RESOURCES, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For consideration

ANNUAL REPORT OF THE WFP AUDIT COMMITTEE
NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for consideration.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the focal point indicated below, preferably well in advance of the Board’s meeting.

Audit Committee Chairperson: Mr J. G. Joscelyne  grahamjoscelyne@hotmail.com

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms C. Panlilio, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).
Annual Report of the
WFP Audit Committee

30 April 2009
To the Executive Director and the Board

As required by its terms of reference (WFP/EB.1/2009/6-B/1), the Audit Committee must report annually to the Executive Director. With the decision (2009/EB.1/7) of the Board at its February 2009 session, this report will also be submitted to the Board for consideration at its June 2009 Board session.

This report covers our activities for the period from 1 April 2008 through 31 March 2009. The date coincides with the finalization of the annual financial statements, a prime focus area of this Committee for the period under review.

The Audit Committee stands ready to discuss this report with you and your management, intended as a summary of our activities and the results of our efforts during the period under review.

J. Graham Joscelyne – Chairperson

30 April 2009
INTRODUCTION

1. The WFP Audit Committee (AC) was constituted by an Executive Director's Circular, issued in July 2004, to assist the Executive Director in fulfilling his/her responsibilities for "financial reporting, use of resources, the WFP's internal control arrangements, risk management processes and other audit related matters". The terms of reference (attached as an Annex) stipulate that the AC should submit an annual report to the Executive Director, which is available to the Executive Board for information purposes.

2. This fifth annual report of the AC covers the period from 1 April 2008 through 31 March 2009. Although the Board mandated that new terms of reference be drafted, these were not completed by the date of this report. Therefore, this report has been prepared in accordance with the 2004 terms of reference. It provides an overview of the work of the AC during this period and highlights issues considered to require the attention of the Executive Director and/or the Executive Board.

3. During its February 2009 session, the Executive Board decided that the Audit Committee would henceforth report both to the Board and to the Executive Director. It directed that the terms of reference for the AC be amended accordingly. At the time of drafting this report, the proposed amendments are under consideration.

MEMBERSHIP

4. Until 2004, the AC was entirely an internal management committee. In 2004, the previous Executive Director introduced new terms of reference and appointed members who were in the majority external to WFP, with the Chairperson being one of the external members. They enjoyed a two-year term of office which was renewed for a further two years. In 2007, with internal management changes, internal members of the AC resigned and were replaced with external members. So from 2007 onwards, the AC was entirely an external committee reporting to the Executive Director.

5. During the period under review, the AC members comprised:

- J. Graham Joscelyne: retired Auditor General of the World Bank (Chair); South African national; term ends on 6 July 2009;
- Dianne Spearman: former Director of Strategy and Policy Division of WFP; Canadian national; term ends on 8 October 2009;
- Bernd Kaess: retired former Director of Internal Audit of WFP; German national; resigned on 5 May 2008;
- Libero Milone: retired partner Deloitte; Italian national; appointed 2 May 2008 until 2 May 2010;
- Ambassador Qamar Beg: retired Ambassador of Pakistan to Italy and the Rome-Based United Nations Agencies; Pakistani national; appointed on 29 July 2008 until 29 July 2010; and
• Dr. Kanayo Nwanze – Deputy Executive Director, IFAD; Nigerian national; appointed on 27 August 2008; resigned on 23 March, 2009 following his selection as President-elect for the International Fund for Agricultural Development (IFAD).

6. AC members are selected for their professional competence; financial management and auditing expertise; knowledge of WFP’s mandate and operations; and experience related to risk management in both the public and private sectors.

7. Potential conflicts of interest are avoided by appointing independent members only. To underscore the importance of independence, members are required to register any potential conflicts of interest at each meeting.

