve the quality of reported transactions, but pointed out the inaccuracies and adjustments noted during the closure period.

#### Recommendation 7

29. *We reiterate the recommendation made after our review of the 2006 financial statements that the Secretariat could consider a shorter cut-off period for the recording of income and expenditure after the end of each year, prior to closure of the accounting records and preparation of the financial statements.*

### Secretariat's response

30. The Secretariat appreciates the External Auditor's acknowledgement of its work on improving management oversight in the preparation of the 2006–2007 financial statements and on ensuring the allocation of income and expenditures to the appropriate accounting period.
31. The Secretariat accepts the External Auditor's recommendation to adopt a shorter cut-off period for the recording of income and expenditure after the end of each year. The Secretariat's agreement with the recommendation reflects experience in 2006–2007, which showed improved readiness and capability among field offices to ensure that financial transactions are recorded completely, accurately and promptly.

Proposed implementation timeframe: 2008 financial closure

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## PROGRESS TOWARDS THE INTRODUCTION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

### Presentational Changes for 2007

#### *Issue*

32. The External Auditor reported on presentational improvements introduced in 2006–2007, and noted that compliance with IPSAS from 2008 offered a further opportunity to improve the clarity of Notes and accounting policies.

#### Recommendation 8

33. *We encourage the Secretariat to maintain its progress towards achieving financial statements in compliance with International Public-Sector Accounting Standards (IPSAS), which has already supported improved consideration of unfunded staff liabilities and trends in increased staffing costs, and has improved the matching of expenditure to service delivery and associated funding.*

### Secretariat's response

34. The Secretariat appreciates the External Auditor's comment and encouragement with regard to IPSAS compliance. The improvements introduced by the Secretariat since 2006 as part of the transition to IPSAS will help to ensure successful adoption of IPSAS in 2008 and beyond. Preparation of the 2006–2007 accounts indicated that a major risk for successful IPSAS adoption — recognition of expenditure on the basis of goods and services delivered — has been fully understood and implemented by WFP offices.
35. Several accounting policy improvements were made during 2006 with a view to IPSAS adoption in 2008: (i) expenditure recognition based on the delivery principle; (ii) full recognition of staff liabilities; and (iii) annual preparation of financial statements. The Secretariat will continue to transfer knowledge, build capacity and enhance internal controls to ensure full compliance with the new expense recognition policy. The "Update on the WFP Management Plan (2008–2009)" presented to the 2008 Annual Session of the Board discusses options for dealing with unfunded staff liabilities.

Proposed implementation timeframe: IPSAS-compliant financial statements for 2008





## FRAUD, EX-GRATIA PAYMENTS, AMOUNTS WRITTEN OFF AND CONTINGENT LIABILITIES

### *Issue*

36. The External Auditor reported on the information provided in respect of fraud, ex-gratia payments, amounts written off and contingent liabilities, and on a dispute regarding the use of commodities.

### Recommendation 9

37. *We encourage the Secretariat to ensure the timely clearance of long outstanding receivables to reduce the risk of subsequent write-off being necessary where inadequate documentation remains to fully analyse and recover the funding.*

### Secretariat's response

38. Since 2006, the Secretariat has made significant progress in clearing long outstanding receivables; this will continue to ensure that financial transactions are recorded in compliance with IPSAS. The introduction of management oversight tools for monitoring accounts has helped WFP offices to achieve this objective.
39. The Secretariat will intensify the clearing of these receivables to ensure recovery; write-off will be used only as the last resort.

Proposed implementation timeframe: Immediate

### Recommendation 10

40. *We recommend that commodity losses be fully recorded in the annual post-delivery loss report to the Executive Board. Any action taken subsequently which results in the recovery of particular losses would be reported in later post-delivery loss reports.*

### Secretariat's Response

41. The Secretariat continues to investigate the legal aspect of the seizure of commodities by a government, with a view to making recommendations to the Board as to the resolution of this issue.

Proposed implementation timeframe: Resolution expected by December 2008



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## FOLLOW-UP TO THE EXTERNAL AUDITOR'S REPORT FOR 2004–2005

42. The External Auditor concluded that the Secretariat had made significant progress in implementing the audit recommendations for 2004–2005 relating to the audit of the 2004–2005 financial statements<sup>1</sup> and the management reports on the upgrade to WFP Information Network and Global System (WINGS),<sup>2</sup> the Dubai support office,<sup>3</sup> IPSAS,<sup>4</sup> reporting of post-delivery losses<sup>5</sup> and results-based management.<sup>6</sup>

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## ACKNOWLEDGEMENT

43. The Secretariat wishes to acknowledge the important role of External Auditor and appreciates the constructive and forward-looking recommendations contained in his report.

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<sup>1</sup> WFP/EB.1/2005/5-D

<sup>2</sup> WFP/EB.A/2005/6-B/Rev.1

<sup>3</sup> WFP/EB.2/2005/5-G/1

<sup>4</sup> WFP/EB.2/2005/5-C/1

<sup>5</sup> WFP/EB.1/2006/6-B/1

<sup>6</sup> WFP/EB.A/2006/6-D/1



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## ACRONYMS USED IN THE DOCUMENT

ERM	enterprise risk management
FAO	Food and Agriculture Organization of the United Nations
IPSAS	International Public-Sector Accounting Standards
WINGS	WFP Information Network and Global System