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**Executive Board  
First Regular Session**

**Rome, 31 January–2 February 2005**

# **RESOURCE, FINANCIAL AND BUDGETARY MATTERS**

**Agenda item 5**

*For consideration*

# **E**

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## **FOLLOW-UP ON THE RECOMMENDATIONS OF THE EXTERNAL AUDITOR**

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## NOTE TO THE EXECUTIVE BOARD

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

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 the Supervisor, Meeting Servicing and Distribution Unit (tel.: 066513-2328).



## PROGRESS REPORT ON THE IMPLEMENTATION OF THE EXTERNAL AUDITOR'S RECOMMENDATIONS

1. The Executive Director is pleased to submit this second progress report on implementation of the recommendations of the External Auditor.
2. The report is divided into two sections: the first covers the remaining seven items from the 2000–2001 Long-Form Report, which have all been completed; the second covers the status of implementation of the 2002–2003 audit recommendations, as summarized below:

Audit Report	Total recommendations	Completed as at 30 Nov 2004	Completed as at 30 Jun 2004
Long-Form Report 2002–2003	8	4	1
Human Resources Strategy	5	1	1
Air Operations	9	5	3
Vulnerability Analysis and Mapping	7	3	1
Corporate Governance	4	3	2

3. Recommendations reported as completed are subject to review by the External Auditor during the course of their audit.
4. The Secretariat is monitoring implementation of these recommendations and will submit a third progress report to the Board at its Annual Session in June 2005.



## FOLLOW-UP ON THE IMPLEMENTATION OF RECOMMENDATIONS IN THE 2000–2001 AUDIT REPORT OF THE EXTERNAL AUDITOR

External Auditor's recommendations (as per 2000–2001 Audit Report)	Importance	Actions taken to date or to be taken as at 30 June 2004	Actions taken to date or to be taken as at 30 November 2004
<b>FINANCIAL MATTERS</b>			
<b>1. Commodity valuation methods</b>			
<p>The previous recommendation is reiterated for the design and implementation of a comprehensive procedure, including a more specific definition of what constitutes a donor invoice that complies with General Rule XIII.6 and Financial Rule 104.2. [para.15]</p>	Significant	<p>The draft consolidated finance manual, to be issued before the end of 2004, will include procedures on the valuation of in-kind contributions and define the term "donor invoice".</p>	<p>The draft <i>Consolidated Finance Manual</i> was published in WFPGo on a test basis during November 2004. Comments are being sought from all users; the final version will be released in January 2005.</p> <p>The definition of "donor invoice" in relation to valuation of in-kind contributions from donors is included.</p> <p>Action on this recommendation is deemed complete.</p>
<b>2. Contribution from the Friends of WFP</b>			
<p>In view of the current intention of WFP to generate more funding from the private sector, it is recommended that a policy and detailed guidelines be established in this regard. Since the issue may have repercussions on ISC, as in the case of the Friends of WFP, the Executive Board should be consulted prior to the issue of the policy. The Programme indicated that this would be one of the issues raised in respect of the resource and long-term financing policy (R&amp;LTF). [para. 22]</p>	Significant	<p>Principles under consideration for private-sector engagement were presented to the Board and addressed at an informal consultation on 5 May 2004. A request for further information was fulfilled in a further consultation on 13 July 2004. As a result of these consultations, guidelines will be finalized and distributed for staff guidance in September 2004; research will be continued and management analysis carried out.</p>	<p>The guidelines on private-sector contributions were approved and issued in December 2004.</p> <p>Action on this recommendation is deemed complete.</p>



External Auditor's recommendations (as per 2000–2001 Audit Report)	Importance	Actions taken to date or to be taken as at 30 June 2004	Actions taken to date or to be taken as at 30 November 2004
<b>3. Interest</b>			
It is recommended that a new accounting instruction on the computation of interest be promptly issued. [para. 29]	Merits attention	The allocation of corporate interest income to various trust funds and special accounts is done through WINGS every six months. The written procedures will be included in the finance manual.	The procedures for accounting for interest income of trust funds and special accounts have been incorporated in the <i>Consolidated Finance Manual</i> .  Action on this recommendation is deemed complete.
<b>4. Number of accounts (chart of accounts in WINGS)</b>			
It is recommended that a review be conducted with the objective of streamlining the chart of accounts. [para. 48]	Significant	No further action required on streamlining the chart of accounts.  The Consolidated Finance Manual will be issued before the end of 2004.	The <i>Consolidated Finance Manual</i> includes a section on the Chart of Accounts that will be updated regularly.  Action on this recommendation is deemed complete.
<b>MANAGEMENT MATTERS</b>			
<b>5. Currency Management Policy and foreign exchange instruments</b>			
The following is recommended:  ➤ An exhaustive study on the extent and implications of receipts and disbursements in currencies other than the US dollar should be prepared and discussed by the IC.  ➤ The outcome should be formalized in an amendment to the existing policy and should be communicated to the Executive Board for information. [para. 163]	Fundamental	A review of WFP's foreign-exchange accounting policies on valuation of contributions, obligations and disbursements, and revaluation of assets and liabilities, has been completed. A policy directive undergoing initial review will be issued in the fourth quarter of 2004 after consultations with a wider audience in WFP.	On advice from World Bank consultants working on a currency-management policy for WFP, approval of the new foreign-exchange policy will be deferred until a foreign-exchange management strategy is developed in February 2005. This will provide consultants with flexibility if any changes are needed for a more effective or simpler hedging strategy.