FUNCTIONING OF THE AUDIT COMMITTEE

8. During the reporting period, the AC convened once each quarter at WFP Headquarters, meeting for two days each time. A portion of each meeting was held in executive session (members only), while most of the meetings were attended by managers from the Inspector General and Oversight Services Division (OSD), the Finance and Legal Division, managers responsible for the WFP Information Network and Global System (WINGS) project, the office of the Executive Director, and others as appropriate. Senior representatives of the External Auditor also attended. The AC interacted with these participants and sought their views on a wide range of issues. The Committee met with the Executive Director in executive session.

9. Committee members have provided independent professional advice on a wide range of oversight matters within their terms of reference. The Committee sought to provide the Executive Director with balanced advice and sought management’s input on matters requiring follow-up. Management has reacted in a largely positive manner.

10. The AC systematically monitors follow-up on its decisions and recommendations to management.

11. The AC did not conduct a self-assessment of its activities and effectiveness in the period under review. Nevertheless, the External Auditor’s submission to the Board in February 2009 commented favorably on the AC’s utility and effectiveness. As active participants in AC deliberations, it is well placed to independently assess our performance. Also, it was only in March 2009 that the AC was made aware of the February Board decision. Since then, it has held one meeting that necessarily focused primarily on the time-bound financial statements. The AC notes the Board’s request for an assessment which the AC plans to do at its June 2009 meeting, after which the results will be communicated to the Executive Director and the Board.

12. The AC has noted the comments of the External Auditor and senior management that they believe the activities of the AC to be effective and useful to the WFP. As the links with the Board develop, the level of effectiveness should increase further.
FINANCIAL REPORTING

International Public Sector Accounting Standards

13. In line with an Executive Board decision of January 2008 and an earlier recommendation of the United Nations High-Level Committee on management, WFP committed itself to the adoption of International Public Sector Accounting Standards (IPSAS) for the preparation of its 2008 annual financial statements. Key changes from the previous standards (United Nations System Accounting standards) include the capitalization of fixed assets, recording of inventories, recording of employee benefits and recognition of income.

14. The decision to comply with authoritative international accounting standards is in line with the global trend in both public and private entities to base financial reporting on uniform and commonly accepted standards. IPSAS has been accepted internationally. It requires an exhaustive reporting of all assets and liabilities, and all contributions and expenses accrued at the close of a financial period. It results in improved and better harmonized financial regulations, accounting standards and procedures – particularly how an organization presents its financial results. It also provides consistency in the way financial statements are reported. The credibility of IPSAS is ensured because of the high quality of the standards, its international recognition, and the rigorous process that is followed in the development and interpretation of the standards.

15. IPSAS was adopted by WFP as from 2008. This has been a major initiative involving a comprehensive review of all financial policies and many revisions to them, preparation of a related Policy Guidance Manual and extensive staff training. One of the more significant changes is the introduction of annual audited financial statements. General Regulations, General Rules and Financial Regulations requiring Executive Board approval have been amended. No accounting policy changes requiring Board approval were identified. WFP has progressively changed accounting policies in line with IPSAS requirements.

16. In preparation for the finalization of the first set of audited annual financial statements using IPSAS, the AC devoted considerable time and attention to the oversight of this challenging project. At each meeting, implementation plans and potential obstacles, including changes in key project personnel, were monitored. The AC noted key milestones (e.g. June and September “dry runs”) and assessed the results produced by management and the reports on progress provided independently by the National Audit Office (NAO) and the Office of Internal Audit (OSDA). It has advised on how to deal effectively with obstacles encountered and reinforced management’s commitment to the project. The revised financial policies were carefully examined and, after extensive discussion with management and the External Auditor, the AC expressed support for the amended Financial Regulation 13.1 and the new financial policies, which the Executive Director will propose to the Board for adoption.

