



World Food Programme

**Executive Board
Annual Session
Rome, 13–17 June 2016**

Distribution: General

Date: 13 May 2016

Original: English

Agenda Item 6

WFP/EB.A/2016/6-D/1/Rev.2

Resource, Financial and Budgetary Matters

For consideration

Executive Board documents are available on WFP's Website (<http://executiveboard.wfp.org>).

Annual Report of the Audit Committee

Draft decision*

The Board takes note of “Annual Report of the Audit Committee” (WFP/EB.A/2016/6-D/1/Rev.2).

To the Executive Board

The WFP Audit Committee is pleased to submit its Annual Report to the Executive Board for consideration, as required under the WFP Audit Committee Terms of Reference¹ decided at the 2011 Second Regular Session.

The report is intended as a summary of the principal activities and opinions of the Audit Committee from 1 April 2015 to 31 March 2016. The latter date coincides with finalization of the annual financial statements, a prime focus of the Audit Committee. More detailed information on our activities can be found in the Audit Committee's meeting minutes, action items attached to meeting minutes, and in summaries of discussions with the WFP Executive Board Bureau.

The Audit Committee stands ready to discuss the report or any other aspect of its work with the Board.

James Rose

Chairperson

31 March 2016

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.

¹ [WFP Audit Committee Terms of Reference](#)

Executive Summary

The Audit Committee was able to implement its work plan in accordance with its Terms of Reference with the full cooperation of the Executive Director and management. Neither material internal control weaknesses nor misstatements in the March 2016 financial statements were brought to the Committee's attention. The Audit Committee relied on the assurances and presentations from management, the Office of the Inspector General and the External Auditor.

The Audit Committee was pleased to see the completion of management's changes to the administration of justice process, and cooperation among the Office of the Inspector General, the Legal Office, and the Human Resources Division to develop a sustainable process.

The overall risk management and internal controls processes continue to improve from a good foundation. Management demonstrates a willingness to continue to drive improvement and modification of controls as WFP processes change.

The Audit Committee reviewed several presentations regarding the new Financial Framework and the country strategic planning approach. It had no concerns regarding the strategic rationale for these changes and will continue to review the change management activities necessary to effect the approaches.

Introduction and Function of the Audit Committee

Terms of Reference

1. The Audit Committee (AC) Terms of Reference were adopted by the Board at its 2011 Second Regular Session; its Rules of Procedure, which provide additional guidance, are included as Annex I of this document.
2. The AC's responsibilities include advising the Board and the Executive Director on:
 - internal audit;
 - risk management and internal controls;
 - financial statements;
 - accounting;
 - external audit;
 - values and ethics; and
 - allegations of inappropriate activity.

The AC has structured this report accordingly.

Composition of the Audit Committee

3. A list of the AC's current members is provided in Annex II. This composition reflects gender and regional balances as determined by the Board.
4. Three new members, Ms Elaine June Cheung, Mr Omkar Goswami and Mr Suresh Kana, attended the December 2015 and March 2016 meetings. During the December 2015 meeting, the AC elected Mr James A. Rose as Chairperson.

Audit Committee Activities

5. This report covers the period from 1 April 2015 to 31 March 2016. It provides an overview of the AC's work and highlights issues that require the attention of the Board and the Executive Director.