External Auditor's recommendations (as per 2000–2001 Audit Report)	Importance	Actions taken to date or to be taken as at 30 June 2004	Actions taken to date or to be taken as at 30 November 2004
		<p>Currency management policies will be developed with the assistance from World Bank, a representative of which is a member of IC.</p> <p>This portion of the comprehensive foreign exchange policy is planned to be completed by the end of 2004.</p>	<p>With the above structure in place, action on this recommendation is deemed complete.</p>
<b>Decentralization Process</b>			
<b>6. Roles and Functions of each level</b>			
<p>It is recommended that a new directive on RB, RO and country office roles and functions be finalized as soon as possible. [para. 201]</p>	<p>Merits attention</p>	<p>Although the respective roles and responsibilities of the regional bureaux, country offices and Headquarters were clearly delineated in OD Directive no. OD 2000/004 of 10.11.2000, they will be updated as part of WFP's imminent overall operations review, which will address issues such as decentralization and delegations of authority in light of WFP's business process overview.</p>	<p>The roles and responsibilities of regional bureaux, country offices and Headquarters will be updated as part of WFP's ongoing operations review, which is also addressing issues such as decentralization and delegations of authority, taking into consideration BPR and other initiatives.</p> <p>With the above structure in place, action on this recommendation is deemed complete.</p>
<b>FMIP Implementation</b>			
<b>7. Data clean-up and migration</b>			
<p>It is recommended that the work on outstanding migration issues be pursued until all the discrepancies are fully explained, all items duly reconciled and all missing documentation duly filed. On the basis of precise estimates of the workload, deadlines should be established and closely monitored, and progress regularly reviewed by OEDA. [para. 227]</p>	<p>Fundamental</p>	<p>The migrated negative fund balances have been cleared except for \$3.7million pertaining to funds pending final accounting and/or agreement with donors on payment or utilization. Clearing of this remaining balance is expected to be completed before the end of 2004.</p>	<p>The remaining balance will be cleared before the end of 2004, either through offset with surpluses from other funds from the same donor, or through accounting adjustments or write-off. With the above strategy in place, action on this recommendation is deemed complete.</p>

## SECOND PROGRESS REPORT ON THE IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS ON 2002–2003 OPERATIONS

External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at 30 June 2004	Actions taken to date or to be taken as at 30 November 2004
<b>Long-Form Report of the External Auditor (WFP/EB.A/2004/6-B/1/3)</b>			
<b>Accounting and Disclosure of Project Expenditures</b>			
<p><b>Recommendation 1.</b> To ensure accuracy in the reporting of financial information, particularly in financial statements and donor reports, I recommend that senior management undertake regular reviews of the information recorded in WINGS to confirm that expenditure is correctly posted to the project to which it relates.</p>	<p>Accurate and timely recording of project expenditure is an important issue to be addressed through clear guidelines, training, reporting and accountability of managers.</p>	<p>To enhance its capacity to conduct such reviews, WFP has:</p> <ul style="list-style-type: none"> <li>◇ enhanced the project reporting capacity of WINGS by adding new customized project management reports;</li> <li>◇ developed "quick-access" guides to the most useful financial management reports for release by September 2004;</li> <li>◇ provided targeted training on reporting to country directors and other project managers; and</li> <li>◇ initiated the development of a data warehouse, which includes project management information as a priority output.</li> </ul>	<p>The forthcoming WINGS upgrade will include as a requirement the ability to report financial information by country office to assist management in reviewing expenditures posted to projects.</p>
<p><b>Recommendation 2.</b> I also recommend that management improve the internal processes for ensuring the prompt programming of funding to field offices in WINGS, to facilitate the accurate recording and reporting of project expenditure.</p>	<p>A business process review (BPR) was initiated in March 2003 to improve efficiency in WFP, including prompt programming of funds.</p> <p>The primary objective of BPR is to ensure maximum use of resources to meet the needs of the greatest number of beneficiaries. The new business process</p>	<p>An advance funding mechanism has been implemented for the PRRO pilot project in the Democratic Republic of Congo (DRC) on a test-case basis. The advance was provided from the Operational Reserve against forecast contributions in order to alleviate the timing mismatch described previously.</p>	<p>Training in programming funds has been conducted for all country offices with pilot projects. These country offices can now do their own programming for directed multilateral funds of the pilot projects.</p>





External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at 30 June 2004	Actions taken to date or to be taken as at 30 November 2004
	<p>envisages issuing allotments on the basis of forecast contributions at the required time using advancing mechanisms, as appropriate. This will remove delays in implementation resulting from a timing mismatch between operational needs and confirmed contributions, and will ensure greater on-time availability of food aid.</p> <p>Consequently, the process of making funds immediately available through advance funding mechanisms will facilitate the recording of expenditures to the appropriate project. Cross-charging of expenditures will no longer be an issue, because there will be no need to charge the expenditures of projects awaiting confirmed contributions against other projects that have funds.</p> <p>The actual programming of related funds after directed contributions have been confirmed will be decentralized to country offices so that the country directors have direct management of their funds, thus eliminating an unnecessary layer in the business process.</p>	<p>Other pilot projects will be implemented in Cambodia, Indonesia, the Palestinian Territory and West Africa. The procedures will be improved based on lessons learned from these pilot projects. Subject to Board approval, the resulting improved business processes arising will be implemented throughout WFP.</p>	<p>A single-pot approach for LTSH, ODOC and DSC has also been adopted for the pilot projects. The objectives are to ensure availability of funds for any of the three cost groups and to reduce unspent balances at project closure.</p>
<p><b>Recommendation 3.</b> Once operations are complete, I recommend that projects should be closed promptly in financial terms; and that any remaining balances identified should only be redeployed on receipt of further instructions from the donor on their use and application.</p>	<p>A joint directive from the Operations Department and the Administration Department was issued on 31 October 2003 to provide guidelines to project managers on closing projects on a timely basis after projects cease to be operational. The directive defines the procedures for operational and financial closures, pre-closure and post-closure requirements, and resource transfers.</p>	<p>The directive has been implemented and financial closure of projects has now become a regular feature of operations.</p>	<p>Action on this recommendation is deemed complete.</p>