17. The introduction of IPSAS has been a multifaceted, time-bound, complex project. Thanks to effective leadership and careful risk management it has been successfully delivered as originally envisaged. Because the WFP is a so-called IPSAS “Early Adopter” it is ahead of the United Nations as a whole in the formulation of technical accounting issues relative to IPSAS. The AC notes the role that management plays in encouraging the United Nations to make timely decisions on project formulation and implementation plans, and in ensuring that the underpinning WINGS system is adequate.
to the task. In circumstances where UN discussions have not yet fully matured to be able to pronounce on all IPSAS issues, management interpreted them as they saw fit, on agreement with the AC and the NAO, and where no IPSAS was available, the International Financial reporting standards were used. The net effect of this is that WFP financial results are prepared according to international standards for the first time.

Financial Statements

18. The adoption of IPSAS involves substantial changes in the way the annual audited financial statements are presented. These changes bring increased clarity, improve communication to stakeholders, bring WFP in line with accepted practice elsewhere and, altogether, make it a more transparent and accountable organization. At the same time, they have imposed a considerable burden on management and staff, who were faced with a new set of conditions for accounting and year-end close-off. This will need to be sustained on an ongoing basis. The AC was mindful that WFP is a pioneer of IPSAS implementation in the UN System. As the "trail blazer" WFP could not always count on the UN to provide practical advice and counsel on the wide range of issues faced during the transition. Indeed, other UN organizations will look to WFP for guidance and example. The AC took this into account.

19. The AC formed its own opinion on the financial results and how these were presented under IPSAS. In arriving at an independent opinion on the draft financial statements, the AC took into consideration: (i) management’s submission of the draft financial statements and assertions contained in the draft Letter of Representation by the Executive Director to the External Auditor; (ii) understanding of underlying reasoning in areas where management was required to use its judgment to arrive at appropriate line item results; (iii) OSDA’s annual report and its opinion on the state of internal controls across WFP; (iv) the Annual report of the Inspector General; (v) an update from management relating to a long list of OSDA recommendations that had not been implemented in a timely manner; and (vi) the views of the External Auditor on all of the above.

20. The AC noted that considerable effort had been made by the Chief Operating Officer, the acting Chief Financial Officer and their key staff to ensure the production of financial results, within time, and without the extensive adjustments required previously. Key to this success was the extensive planning required as well as delivery of training to field-based financial staff and effective communications between Headquarters and the field on a variety of year-end accounting matters.

21. With timely technical input from the NAO, the AC considered its position on the financial results as a whole; individual disclosures and how and where these interconnected with each other; and how they were reported. With new accounting standards, new information is reported. This information was debated in detail. Examples of general concepts include: the accrual concept; the going concern concept; and how timing differences produce significant differences between revenue and expenses in the period, and how best to communicate the result and provide well-founded underlying reasons. Examples of specific issues include: the extent of related party disclosures, third party agreements and employee benefits; the impact of changes to actuarial assumptions; the significance of changes to fund balances and reserves; and inclusion of inventories and fixed assets for the first time.
22. The AC’s views and advice were conveyed to management. It suggested changes and reviewed management’s response during the implementation process and when discussing the final versions of the draft financial statements. The consistent and timely advice and direction of the NAO has proved invaluable to the AC and management throughout the process leading to finalization.

23. Taking all of the above into account, the AC agreed with the contents of the Executive Director’s Letter of Representation and Letter of Amendment to the External Auditor and advised that the draft financial statements were appropriate for transmittal to the External Auditor for audit finalization.

24. The AC also reviewed the preparation and finalization of the 2007 unaudited annual financial statements. In effect, annual financial statement reporting was introduced to WFP.

EFFECTIVENESS OF INTERNAL CONTROLS

25. Throughout the period, the AC reviewed the internal control implications of all major initiatives within WFP and of the WFP as a whole. Broadly speaking, it did so by reviewing: (i) the internal control implications of all audit findings of OSD and the External Auditor; (ii) management's annual submission of its Letters of Representation in support of the annual financial statements; and (iii) the adequacy of policies that support good internal control. With this information, it forms its own views and communicates this to the Executive Director.

