RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For consideration

E

REPORT ON THE IMPLEMENTATION OF THE EXTERNAL AUDITOR RECOMMENDATIONS

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.

|		
Chief Financial Officer and Deputy Executive Director, RM*:	Ms G. Casar	tel.: 066513-2885
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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms I. Carpitella, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).

* Resource Management and Accountability Department

** Finance and Treasury Division

*** Financial Reporting Service

DRAFT DECISION*
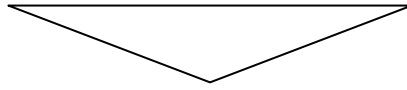
The Board takes note of "Report on the Implementation of the External Auditor Recommendations" (WFP/EB.A/2011/6-D/1).

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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 issued at the end of the session.

1.   The objective of this report is to highlight the progress that WFP has made in implementing recommendations made by the External Auditor in reports to the Board.

2.   The report presents WFP's progress in implementing recommendations that were outstanding at the last reporting date, the Annual Session of 2010, and the recommendations made by the External Auditor since that date. In addition to recommendations made by the previous External Auditor, the National Audit Office of the United Kingdom, the new External Auditor, the Comptroller and Auditor General of India, has made recommendations in the following reports to the Board:

  ➢ Report of the External Auditor on WFP Operations in Somalia (WFP/EB.1/2011/5-B/1)

  ➢ Audited Annual Accounts, 2010 (WFP/EB.A/2011/6-A/1).

3.   Where WFP has implemented the recommendations, the External Auditor has been requested to give his views in that respect and these views are included in the attached matrix.

4.   The progress made by WFP in implementing the recommendations of the External Auditor on WFP's operations in Somalia is presented in a separate report (WFP/EB.A/2011/6-I).

5.   The table below summarizes WFP's progress in implementing the External Auditor's recommendations and for monitoring purposes, it includes the number of recommendations in the "Report of the External Auditor on WFP Operations in Somalia" (WFP/EB.1/2011/5-B/1).

Audit report	Date	Outstanding audit recommendations in the previous report	Recommendations completed to date	Recommendations incomplete to date	% complete
Has Decentralisation Met the World Food Programme's Operational Needs?	September 2007	1	0	1	0
Managing for Results: A Second Review of Progress in Implementing Results-Based Management	September 2008	3	3	0	100
Report of the External Auditor on Preparedness for IPSAS and WINGS II	January 2009	2	2	0	100
Audited Annual Accounts, 2008	April 2009	1	1	0	100
Report of the External Auditor on Strategic Planning and Reporting at a WFP Country Office – Uganda	February 2010	5	3	2	60
Report of the External Auditor on the IPSAS Dividend: Strengthening Financial Management	February 2010	1	1	0	100
Audited Annual Accounts, 2009	June 2010	9	7	2	78
Audited Annual Accounts, 2010	June 2011	7	0	7	0
Total		**29**	**17**	**12**	**59**
Report of the External Auditor on WFP Operations in Somalia	January 2011	26	*	*	*
Total		**55**			

* The progress made by WFP in implementing the recommendations made by the External Auditor on WFP operations in Somalia is presented in a separate report.

PROGRESS REPORT ON THE IMPLEMENTATION OF THE EXTERNAL AUDITOR RECOMMENDATIONS

External Auditor recommendations	WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
Has Decentralisation Met the World Food Programme's Operational Needs? (WFP/EB.2/2007/5-C/1)			
Adequacy of guidance on oversight and management responsibilities			
1. **Recommendation 2** We recommend that the Secretariat develop improved management oversight frameworks, agreed between regional bureaux and country offices and reviewed by the Oversight Services Division (OSD),[1] which: i) Better clarify consistent responsibilities for management oversight of regional and country operations; and ii) Maintain an appropriate and independent management oversight of regional projects.	The Secretariat has reflected the roles of country offices, regional bureaux and Headquarters in the Management Plan (2010–2011). The first draft of a detailed study, which proposes refining roles and responsibilities regarding implementation and support of operations, has been circulated to WFP Regional Directors for comments and recommendations.	The Secretariat has approached this recommendation in three ways. i) As part of the normal process of developing and updating the biennial Management Plan, the Secretariat reviews the oversight role of the regional bureaux and the resources that can be made available from the Programme Support and Administrative budget for the purpose. ii) The Chief Operating Officer has established a task force led by the Director of Operations to review the accountabilities and responsibilities of Headquarters and the regional bureaux with a view to clarifying the respective roles and responsibilities of regional bureau and Headquarters divisions and the resources required to meet them under the headings of strategy, oversight and support. The task force is expected to complete its review by June 2011. iii) Under its programme Strengthening Managerial Control and Accountability (SMCA), the Secretariat has adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) principles to assess the effectiveness of its internal controls and review the accuracy and	

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[1] The WFP organizational acronyms have since changed.