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	Under the directive, all directed multilateral resource transfers from one project to another are subject to donor approval. The directive provides for resource transfers that may be processed within four weeks of operational closure and those that may be processed within three months of financial closure.		
<b>Disclosure of Support Costs</b>			
<p><b>Recommendation 4.</b> I recommend that management more clearly define Programme Support and Administration (PSA) and direct support costs (DSC) in terms of the type of expenditure each category is to cover, to ensure that administrative and support costs which cannot be directly attributable to a programme category or activity are consistently recorded as Programme Support and Administration in the financial systems.</p>	<p>WFP's financial policy framework defines PSA and DSC in terms of their relationship to a project rather than in terms of expenditure type.</p> <p>PSA costs are fixed for a biennium based on the PSA budget as approved in the Management Plan. In country offices, these costs provide a standard structure meant to cover the basic costs. DSC costs are support costs that are deemed to be incremental to this standard structure.</p>	<p>The constraint imposed by the approved Management Plan for 2004–2005 prevents the Secretariat from defining PSA and DSC in terms of type of expenditures. The constraint refers to the cost structure of country office PSA budgets where the PSA budget was defined in terms of a fixed amount and not by expenditure type.</p> <p>The classification of DSC and PSA will be considered and further clarified in the course of the review of the minimum fixed costs of WFP country offices.</p>	<p>PSA and DSC will be more specifically defined in the Management Plan for 2006–2007.</p>
<b>WINGS Reporting Functions</b>			
<p><b>Recommendation 5.</b> WINGS is to be subject to a forthcoming upgrade and I recommend that WFP consider reconfiguring the system, to enable it to provide expenditure reports by field office and business unit; and to be capable of tracking individual donations from income through to expenditure.</p>	<p>The Secretariat recognizes the current limitations of WINGS in this respect and will address this issue in the forthcoming upgrade. In the meantime, the system can be used to generate project-based reports.</p>	<p>A new functionality in WINGS has been developed that allows managers to report on all projects within their field office. Guidelines have been developed and training has been conducted for the country directors and other managers in ODD Dakar on the use of the Project Overview Report and related information. The issue will be further examined as a priority during the planning of the forthcoming upgrade.</p>	<p>As mentioned above, a requirement for the upgrade will be the ability to report financial information by country office.</p>





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<b>Financial Oversight and Guidance</b>			
<p><b>Recommendation 6.</b> I recommend that the management update the Country Office Accounting Guide as a matter of priority to provide a comprehensive manual to field offices which reflects the changes to the finance system introduced since 1999; and consider the issue of French and Spanish language versions of the Guide where appropriate. This recommendation was also made by my predecessors.</p>	<p>The Secretariat agrees with this recommendation and has initiated this process.</p>	<p>A new comprehensive finance manual is in the final stages of development. The draft is being circulated in-house for comments and will be issued before the end of 2004. This manual will replace all current financial manuals (including the Country Office Accounting Guide) and will act as an up-to-date repository for all financial policy guidance.</p> <p>This manual aims to be available electronically in all required locations and will be available in French and Spanish.</p>	<p>The draft <i>Consolidated Finance Manual</i> was published in WFPGo on a test basis during November 2004. Comments are being sought from all users; the final version will be released in January 2005.</p> <p>Action on this recommendation is deemed complete.</p>
<p><b>Recommendation 7.</b> I recommend that the regional bureaux should have a clear responsibility to oversee and monitor the financial performance of the country and project offices in their region, to be in a position to ensure the integrity of the Programme's systems for budgetary and financial control.</p>	<p>The role of the regional bureau finance officer evolved in response to WFP's decentralization initiatives. This allowed the unique needs of each regional office to be addressed, but certain aspects of the role were initially unclear.</p> <p>This role was reviewed at a recent workshop of senior finance staff from Headquarters and regional bureaux where it was concluded that the oversight and monitoring of country offices should be included in the regional finance function.</p>	<p>The job description of the regional bureau finance officer was updated to include the oversight and monitoring function.</p> <p>A financial analyst post and a national officer post have been added in each regional bureau, allowing the bureau to carry out its responsibilities. Systems tools including bank reconciliation summary reports and a list of open items have been developed to facilitate the monitoring of risk areas such as bank reconciliations and outstanding receivables and payables.</p>	<p>The role of the regional bureau finance officer has been redefined to address the bureau oversight and monitoring function .</p> <p>During November 2004, finance workshops were held in the six regional bureaux for all country office finance officers, in which "minimum monthly closure tasks" were presented, outlining the monthly reporting requirements for all field offices. The finance officers will prepare these reporting packages for review and approval by country or regional directors. The packages will provide country office financial information for regional finance officers to enable them to carry out their roles.</p> <p>The regional bureau finance analyst function has been established to assist regional and country office</p>