6. The AC met three times during this period – in June 2015, December 2015, and March 2016. Between formal meetings, telephone conferences were held by AC members and/or the AC Chairperson with the Inspector General and WFP management regarding matters that required the AC's attention.
7. AC meetings are usually attended by the Executive Director, the relevant Assistant Executive Directors, the Chief of Staff, the Inspector General and their officers.
8. On the first and last days of each meeting the AC holds executive sessions for members only, generally with WFP's Executive Director. These sessions focus on strategic issues and provide the AC with insights into WFP's priorities and needs. The sessions are also used to share the AC's concerns with the Executive Director and communicate matters requiring her urgent attention.
9. The AC's meetings with the Executive Board Bureau have been of immense value, providing an essential link to the Board as the Bureau provides the consolidated views and priorities of the WFP membership.
10. During the March 2016 meeting, the AC approved updated Rules of Procedures, with the addition of sections on Approval of Minutes and AC Work Plan.
11. Field visits are critical for AC members' understanding of WFP operations. They are planned in consultation with the Assistant Executive Director of the Resource Management Department, Executive Board Bureau, the Board Secretariat and Country Directors, and expenses are covered by the AC budget.
12. The AC is pleased to note that a field visit took place in 2015: AC member Ms Kholeka Mzondeki visited the Kinshasa and Goma offices in the Democratic Republic of the Congo in April 2015. The discussions with the Country Director, the Deputy Country Director, the Senior Finance Officer and heads of programme focused on the process of declaring an emergency, identification of beneficiaries, feeding activities focused on nutrition elements, food-for-work activities, and cash-based transfer (CBT) programmes. Her visit included a presentation to WFP staff on the role of the AC.
13. The AC is committed to continue undertaking field visits with minimal cost to WFP. Ms Irena Petruškevičienė's field visit is planned for late May/early June 2016. She will view WFP operations in Lebanon and Jordan which support Syrian refugees and host communities. This visit will focus on CBTs to help the AC gain better understanding of this modality.
14. Audit committees around the world are evolving to assist management and governing bodies in dealing with the broad nature of governance, risk, compliance, ethics and control matters that have impacts on an organization's objectives. The AC is grateful to the Executive Director, her senior team and the Executive Board Bureau for their assistance in discharging its duties.

Internal Audit and Investigations

15. The AC welcomed the WFP Internal Audit Strategy (2016–2018), which was based on critical business processes and clarified links between internal audits and risk-mitigation activities.
16. The 2015–2016 agreed audit plan was followed by the Office of the Inspector General (OIG) during the period. Any audit deferrals were based on sound reasons.
17. In its December 2015 meeting the AC discussed the 2016 Internal Audit Programme and welcomed its risk-based rather than cyclical approach. The AC members appreciated the confirmation of the Inspector General that 19 audits programmed for 2016 would be sufficient to provide a negative assurance opinion on the governance, risk management and controls in WFP.
18. The AC noted with satisfaction the continued high rate of acceptance of internal audit recommendations by WFP management, and the follow-up on implementation of outstanding high-risk recommendations.

19. WFP's internal audit function's maturity was benchmarked against the Institute of Internal Auditors Research Foundation's *Internal Audit Capability Model for the Public Sector*. AC members were pleased to note that the function achieved the capability score of Level 4 – Managed (out of a total of five levels).
20. The AC noted with satisfaction the Inspector General's initiative to conduct an external assessment to evaluate the WFP internal audit activity's conformance with the Institute of Internal Auditors' definition of internal auditing, its Code of Ethics and its Standards.
21. The AC supports the Inspector General's focus on the risks of fraud and corruption. Committee members took note of the revised Anti-Fraud and Anti-Corruption Policy (WFP/EB.A/2015/5-E/1) and the new WFP Framework for Vendor Sanctions, which had been issued through Executive Director Circulars in the fourth quarter of 2015.
22. The AC noted that despite continuous efforts to employ more professional staff, there were still many vacant posts in OIG. In the long run, this situation may have a negative impact on the functioning of OIG.
23. Subsequent to its March 2016 meeting, the AC received the Annual Report of the Inspector General, which was in alignment with previous reports and briefings provided to the AC. For future years, the AC looks forward to receiving the report prior to its March meeting.

