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de Alimentos

**Executive Board  
Second Regular Session**

**Rome, 6-10 November 2006**

# **RESOURCE, FINANCIAL AND BUDGETARY MATTERS**

**Agenda item 5**

*For information\**

# **E**

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## **PROGRAMME OF WORK OF THE EXTERNAL AUDITOR FOR THE BIENNIUM 2006–2007**

\* In accordance with the Executive Board's decisions on governance, approved at the Annual and Third Regular Sessions, 2000, items for information should not be discussed unless a Board member specifically requests it, well in advance of the meeting, and the Chair accepts the request on the grounds that it is a proper use of the Board's time.

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## NOTE TO THE EXECUTIVE BOARD

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

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.

Director, Office of the External Auditor: Mr G. Miller      tel.: 0044 20 7798-7136

External Auditor, UK National Audit Office: Mr R. Clark      tel.: 066513-2577

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).





National Audit Office

## International Audit

The United Kingdom National Audit Office (NAO) provides an external audit service to the World Food Programme (WFP). The External Auditor, Sir John Bourn, has been appointed by the Executive Board in accordance with 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 and the general administration and management of WFP.

The NAO provides external audit services to international organisations, working entirely independently of its role as the Supreme Audit Institution of the United Kingdom. The NAO has a dedicated team of professionally qualified staff with wide experience of the audit of international organisations.

The aim of the audit is to provide independent assurance to Member States; to add value to the WFP's financial management and governance; and to support the objectives of its work.

# WORLD FOOD PROGRAMME - PROGRAMME OF WORK OF THE EXTERNAL AUDITOR FOR THE 2006-2007 BIENNIUM

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## Introduction

1. Following reappointment of the Comptroller and Auditor General of the United Kingdom as External Auditor in November 2005, and final delivery of our 2004–2005 programme of work to the Board in June 2006, this paper provides the Executive Board with an insight into our audit of WFP's financial statements and activities for the biennium 2006–2007.
2. For the biennium 2004–2005 we provided 18 management letters to the Secretariat on financial management and operations from audit field visits, and six reports to the Executive Board: on financial reporting standards at WFP (February 2005); upgrading the WFP Information Network and Global System (WINGS) (June 2005); the Dubai support operation (November 2005); post-delivery food losses (February 2006); and the results-based management framework (June 2006). We also provided our 2004–2005 financial report and audit opinion to the Executive Board in June 2006.
3. Our proposed audit work, including financial audit, management audit work and field audits, is indicated below and will be approached (and adapted as necessary) to support the Programme's continuing move towards compliance with International Public Sector Accounting Standards. We will also take into account any changes required in the light of new activities responding to emergencies and our ongoing assessment of risk.

## Background

4. The Comptroller and Auditor General of the United Kingdom is the independent External Auditor of the World Food Programme, appointed under Financial Regulations 14.1 to 14.9. He is required to examine, certify and report on each of the statements comprising the financial accounts of the World Food Programme, in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. Under the provisions of the Annex to the Financial Regulations on Additional Terms of Reference Governing External Audit (specifically paragraphs 6 (c) and 7), the External Auditor is also required to report on matters relating to the economy, efficiency and effectiveness of the use of WFP's financial and other assets.
5. We will continue to produce reports to management, comprising management letters to the Executive Director on the main phases of the audit (planning, interim and completion); management letters on the results of country office visits; reports to the Executive Board on substantive value for money or management audit topics; and a final consolidated audit report to the Executive Board with the financial statements.
6. Our audit will continue to take account of the particular nature and circumstances of WFP's operating environment, and to address issues relevant to the Programme in delivering food aid to meet emergency needs and support economic and social development.
7. Our audit planning included a comprehensive reassessment of the work completed in our first biennium and the responses of management and the Executive Board. We will follow up on the recommendations from our reports to the Executive Board, to ensure that WFP continues to benefit from a consistent and rigorous audit scrutiny.