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			<p>managers in reviewing WINGS financial information, including analyses of contribution forecasts, pipeline breaks, income vs budget and budget vs expenditures.</p> <p>With these structures in place, action on this recommendation is deemed complete.</p>
<p><b>Recommendation 8.</b> I recommend that WFP provide refresher training on WINGS for field staff, to ensure the full and proper use of the system's functionality and adequate levels of internal control.</p>	<p>WINGS refresher training has been developed to address this issue.</p>	<p>WINGS refresher training has been developed and delivered to 15 country offices of ODD Dakar. Training sessions for the other bureaux are being scheduled during the second half of 2004.</p> <ul style="list-style-type: none"> <li>➤ This training is aimed at two groups: finance managers such as country directors and programme officers, and field finance staff.</li> <li>➤ "Quick-access" guides have been developed for the most useful financial management reports.</li> <li>➤ Targeted training on reporting has been developed and delivered to country directors and other project managers.</li> <li>➤ Plans have also been developed to provide targeted WINGS training on financial issues in all regions in October / November this year.</li> </ul>	<p>In November 2004, WINGS training courses were held in two other regional bureaux covering 25 country offices.</p> <p>WINGS issues were discussed and addressed at the finance workshops held in the six regional bureaux during November.</p> <p>During the first half of 2005, WINGS training courses will be conducted for the remaining three regional bureaux. As reference materials for all field staff, the <i>WINGS Training Manual</i> has been updated and is available in WFPGo.</p> <p>With the above structure in place, this recommendation is deemed complete.</p>
<p><b>Review of WFP's Human Resources Strategy (WFP/EB.3/2003/5-B/1)</b></p>			
<p><b>Current arrangements for accounting and needs assessment of staffing requirements</b></p>			
<p><b>Recommendation 1.</b> I recommend that WFP consider the merits of identifying</p>	<p>WFP recognizes the need for managers to have access to staff costs in a comprehensive and systematic manner.</p>	<p>The Secretariat has taken action to include commitments for staff paid through the payroll system in all reports. Managers</p>	<p>The HR functionality in WINGS – payment in multiple currencies, career</p>





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<p>and disclosing staff costs on a comprehensive and systematic basis; and review whether current and future informational needs are being fully met by WINGS as presently configured.</p>	<p>The current configuration of WINGS does allow staff costs to be collated and reviewed; for national and local staff, however, it is only the cost that is recorded. The current configuration does not permit for details on numbers/grades, etc. of national and local field-based staff.</p>	<p>now have a more complete picture of their budgetary status related to staff. The Secretariat intends to pursue the inclusion of all staff in the human resources system, including the national staff, particularly in light of the upcoming upgrade of the WINGS system.</p>	<p>development and other information needs – will be considered as part of the WINGS upgrade project.</p>
<p><b>Competency development and career management</b></p>			
<p><b>Recommendation 2.</b> I recommend that the Human Resources Division analyse the impact of the competency based system on the grade profile of WFP; and as a matter of sound financial management practice, carry out an assessment of the financial consequences of the new arrangements and other aspects of the new HR strategy.</p>	<p>The competency profile was developed using the current generic job profiles, which are based on the International Civil Service Commission (ICSC) classification standards. This is not expected to cause any differences in position grading.</p>	<p>Finalization of the competency profiles and the generic job profiles have been completed.  The competencies were based on generic job profiles that are in line with ICSC classification standards, so WFP does not anticipate a difference in the grades of positions. By the end of 2006, however, generic job profiles and competencies will have been reviewed.</p>	<p>A preliminary review of the generic job profiles and competencies will be carried out in mid-2005.</p>
<p><b>Recommendation 3.</b> I recommend that the Human Resources Division review the role and additional responsibilities of the Staffing Coordinators, to ensure that they have the capacity to be fully effective in supporting a strategic approach to resource management in addition to the management of individual staff members and their operational responsibilities.</p>	<p>The staffing coordinators have various levels of responsibilities based on the numbers of staff in their area. For example, the programme staffing coordinator with 400 staff is full-time, but the HR staffing coordinator, who oversees about 40 staff, devotes only a small percentage of his/her time to this.</p>	<p>The Secretariat will evaluate the extent of staff oversight of the programme staffing coordinator and identify sub-profiles within the programme officer category if necessary. The evaluation will be done at the end of 2005, after one full year in the role.</p>	<p>Further action will be taken at the end of 2005.</p>
<p><b>Use of WINGS in recruitment</b></p>			
<p><b>Recommendation 4.</b> Appropriate use of WINGS can offer considerable benefits to the effectiveness and efficiency with which the Programme's</p>	<p>Consideration is being given to introduce the WINGS career development module in the next SAP upgrade. In the meantime, the WINGS system has been interfaced</p>	<p>The Secretariat will evaluate the extent to which WINGS upgrade can address human resource management for international and national staff. The</p>	<p>As mentioned above, the HR functionality in WINGS for information needs will be considered as part of the WINGS upgrade project.</p>

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Human Resource Strategy and resource management arrangements can be implemented. I recommend that WFP give appropriate management emphasis to the review of technical needs for new electronic tools, so that future requirements can be integrated with wider system development in a cost effective way.	with Staffnet, a web-based system which captures the skills and experience of staff members and external candidates through their online CVs. The interface ensures that contractual data in WINGS is reflected in the staff profile.	Secretariat will also determine cost-effectiveness/benefits of using WINGS versus other programmes that can be interfaced with WINGS data.	
<b>Performance management</b>			
 <p><b>Recommendation 5.</b> The consistency and objectivity of the assessment process is important to aid WFP in its long-term goal of achieving excellence amongst its staff and I therefore recommend that WFP consider the desirability of further steps to ensure consistency of appraisals across the organisation in any future arrangements.</p>	<p>The Performance and Competency Enhancement (PACE) programme is being introduced across WFP; training will be completed by 31 August 2004. The PACE programme introduces competence profiles that will allow baseline criteria to be used by staff members and their supervisors when talking about performance. Support training and materials will be available to all staff through intranet and training courses.</p> <p>The application of the form is through a Lotus Notes database that will allow HR to analyse in a timely manner the consistency of ratings and other information necessary to assist management and WFP to plan and be more consistent in performance management.</p>	<p>PACE training throughout WFP began in April 2004 and will be completed by August 2004.</p>	<p>All staff have been trained in PACE; the first cycle of the performance-management system will be completed by 31 January 2005; a compliance memo will be issued before the end of the year. Other tools to assist staff members in completing PACE are being finalized.</p> <p>With the implementation of PACE, action on this recommendation is deemed complete.</p>