Risk Management and Internal Controls

24. The AC noted WFP's work on improvements to its enterprise risk management and internal controls. The AC recognized that an effective enterprise risk management programme and a sound system of internal controls are vital for a large global organization such as WFP. WFP needs to identify, assess and mitigate strategic, operational, financial and compliance risks that may impact its objectives, assets and staff. Equally, however, the AC recognized that no enterprise risk management or internal controls programme, however well designed and implemented, can eliminate all risks or prevent negative events.
25. WFP's work on enterprise risk management and internal controls is based mainly on the following activities:
 - a) work carried out by the Operational Risk Management Service, which identifies risks that may affect individual business units such as country offices, regional bureaux and Headquarters divisions, and risks to the organization as a whole, especially in emergencies;
 - b) detailed statements of assurance on the effectiveness of internal controls, which for 2015, were certified and signed by 136 WFP managers, including the Deputy Executive Director, Assistant Executive Directors, Regional Directors, Country Directors, Directors of all WFP offices and Directors of divisions in Headquarters, representing 100 percent compliance with the process (the 2015 assurance statements were more detailed compared with earlier years and each was subject to at least one higher-level review); and
 - c) internal audits carried out by OIG to provide assurance on governance, policy, risk, resources, and operational and accountability issues through an independent and objective oversight service.
26. The AC noted that every WFP office is expected to maintain an up-to-date risk register. Major risks that may adversely affect achieving WFP's corporate objectives are included in a Corporate Risk Register. At present, there are 14 major risks in the Corporate Risk Register, each with its: i) risk category; ii) likelihood; iii) impact; iv) risk level; and v) risk owner(s).

27. Of these 14 major risks, there are some that are particularly pertinent for WFP in the context of the next Strategic Plan, the country strategic planning process, the new Financial Framework Review and the Corporate Results Framework. These are:
28. *Security, health and safety risks to staff.* This is particularly relevant in Level 3 emergencies such as the Syrian regional emergency, Iraq, South Sudan and Yemen, and in the Central African Republic and northern Nigeria.
29. *Lack of partner capacity, affecting WFP's effectiveness.* Although WFP has benefited from working with competent partners in most operations, there are instances of inadequate partner capacity, especially in the growing area of CBTs. While the probability of this remains relatively low, the effect on WFP's reputation is considerable. The AC believes that this area needs further attention.
30. *Lack of sufficient skills for new initiatives, especially CBTs.* In 2015, CBTs accounted for 27 percent of total committed funding. This share is rapidly rising, and given changes in donor preferences it is expected to form a greater proportion of total funding in the future. Designing appropriate CBT schemes at the country level, choosing the right cooperating partners, and implementing often complex CBT programmes while ensuring that such benefits actually accrue to the designated beneficiaries requires skills that are often quite different from those needed for food distribution. The AC noted potential risks in this area and advised in favour of investing in people with the requisite skills and greater oversight and control of CBT programmes without compromising speed and efficiency.
31. *Challenging funding environment:* More long-term beneficiary needs – now estimated at USD 8 billion per year – coupled with simultaneous Level 3 emergencies can strain donor capacity. This requires several initiatives such as advocacy for flexible and predictable long-term funding, transparent resource allocation and clear demonstration of the results achieved with donor funding through the new activity-based financial framework, local resource-mobilization initiatives and more contributions from non-traditional donors.
32. Despite the risks above, the AC noted that WFP has steadily improved the quality and granularity of its risk register. The AC looks forward to further improvements, including a comprehensive and readily updated database of risk issues.
33. In addition to hearing the assurance opinions of 136 senior WFP managers, the AC examined the opinion of the OIG, which was based on internal audits, inspections, investigations and assurance services.
34. The work of OIG is based on negative assurances. In that context, the main finding of OIG oversight work in 2015 was satisfactory in that it did not disclose any significant weaknesses in internal control, governance and risk management processes that could have prevented WFP from achieving its objectives.
 - a) The OIG focused on three risk themes in 2015:
 - i. The role of common logistics services. The finding was that there is a sound structure and a robust control environment for common logistics services, which has helped to deliver complex solutions for WFP and its partners; one example is its success in responding to the Ebola emergency in West Africa.
 - ii. Management of WFP's operational budget. The OIG noted improvements in the control environment for operational budget management in various geographical areas and Level 2 and Level 3 operations, and suggested some improvements.
 - iii. CBTs. Operations and controls involving CBTs in 2015 improved, and, CBT business processes have matured. But risks remain in relation to:
 - WFP's ability to accumulate sufficient data to demonstrate the superiority of its CBT platforms and become donors' partner-of-choice for CBT activities;