	External Auditor recommendations	WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
			appropriateness of delegated authorities, the clarity of functions and responsibilities and the effectiveness of management supervision and oversight. The SMCA team has developed a guide for managers on internal control that will include oversight checklists for managers; a high-level self assessment checklist was tested in the Somalia country office in March 2011 in response to more recent recommendations by the External Auditor.	
Managing for Results: A Second Review of Progress in Implementing Results-Based Management (WFP/EB.2/2008/5-B/1)				
Setting objectives, outcomes, outputs and indicators				
2.	**Recommendation 2** The Executive Board and Secretariat could consider devising management objectives that feed into specific Strategic Objectives, for example by incorporating them into the new level of objectives described in Recommendation 1.	A new performance management framework has been approved, including both strategic and management results. Five management dimensions have been defined and management results with related performance indicators have been developed for each. Current work is focused on refining these management dimensions by levels and developing management results and related indicators for Headquarters, regional bureaux and liaison offices by the end of September 2010. This will strengthen the Secretariat's ability to gauge management results at various levels and further improve the indicators.	The Management Results Framework (MRF) has been developed for Headquarters divisions, regional bureaux and country offices giving a set of management results and corresponding key performance indicators in the five management dimensions, in each of which the management results of WFP offices are aligned with corporate management results. These are process results that contribute to the WFP Strategic Objectives. The 2011 Annual Performance Planning Templates for WFP offices were prepared in line with the new MRF. The recommendation is deemed complete.	We welcome the action taken to implement the recommendation.

External Auditor recommendations	WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
Measuring and reporting performance against objectives, outcomes and outputs			
3. **Recommendation 5** The Secretariat has made improvements to the performance monitoring of projects since the introduction of Standardized Project Reports (SPRs) but it may wish to consider taking further steps to improve the monitoring of outcomes.	The outcome measurement implementation strategy for operations was discussed and disseminated to regional bureaux and country offices at the end of 2009. Implementation of this strategy will optimize the scarce resources available for measuring outcome-level results. Performance management frameworks and practices from other United Nations agencies were considered and a WFP performance management framework was approved by the Executive Director in February 2010. Improvements to the Data Collection Telecoms Application in 2009 improved the quality of SPRs, including reporting on outcome indicators. Training in reporting on output and outcome indicators – especially the new indicators of the Strategic Results Framework (SRF) – was provided to regional bureaux along with training in SPRs in late 2009. New guidance on outcome measurement was issued in the last quarter of 2009**.**	Dissemination of the outcome-measurement strategy to regional bureaux and country offices, training in reporting outputs and outcome indicators and new guidance on outcome measurement are expected to have positive effects on monitoring and reporting of project outcomes. The 2010 Annual Performance Report (APR) and SPRs will showcase these results. WFP has established a Strategic Information Task Force with a view to helping Headquarters divisions and project implementation units to improve monitoring and evaluation in terms of context, inputs, processes, outputs and outcomes. This is intended to contribute to meeting WFP's Strategic Objectives. The recommendation is deemed complete.	We recognize the initiatives to improve the monitoring of project outcomes and will continue to review performance monitoring in future audits.
Next steps			
4. **Recommendation 11** Senior management of the Secretariat may wish to take further steps to clearly demonstrate to staff their continued commitment to results-based management, for example by: • rewarding achievement of results; • updating the results-based management documents; and	The Performance and Accountability Management Division (RMP) was established in December 2008. In April 2009, it was incorporated in the Resources Management and Accountability Department. The division's strategy document outlines the vision, objectives, expected results and activities to be implemented during 2010–2013 to embed performance management practices in WFP. RMP continues to provide technical support and training to staff and managers at Headquarters and in the field. Rather than re-constituting the previous RBM task managers and focal points, RMP proposed a	To demonstrate its continued commitment to RBM, RMP: • established a network of performance and risk-management champions in the regional bureaux and country offices; • developed the management results framework (MRF) and rolled it out to Headquarters divisions, regional bureaux and country offices – the MRF for liaison offices will be completed in mid-2011;	We recognize the importance of demonstrating to staff this continued commitment and the long-term impacts of these interventions.