External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at 30 June 2004	Actions taken to date or to be taken as at 30 November 2004
<b>Review of WFP's Air Operations (WFP/EB.A/2004/INF/8-A)</b>			
<b>Financial management of air operations</b>			
<p><b>Recommendation 1.</b> I recommend that WFP improve the budgetary control of air operations generally, to ensure the adequacy and availability of funding for individual operations; and to ensure the accuracy and reliability of financial information to support effective budget management, through an appropriate standardized form of financial recording for all air operations.</p>	<p>Budget control is being addressed through the management procedures for the Aviation Special Account (ASA). Aviation-related funds that are currently outside the financial purview of the WINGS are being absorbed into ASA to streamline the accounting and fund management process. A one-month advance and one-month deposit based on monthly contracted flying hours are also being instituted to prevent WFP from running into debt with operators as a result of funding shortfalls. A central invoicing system is being installed to enhance the tracking and accounting of (i) outstanding debts by user agencies and (ii) an advance deposit.</p>	<p>The procedures for the operation of ASA are being formulated jointly by FS and OT and will be published before the end of 2004.</p>	<p>A draft of the joint FS and OTP directive was circulated in November 2004 for comments. The final version is expected to be issued by the end of 2004.</p>
<p><b>Recommendation 2.</b> I recommend that WFP reviews the effectiveness of the present policy and practice on charging, to improve cost recovery and cash flow in air operations and minimize the risk of debts adversely affecting the services provided.</p>	<p>Continued funding by donors will usually be addressed well before the funding runs out. Where donors are no longer interested in funding an air transport service, the transition from a donor-funded to a cost-recovery air transport service will be initiated 30 days before donor funds are exhausted, with the agreement of users. If no agreement is reached 14 days before the date funds are expected to be exhausted, notice will be given to terminate the operation when funds are depleted to avoid debts.</p>	<p>A financial-performance monitoring system for each operation is being established and will be functional before the end of 2004.</p>	<p>Improved procedures for charging clients are included in the above directive. In the meantime, development of a financial-performance monitoring system is still in progress.</p>



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<p><b>Recommendation 3.</b> I recommend that prior to undertaking additional activities in the management of air operations, WFP draws up clear and comprehensive agreements with the third parties involved, in particular to clearly identify the respective financial liabilities of all parties involved.</p>	<p>Technical Service Agreements (TSAs) between WFP aviation and all clients are being instituted pursuant to Operations Department Directive OD2004/001 dated 13 January 2004.</p>	<p>A TSA has been signed with UNHCR; TSAs are in the process of being concluded with all user agencies including WFP country offices.</p>	<p>The requirement of the Operations Directive to conclude TSAs with all user agencies is being enforced.</p>
<p><b>Operational management</b></p>			
<p><b>Recommendation 4.</b> I recommend that WFP take more effective and prompt action to ensure implementation of the recommendations of the ICAO report for the improved safety management of air operations: specifically to ensure that it addresses issues concerning the contracting of appropriately qualified aircraft providers and the establishment of adequate insurance or liability cover arrangements.</p>	<p>Surveillance of aircraft operators depends on the funding available. There is no longer a reliable donor-funding mechanism to undertake these activities, so the funding for safety activities will be borne by a fixed administrative charge, currently US\$35 per hour, included in the flying-hours rate.</p> <p>WFP aviation follows the policies regarding insurance established by the United Nations as a whole. The current policy is a US\$50,000 third party liability cover and US\$135,000 per passenger, in line with the Montreal Convention dated November 2003.</p>	<p>WFP Aviation has adopted a system where aircraft providers seeking business with WFP undergo a registration process that includes inspection of its operations, training programmes and infrastructure.</p> <p>Two professional training programmes on air transport and safety management were conducted by TPG to maintain the technical competence of the staff.</p> <p>Four Aviation Safety Officers and two additional Air Transport Officers have been recruited. The insurance policy has been increased from US\$20,000 to US\$50,000 for third party liability and from US\$75,000 to US\$135,000 per passenger.</p>	<p>The ICAO recommendations on safety management have been implemented; adequate insurance cover has been included in contracts with operators.</p> <p>Action on this recommendation is deemed complete.</p>
<p><b>Recommendation 5.</b> I recommend that as a matter of priority, WFP should adopt coherent, comprehensive aviation standards and operating procedures commensurate with ICAO standards; and put in place appropriate arrangements to ensure compliance with the standards on a continuing basis.</p>	<p>The United Nations Aviation Standards for Peacekeeping and Humanitarian Air Transport Operations (AVSTADS) has been adopted as a contracting standard since Dec 2002; it is currently being reviewed and refined by WFP in conjunction with the International Civil Aviation Organization (ICAO) and the United Nations Department of Peace-Keeping Operations (DPKO).</p>	<p>The review of AVSTADS was made in January 2004, together with ICAO and DPKO. Another meeting will be held in October 2004 at which the conclusions of the review will be adopted with immediate effect.</p>	<p>The Aviation Technical Advisory Group (ATAG) met on 2 November 2004 and revised AVSTADS. The second edition of AVSTADS will be published for implementation by the first quarter of 2005.</p> <p>With the adoption of AVSTADS by WFP aviation, action on this recommendation is deemed complete.</p>