- gaps between system design, normative control processes and actual operations in the field;
 - the potential for field-based fraud, misallocation and corruption in CBTs; and
 - resulting reputational risks, especially in Level 3 operations.
- iv. Given the growing importance of CBTs in WFP's funding, OIG will continue to focus on CBT-related risks in 2016.
35. Overall, the AC believes that WFP gave adequate importance to risk management and internal controls in 2015. In the next Strategic Plan, the role of risk management and internal controls will be even more important given the country strategic planning process, the new financial framework and changes in accounting for more granular activity-based processes of costing and data capture.

Treasury and Investment Oversight

36. The AC received information on the performance of WFP's short-term investment portfolio in the 2015 Annual Report on WFP Investment Management. Having considered the investment guidelines and restrictions, and the risk profiles of these investments, the AC is able to advise that they appear satisfactory.
37. The AC noted that WFP utilizes various options for currency trading and hedging based on its conservative risk-management practices. Monitoring of the current practices should continue to ensure compliance with WFP policies and risk tolerance.

Financial Statements

38. With the information made available to the AC at its March 2016 meeting with regard to preparation of the Annual Financial Statements and the External Auditor's audit, the AC advised that the draft financial statements appeared to be ready for finalization by WFP management and the External Auditor. No issues involving lack of reasonable assurance against any material misstatements were reported to the AC.

Accounting

39. The External Auditor assured the AC that the financial statements had been prepared in accordance with International Public Sector Accounting Standards (IPSAS) and that there were no changes in WFP's application of IPSAS because no new IPSAS or recommended practice guidelines had come into effect in 2015.
40. The AC noted with satisfaction that WFP continues to follow IPSAS development by participating in the United Nations Task Force on IPSAS.

External Audit

41. This is the last year of the six-year contract with the Auditor General of India for external audits of WFP functions. The AC discussed the audit and formed an opinion on the reliability of WFP's annual accounts. On the basis of the information presented, the AC concurs with the External Auditor's draft unqualified opinion.
42. The term of the Auditor General of India as WFP's External Auditor ended with the audit of the 2015 Financial Statements. WFP's new External Auditor is the Auditor General of France. Mr Rose, Chairperson of the AC, represented the AC in the selection process in support of the Executive Board Bureau. The AC thanks the Auditor General of India for services provided over the past six years and looks forward to working with the Auditor General of France.
43. The External Auditor is finalizing the performance audit reports on WFP's aviation function and school feeding programmes. These reports will be submitted to the Board at its 2016 Annual Session.

Values and Ethics

44. The AC noted no concerns regarding the values and ethics of WFP.
45. In conformity with Article 17 of the AC Terms of Reference, in December 2015 every member of the AC signed and submitted to the President of the Board the annual declaration of independence and statement of financial interests.

Allegations of Inappropriate Activity

46. The AC noted improvement in disciplinary reporting process, which provides transparency as to the nature of cases and the outcomes and timeliness of investigations.
47. The AC recommended a central system for managing allegations and encouraged collaboration between OIG and the legal, ethics and human resources departments.
48. The AC considers that the increase in the number of cases reported reflects an increase in the reliability and effectiveness of the disciplinary process, leading to greater willingness to report and adjudicate cases.

Additional Perspectives and Insights

49. In several meetings, the AC discussed the updated financial framework and country strategic plans. The AC commended the shift to country strategic plans and improved methods for financial framework reporting. The AC's work plan will monitor these changes.