External Auditor recommendations	WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
• continuing to make use of the expertise built up in the Results-Based Management division by setting up a formal network of results-based management (RBM) experts across WFP.	network of "performance and risk management champions" in response to recommendations arising from the division's recent work to strengthen risk management. This proposal is in line with WFP's new performance management framework, which includes effective risk management. The issue of an Executive Director's circular on RBM was delayed pending a review of performance management in other United Nations agencies and the public and private sectors in order to learn from best practices. As a result of the review, RMP created a performance management framework specifically for WFP. This framework has been approved and the Executive Director's circular will be issued in the second half of 2010. The RBM orientation guide and work-planning templates are being updated to reflect the new performance management framework; this work will be completed by the end of 2010.	• drafted a compendium of management result indicators for the key performance indicators in each WFP office; • jointly developed with the Food and Agriculture Organization of the United Nations the e-learning course on results-based management; • drafted training materials for performance and risk management to enhance awareness of performance and risk management in WFP offices and support implementation; • prepared 2011 performance planning templates aligning unit management results with corporate management results for use by WFP offices in planning for 2011; guidelines for using the templates were also provided; and • prepared guidelines for the 2010 APR, which is now in progress. The recommendation is deemed complete.	
Report of the External Auditor on Preparedness for IPSAS and WINGS II (WFP/EB.1/2009/6-D/1)			
Preparedness for International Public Sector Accounting Standards (IPSAS)			
5. **Recommendation 2** We believe WFP should revisit their decision not to assess the savings arising from the introduction of WINGS II and capture information at a sufficient level of detail to demonstrate that the project expenditure represents money well spent.	The project steering committee recommended that it would be more appropriate to assess the value of investment in the WFP Information Network and Global System (WINGS) II against clearly established indicators rather than against divisional or process-specific ones. This assessment will take place at the end of 2010, when WINGS II will have been operational for a full year. The assessment will be coordinated by RMP, and the results reported in the 2010 APR.	A review of WFP's investment in WINGS II, which has been in operation since July 2009, has been submitted to the Board (see WFP/EB.A/2011/6-F/1). The recommendation is deemed complete.	We welcome the action taken to complete this recommendation.

External Auditor recommendations		WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
6.	**Recommendation 4** Urgent attention is needed to implement the planned improvements to the systems for the control and valuation of commodities.	The current interim solution, which went live with the rest of the new system, is fully functional and capable of valuating commodity inventories at any point in time. Following go-live, additional technical modifications were made to the solution, ensuring its stability and functionality until the full Secure Network Communications (SAP) solution is implemented. The Secretariat is preparing to test the full SAP solution – the Logistics Execution System. A project plan and timetable are being drafted with the aim of starting the project in May 2010.	Attention has been given to the control and valuation of inventories. The current business solution, which is fully functional and capable of valuing commodity inventories at any point in time, has been validated in successive Annual Financial Statements. The current business solution and related processes allow for appropriate cost capitalization and inventory control. Given that the current solution addresses control and valuation of commodities appropriately, the recommendation is deemed complete.	We note the action taken so far on implementing the full SAP system solution and we await roll-out of the project to improve controls and valuation of commodities, critical as they are for WFP operations.
Audited Annual Accounts, 2008 (WFP/EB.A/2009/6-A/1)				
Recommendations made by the External Auditor in previous reports				
WINGS II				
7.	**Recommendation 7** In following up our earlier report on the implementation of the WINGS II system, we recommend that the Secretariat should: • Demonstrate the value of the investment in the WINGS II system by preparing an assessment of estimated savings, and then tracking the savings actually realised; and • Prepare a timetable for the implementation of those elements of WINGS II functionality postponed until after the main implementation date.	Please see the responses to Recommendations 2 and 3: "Report of the External Auditor on Preparedness for IPSAS and WINGS II" (WFP/EB.1/2009/6-D/1).	A review of WFP's investment in WINGS II, which has been in operation since July 2009, has been submitted to the Board (see WFP/EB.A/2011/6-F/1). WFP has established a new governance structure, the Management Information Systems Steering Committee, and a process for the review and prioritization of new information technology business initiatives. The structure will ensure that requirements for information technology projects, including all postponed elements of WINGS II, will be evaluated and prioritized in terms of value-added. The recommendation is deemed complete.	We welcome the action taken to complete the recommendation.