26. The use of resources, particularly resources available for OSD, became an important issue during the review period. The Executive Director reacted positively to the advice of the AC that across-the-board budget cuts should not automatically be applied to OSD, which needed certain minimum resources to continue to provide appropriate assurance to the Executive Director and AC. That said, adequacy of resources remains an issue deserving continuing attention. The AC will continue to watch this carefully and it stands ready to support a call for additional resources should the achievement of reasonable assurance become threatened by lack of resources.

27. Underpinning all risk and control activities should be a control policy. This policy provides the basis for a coherent, comprehensive, WFP-wide internal control framework and supporting risk management policy. It defines the roles of all key players in risk management and control and encourages a common understanding of risk and control across WFP. The AC has recommended adoption of this relatively simple but key policy document in previous years and notes that it has yet to be adopted. We again recommend its adoption.

28. In addition, the External Auditor has recommended that WFP annual financial statements be accompanied by a Statement of Internal Control. While not required in terms of IPSAS, we concur that this statement would be a valuable addition to demonstrate transparency and accountability for risk and control matters.
OFFICE OF THE INSPECTOR GENERAL

Office of Internal Audit

29. The AC reviewed the 2008–2009 internal audit strategy and audit plan and satisfied itself that the proposed scope of work was in accordance with the WFP Strategic Plan and suited to the objective of providing annual assurance on WFP risk management, control and governance processes. A key feature of the audit plan was the adoption of a functional audit approach to obtain assurance on key processes and functions which are put into place to manage risks and achieve WFP’s objectives. One implication of this approach was an increase in audit coverage in Headquarters, including enhanced attention to information systems which are an integral part of all business processes. Having concluded that the proposed approach would enable OSDA to provide reasonable assurance on key processes and high risk areas, the AC recommended to the Executive Director that it be accepted.

30. Having assessed the annual work output of OSDA, the AC supports OSDA continually refining its focus in line with WFP’s Strategic Objectives and changes to its risk profile. OSDA is encouraged to ascertain the sum of its audit efforts, and communicate this to management and the AC at least annually. Furthermore, and in line with best practice, OSDA should improve its ability to show how and where it adds value to WFP.

31. As a result of all its work over the year, OSDA concluded that WFP is a "medium risk". Consequently, the risk management, control and governance processes in place provide a moderate assurance\(^1\) of accomplishing WFP’s objectives in accordance with its rules and regulations.

32. At each meeting the AC reviewed the performance of OSDA against its audit plans. Progress was assessed from quarterly report updates and audit findings. Copies of completed audit reports are also made available to members of the AC. It notes and seeks explanation of any changes to the agreed audit plan. We recommend that OSDA come up with more meaningful metrics to show not only achievement of its audit plan, but also the impact of its work on WFP.

33. The AC is pleased to note that OSDA continues to work according to the International Professional Practices Framework of The Institute of Internal Auditors. The AC notes that OSDA has effectively reduced its backlog of unissued audit reports. Nevertheless certain key reports were not issued without a long delay. While it is a positive trend that management interacts more than before with OSDA in considering audit findings, there is a point at which a report – if not issued soon after the conclusion of the fieldwork – loses its impact. The AC considers that OSDA’s target to release reports within 30 days of field work conclusion is unrealistic. We recommend that OSDA review its internal arrangements and those with management to ensure that it sets and meets a reasonable goal for report issuance on a sustained basis.

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\(^1\) OSDA has three graded assurance levels: (i) adequate assurance – robust framework of controls to ensure that objectives are likely to be achieved (or low-risk organization); (ii) moderate assurance – sufficient framework of key controls for objectives to be achieved, but controls framework could be stronger (or medium-risk organization); (iii) inadequate assurance – a risk that objectives are not being achieved due to absence of key internal controls (or high-risk organization) – OSDA 2009 Annual report.
34. The AC noted the findings of the NAO on conclusions reached by OSDA on its audits over the past few years. While accepting both the views of the NAO and the counterarguments provided by OSDA, we recommend that more be done between OSDA and management to consolidate the large number of unimplemented recommendations to show overarching key deficiencies and that management work to eliminate them through implementation of improved controls, etc.