ANNEX I**Rules of Procedure for the Audit Committee of the World Food Programme**

Authority: Article 27 of the Terms of Reference (TOR) for the Audit Committee (AC) of the World Food Programme as approved by the Executive Board on 15 November 2011.

- 27) Subject to these TOR, the AC shall establish its own rules of procedure to assist its members in executing their responsibilities. The AC rules of procedure shall be communicated to the Executive Board and the Executive Director for their information.

Procedure 1: Development, Review and Consultation of Rules of Procedure

- 1.1 The AC shall determine the necessity of rules of procedure, draft such procedure, and provide them for consultation to the Executive Board and Executive Director.
- 1.2 The Rules of Procedure shall be kept to the minimum level necessary.
- 1.3 Consultations shall consider inquiries regarding alignment of the procedure with the TOR as well as how the procedure furthers – in an efficient and effective manner – the mission of WFP and role of the AC to enhance the Governance, Risk, Control, and Compliance processes of WFP. As noted in the TOR, this includes “ensuring the effectiveness of WFP’s internal control systems, risk management, audit and oversight functions, and governance processes”. Except for extraordinary circumstances, the consultation period shall be a minimum of one month.
- 1.4 After the consultation period, the AC may officially adopt the procedure – with any appropriate modification – at the next regularly scheduled meeting.
- 1.5 Annually, the AC Secretariat shall place on the AC agenda a review of all rules of procedure – in addition to the TOR – to ensure they continue to be relevant and aligned to the needs of WFP and the AC.

Procedure 2: Appointment of the Chairperson

- 2.1 In order to ensure the independence of the AC, the Committee endeavours to have continuous leadership that can organize and speak for the Committee. The Committee members realize that – in the absence of a Chairperson – the Committee’s independence and ability to operate is impaired.
- 2.2 Selection of the Chairperson shall be in accordance with Article 23 of the TOR.
- 2.3 If there is an absence in the role of Chairperson between meetings due to resignation or expiration of the member’s term, an Acting Chairperson shall be designated by the remaining members of the Committee and shall act in the capacity of the Chairperson until such time as the Committee is convened and selects a new Chairperson.
- 2.4 If the Chairperson is not available for requested meetings with management, Executive Board Bureau, or other official events, the Chairperson shall in consultation with the members designate another member of the committee to represent the Committee in the same manner and capacity as the Chairperson.

Procedure 3: Observations of WFP Operations

- 3.1 The AC firmly believes the ability of the Committee members to optimize their role requires observation of WFP operations outside of formal AC meetings in accordance with the authority in the TOR article 4.
- 4) The AC shall have all the necessary authority to fulfil its responsibilities including access to WFP information, records, facilities and staff.
- 3.2 The purpose of observations shall be to further the comments and conclusions for the AC regarding the governance, risk, control, and compliance processes of the WFP.
- 3.3 The manner of observations may include site visits to WFP regional or country offices, site visits to partner offices or operations, inclusion in WFP staff meetings, attendance at consultation sessions, shadowing of internal audit staff during assignments or other events or activities which further the purpose of observations.
- 3.4 Considerations in determining the appropriateness of observations shall include but not be limited to:
- impact on WFP operations including but not limited to the ability to support Committee members in the field or in meeting locations, the impact Committee members may have on normal open dialogue among staff and ability to coordinate logistics and transportation;
 - safety and security of Committee members;
 - healthcare needs, restrictions and inoculations;
 - language requirements;
 - identification of and consultation with the WFP or partner leader who will host the observation;
 - overall cost of the observation effort including transportation, subsistence and support costs;
 - geographic and operational representation of the site to be visited to overall WFP operations;
 - new programmes and initiatives of WFP;
 - specific focus areas of interest by the AC members such as technology systems, human resources, procurement, logistics, partner operations, etc;
 - recent or current audits, evaluations, or other oversight activities of the office or programme;
 - expected insights that will inform the AC's recommendations and annual report; and
 - number and timing of observation missions in a given calendar year.
- 3.5 Observations shall require approval of the Executive Director, designee of the Executive Director or Executive Board Bureau.
- 3.6 Identification and scheduling of observations shall involve consultations with the Executive Director and his/her designee.
- 3.7 The AC Secretariat shall ensure that subsequent to any observation missions, that the AC agenda includes a discussion of the observation. The Committee shall discuss insights identified during the observation as well as lessons learned about the efficacy and efficiency of the observation mission. Such insights shall be used to:
- further additional agenda items of the AC as well as recommendations and the Annual Report of the AC; and
 - inform the nature, timing, efficiency and effectiveness for any future observations.
- 3.8 The AC shall note the highlights of all observations in its annual report to the Executive Board.