External Auditor recommendations	WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
Report of the External Auditor on Strategic Planning and Reporting at a WFP Country Office – Uganda (WFP/EB.1/2010/6-D/1)			
8. **Recommendation 3** Bring forward the timetable for implementation of country strategies for high priority large spending countries.	As of March 2010, country strategies were prepared for Burundi, Iraq, Jordan, the Sudan and Uganda. More countries are expected to present their strategies during 2010.	The timetable for implementation has been brought forward: 38 of WFP's biggest operations will have country strategies by the end of 2012. • Sixteen country strategies are final: Bangladesh, Burkina Faso, Burundi, Egypt, Ethiopia, Ghana, Indonesia, Iraq, Jordan, the Lao People's Democratic Republic, Mauritania, Nepal, the Sudan, the United Republic of Tanzania, Uganda and Zambia; five will be finalized by June 2011: Ecuador, El Salvador, Mozambique, Peru and Sri Lanka. • Another 17 are planned: Chad, the Central African Republic, Colombia, the Gambia, Guinea, Guinea Bissau, Honduras, India, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Rwanda, Senegal and Sierra Leone. The recommendation is deemed complete.	The plan for producing country strategies and rolling them out to all country offices is in place, and we welcome it.
9. **Recommendation 4** To give consideration as to whether the Executive Board's focus should be on the country strategy rather than country programmes to reduce duplication.	This is a recommendation for the Board. The Secretariat provided the Board with a briefing on country strategies during an informal consultation on 4 May 2010.	Country strategies are being established: 38 country offices will have a country strategy by the end of 2012. The recommendation is deemed completed.	We recognize the action taken to implement the recommendation.

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	External Auditor recommendations	WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
10.	**Recommendation 5** Include improved costing information, to enable a better understanding of the costs attributable to the achievement of Strategic Objectives to enable a measure of cost-effectiveness. Such attribution of costs would have a wider application as identified in our IPSAS Dividend Report in moving WFP towards the achievement of results-based management and to facilitate the work of the Strategic Resource Allocation Committee (SRAC).	WFP continues to align its projects with the SRF; indicators are measured and reported through the SPRs. Project budgets for activities most suited to achieve the Strategic Objectives are analysed and revised through the Programme Review Committee process. Appropriate project design and performance will continue to guide the work of SRAC in allocating resources.	Discussion of results-based budgeting has continued with a view to attributing costs to the Strategic Objectives; consideration has been given to using results-based budgeting in the forthcoming Management Plan.	
11.	**Recommendation 6** Develop central systematic risk analysis processes, so that country strategies contain key operational risks which might impact upon the achievement of objectives, and articulate the planned mitigation strategies. Furthermore, the process should be used to ensure that local risks are understood centrally.	WFP is in the process of defining a risk management framework in consultation with internal stakeholders. Strategic risks have been validated; a method for identifying risks, mitigation actions and an appropriate escalation system has been defined. WFP is testing the risk profile and risk register at different organizational levels. The results will assist in the finalization of the Enterprise Risk Management framework.	WFP has developed a risk-management framework to identify, assess and record risks at different levels, and establish a process for ensuring that risks are addressed at the appropriate level The risk-management and performance-management frameworks reinforce organizational and individual performance and accountability and complement the actions proposed in SMCA. The recommendation is deemed completed.	We note that the risk-management framework has been drawn up and that action has been taken to develop a systematic process covering all country offices.

	External Auditor recommendations	WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
12.	**Recommendation 8** Establish cost-effective, consistent and reliable methodologies for measuring and validating the number of individuals assisted by projects.	Project planning tools, outcome measurements and annual reporting guidelines have been refined. This has enabled country offices to implement reliable and consistent techniques for measuring and validating the number of beneficiaries assisted.	Project planning tools and outcome measurements guidelines refinement enabled country offices to implement reliable and consistent techniques for measuring and validating the number of individuals assisted. The work was reflected in the 2009 APR, which was welcomed by the Board as "excellent". The SPR guidelines have been refined and will be reviewed in 2011. The development of the Corporate Monitoring and Evaluation Tool for roll-out in 2012 will enhance the definition and validation of the number of beneficiaries assisted.	
	Report of the External Auditor on the IPSAS Dividend: Strengthening Financial Management (WFP/EB.1/2010/6-E/1)			
13.	**Recommendation 2** 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.	A new performance management framework that includes both the SRF and a management results framework has been developed. Efforts to link resource and performance data are in progress. The APR for 2009 illustrates steps taken to date.	The performance results of Headquarters divisions, regional bureaux and country offices have been aligned with corporate management results and the Strategic Objectives. This recommendation is deemed complete.	We note the action taken to align performance results with corporate management results and the Strategic Objectives.