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<p><b>Recommendation 6.</b> I recommend that WFP review the existing staffing and related budget provision for air operations against the requirements indicated by the ICAO recommendations, to ensure that the Programme benefits from appropriate levels of technical skills to deliver safe management of air operations.</p>	<p>This recommendation is being addressed through the implementation of the SDED Ops Directive in conjunction with WFP country offices.</p>	<p>Three of the four aviation safety officers have been deployed in the region. Professional development has been secured, and eight staff have been trained as air transport officers and have successfully received flight despatch licences.</p>	<p>The regional aviation safety officers are in place and fully functional. Action on this recommendation is now deemed complete.</p>
<p><b>Recommendation 7.</b> I recommend that WFP establishes systematic risk assessment procedures to be applied to each air operation, to identify and respond to areas of operational and safety risk, and move towards a safer operating environment for the Programme as a whole.</p>	<p>Risks are currently being assessed in the decision-making process by air transport officers managing air transport service operations in the field and in WFP Headquarters. The tools supporting risk information are:</p> <ul style="list-style-type: none"> <li>a) the aviation safety reporting (ECCAIRS), and audit (CPSS) systems, which gather and analyse information regarding hazards and airworthiness;</li> <li>b) the security reporting system monitors and reports on any hostile activity in the aircraft's area of operation; and</li> <li>c) the airspace management system comprising Notices to Airmen (NOTAMS) and Notices on Danger/Prohibited Areas.</li> </ul>	<p>The methodology for analysis and application of the information in relation to the tools is being refined and standardized; it should be fully in place by the end of 2004. The following are being implemented:</p> <ul style="list-style-type: none"> <li>a) The Aviation Safety Oversight Unit collects, collates and analyses data on occurrences, incidents and accident reports from WFP-contracted aircraft providers. Information on trends and remedial action is disseminated to all field aviation staff and aircraft operators.</li> <li>b) Assessment of area and route security situations is continuously evaluated. Reports from UNSECOORD and humanitarian agencies, which include any hostile activity, are analysed and disseminated to air transport officers, who take these into account before releasing flights.</li> </ul>	<p>Risk assessment is now an ongoing process for each air operation. With the above structure in place, action on this recommendation is deemed complete.</p>



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		<p>c) The first batch of WFP trainers in aviation security and passenger and cargo handling was recently completed through TPG. The trainers will instruct user agencies and partners, especially in locations where no authority is responsible for these activities.</p>	
<p><b>Recommendation 8.</b> I recommend that WFP carry out a central review of the status of all Memorandums of Understanding with government authorities on air operations, to ensure that they are appropriate for the activities of the individual operations currently in place.</p>	<p>The need and urgency for this has been recognized and is currently being addressed by WFP's Legal Branch (OTI), which is working with country offices on updating the basic agreement to include privileges and immunities in respect to aircraft operations.</p>	<p>An addendum to the basic agreement will be prepared to address such matter as security of aircraft and other equipment and access to aviation fuel. The addendum is expected to be completed before the end of 2004.</p>	<p>The issue of an addendum was revisited: it is felt that in order to respond to emergencies, the basic agreement needs to allow for the import and operation of aircraft.</p> <p>There are already provisions in the basic agreement to cover practically all the requirements of an air operation, so an addendum is not required. An activity agreement that is part of the basic agreement should suffice. The issue is not the agreement but the willingness of the host government to honour the agreement.</p>
<p><b>Recommendation 9.</b> I recommend that WFP strengthens its internal systems for data collection, incident reporting and data sharing, to facilitate appropriate evaluation by staff that are able to effectively interpret, implement and enforce operational and safety controls.</p>	<p>WFP Safety has implemented an improved reporting system; through the United Nations Aviation Technical Advisory Group (ATAG), which is chaired by WFP this year, the system for sharing safety information between DPKO and WFP is in place and being refined. Implementation and enforcement of operational and safety controls is being regularly monitored through safety and management audits of air transport service operations. Management standards have been established through the personal performance reporting</p>	<p>The Aviation Safety Unit has adopted European Coordination Centre for Aviation Incident Report Systems (ECCAIRS) as the primary reporting mechanism. The system is currently functioning and producing quarterly safety summaries to monitor safety trends and facilitate timely corrective action.</p>	<p>With the ECCAIRS reporting system now in operation, action on this recommendation is deemed complete.</p>



External Auditor's recommendations	WFP response	Actions taken to date or to be taken as at 30 June 2004	Actions taken to date or to be taken as at 30 November 2004
	system and recruitment of suitably qualified personnel.		
<b>Review of WFP's Vulnerability Analysis and Mapping (WFP/EB.A/2004/INF/8-B)</b>			
<b>Application of VAM</b>			
<p><b>Recommendation 1.</b> To improve the effectiveness and benefits of the analyses carried out, I recommend that WFP improve knowledge management through systematic collation and dissemination of the information and good practice gained from VAM.</p>	<p>Without a comprehensive food security and vulnerability analysis it is not possible to design food-oriented preparedness responses because the country-specific relationship between risk and household food security is not known. Similarly, without a comprehensive food security and vulnerability analysis it will be difficult to provide benchmarks against which to measure the impact of a shock.</p> <p>The Secretariat acknowledges the need for improved knowledge management and better information dissemination. To address this issue, the Vulnerability Analysis and Mapping (VAM) Unit in Headquarters has developed the VAM Spatial Information Environment (SIE), a web-based information system designed to enable VAM staff to share VAM products with partners and donors. This information system is also available at the regional bureau level and is meant to facilitate information dissemination.</p>	<p>VAM-SIE, the VAM information system, has already been rolled out in ODC, ODJ, ODK and ODD.</p> <p>Actions have been taken to install the system and train VAM field officers in ODB by the end 2004.</p> <p>The system will be set up in ODPC as soon as funds are secured.</p> <p>The VAM web page has been recently updated to include all new reports, studies and maps produced in the field.</p> <p>In January 2004, the VAM Unit published a report entitled <i>Vulnerability Analysis: Concepts and Case Studies</i>, which highlights best practices. This report is to be updated and published annually.</p>	<p>VAM-SIE has been installed and is operational in the remaining two regional bureaux – ODB and ODPC. The VAM web-page is being upgraded to improve dissemination of food-security information and good practice.</p> <p>A consultant is to be hired to design a database for VAM comprehensive food-security and vulnerability studies, in line with corporate decisions on information management.</p> <p>With the foregoing structures in place, action on this recommendation is deemed complete.</p>