## Audit Approach

### Financial Audit

8. The primary objective of our financial audit is to provide the Executive Board, the main users of the financial statements, with assurance that the accounts and underlying financial transactions are free from material error and comply with WFP's Financial Regulations. The audit opinion also confirms whether expenditure and income has been applied to the purposes intended and whether



the transactions conform to the authorities which govern them. To support the move towards compliance with international accounting standards and annual financial reporting, we will apply an audit examination to the accounts produced for both 2006 and 2007, with audit reporting as appropriate.

9. Annex I provides some further detail on our audit approach, which complies with the highest professional standards and currently accepted best practice.
10. We will obtain direct audit evidence by undertaking work in Rome and by visiting a number of country and regional offices, especially those that have significant delegations of authority. We attach particular importance to testing the regularity of expenditure, ensuring that it complies with the intentions of the World Food Programme as set out in the approved budgets. Our selection of field offices for audit is risk-based. We liaise and coordinate with the Office of Internal Audit and Oversight to avoid unnecessary duplication of effort. We will continue to evaluate the work of Internal Audit, and seek to place reliance on that work where appropriate.
11. We design our audit procedures to achieve a cost-effective audit and have well established review procedures to ensure that audit work is undertaken efficiently and in accordance with auditing standards. Additionally, the National Audit Office's standard procedures include internal quality control by experienced audit staff unconnected with the audit and external quality review procedures, which provide additional assurance that standards and efficiency are maintained.
12. We will attend Executive Board meetings and FAO Finance Committee meetings as appropriate during the biennium; and also meetings of the Audit Committee.

### **Field Visits to WFP Operations**

13. We carry out our financial audit and management report work both in Headquarters and in operational locations around the world. The financial audit will include, for example, the audit of income and expenditure records in local offices; review of expenditure against budget; physical checks of inventory assets; review of advances; and review of bank reconciliations. Management report work in the field will support the main topics to be included in the published audit reports and will therefore include as appropriate issues affecting the economy, efficiency and effectiveness of WFP operations.
14. For the biennium 2006–2007, we intend to visit and produce management letters for 15 countries, including the six regional bureaux. Subject to the need to adjust our programme in response to changes in circumstances, we anticipate that the following countries will be visited during the biennium: Algeria, Chad, Cuba, Egypt, Eritrea, Ethiopia, Indonesia, Kenya, Panama, Senegal, Somalia, South Africa, Sudan, Thailand and Uganda. Furthermore, in addition to this programme of work, the financial report and audit opinion, we will produce four subject reports for consideration by the Executive Board.
15. The selection of locations is risk-based using our own risk criteria, such as: the value of operational budgets; the type of operation in-country; and audit findings from previous field visits by us and by internal audit. We will remain responsive, however, to the demands of WFP's operational activities and any changing circumstances.

### **Management Reports to the Executive Board**

16. Our reports to the Executive Board are intended to address areas which are of importance in terms of their significance to the efficient and effective operation of the organization, the delivery of WFP's objectives and the scale of resources devoted to them.

### **Corporate Governance Arrangements**

17. In August 2004, the Executive Director restructured the Audit Committee to include a majority of externally experienced professional advisors, with new terms of reference aimed at providing advice to the Executive on financial management and accounting. We are working with the

Committee to support and contribute to the Committee's efforts; and to ensure a productive partnership between the Audit Committee and External Audit. We welcome the Executive Director's plans to extend further the external representation of the Committee which we believe will further enhance corporate governance. We believe it is essential for the Secretariat to maintain its existing senior management attendance at Audit Committee meetings to continue to ensure effective oversight and advice when the Committee comprises entirely external members.

18. In addition to attending Executive Board meetings and the Audit Committee, we are available to meet periodically with Executive Board Bureau members where this can be helpful.

## Key Risks Identified

19. A number of key aspects of WFP's nature, structure and operations present particular audit risk factors. Our audit approach addresses these risks and the impact of them on internal controls and the financial statements of WFP.

