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**Executive Board
First Regular Session**

Rome, 20–23 February 2006

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For consideration



Distribution: GENERAL
WFP/EB.1/2006/6-C/1
23 January 2006
ORIGINAL: ENGLISH

FOLLOW-UP ON THE RECOMMENDATIONS OF THE EXTERNAL AUDITOR



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

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

Audit Report	Total recommendations	Completed as at 31 December 2005
Review of Financial Reporting Standards	1	1
Upgrade of the WFP Information Network and Global System	9	3
Review of the Dubai Support Office and Fast Information Technology and Telecommunications Emergency and Support Team (FITTEST)	8	-
Total	18 (100%)	4 (22%)

2. Recommendations reported as completed are subject to review by the External Auditor during the course of the audit.



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

OPERATIONS

External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005
Review of Financial Reporting Standards (WFP/EB.1/2005/5-E)		
<p>Recommendation. Compliance with International Accounting Standards or International Public Sector Accounting Standards will ensure a quality and utility of financial reporting that in our view presents advantages over the United Nations Accounting Standards. We recommend that the secretariat and the Executive Board give consideration to the adoption of independent international accounting standards by the World Food Programme.</p>	<p>The Secretariat agrees with the recommendation and, on the basis of the Board's decision, will prepare a report to the Board on issues related to a move to international accounting standards, including action taken in the United Nations system.</p>	<p>A report was submitted to the Board, which endorsed the proposed move to international accounting standards at the Second Regular Session in November 2005.</p> <p>This recommendation is deemed complete.</p>
Upgrade of the WFP Information Network and Global System (WFP/EB.A/2005/6-B/1/Rev.1)		
Assessment of risk and communicating management aims and direction		
<p>Recommendation 1. In view of the potential impact of the upgrade approach endorsed by management, we recommend that WFP ensures that the Phase 1 strategy supports a methodology for the implementation which encompasses: a robust risk assessment of the upgrade which takes into account the impact of other concurrent business initiatives; quantified estimates of the cost, benefits and an assessment of the associated risks of initiatives such as outsourcing of payroll or accounts payable; and Information technology initiatives in accordance with the Management Priorities endorsed by the Executive Board in May 2004.</p>	<p>Recommendation was addressed by Phase 1 (Strategy), which considered the impact of other initiatives and included a feasibility study for payroll options, including outsourcing.</p>	<p>Phase 1 has been completed. The methodology included assessment of the impact of other current and planned initiatives and associated risks. The Human Resources (HR)/payroll feasibility study has also been completed.</p> <p>This recommendation is deemed complete.</p>
<p>Recommendation 2. We recommend that WFP determine the proposed duration of SAP support for the software version 4.7, to allow an informed risk and cost comparison of the alternatives of upgrading to SAP version 4.7 or 5 at this time.</p>	<p>Phase 1 included evaluation of target SAP software versions and recommended version 5.0 as the target version, which is the latest mature version and the SAP solution for non-profit organizations.</p>	<p>The target version of SAP 5.0 has been selected. The project plans to re-assess the target version at the end of the analysis phase to determine whether the project should upgrade to standard SAP 6.0 or PY-NPO on SAP 6.0.</p>



External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005
<i>Simplification of WINGS</i>		
<p>Recommendation 3. We recommend that senior management direct the prioritisation procedure to ensure that the objective of improvement of business performance results either from process changes to external to the WINGS system or a robust justification of the need for modifications which adapt standard SAP functionality.</p>	<p>The recommendation is supported; it is in line with senior management direction of the WINGS II project. Detailed project-governance processes need to be put in place to ensure that this principle is enforced.</p>	<p>The Phase 1 strategy recommended a process-based approach, starting with an analysis phase. Process owners have been appointed for each WFP process.</p> <p>Governance procedures and criteria for justifying modifications by March 2006 will be defined, and priorities for business improvements at end of analysis phase will be determined.</p>
<i>Selection of Partner in Upgrade</i>		
<p>Recommendation 4. Though this may initially be a more comprehensive task, we recommend that WFP consider the competitive tender of the full implementation for future major changes to information systems.</p>	<p>WFP did consider the recommended tendering option, but after review decided to tender for the strategy phase separately from the implementation phase.</p>	<p>Accenture was selected for the strategy phase, which has been completed. Requests for Proposal were issued for the implementation phases; four companies were selected to submit proposals for long-term agreements.</p> <p>The recommendation will be considered for future major changes and is therefore deemed complete for purposes of this progress report.</p>
<i>Managing the IT Investment</i>		
<p>Recommendation 5. We recommend that WFP consider the establishment of a full baseline cost estimate of the existing system maintenance, and, for informed management assessment of the resources required for the upgrade, that the Secretariat ensure that Phase 1 establishes a robust cost estimate of the full costs of the project.</p>	<p>This recommendation was addressed in Phase 1 (Strategy), which included estimation of current costs and the resources and costs required for the full project.</p>	<p>Baseline costs for system maintenance and the budgetary resource and cost estimates for the full project have been defined.</p> <p>This recommendation is deemed complete.</p>