External Auditor recommendations	WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
Audited Annual Accounts, 2009 (WFP/EB.A/2010/6-A/1)			
Investment performance			
14. **Recommendation 1** We recommend that WFP continue to monitor market conditions and that the Investment Committee ensures appropriate oversight of investment risk and performance. Investment performance should be reported to the Board on an annual basis summarising the performance of investments; the level of risk taken; and include confirmation of compliance with the approved policies.	The Secretariat agrees with the recommendation and is committed to continuous monitoring of market conditions and to providing oversight of investment risk and performance. The Secretariat has reported to the Board on investment performance from an accounting perspective in the Financial Statements and on changes in the investment policy in documents in 2006 and 2009. The Secretariat welcomes the opportunity to present a separate report on investment management, including compliance, risk and performance management, on an annual basis to provide more detailed assurances on the management of WFP's financial resources.	The Secretariat continued to monitor market conditions over the past year. The oversight function of the Investment Committee includes compliance, risk and performance. These issues are described in the report on investment management, which was presented to the Audit Committee in March 2011 and which is to be presented to the Board membership at a Financial Seminar in May 2011. The recommendation is deemed complete.	The Secretariat has addressed the recommendation.
Accounting for value-added tax			
15. **Recommendation 3** We recommend that WFP should be more active in seeking timely reimbursement of value added tax (VAT) in respect of those countries where VAT claims have to be submitted. We would suggest that the Board be kept informed of the level of outstanding reimbursements.	The Secretariat agrees with the recommendation and will take appropriate action to ensure timely recovery of VAT paid by WFP. The disclosure notes are part of the annual financial statements – which are presented to the Board at each Annual Session – provide details on VAT recoverables. The Secretariat will consult the Board regarding the details it requires so that this information can be incorporated into the 2010 annual accounts.	During the year, the Secretariat: • improved oversight by the Regional Director and the Chief Financial Officer of VAT receivables; and • provided Headquarters legal support for country offices. This work is reflected in the 2010 Financial Statements. The recommendation is deemed completed.	We note that an allowance has been set up for the bulk of the outstanding VAT receivable in the 2010 Financial Statements. We will continue to report separately on the status of outstanding VAT receivables in future financial audit reports.

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External Auditor recommendations	WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
Allegations of corruption, theft and diversion of food aid in Somalia			
16. **Recommendation 5** We recommend that WFP considers the advice in our separate report and investigates the allegations made by the Monitoring Group on Somalia (MGS), ensuring that the normal rules of evidence gathering and assessment are followed. Fundamental to this review will be the detailed facts and evidence supporting the allegations made in the MGS report, and the basis on which they have estimated food losses.	The Secretariat takes note of the External Auditor's advice paper on Somalia and will ensure that appropriate action is taken. The Secretariat is committed to reporting the outcome of this exercise to the Board once it is completed.	The Secretariat has carried out the following in relation to this matter: • December 2009. An internal investigation by the Inspector General and the Oversight Office (OS) generated a report. • EB.A/2010. The conclusions from Bureau meetings on 12 and 17 March 2010 were provided in WFP/EB.A/2010/6-K/1. • Late 2010. At the request of the Board, the External Auditor reviewed WFP's Somalia operations with a view to recommending control enhancements. • February 2011. The External Auditor reported its recommendations in WFP/EB.1/2011/5-B/1. Progress in implementing the External Auditor's recommendations is reported separately in the "Update on the Implementation of the External Auditor Recommendations on WFP's Operations in Somalia" (WFP/EB.A/2011/6-I). The recommendation is deemed complete.	We acknowledge the action taken, and will continue to monitor progress in the implementation of our recommendations in "Report of the External Auditor on WFP Operations in Somalia".
Implementation of WINGS II			
17. **Recommendation 6** We again recommend that a cost benefits assessment of WINGS II is undertaken to assess whether the project has delivered the objectives established by WFP and that these findings be brought to the Board for consideration.	In line with the Secretariat's update to recommendation 2 on the Report of the External Auditor on Preparedness for IPSAS and WINGS II (WFP/EB.1/2009/6-D/1), the Secretariat reiterates that an assessment of the value of the WINGS II investment will be undertaken at the end of 2010, when WFP will have operated under WINGS II for a full year. The assessment will be coordinated by RMP, and the results reported in the APR for 2010.	A review of WFP's investment in WINGS II, which has been in operation since July 2009, has been submitted to the Board (see WFP/EB.A/2011/6-F/1). The recommendation is deemed complete.	We welcome the action taken to complete the recommendation.