**Office of Inspections and Investigations**

35. The AC reviews the annual plan of the Office of Inspections and Investigations (OSDI) and, on a quarterly basis, reviews the report on its activities and outcomes of its investigations. While the AC monitors a very few specific cases where there is a potentially significant risk to WFP, OSDI normally provides more general information regarding its activities and on broad trends or issues emerging from its work. The AC is provided with information pointing to conditions that allow fraud and abuse to take place and on management responses to proven allegations of wrongdoing.

36. During the review period an external peer review of the activities of OSDI was carried out. The AC was provided with this report and met with the consultant who led the review. It should be noted that the review was complimentary as to the focus and methods of OSDI and confirmed that the Office complied with sound principles and practices.

37. As in the case of OSDA, the AC monitors OSDI resource needs. It should be anticipated that as the whistleblower policy becomes better known and the Ethics Office becomes effective, the work of OSDI will likely increase. This will need careful management and resourcing to ensure that serious allegations are channeled into WFP and addressed.

**EXTERNAL AUDIT**

38. The NAO fully engages with the AC on its plans, outcomes and perspectives. Representatives provide intellectual input and valuable insight to our discussions on financial reporting in particular, and on risks and exposures across WFP generally. They have assessed AC performance and best practices; apprised the AC of UN Board of Auditors issues and updates that do or might affect WFP; and provided strategic advice related to the implementation of IPSAS and the implications for WFP.

39. The AC discusses all NAO’s reports, findings and recommendations; implications for the ongoing operations of the WFP; and potential impact on financial reporting. We also follow up on implementation of its recommendations.

40. The NAO submitted its work plans for discussion and review – including the necessary additional work required to audit financial statements annually, and the workarounds required for IPSAS compliance at the end of 2008. As was the case in the past, the NAO took under advisement the comments and suggestions of the AC.

**IMPLEMENTATION OF AUDIT RECOMMENDATIONS**

41. Through its routine monitoring of the implementation of internal and external audit recommendations, the Audit Committee has continued to receive feedback on the status of management response to these recommendations. It has noted with concern that
management has not followed through on all issues raised, including some high-risk issues, in a timely manner.

42. While management has succeeded in reducing the number of outstanding recommendations during the report period, a large number remain. The Committee welcomes recent steps to group together similar recommendations to improve the speed and effectiveness of response to this backlog but notes that executive management would do well to authorize a senior official to: (i) receive notification of all audit recommendations made by auditors and accepted by management; (ii) ensure timely management response; and (iii) report on implementation status to the Executive Director and the AC.

43. The AC considers that such steps would keep management accountable and would help to ensure improved internal control. Further, it welcomes the decision that the Chief Operating Officer have overall responsibility for audit recommendations follow-up and implementation, supported by the Deputy Executive Director for Finance and Administration, who will also play a significant role.

ENTERPRISE RISK MANAGEMENT

44. Previous reports to the Executive Director noted the lack of an effective enterprise risk management (ERM) function. Implementation of ERM has been slow to the extent that work done previously was left to languish until recently. The view of the AC has been that the embedding of enterprise risk assessment and management within WFP has been hampered by a lack of continuity in leadership; limited technical competence; and a co-mingling with change-management and results-based management initiatives that have detracted from the introduction of effective ERM. In addition, ERM is not yet supported by a robust control policy and internal control framework. Moreover, the Enterprise Risk management Committee formed fairly recently by the Executive Director has not met routinely. We recommend that this committee begin meeting regularly to monitor the risk profile of WFP.

45. Evidence of a properly functioning risk management system is that risk is an explicit and key component of all initiatives. The AC found this was lacking in, for example, the WFP Strategic Plan (2008–2011). This key document makes no explicit reference to risk or risk management at all. An opportunity was lost to set the tone and formally communicate the importance of identifying issues that threaten the continuity of WFP’s business in both financial and operational terms.