Procedure 4: Declaration of Independence and Statement of Financial Interests

- 4.1 The AC Secretariat shall ensure that annually all members of the AC are asked to acknowledge in writing their independence, statement of financial interests, and confidentiality requirements per the following TOR articles:
- 14) Since the role of the AC is to provide objective advice, members shall remain independent of the WFP Secretariat and the Executive Board, and shall be free of any real or perceived conflict of interest.
 - 17) Members of the AC shall sign and submit to the President of the Executive Board an annual declaration of independence and statement of financial interests, following a process that the AC shall establish under its Rules of Procedure.
 - 31) All confidential documents and information submitted to or obtained by the AC shall remain confidential unless otherwise determined. Members of the AC shall acknowledge this obligation in writing at the time of their appointment.
- 4.2 The manner and form of the acknowledgement shall be via Appendix A of the AC Rules of Procedure which shall be collected by the AC Secretariat and submitted to the President of the Executive Board with a copy to the Assistant Executive Director for Partnership, Governance and Advocacy.

Procedure 5: Approval of Minutes

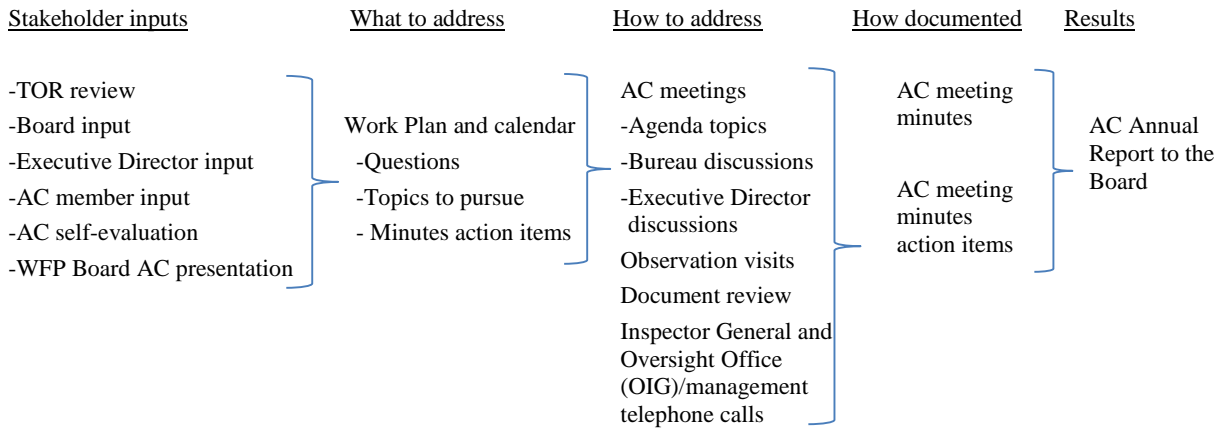
- 5.1 The TOR of the Audit Committee specify that only in exceptional circumstances shall the AC meet in a manner other than in person. (See paragraph 26).
- 5.2 In order to expedite the distribution of the official minutes of the Audit Committee prior to the next scheduled meeting of the Audit Committee, there needs to be mechanisms to officially approve the minutes outside of in-person meetings. Otherwise, official adoption of the minutes can only occur only at the next scheduled meeting.
- 5.3 Accordingly, under authority of the TOR paragraph 26 allowing the AC to meet in other venues upon approval of the President of the Executive Board and the Executive Director and paragraph 27 allowing the AC to set its own Rules of Procedure, the AC may ask the Executive Board Secretariat to circulate final minutes for approval via email to AC members and request and receive a formal vote of approval from AC members via email. In accordance with the TOR paragraph 28, minutes shall be deemed approved upon affirmative vote of a majority of members that participated in the respective AC meeting for which the minutes are documenting.