## Strengthening Accountability

20. In response in part to recommendations from our report to the January 2005 Executive Board on financial reporting standards at WFP<sup>1</sup> and to encouragement from a United Nations task force, the November 2005 Executive Board agreed to progress proposals by the Secretariat for the introduction of enhanced financial reporting standards at WFP. Furthermore, the Secretariat has announced the intention to introduce a statement of internal control into the annual financial statements.
21. Our audit will monitor the progress made in these management initiatives with a view to support of both initiatives, which we believe will strengthen transparency and accountability at WFP (management objective 6 from the 2006-2009 Strategic Plan<sup>2</sup>).

## Decentralization and Internal Control

22. The decentralization of WFP's control structure remains a principal consideration for our audit. WFP has continued to seek to improve the effectiveness of the management of operations and internal management controls in part in response to audit findings and concerns raised in our management letters, the findings of internal audit and management's own risk assessment. In financial control terms, decentralization presents risks as well as rewards in the delivery of prompt and appropriate assistance and in the control and accountability of operations.
23. Our planned programme of audit visits to field operations will examine key internal controls operating around expenditure, budgets, bank reconciliations and asset verification. At regional level, we will examine the oversight arrangements in place for monitoring country office activities.

## Risk Management

24. During 2004-2005, WFP began the process of embedding new risk-management mechanisms to provide improved management information and control. Until this is fully in place, significant risks may be undetected and/or unreported to management.
25. Our audit work will review progress on these arrangements and consider the extent to which this process provide a useful structure to enable more effective and efficient management of risk within WFP.

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

<sup>2</sup> WFP/EB.A/2005/5-A/Rev.1

### **Reliance on Implementing Partners**

26. WFP relies on implementing partners to feed beneficiaries and report results to WFP. By the nature of the arrangements, there is a risk of failure to completely report post delivery losses of food and a reputation risk associated with using third parties to meet the organization's corporate objectives.
27. Our planned audit field visits will examine the robustness of field monitoring information provided by implementing partners. We also examine local records relating to the amount of post delivery losses recorded in COMPAS to determine completeness and accuracy.

### **Voluntary nature of donations**

28. Funding for WFP operations is entirely voluntary and as such this automatically presents some operational risk to WFP: if under-funding occurs in any particular area of the business or ongoing activity, there is a risk that funds given by donors specifically for a particular purpose may be used to fund shortages in other areas.
29. Our review of field office expenditure examines the accuracy of transaction postings into the WINGS accounting system which is the primary source of financial information reported to the Executive Board. In the audit of income, we examine the amounts received from donors and verify that funds have been brought to account in accordance with the donors' intentions specified in donor pledge documentation.

## **Proposed Management Audit Coverage**

30. The Financial Regulations provide authority for the External Auditor to examine management or performance audit issues as part of his remit and to report on these to the Executive Board.
31. Following presentation of potential report topics to the Executive Board in June 2006 by the External Auditor, and discussions with the Executive Bureau and the Secretariat, we have identified four subjects for management report during 2006–2007. With the benefit of discussions with the Executive Board and the Executive Board Bureau, we reviewed and selected areas which are relevant in terms of their significance to the efficient and effective operation of the organization and the scale of resources devoted to them.
32. The report topics we have identified include treasury management, the cost of communications, the second part of our review of results based management, and the impact of decentralization. We will provide a follow up to our previous recommendations and will endeavour to continue to provide a staged delivery of our reports to the Executive Board during the biennium.

### **Treasury Management**

33. Every year since 2002, the World Food Programme has held significant cash resources amounting to in excess of US\$1 billion. The level of cash balances necessitates effective management controls to safeguard these sizeable cash assets and provide WFP with the resources to respond to new emergencies quickly and support ongoing programme commitments while also being able to finance obligations arising from activity such as staff benefit funding. This report will provide assurance to Board members that retained funds are safeguarded, cost-effectively managed and available for appropriate use.