46. Another example is the related results-based management concept that was introduced some years ago with the potential to support management in directing its efforts and resources in a more efficient and effective manner. Management efforts to implement this concept have been spasmodic and momentum has been lost. The AC is of the view that this change management initiative, even now, could benefit from a robust risk assessment and monitoring, in which case it would likely achieve its intended benefit.

47. The AC was not satisfied that a mechanism existed during the period under review that could effectively identify emerging, enterprise-wide risks. Compensating for this, the Executive Director, supported by her senior managers, provided the AC with strategic risk information and plans to deal with a full range of specific risk issues. Their input
was vital to be able to contextualize emerging risks, and reflect on management plans and actions to address the risks.

48. While ERM has struggled to get off the ground, the AC believes that a foundation is now being laid for its sustained success. It acknowledges that there is solid evidence of good risk management practice across WFP. Under the leadership of the Executive Director, WFP has come through a tumultuous year involving: budget reductions; defining a new Strategy for the WFP under changed circumstances; sharp increases in the price of food and transportation; a declining value of the dollar against the euro; the challenging switch to IPSAS; and loss of key leaders due to transfer or mandatory retirement.

49. In its interaction with the Executive Director and other senior managers, the AC has noted a renewed appreciation of the need for effective ERM. To this end, the AC welcomes the recent creation of a new Performance and Accountability Management Division, with the appointment of a Director. While the AC considers the function to be under-resourced at present, it notes management’s desire to review the funding requirements. The AC encourages the Executive Director to continue to support this key function and suggests that care be taken to focus this Division’s efforts on institutional risk issues on a sustained basis.

50. The AC notes that full implementation of the Committee of Sponsoring Organizations of the Treadway Commission (COSO)/ERM control framework remains outstanding. It cannot overemphasize the importance of having a risk management function that is anchored in a coherent, simple framework – designed to increase accountability across WFP. It impacts everyone and is designed to bring about coherence on risk and control management from the smallest country office through to Headquarters. It is foundational to the annual Executive Director’s Letter of Representation and provides support to the now-established annual financial reporting. The AC notes, with concern, that previous recommendations to this effect – agreed to by management – have not been implemented but welcomes management’s decision to review this issue. **We recommend again** that WFP formally adopt the COSO control framework and set a timeline for its complete implementation and integration into all its activities.

**WINGS II**

51. This major transformational initiative has been under development for some time and has suffered from extensive delays – with another in 2008. Not only have there been time overruns, but there have been cost overruns too. At this stage, it is not yet evident to the AC that the WINGS II project will deliver everything that was initially promised to the Board.

52. The impact of the latest delay was felt most when management and the NAO had to perform costly workarounds for year-end financial statement preparation. A robust risk assessment performed upfront would have focused management attention on risk issues; required that milestones be determined; and ensured that measurement against these milestones took place, that the plans were modified in a timely manner and that management was held accountable to the Board for the results. **We recommend** that after implementation, the entire WINGS II project be evaluated to see to what extent the project delivered the expected benefits and at what cost to WFP.
FRAUD PREVENTION, CODE OF ETHICS AND WHISTLEBLOWER POLICY

53. A fraud-prevention policy has yet to be introduced although this has been recommended by OSDA for some time. The AC supports its adoption.

54. The UN mandated the formation of an Ethics Office in each organization. WFP should be commended for quickly appointing an Ethics Officer and forging links with the UN Ethics Office so as to provide input to the broader UN ethics effort.

55. The AC notes that WFP’s Code of Ethics is a standard UN Code. The AC holds the opinion that management should investigate whether or not the UN Code embodies what WFP demands of its staff, based on its unique requirements. Management shares this view and WFP’s own Code of Ethics is being drafted. Developing an effective Ethics Office is not accomplished overnight. A new Ethics Officer has been appointed and an implementation strategy developed. It will require sustained efforts by the Ethics Office and senior management to ensure that this function has the wide impact that is expected. It remains to be seen whether and to what extent the Ethics Officer is seen to have input at the senior management level, which is best practice elsewhere.