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<p><b>Recommendation 2.</b> I recommend that, at the beginning of VAM studies, WFP assess the relative cost benefits of using primary and secondary data.</p>	<p>Secondary data alone are not always sufficient, because the purpose of analysing food insecurity is to understand the underlying causes and to determine whether food aid is an appropriate response.</p> <p>Like other organizations working with poverty and nutrition issues, WFP needs to collect its own data to be able to determine when the food insecurity situation requires food aid intervention, the extent to which food aid should be used and how it can make a difference.</p> <p>The issue should therefore focus on ensuring that the right data are collected and correctly analysed to answer these questions.</p>	<p>The April 2004 <i>VAM Global Meeting Report</i> provides the minimum information requirements for a VAM study.</p> <p>Guidelines on when and how to collect primary data will be finalized by December 2004.</p> <p>The June 2002 <i>VAM Standard Analytical Framework</i> outlines the use of primary and secondary data in vulnerability analyses.</p>	<p><i>Guidelines on Sampling for Food Security</i> and, <i>Guidelines on Mainstreaming Gender, Nutrition and Livelihoods</i> have been issued. <i>Guidelines on Household Food Security Profiles, Guidelines on Livelihood Analysis and Guidelines on Nutrition for Food-Security Analysis</i> will be issued by 15 January 2005.</p> <p>With the issue of these guidelines, action on this recommendation is deemed complete.</p>
<p><b>Recommendation 3.</b> I recommend that WFP strengthen the role and use of the VAM unit in headquarters, to provide advice and quality control in all VAM studies.</p>	<p>WFP is a decentralized organization and VAM is mainly a field tool. Given the diversity of situations within which WFP operates, offices apply VAM in different ways. We agree that a form of quality control needs to be put in place at the regional bureau level with Headquarters as second level, adding value to the work undertaken at the county office level. This should go hand in hand with the issue of detailed normative guidance from the VAM Unit.</p> <p>Applying a standardized methodology based on best practices and lessons learned would also allow for a comparison of vulnerabilities among countries, in terms of numbers of people and causes.</p>	<p>An OD directive will be issued before the end of 2004 to clarify the role of VAM in WFP, in particular the role and responsibility at the regional bureau and Headquarters levels.</p> <p>The VAM Unit continues to provide technical support when possible to VAM work in ODC, ODD, ODJ, ODK and ODPC.</p>	<p>A draft of the OD directive was sent out to regional bureaux for their input and comments. The final version is expected to be issued before the end of 2004.</p>



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<p><b>Recommendation 4.</b> I also recommend that WFP establish arrangements to ensure that feedback from local surveys is channelled through the VAM unit in headquarters, so that best practice may be identified, promoted and incorporated into training courses, manuals and the VAM website.</p>	<p>The Secretariat agrees with this recommendation that the VAM Unit is best placed to identify and promote best practices and facilitate innovative techniques, methods and approaches.</p>	<p>Based on the above-mentioned directive, the VAM Unit will install a mechanism to receive regular updates and feedback from the regional bureaux.</p> <p>Similarly, it will ensure that best practices are disseminated through an annual publication of case studies via the VAM webpage and VAM SIE.</p>	<p>As soon as the OD Directive is officially sent out, VAM will define the mechanism for regular updates and feedback from the field.</p> <p>A review of 2004 best practices will also be conducted during the first quarter in 2005.</p>
<p><b>Partnerships</b></p>			
<p><b>Recommendation 5.</b> I recommend that WFP ensure the availability of timely, consistent and reliable information, through an established VAM methodology, to all parties for the support of operations and to monitor the need for food aid intervention.</p>	<p>The VAM Unit is currently preparing guidelines for field use. The need for guidelines and toolkits was also raised as an important area of work at the Global VAM meeting in April 2004.</p>	<p>Guidelines, methods and tools for VAM food security data collection and analysis will be issued in December 2004. To date, on-the-job training activities have been carried out by staff from the VAM Unit in ODD, ODK, ODC and ODPC to overcome the lack of written guidelines and ensure consistent, validated methods of analysis.</p>	<p>The guidelines mentioned in Recommendation 2 are also in response to Recommendation 5.</p> <p>With the issue of these guidelines, action on this recommendation is deemed complete.</p>
<p><b>Funding</b></p>			
<p><b>Recommendation 6.</b> I recommend that WFP review the adequacy of the funding arrangements for VAM against its context as a strategic and management priority in strengthening the organization's knowledge base and advocacy of food-assisted intervention.</p>	<p>Most of the VAM work is currently funded from direct support costs (DSC) and consequently focuses more on targeting, particularly geographic targeting, for existing programmes and projects.</p> <p>An expanded analytical process needs to be developed to identify entry points for food assistance and inform other aspects of humanitarian or development policy related to food security. This expanded process can help WFP to extend its knowledge base on food security and vulnerability issues and serve as a point of departure for advocacy and dialogue with</p>	<p>Extra budgetary funding proposals have been submitted to ISP, DFID, ECHO and the Belgian Government. Resources requested from ISP have been approved for VAM activities for 2004–2005. This represents only a partial funding of overall resource requirements, however.</p>	<p>In addition to the ISP/DFID funds, VAM has received contributions from ECHO. Efforts to generate additional resources are continuing.</p>