	External Auditor recommendations	WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
18.	**Recommendation 7** We further recommend that a full assessment of the WINGS II control environment process is undertaken using specialist IT skills. This is essential to the assurances the Executive Director needs in order to satisfy herself that there is an effective internal control environment.	The Secretariat agrees with the recommendation. A review of the implementation of WINGS II will be undertaken in 2010 by the Office of Internal Audit (OSA). The Secretariat will take into account the results of this review in deciding on the need for, and extent of, an assessment of WINGS II control environments by external IT experts.	During 2010, OSA audited the following WINGS II processes: governance, enterprise risk management, support services, IT applications and IT projects. The audit concluded that risk management, control and governance processes provide moderate assurance of achieving WINGS II objectives in compliance with WFP's General Rules and General Regulations. OSA made recommendations for further improvements to ensure the adequacy and effectiveness of control and governance processes. The Secretariat is reviewing the recommendation; the issues assigned to the IT division will be implemented by June 2011 and verified under the OSA system for monitoring the implementation of audit recommendations. The recommendation is deemed complete.	We recognize the action taken to implement the recommendation.

WFP Audit Committee

19.	**Recommendation 8** We recommend that the Executive Board should seek to place more reliance and take greater account of the work of the Audit Committee. Furthermore, we recommend that the Executive Board considers the way it engages with the work of the Committee through the Bureau, to ensure that the Committee is fully briefed on matters of concern to the Board; and that through these meetings the Board have a greater level of knowledge regarding the assurances it is being provided.	This recommendation will be addressed by the Executive Board Bureau.	The Bureau indicated that draft amendments to the terms of reference of the Audit Committee are being prepared for EB.A/2011.	

	External Auditor recommendations	WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
	Risk management			
20.	**Recommendation 9** We recommend that the Executive Board confirms that management have a clear and timebound plan for the implementation of effective and systematic risk assessment within the context of COSO implementation, and that sufficient resource is dedicated to enable it to be implemented successfully.	This recommendation will be addressed by the Executive Board Bureau. WFP has launched a project to implement and adopt an integrated framework of internal control and risk management by applying the principles of COSO. Some of these principles were already adopted by the Secretariat before launching the project. The Secretariat intends to adopt progressively a fully integrated framework of internal control and corporate risk management in 2011.	This recommendation will be addressed by the Bureau. The Secretariat has a plan for systematic risk assessment in the context of COSO. WFP has launched a project to implement and adopt an integrated framework of internal control which includes a structured approach to risk management following the principles of COSO. The Secretariat is implementing plans for enhancing risk management, with regular reports to the WFP Audit Committee. The project is resourced and remains on target to progressively implement a fully integrated framework of internal control and risk management during 2011. The recommendation is deemed completed.	We note that the Secretariat has a plan to assess risks in the context of COSO and that resources for this are available.

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External Auditor recommendations	WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
Measuring OSA performance			
21. **Recommendation 10** We recommend that the Inspector General with support from the Audit Committee strengthen the effectiveness and impact of OSD by: • ensuring a full complement of professionally skilled staff, and where necessary to further consider the use of outsourced expertise for resource gaps or specific audit assignments, particularly in respect of IT; • an enhanced focus on prioritisation and cleansing of historically outstanding recommendations and developing a format to monitoring the implementation of the most significant of these recommendations; and • develop performance metrics to demonstrate quality and impact and that these metrics could be included within the OSDA Annual Report.	The Secretariat agrees with the recommendation. Staff skills in OSA have been strengthened through the appointment of a Director, an Audit Manager and an IT Auditor, and the office will continue to fill vacancies with skilled staff as they arise. OSA uses external staff for specific resource gaps or assignments. The Executive Director has increased the focus on implementation and monitoring of internal audit recommendations in order to reduce the number of outstanding audit recommendations. Performance indicators are being developed.	The Secretariat agrees with the recommendation. OSA is fully staffed, except for normal attrition; it uses external staff to fill gaps or for specific audit assignments. The Executive Director has increased the focus on implementation and monitoring in internal audit recommendations, and the number of outstanding recommendations fell significantly in 2010. Performance indicators have been developed. The recommendation is deemed complete.	We recognise that OSA has a full complement of staff. The number of outstanding internal audit recommendations has decreased by 45 percent over 2010.