External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005
Managing Human Resources		
<p>Recommendation 6. We recommend that the Secretariat consider the introduction of a simple time recording mechanism for staff working on the project to assist cost calculation and the establishment of comprehensive knowledge transfer protocols to maintain the effective post implementation support of WINGS.</p>	<p>The strategy phase report also recommended introduction of project time recording, which has been introduced.</p> <p>Part of the approach to knowledge transfer is to include WFP staff in the implementation phases: business staff have been identified to lead process teams, with responsibility for rollout of process and solution changes to users. It is planned to assign ADI staff key technical roles to improve transition to support phase.</p>	<p>The project team includes WFP process team leaders, key business users and ADI analysts and architects.</p> <p>Detailed training, approaches, plans and responsibilities will be defined during analysis.</p> <p>Timesheet recording was introduced for staff working on the project.</p>
User System Ownership and Acceptance Testing Procedure		
<p>Recommendation 7. To achieve these objectives, we recommend that Phase 1 includes plans for a robust user testing methodology in both Headquarters and country offices, that encourages user ownership, leadership and support of any related business process improvement. The approval process of changes and after user acceptance testing should be on the basis of support for any related business change.</p>	<p>The testing methodology was not defined in any depth in the Phase 1 strategy.</p>	<p>The high-level test approach was proposed by Accenture as part of the strategy phase.</p> <p>Detailed training, approaches, plans and responsibilities will be defined during analysis.</p>
<p>Recommendation 8. To enable a result-based assessment of the effectiveness by which the upgrade meets its objective to reduce overall maintenance costs, we recommend that WFP consider the: quantification of the costs savings expected from reduced Headquarters resource requirements arising from the upgrade and planned outsourcing of activities currently completed in-house; and preparation of a specific target for cost reduction in system maintenance against which the upgrade can be assessed.</p>	<p>The strategy phase included an overall estimate of potential cost savings at Headquarters and in the field. The analysis work will be used to build on the existing estimates and to define targets.</p> <p>The governance structure will be used to ensure that the scope selected for implementation and the solutions chosen are based on the business cases presented by the divisions.</p>	<p>The estimate of potential cost savings has been completed.</p> <p>Process objectives and targets will be defined during the analysis phase.</p>

External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005
<p>Recommendation 9. In accordance with good practice, we recommend that prior to the selection of a future contractor/partner and the further implementation of the upgrade process, the WFP undertakes an independent implementation review of lessons learned from Phase 1 by a specialist in the Information Technology field. We believe the implementation of the upgrade and the degree of achievement of the ultimate objectives can be assessed by addressing six main areas, these being: a clearly defined scope for the project; Management of WFP's culture to accept change; ongoing commitment of Senior Management; changes in the business processes to match the new functionality; management of the technology used in the project; and the extent to which the project achieved the ultimate business objectives.</p>	<p>WFP does not consider that it would be valuable to engage another specialist firm to validate the recommendations from Accenture.</p>	<p>Terms of reference have been agreed with a senior independent consultant to conduct a review of the project, with the objective of assessing WFP's capability and capacity to deliver the vision underpinning WINGS II.</p> <p>This independent review is expected to be completed by March 2006.</p>
<p>Review of the Dubai Support Office and Fast Information Technology and Telecommunications Emergency and Support Team (FITTEST) (WFP/EB.2/2005/5-G/1)</p>		
<p>Mandate</p>		
<p>Recommendation 1. I recommend that WFP obtain formal confirmation from its legal section that new contractual arrangements particularly in significant areas of activity remain within the general mandate of WFP.</p>	<p>The functions and scope of the Dubai support office have developed significantly since its establishment. Its mandate became an issue recently, particularly with respect to two contracts, one involving non-food procurement and the other procurement of aircraft. The latter was clearly a humanitarian project involving demobilization/repatriation/reintegration, it was nevertheless felt necessary to obtain an extension of the mandate "on an exceptional basis" from the Executive Director for the Dubai office to enter into this agreement, given that there was nothing in their mandate that provided for such arrangements.</p>	<p>The original Executive Director's circular (ED2001/005) that established a special account for stand-by telecommunications equipment will be amended to define the expanded mandate of the Dubai support office. In the meantime, succeeding projects will have a contract clause, to be cleared by the Legal Department, that the activity is considered as part of WFP's mandate.</p>
<p>Recommendation 2. I recommend that WFP clarify the reporting lines and accountability model for Dubai, and FITTEST; and update its guidance on the objectives of the operations; the process and the activities involved and stakeholder roles.</p>	<p>Agree.</p>	<p>A thorough review and evaluation of the WFP Dubai support office is being undertaken; its functions and lines of responsibilities will be included in the amendments to the Executive Director's circular mentioned above.</p>