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	<p>governments, civil society and the United Nations system.</p> <p>To address this recommendation, it would be necessary to secure a significant amount of resources.</p>		
<b>Performance measurement</b>			
<p><b>Recommendation 7.</b> I recommend that WFP develop measurable targets against which the performance of VAM can be judged, so that the data collected by VAM can establish a benchmark against which the operational success of WFP may be measured.</p>	<p>The Secretariat recognizes the significance of this recommendation, because the most important aspects of VAM work are analysis and interpretation of data to strengthen WFP's operational performance.</p> <p>Within the new WFP Management Plan for 2004-2007, VAM has a performance indicator "percentage of VAM baseline surveys available for identified priority areas". The VAM Unit has also prepared an analytical checklist to assess the quality of VAM analyses worldwide. The checklist will be disseminated for feedback purposes and then finalized, incorporating comments and suggestions from colleagues in regional bureaux and country offices.</p>	<p>Priority countries where VAM analyses are to be undertaken have been identified in collaboration with regional bureaux and country offices. A draft copy of the analytical checklist has been prepared and will be sent out to the field. It is anticipated that the checklist will be finalized and ready for use during the third quarter of 2004.</p>	<p>The analytical checklist is being developed to accommodate quality-control and performance parameters for the VAM work to be carried out in the ECHO-funded project; it is expected to be finalized by February 2005.</p>
<b>Review of Corporate Governance at WFP (WFP/EB.A/2004/INF/8-C)</b>			
<b>Audit Committee</b>			
<p><b>Recommendation 1.</b> I recommend that WFP revise the practice and terms of reference of the Audit Committee to include appropriate arrangements for reporting formally to the Executive Director. In conjunction with the</p>	<p>Agreed.</p>	<p>The terms of reference of the Audit Committee have been revised; they include formal reporting to the Executive Director.</p>	<p>The new audit committee has formulated its TORs, which set out the reporting relationship with the Executive Director and the Board. Action on this recommendation is deemed complete.</p>





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<p>Governance Group, an informal working group of the Bureau, it might also consider its reporting relationship to the Executive Board.</p>		<p>The Audit Committee is essentially internal and reports to the Executive Director. Its interface with the Executive Board is not foreseen. The Executive Director may choose, however, to inform the Board of any significant issues arising from the reports of the Audit Committee.</p>	
<p><b>Recommendation 2.</b> To afford a greater level of independence and objectivity in the advice available to corporate management, I recommend that WFP should introduce non-executive independent members to the Audit committee, but I recognize that this is another matter where the practical implementation would need to be considered fully by the Executive Board.</p>	<p>Agreed.</p>	<p>After consultation with the Bureau and the Steering Group on Governance, the Board welcomed the Executive Director's proposal for an Audit Committee composed of external financial experts and chaired by an external member. The Executive Director has selected and appointed new members to the Audit Committee, which will be composed of three external and two internal members.</p>	<p>The new Audit Committee has been appointed; it comprises three external members and two internal members, all with relevant expertise and knowledge. Action on this recommendation is deemed complete.</p>
<p><b>Review of the internal control systems</b></p>			
<p><b>Recommendation 3.</b> I repeat the recommendation made by my predecessor that WFP define the respective roles and responsibilities of the regional bureaux and country offices and delineate clearly the accountability and monitoring arrangements necessary to ensure the delivery of the Programmes' objectives.</p>	<p>Agreed.</p>	<p>Although the roles and responsibilities of the regional bureaux, country offices and Headquarters were clearly delineated in the OD directive 2000/2004, they will be updated as part of WFP's imminent overall operations review, which will address issues such as decentralization and delegation of authority in the light of WFP's business process overview.</p>	<p>The roles and responsibilities of regional bureaux, country offices and Headquarters will be updated as part of WFP's ongoing operations review (OR), which is also addressing issues such as decentralization and delegations of authority, taking into consideration BPR and other initiatives.</p> <p>With the above structure in place, action on this recommendation is deemed complete.</p>



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<b>Oversight arrangements</b>			
<p><b>Recommendation 4.</b> I recommend that WFP consider what steps might be taken to improve accountability and the effectiveness of line management's response to audit recommendations.</p>	<p>Agreed.</p>	<p>One of the performance indicators for OEDA in 2004 is the percentage of audit recommendations implemented. OEDA is developing a more effective follow-up mechanism to ensure that audit recommendations are implemented.</p> <p>The new Audit Committee will also have a monitoring role in ensuring that audit recommendations are implemented as part of its terms of reference.</p>	<p>The TORs for the new Audit Committee include a provision for the committee to review and monitor management's responsiveness to the findings and recommendations of audits and its readiness to implement them.</p> <p>To ensure effective implementation of external audit recommendations, WFP managers have been requested to conduct regular reviews of all recommendations and the status of implementation as part of their overall financial management responsibilities. In the regional workshops for finance officers in late 2004, there were special sessions for action on external audit recommendations to ensure that audit issues are dealt with promptly and that all recommendations are implemented without delay.</p>