External Auditor recommendations	WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
Statement on internal control			
22. **Recommendation 11** We recommend that WFP should produce a Statement on Internal Control and implement this in parallel with COSO, building on the collation of sufficient assurances from senior management and the OS to confirm that internal controls are operating effectively.	The Secretariat agrees with the recommendation and confirms its commitment to issuing a Statement on Internal Control when submitting the annual accounts. A Statement on Internal Control will be included in the 2010 annual accounts on a trial basis; this will be fully implemented from 2011.	The Secretariat is planning to introduce a Statement of Internal Control with the 2011 Annual Accounts. Actions taken include: • development in June 2010 of internal control principles in line with COSO on the basis of advice from internal and external audits, the Audit Committee and Headquarters divisions; • development and pilot testing of a questionnaire for managers designed to gather assurances for the 2011 accounts; • significant progress in revising the Consolidated Finance Manual to ensure that guidance is up to date; • a review of delegated authorities for finance, food procurement and non-food procurement; • updating of delegated authorities in relation to human resources management; • a review of decision-making structures; and • updating of the corporate risk register and action to embed risk and performance management practices in WFP business and operations. The Audit Committee will be updated regularly as to progress on the new statement of internal control. In the report on Somalia the External Auditor discussed the findings in the light of WFP's internal control principles and made recommendations for actions to enhance internal controls.	

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External Auditor recommendations	WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
Audited Annual Accounts, 2010 (WFP/EB.A/2011/6-A/1)			
23. **Recommendation 1** WFP should introduce a more rigorous process to identify the replacement cost of both food and non-food commodities and harmonise the provisions under WFP Policy Guidance Manual for IPSAS with the valuation process adopted.		The Secretariat agrees with the recommendation and will explore a more detailed process for identifying the replacement costs of food and non-food items. It will evaluate the costs involved and will seek the Board's approval to proceed. WFP will harmonize the provisions in the Policy Guidance Manual to ensure that the valuation process is accurately reflected. The Secretariat plans to complete this recommendation for the 2011 Annual Financial Statements.	
24. **Recommendation 2** WFP should disclose in the Notes to the Financial Statements, the volume and value of food and non-food commodities handed over to Cooperating Partners but not distributed to the beneficiaries. In order to do so, the integrity of the data captured in COMPAS should be ensured.		The Secretariat agrees with the recommendation and plans to implement this disclosure request for the 2011 Annual Financial Statements. This disclosure is not required by IPSAS but may be desirable to enhance understanding of WFP's operational environment.	
25. **Recommendation 3** The process of reconciliation of internal loans and borrowings of food commodities should be expedited. WFP should strengthen the internal controls on the IT systems that support inventory management, more specifically: • evaluate the adoption of moving average price (MAP) using document date instead of the MAP using posting		The Secretariat agrees with the recommendation and is committed to completing the reconciliation of internal loans and borrowings of food commodities by 30 June 2011, with all required adjustments recorded in the accounts. With regard to enhancing internal controls: i) The design of MAP was part of WINGS II design. The Secretariat will evaluate the cost/benefit of changing the system to use document dates instead of posting dates to determine whether the change will lead to a significant improvement in inventory	