56. We recommend that a fraud prevention policy be introduced.

SECURITY AND INSURANCE ARRANGEMENTS

57. The AC received an update of the security arrangements following the bombing in Algiers and the loss of life of a staff member. It noted the strategies and activities of the WFP security management and staff and was briefed on some of the security challenges faced by the WFP and staff. Also, insurance information was provided that should be reviewed for level and nature of coverage. We recommend a review of the insurance coverage for staff.

BUSINESS CONTINUITY/DISASTER RECOVERY PLAN

58. The AC notes the continued absence of such a plan, repeatedly raised by OSDA in its annual reports. Failure by management to articulate such a plan, implement it, and – most important – test it, is a continuing concern. We once again recommend that a business continuity plan be formulated and tested to prove that WFP is not at serious risk in this key area on which the entire organization is reliant.

BUSINESS PROCESS REVIEW

59. Along with other initiatives named elsewhere in the report, full implementation of this project is long delayed. Its objective was to streamline WFP processes and activities. With resources provided to it over time, it remains uncompleted after more than three years. The AC believes this has been a lost opportunity and encourages management to reassess what can be done to achieve the initial impact desired.

LOOKING AHEAD

Appointment of the next External Auditor

60. Mindful that the term of office of the NAO as WFP’s External Auditor draws to a close at the end of 2010, the AC early on encouraged management to begin working with the Executive Board on the selection criteria to be applied and the process to be followed.
61. Based on its technical competence in auditing and its experience with WFP, the AC expects to play a role in advising on the process and on timing, and to provide the Board with input, especially on the technical and financial aspects of proposals submitted by candidates for WFP’s next External Auditor.

62. **We recommend** that the AC’s role in the selection of the next External Auditor be defined and scheduled.

**Board input to the Audit Committee agenda**

63. With the new reporting relationships between the AC and the Board just beginning, the Board should articulate and communicate to the AC the needs of the Board that fall within the technical competence of the AC. The AC, in turn, will discuss the subject matters with management and advise the Executive Director and Board accordingly. The AC suggests that to stay in line with the Board’s expectations it meet periodically with the President and observe Board meetings as appropriate.

**Field Visits**

64. Members of the AC were encouraged to visit country offices to observe WFP operations whenever their personal travel made this possible. Apart from a visit by the Chairperson to the Ghana office in July 2008, no such visits were undertaken. As the composition of the new AC takes shape, **we recommend** that members visit selected country offices and project sites as part of the induction process, and beyond.
Terms of Reference for the WFP Audit Committee

Purpose

1) The World Food Programme (the Programme) has established an Audit Committee to assist the Executive Director (ED) in fulfilling his responsibilities for financial reporting, use of resources, the Programme’s internal control arrangements, risk management process, and other audit-related matters. The Audit Committee primarily advises the ED on these matters and its purpose is not to substitute for the advisory functions provided to the Executive Board by the United Nations Advisory Committee for Administrative and Budgetary Questions (ACABQ) or the FAO Finance Committee.

2) To facilitate transparency and relative independence of the Audit Committee from day-to-day management, the majority of the Audit Committee members shall be external to the Programme. They should possess competence in the relevant aspects of the Programme (including finance, management and audit).

3) An external member will chair the Audit Committee.