Procedure 6: Audit Committee Work Plan

- 6.1 In accordance with the wishes of the Executive Board Bureau, the AC shall maintain with the help of the Executive Board Secretariat an AC work plan.
- 6.2 The work plan shall consider three complementary documents:
- An AC work plan aligned to the TOR and interests of the AC aligned to their obligations under the TOR.
 - An action items list maintained as an appendix to the minutes of the AC.
 - The annual AC Report to the Executive Board

6.3 The AC work plan will take input from stakeholders, develop effective meeting agendas, and provide input to the overall Executive Board under the following framework:

Audit Committee Work Plan



Appendix A to Rules of Procedure for the Audit Committee of the World Food Programme
Declaration of Independence and Statement of Financial Interests

Article 17 of the Audit Committee (AC) Terms of Reference (TOR): Members of the AC shall sign and submit to the President of the Executive Board an annual declaration of independence and statement of financial interests, following a process that the AC shall establish under its Rules of Procedure.

I, _____, a member of the AC of the World Food Programme do affirm to the best of my knowledge the following:

- I do not hold positions with companies that maintain a business relationship with WFP.
- I have not and shall not engage in activities that might impair, or appear to impair, my independence in carrying out my duties as a member of the AC.
- I do not have financial interests which may impair, or appear to impair, my independence in carrying out my duties as a member of the AC.
- I continue to acknowledge my responsibility to maintain to the best of my ability the confidentiality of documents provided to me in the course of my work on the AC.
- I serve in my personal capacity and do not seek or accept instructions for my work on the AC from any governance or other authority internal or external to WFP.

(Additional Information I Wish to Acknowledge – Optional)

Signature: _____

Date: _____

ANNEX II**Composition of Audit Committee**

- Mr James A. Rose: a United States of America national. His term is 30 July 2014 to 29 July 2017.
- Ms Irena Petruškevičienė: a Lithuanian national. Her term is 30 July 2014 to 29 July 2017.
- Mr Suresh Kana: a South African national. His term is 15 November 2015 to 14 November 2018.
- Ms Elaine June Cheung: a Chinese national. Her term is 15 November 2015 to 14 November 2018.
- Mr Omkar Goswami: an Indian national. His term is 15 November 2015 to 14 November 2018.

ANNEX III

AUDIT COMMITTEE ACTIVITIES			
APRIL 2015 – MARCH 2016			
	JUNE 2015	DECEMBER 2015	MARCH 2016
Executive Session with Executive Board Bureau	√	√	√
Executive Session with Executive Director	√	√	√
Operations	√	√	√
Evaluation matters	√		
Investment Committee			√
Oversight matters:			
– External audit	√	√	√
– Internal audit	√	√	√
Financial Statements			√
Accounting			√
Performance and risk management	√	√	√
Human resource matters			
Internal control	√	√	√
Ethics matters	√	√	
Legal matters	√		√
Allegations of inappropriate activity	√	√	√
Financial and budgetary matters	√	√	√

Acronyms Used in the Document

AC	Audit Committee
CBT	cash-based transfer
IPSAS	International Public Sector Accounting Standards
OIG	Inspector General and Oversight Office
TOR	Terms of Reference