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Work Plan of the External Auditor

For the period July 2018 to June 2019

Focal point:

Mr R. Bellin
Director of External Audit
tel.: 066513-2392



EXTERNAL AUDIT OF THE WORLD FOOD PROGRAMME

Work Plan of the External Auditor for the period
July 2018 to June 2019

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I. Mandate and objectives

1. This document, submitted to the World Food Programme (WFP) Executive Board for information, is the External Auditor's annual work plan of audit activities for July 2018 to June 2019.
2. Through an Executive Board decision of 10 November 2015, WFP external audit was entrusted to the First President of the Cour des Comptes of France for the period 1 July 2016 to 30 June 2022 in accordance with Article 14.1 of the WFP Financial Regulations.
3. The External Auditor's mandate is set out in Article XIV of the WFP Financial Regulations and its annex, and in the call for applications for the appointment of the External Auditor. The External Auditor's terms of reference comprise the call for applications, together with the offer of services of the External Auditor – particularly his detailed technical offer, which was approved by the Board.
4. The responsibilities of the External Auditor consist of auditing the financial statements of WFP (Article 14.1 of the Financial Regulations) and making observations, if he sees fit, regarding the effectiveness of the financial procedures, the accounting system, internal financial controls and, in general, the administration and management of WFP (Article 14.4 of the Financial Regulations).
5. The mandate given to the External Auditor in the terms of reference approved by the Board covers both the auditing of the financial statements and a review of the performance and regularity of the management of WFP.
6. Pursuant to Article XIV.6 (b) of the General Regulations and by virtue of Articles 13.1 and 13.3 of the Financial Regulations of WFP, the Executive Director of WFP is responsible for the preparation and submission of the financial statements. In conformity with Article 3.1 of the Financial Regulations, the Executive Director is also responsible for the financial management of WFP's activities, for which he is accountable to the Board.
7. A letter of engagement was signed on 12 December 2016 in order to ensure that, in accordance with the ISA 210 standard, the respective obligations of WFP management and the External Auditor are clearly understood.
8. The objective of the audit of the financial statements is to obtain reasonable assurance about whether the financial statements give a true and fair view, in all material respects, of the financial position of WFP and of the results of the operations recorded during the financial year, in accordance with International Public Sector Accounting Standards (IPSAS); whether the financial statements have been prepared in compliance with the Financial Regulations and the stated accounting policies; whether the accounting policies applied are consistent with those of the previous financial year; and, finally, whether the transactions have been performed in compliance with the Financial Regulations and legislative authority.
9. Within the framework of the financial audit, the External Auditor is to review and, if necessary, test certain internal control mechanisms that have a material impact on preparation of the financial statements. The External Auditor takes into account the internal controls applicable to the preparation of financial statements with the aim of developing audit procedures appropriate to the subject and with no aim of expressing an opinion on the effectiveness of those controls. This work primarily aims to determine the financial audit strategy but it may also help to highlight opportunities for enhancing internal control, which will be shared with WFP.
10. With regard to the review of performance, the audits will aim to determine whether, in the areas reviewed, activities are carried out in accordance with the principles of economy, efficiency and effectiveness and whether there is scope for improvement.

11. The performance audits will also aim to ensure that activities, financial transactions and information are, in all material respects, in conformity with the provisions of WFP's basic texts.