### **Cost of Communications**

34. WFP is heavily reliant on its relationship with donors and creating a reputation that fosters contributions to enable WFP to respond not only to emergencies but also ongoing development projects. Our review will consider the cost effectiveness and benefit of communications through liaison offices and fund raising initiatives to generate funds. We will also consider how the

promotion of a “brand image” is linked to WFP targets and priorities to ensure that the investment in communications is providing an acceptable level of return both operationally and economically.

### Results Based Management

35. Our initial report in 2005 on results based management arrangements committed us to report to the Executive Board during 2006–2007 on our review of performance indicators against best practice criteria, including examination of the relevance, definition, usefulness, timeliness and verifiability of indicators. Further we will consider the impact on country office accountability and the extent of training and decentralised support for the results-based approach. We will draw on our findings from our field visits to provide an assessment of the extent to which reported performance improvements can be attributed to improvements in effectiveness rather than the application of more resources.

### Decentralization

36. During 2004–2005, our management letters and financial audit reports highlighted variations in the extent or quality of regional bureau oversight. In financial control terms, decentralization presents issues in the delivery of assistance in emergency conditions and in controlling and accounting for financial aid. Following the reporting in 2005 of a fraud in the Southern Africa regional bureau, Headquarters circulated a directive to offices indicating that financial oversight of financial controls was a regional office responsibility.
37. Senior financial management are implementing a number of financial oversight controls which will become fully functional in 2006:
- SHAPE – a monthly performance spreadsheet maintained by the Deputy Director of Administration which will indicate progress made on targets set by divisional directors, to enhance oversight by administrative management.
  - DASHBOARD – a field based assessment procedure under development to enable oversight of progress against financial objectives – status of longstanding balances for example.

Our review will assess the impact on field-based staff numbers by comparison with those at Headquarters, and provide commentary on the accountability and performance of monitoring procedures through decentralised operations and financial control processes.

### External Audit Reporting to the Executive Board

38. In addition to the subject-based performance audit reports, we will report on our audit of the Programme’s financial statements to complement the audit opinion and inform the Executive Board on significant matters arising from our financial audit work.
39. We will give the Executive Director the opportunity to comment on our audit findings before reporting to the Executive Board. We operate a “no surprises” policy of fully discussing our audit findings with the organization prior to reporting, seeking to agree the facts on which the conclusions and recommendations of the audit report are based. This allows the Executive Board to consider the issues raised in External Auditor’s reports in the confident knowledge that they are based on sound, reliable and fairly presented facts. This also provides the Executive Director and his staff the earliest possible opportunity to act on practical recommendations made by the External Auditor.

## Annex I

### Financial Audit Methodology

1. In applying the highest professional auditing standards, we adopt a clear focus on risks and controls, with the aim of :
  - adding value through the external audit process; and
  - providing opportunities for improving efficiency and generating savings for the organisation.
2. Our audit approach is based on obtaining a thorough understanding of the operations and activities of the Programme in order to identify the main risks arising from its activities. Material risks may affect the ability of the Programme to achieve its objectives and may influence the reliability and accuracy of the financial statements. Our audit approach therefore focuses on the concepts of materiality and risk, and on the needs of users of the financial statements.
3. Materiality is a concept which recognises that financial statements can rarely be absolutely correct. A matter is regarded as material if its inclusion, omission, mis-statement or non-disclosure is likely to distort the overall view given by the financial statements. Our work therefore concentrates on all key areas of activity, and the External Auditor's report on the financial statements is confined to substantive issues. Less important matters are dealt with in discussion and correspondence with the Executive Director.
4. We carry out a thorough risk evaluation, which includes an assessment of the strengths and weaknesses of controls within the organisation's financial systems - taking account of developments such as the introduction of new computerised systems and changes in procedures - in order to determine the likelihood of material error, including fraud, occurring. The results of the assessment help us to determine the level of audit evidence needed to support the audit opinion; concentrate our efforts towards high-risk areas; and improve the cost-effectiveness of audit testing.