External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005
Risk Management		
<p>Recommendation 3. I recommend that the Secretariat maintain rigorous and independent review of contractual procurement arrangements through the appropriate committee on contracts to continue addressing risks to propriety and transparency.</p>	<p>The Dubai-based group to which the adviser providing <i>pro bono</i> services to the Dubai support office is linked has been doing business with WFP since 2001, two years before any relationship between the individual and the support office, which started in September 2003.</p> <p>The External Auditor reportedly found no evidence of undue influence on contracts with WFP obtained by the group, but considered that a reputational risk exists at the corporate level. Consequently, the contract with the adviser has been terminated, effective September 2005. It should be noted that this individual provided very valuable contributions to the Dubai support office.</p> <p>Regarding the tyre purchase, the External Auditor noted that the requisition had been based on earlier prices quoted by the supplier, thereby reducing the likelihood of fully open competition for all suppliers. This arose from the fact that the country office requesting the tyres obtained quotations from a supplier informally and used the specifications from this when asking the Dubai support office for tendering. This situation was discovered in the normal review of large contracts by the Contracts Committee at Headquarters, an indication that the governance function is effective.</p>	<p>WFP's non-food procurement procedures will be reviewed with the objective of continuously addressing risks to full transparency.</p> <p>In the meantime, the Dubai support office has initiated regular review missions from the departments concerned: finance, budget, procurement, FITTEST, travel, HR and logistics. One purpose of these missions is to review the oversight in relation to compliance with WFP rules and regulations.</p>
<p>Recommendation 4. I recommend that any Secretariat review of telecommunications and non-food procurement service provision should address how responsibilities for priority setting are set at a senior management level and clear lines of responsibility established.</p>	<p>There are no current indications that the services provided by the Dubai support office for non-WFP activities would jeopardize responsiveness to WFP's emergency activities, but the risk exists in future, particularly in the area of FITTEST.</p>	<p>Management responsibility for priority setting and clear lines of responsibilities will be addressed in the Executive Director's circular above.</p>

External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at December 2005
<p>Recommendation 5. I recommend that the Secretariat consider whether the available functionality and connectivity in WINGS could address the requirements of Dubai without system replication.</p>	<p>Agree.</p>	<p>In connection with the WINGS II upgrade project, a review will be undertaken to determine the best option for WFP Dubai's inventory system requirements, including a cost and management accounting system for projects that are on a full-cost-recovery basis.</p>
<p>Value for money</p>		
<p>Recommendation 6. I recommend that WFP develop a robust cost identification model and basis for charging fees to enhance transparency and accountability before extending the principle of full cost recovery to other support functions.</p>	<p>The 2004 deficit of US\$600,000 mentioned in the report was mainly a result of fewer projects than anticipated being allocated to WFP Dubai. However, the system to estimate the projects for the subsequent year was reviewed quarterly and proved to work in 2005.</p> <p>The current cost-recovery model appears to work well, but a good deal of work is still needed in the area of monitoring indirect cost recovery and costs incurred.</p>	<p>The Secretariat will continue to review the current cost-recovery model in terms of the results of operations to improve the model.</p>
<p>Recommendation 7. I recommend that</p> <ul style="list-style-type: none"> ➤ procurement costs and delivery times be provided for benchmarking purposes from all the major procurement facilities at WFP, at least for the high volume or value equipment and those available under long-term agreements agreed locally or centrally. ➤ country offices and regional bureaux be informed of the alternatives of direct delivery of equipment by Dubai or direct purchase through long term agreements held at headquarters; and ➤ the Secretariat ensure that the specifications of key equipment are regularly reviewed in terms of identified operational need. ➤ Any proposal to expand further the scale of non food procurement through the Dubai support office are subject to a thorough cost benefit appraisal. 	<p>Agree.</p>	<p>In the light of the recommendations, the Secretariat will take additional steps to achieve the objective of promoting more cost-effective procurement in WFP.</p>





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Reporting and Performance Measurement		
<p>Recommendation 8. I recommend that WFP consider the introduction of following performance indicators, measurement processes and assessment techniques:</p> <p>For assessment of operational efficiency in Dubai:</p> <ul style="list-style-type: none"> ➤ Emergency situation categorised and prioritised by the appropriate management as a high priority could be set a stringent timeframe for delivery of communications and equipment and the percentage of delivery against these timeframes reported as result-based measures; and ➤ For less urgent projects, performance could be reported against service delivery criteria agreed in advance with recipients and donors. <p>For consideration of cost effectiveness:</p> <ul style="list-style-type: none"> ➤ Dubai calculated a cost for retention of stock as part of its charging procedure. To allow informed assessment of cost effectiveness, the charge for stock retention should be reported and added to the cost of supply when comparison is made against other procurement units internal or external. <p>For consideration of the effective use of resources:</p> <ul style="list-style-type: none"> ➤ A measure of staff utilisation, ➤ The proportion of effort related to WFP operations ➤ A survey of customer satisfaction (both internal and external). 	<p>Performance indicators have been defined for 2006–2007 biennium and were based on the results matrices from the Strategic Plan and Management Plan. The Dubai support office, a provider of services on a full-cost-recovery basis, may need a set of performance indicators for its operations.</p>	<p>The Secretariat will take account of the recommendations in determining the performance indicators to determine the operational efficiency, cost effectiveness and effective use of resources for the Dubai support office.</p>