II. Audits and reports

12. In accordance with the terms of reference, each year the External Auditor must issue an audit report on the financial statements of WFP (to be submitted to the Board for approval) accompanied by an opinion on the accounts, two reports on the performance and regularity of the management of WFP, otherwise referred to as "performance audit reports" (to be submitted to the Board for consideration). It also reports on its visits to field offices (regional bureaux, country offices and other offices) in the management letters addressed to the Executive Director. Finally, the External Auditor validates the draft annual report on implementation of the External Auditor's recommendations submitted by the Secretariat to the Board for consideration.
13. As a rule, management letters related to field offices will be sent only to the Secretariat. However, the External Auditor reserves the right to address in his reports to the Board any matters observed at field offices that should be brought to the attention of the Board. Moreover, going beyond what is expected under the terms of reference, the External Auditor has decided that the observations made each year in the field should be summarized in a document submitted to the Board and the Executive Director.
14. The audit of the financial statements will be carried out in two stages at WFP headquarters: an interim audit in the autumn of the financial year under review (from 15 to 26 October 2018 for the 2018 financial year) to understand and test the internal control mechanisms, and a final audit in the first quarter after the closing of the accounts (from 18 February to 8 March 2019 for the 2018 financial year), to examine a certain volume of transactions.
15. Each of the two performance audits will involve two missions at headquarters between September 2018 and February 2019: a preparatory mission to finalize the audit planning and to identify key processes, and a final mission to test controls, to collect evidence and to draw conclusions.
16. The External Auditor will undertake a number of field visits, mainly to country offices and regional bureaux. These audits will address the regularity of offices' management and will also contribute to the performance audits according to the themes selected. They may also involve the checking of samples selected in line with risks in areas affecting the financial statements. For the period from July 2018 to June 2019, field audits will take place between October and December 2018.
17. For the period from 1 July 2018 to 30 June 2019, the date for submission of final performance audit reports to the Board Secretariat is 29 March 2019; it is 12 April 2019 for the audit report on the financial statements and the opinion on the accounts.

III. Standards and methods

18. As provided for in Article 14.3 of the Financial Regulations, the audit of the financial statements will take place in accordance with International Standards on Auditing (ISA), the WFP Financial Regulations and the additional terms of reference annexed thereto. These standards are part of the International Standards of Supreme Audit Institutions (ISSAI), which also govern the method followed by the External Auditor for the performance and regularity audits.
19. All of these standards require the External Auditor to comply with the applicable rules of professional conduct, exercise professional judgement and demonstrate critical thinking and independence throughout the audit. Neither the legislative bodies nor the governing bodies of an organization may interfere in the selection of matters to be audited, the

planning, scheduling or execution of work, the reporting of results or the monitoring of audits.

20. For audit planning purposes, work on both the financial audits and the performance audits will be structured around three core objectives: understanding the entity, evaluating the internal control system, and identifying important risks.
21. The External Auditor will plan his work in order to:
 - address the main concerns of WFP and its governing bodies with regard to the objectives of efficiency, effectiveness and economy in the governance and use of the resources provided by donors. Therefore, the audits should address significant issues, particularly those of financial or strategic importance;
 - cross this approach with, first, an analysis of the risks of any kind that could compromise WFP's capacity to achieve the results expected by the Member States and, second, the internal audit and evaluation programmes. Areas selected for control should bring added value to WFP, particularly because the related risks are high and because the areas have not been thoroughly examined by recent audits performed by other oversight bodies.
22. In his planning, the External Auditor will also take into consideration his capacity to perform the audit of the area concerned, taking into account the information available and the resources and timeframe provided.
23. In order to define his work plan for the period from July 2018 to June 2019 and his multi-year audit strategy, the External Auditor updated his risk analysis, which enabled him to identify a list of areas of control likely to require a performance audit because of their importance to WFP and the added value of auditing them.
24. The number of potential audit areas obviously exceeds the number of audits to be performed between July 2018 and June 2019 (two).
25. Annex 1 presents not only the two subjects selected for audit during the period from July 2018 to June 2019, but also a reserve list of priority areas, prepared from a multi-year perspective with a view to enhancing the predictability and coherence of planning from one year to the next. This expanded list will also help inform subsequent discussions with management, other oversight bodies and the Board, particularly to avoid duplication of work.
26. Topics mentioned for subsequent periods are merely indicative. The External Auditor is obliged to audit only the subjects selected for the first period. The multi-year strategy is revised each year during preparation of the annual work plan.
27. Annex II contains a list of field audits to be carried out this year.
28. During the operational planning stage of each audit, the present annual work plan should be supplemented by a preliminary assessment that makes it possible to define more precisely the scope of the audit, to prepare terms of reference to be submitted to management and to draw up an engagement plan for the audit teams.
29. In order to carry out this operational planning work, the External Auditor will organize working meetings with WFP management before the start of each audit assignment.