	External Auditor recommendations	WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
	date for a realistic reflection of the value of inventory and losses • strengthen the reconciliation process of differences in the control figures between COMPAS and WINGS II in coordination with the different functional wings and incorporate validation checks in the process.		valuation. The Secretariat believes that the MAP based on posting date reflects a fair value for inventory and enables comparison from period to period; it will report its findings at EB.A/2011. ii) The Secretariat agrees that data entry into COMPAS must be timely and accurate. Currently, the daily interface error log is sufficient to identify data misalignments or inconsistencies between WINGS II and COMPAS. Data uploaded into WINGS II from COMPAS must meet criteria defined by the Secretariat during the WINGS II project. Data that do not meet the criteria are rejected, and a log file of the details is sent to the Logistics Division for correction. The Logistics Division is responsible for managing discrepancies between COMPAS and WINGS II, supported by the Information Technology and Management Division (ODI). A joint directive to be competed in 2011 will outline roles and responsibilities in supporting COMPAS in the field and at Headquarters.	
26.	**Recommendation 4** WFP should adopt monetary threshold levels for disclosure of contingent liabilities in its accounting policies.		The Secretariat agrees with the recommendation and will adopt a monetary threshold for disclosure of contingent liabilities in WFP's internal accounting policies; this will be implemented for the 2011 Annual Financial Statements.	

	External Auditor recommendations	WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
27.	**Recommendation 5** WFP should introduce regular monitoring mechanism for review of other receivables and conduct a structured review of the allowance policy for impairment of other receivables based on an age analysis.		The Secretariat confirms that a regular mechanism exists for reviewing and reporting on financial areas that include "other receivables" at country offices, regional bureaux and Headquarters units. The reporting tools include the financial dashboard and monthly minimum closure packages, which focus on financial performance areas and risks. In accordance with WFP Financial Regulation 12.4, uncollectable items are written off, and the amounts reported in the financial statements. All outstanding other receivables are reviewed to determine whether an allowance is required for doubtful accounts, and reported in the financial statements. The Secretariat confirms that the regular process for monitoring and determining allowances will be documented in the accounts closure process in 2011.	
28.	**Recommendation 6** WFP should put in place a monitoring mechanism to ensure that completed works-in-progress are transferred to fixed assets and depreciation charged. This should be a mandatory check during the annual closure of accounts.		The Secretariat agrees with the recommendation and will ensure that completed works in progress are accounted for as fixed assets and the related depreciation recorded. The mandatory review of the completion stage of works in progress will be part of the annual closure of accounts, starting in 2011.	

	External Auditor recommendations	WFP response/Actions taken as at last reporting date	WFP response/Actions taken as at present reporting period	External Auditor's comments
29.	**Recommendation 7** WFP may implement the Information Security Management System for WINGS II. A definite timeframe may also be fixed for operationalization of LES and the associated phase out of the SAP-COMPAS Interface.		The Secretariat agrees with the recommendation. The Information Security Management System (ISMS): The Secretariat confirms that ODI already uses the ISO 27001 standard for IT risk assessments and management. In its 2011 work plan, ODI is developing the IT Security Management Framework which includes all elements of ISMS and covers all IT systems and services, including WINGS II. The draft document is to be circulated for review in June 2011 and ratified by December 2011. Implementation will commence in 2012 with systems and services hosted in the Headquarters United Nations International Computing Centre. Subsequently it will be implemented in field offices. ISMS will complement the Information Technology Infrastructure Library and Control Objectives for Information and Related Technology systems in governance and service management. Logistics Execution System (LES): The pilot phase of the LES project to test the WINGS II system for logistics business processes is ongoing, with completion of testing envisaged by the end of 2011 in selected country offices. If the pilot is successful, roll-out to other country offices will begin in 2012. A definite timeframe for full implementation of LES and phase-out of the WINGS II/COMPAS interface cannot be defined.	

ACRONYMS USED IN THE DOCUMENT

APR	Annual Performance Report
COMPAS	Commodity Movement Processing and Analysis System
COSO	Committee of Sponsoring Organizations of the Treadway Commission
IPSAS	International Public Sector Accounting Standards
ISMS	Information Security Management System
LES	Logistics Execution System
MAP	moving average price
MGS	Monitoring Group on Somalia (United Nations)
MRF	Management Results Framework
ODI	Information Technology and Management Division
OS	Inspector General and Oversight Office
OSA	Office of Internal Audit [previously OSDA]
OSD	Inspector General and Oversight Services Division [superseded by OS]
OSDA	Office of Internal Audit [superseded by OSA]
RBM	results-based management
RMP	Performance and Accountability Management Division [previously OEDAM]
SAP	Secure Network Communications
SMCA	Strengthening Managerial Control and Accountability
SPR	standard project report
SRAC	Strategic Resource Allocation Committee
SRF	Strategic Results Framework
VAT	value added tax
WINGS II	WFP Information Network and Global System

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