IV. Audit areas

A. Performance audits

1. *Country portfolio budgets*

30. Country portfolio budgets constitute a central component of the Integrated Road Map, the major reform launched in 2016 to align the strategic objectives of the United Nations (the Sustainable Development Goals) with WFP's aims and Strategic Objectives, expected Strategic Results, intended direct impacts, outputs and activities and the resources provided by countries and other donors. In establishing a line of sight that links means to goals and outcomes, the new budget structure envisaged by WFP's Financial Framework Review aims to enhance accountability and transparency.
31. In budgeting its revenues and expenses, up to now WFP has worked on the basis of projects, with each project assigned an activity category¹ established in WFP's General Rules. This approach gave a fragmented view of operations in a given country and did not allow for linkages with overall policy or the goals pursued.
32. WFP plans to implement a country strategic plan (CSP) in each country from 2016 to 2019, adapting the WFP strategic plan's goals to the local level. These plans bring all the operations and resources in a country together in a single structure and establish a link between the resources obtained, the results achieved and the expenditures incurred in achieving them.
33. Country portfolio budgets are the translation of CSPs into budgetary terms. The link between WFP's strategic objectives and the activities is established for both the country offices and cooperating partners, for which the budget is designed in the same way as the country office budget.
34. In July 2018, 70 country offices were conducting their activities following the new budget structure (whether approved CSPs, interim CSPs or transitional I-CSPs) and 12 were following the old structure.
35. The purpose of this audit will be to examine the effectiveness and efficiency of the management of country portfolio budgets, particularly as regards the transparency goals pursued by WFP under its Financial Framework Review.
36. The key questions the audit will ask are:
 - Do country portfolio budgets give reasonable assurance that the conditions imposed by donors and the approvals of the Board are adhered to?
 - Are the cost categories introduced by the Financial Framework Review (transfer, implementation, adjusted direct support costs, indirect support costs) distinguished sufficiently clearly to avoid duplication and to ensure understanding of the expenses incurred?
 - Are the budgets allocated to cooperating partners in compliance with the new budget structure?
 - What is the impact of implementing the Financial Framework Review on budget management and the workload of the country offices?

¹Emergency operations (EMOPs), protracted relief and recovery operations (PRROs), development projects, special operations.

2. Preventing, detecting and punishing fraud

37. WFP is particularly exposed to the risk of fraud on account of its activity, the places in which it operates, the nature of its assets, its highly decentralized organization and the large number of partners with which it interacts. Fraud is regularly detected, as attested to by the Inspector General's annual reports, but the number of cases remains limited.
38. WFP devotes considerable resources to preventing, detecting and punishing fraud and has stepped up efforts since 2010, in particular with its zero tolerance policy towards personnel. This policy to combat fraud and corruption is summarized in the paper entitled "Anti-Fraud and Anti-Corruption Policy".²
39. The enterprise risk management system is currently being re-examined, and an Enterprise Risk Management Division has been set up to take over this function from the Finance and Treasury Division, which had been responsible for it until 2017. This new division has also taken charge of managing the internal control system.
40. Although, in general, fraud-related losses in the public and private sector average 1-5 per cent of total resources, the value of assumed or established fraud reported by WFP in its financial statements amounted to USD 538,540 in 2017, which is equivalent to 0.008 per cent of its total resources.
41. The aim of the audit will be to examine the effectiveness and efficiency of the fraud and corruption prevention, detection and punishment strategy and activities.
42. The key questions the audit will examine are:
 - Does WFP's approach conform to international standards on the definition, prevention and detection of fraud and corruption?
 - Have the main sectors subject to fraud been correctly identified?
 - Is the small number of cases of fraud or presumed fraud reported each year in the financial statements the result of a particularly effective prevention policy?
 - Do the fraud detection mechanisms implemented by the organization provide reasonable assurance that all significant cases of fraud are detected?
 - Are the resources and means devoted to combating fraud appropriate?

B. Field audits

43. The terms of reference of the External Auditor state that he will audit each year, a number of regional bureaux and country offices.
44. In selecting the field offices, we took into account our analysis of the risks, the relevance of the offices concerned for our performance audits and how recently the latest audits were carried out by one of the oversight bodies.
45. We have also ensured that the list included country offices located in the geographical zones covered by the regional bureaux due to be examined that year.
46. Most WFP interventions are currently carried out in emergencies in zones posing substantial security risks. Given the difficulty of operating in such environments, which are by nature unstable, we do not rule out excluding one or more countries that are scheduled for a visit.
47. The extent of funds involved has been taken into account, yet our professional judgement can lead us to depart from a strictly financial approach in certain cases. Annex II contains the list of anticipated sites.

² WFP/EB.A/2015/5-E/1 20 April 2015.

48. The audits will systematically examine the regularity of management with regard to finance, human resources, asset management and coordination with other bodies.
49. The field audits will also enable the collection of information useful for the two performance audits to be carried out during the year and the completion of additional checks required for the audit of WFP's financial statements.
50. The development of centres of excellence is designed as a means of developing South-South cooperation and is a key element of the WFP Strategic Plan. In due course, the External Auditor may schedule an examination of one or more of these centres in the framework of field visits. If necessary, an overview of this theme would then be included in one of the External Auditor's reports submitted to the Board.

C. Audit of the financial statements

51. The External Auditor's preliminary assessment had led him to conclude that WFP's internal control environment is characterized by a high level of inherent risk owing to the nature and location of its main operations and its highly decentralized structure, which gives significant autonomy to country-level officials.
52. Experience gained during the 2016 and 2017 financial audits confirmed this initial assessment and resulted in a strong coordination between all audit teams (field, performance and financial audits), in order to ensure that issues arising from the field are appropriately taken into consideration for financial audit purposes. This is particularly the case for the period from 1 July 2018 to 30 June 2019, because the topics covered by the performance audits (fraud prevention and detection; country portfolio budgets) have direct implications for the financial audit, in the context of the implementation of standard ISA 240 concerning fraud and the audit procedures for financial statement V, as regards country portfolio budgets.
53. Moreover, based on these first two years of experience, the External Auditor identified two areas of significant risks in financial statements:
 - a) Revenue recognition in respect of contributions will be the first area under particular vigilance, because of the importance of the subject for an organization entirely dependent on voluntary contributions. For the 2018 financial audit purpose, the External Auditor will continue to dedicate an experienced auditor to revenue recognition, will pay particular attention to the implementation of related recommendations issued in 2016 and in 2017 and will rely on in-depth direct confirmation procedures.
 - b) In previous financial years the external auditor determined that cash-based transfers, growing rapidly, constituted an area of elevated risk, resulting in an experienced auditor being specifically dedicated to this area to carry out an in-depth examination and leading to observations and recommendations in the financial audit reports for the 2016 and 2017 financial years. For the 2018 financial year, the external auditor will draw upon this past experience to examine how the recommendations have been implemented and the ways in which this activity is undertaken in the field, particularly in Jordan, where cash-based transfers were a priority area of investigation by the field team.
54. In addition to the significant risks mentioned above and the risk of fraud, the External Auditor concluded that the following accounts are subject to both a high inherent risk and a high control risk:
 - a) Cash and cash equivalents
 - b) Inventory
 - c) Vendor accounts, accrued charges, purchases

55. For these important accounts subject to an elevated combined risk, the External Auditor will perform extensive internal control testing during the interim audit and extensive validation testing during the final audit. He will also rely on third party direct confirmation procedures and will take into consideration issues, if any, reported by the field and performance audit teams.
56. In order to better detect potential material misstatements in the financial statements resulting from this risk, the audit strategy envisages local-level financial audit work undertaken during visits to field offices.

ANNEX I

List of audit subjects selected for performance audits in the 2018–2019 period and indicative list of possible subjects for subsequent periods

2016–2017/2017–2018 (reminder)	2018–2019	2019–2020/2020–2021/ 2021–2022
Review of decentralization	Country portfolio budget	Performance measurement and CSPs
Changes in human resources	Prevention, detection and punishment of fraud	Targeting of cash-based transfer beneficiaries
Food-related losses		Oversight function in WFP
Scale-up and scale-down of resources at the start and closure of emergency operations		Cooperating partners
		Private-sector partnerships for capacity-improvement
		Inter-agency coordination

ANNEX II**List of sites selected for field audits in the 2018–2019 period**

	2018–2019
Regional bureaux	Nairobi
	Panama
Country offices	Bangladesh
	Guatemala
	Haiti
	Jordan
	Uganda
	United Republic of Tanzania