Mandate

4) The Audit Committee shall:

   a) Advise the ED on all issues arising from its activities under these Terms of Reference.

   b) Review and advise the ED on policies significantly impacting accounting and financial reporting issues; use of resources and the effectiveness of the Programme’s internal controls; the internal audit function; operational procedures and risk management.

   c) Review and advise the ED on the Programme’s financial statements and reports.

   d) Promote the understanding and effectiveness of the audit function within the Programme, and provide a forum to discuss internal control and risk management issues, operational procedures and matters raised by internal and external audits.

   e) Provide comments on the work plans of the internal and external audit functions for consideration in their ongoing review.

   f) Consider all relevant reports by the internal and external auditors, including reports on the Programme’s financial statements and management letter. The Programme is responsible for the fair presentation of financial statements including adequate disclosure.

   g) Consider the risk and control implications of reports from OSDI in terms of its mandate and refer audit issues to the investigations unit as appropriate, with regard to due process and privacy considerations.

   h) Monitor the implementation of the internal and external audit recommendations.
i) Review and advise the ED on the Programme’s arrangements for its employees and external parties to raise concerns, in confidence, about allegations of wrongdoing in the management and conduct of operations.

j) Prepare an annual report on its activities for the ED and for transmission for information purposes to the Executive Board.

k) Make appropriate recommendations to the Executive Director.

Access

5) The Audit Committee has the authority to:
   a) Obtain all information and/or documents it considers necessary to perform its mandate including all audit reports and audit work papers produced by internal audit.
   b) Seek any information from any employee or request information generated from the Programme’s systems and require all employees to cooperate with any request made by the Audit Committee in performing its mandate.
   c) Obtain legal or other independent professional advice if it is considered necessary.

6) The Chairman and the External Auditor will meet annually in private session.

Number of meetings

7) The Audit Committee shall normally meet at least four times a year. The Chairman, any Member and the External Auditor may request additional meetings.

Convocation of meetings

8) The meetings of the Audit Committee shall be convened by the Chairman or by the Secretariat on the instruction of the Chairman. The members of the Audit Committee shall normally be given at least ten working days’ notice of meetings.

9) The Chairman will prepare a provisional agenda for the meetings that should be circulated together with the invitations.

Membership & Quorum

10) The ED shall appoint five members of the Audit Committee; at least three members will be external to the Programme and the remaining member(s) may be employed by the Programme as staff member(s). An alternate cannot represent members. Any three members shall constitute a quorum.

11) The terms of office shall be for an initial period of two years renewable for periods of time as determined by the Executive Director and phased in so as to provide continuity.

Conflicts of Interest

12) A register of interests will be kept to record members’ interests in general or on specific matters. Where an actual or potential conflict of interest arises, the interest will be declared and will cause the member/s to either be excused from the discussion or abstain from voting on the matter. In such event, a quorum would be required from the remaining members.
Responsibility and Liability of Members

13) Members shall act in an independent, non-executive capacity while performing their advisory role on the Audit Committee. As such, members shall not be held personally liable for decisions taken by the Audit Committee acting as a whole.

Participation other than in Person

14) It is expected that members will be present for meetings. Members may also attend by video conference. However, should a member attend by telephone, they will not be taken into account for the purposes of establishing a quorum.

Attendance

15) The Executive Director is invited to all meetings.

16) The External Auditor, the Deputy Executive Director for Administration, the Director of Oversight, and the Director of Internal Audit shall also normally be present. The Audit Committee may decide to hold “executive sessions” without their presence from time to time as determined by the Chairman.

Acting Chairman

17) If the Chairman is unable to attend a meeting, the Members present shall elect an Acting Chairman for that meeting from among the external members present.

Voting

18) The Audit Committee’s decisions are taken by the majority of the members present and voting. Should the votes be equally divided, the Chairman shall have the casting vote.

Secretariat function

19) The Secretariat function for the Audit Committee shall be carried out by a member of the Programme’s staff designated by the ED, and will report directly to the Chairman on matters relating to the work of the Audit Committee.

Minutes

20) Minutes of meetings will be prepared and kept by the Secretariat. The Audit Committee shall approve the minutes by correspondence, within a month of the meeting.

21) Supporting documents will be prepared by the Chairman or by the Secretariat on the instruction of the Chairman or on their own initiative. Documents may also be submitted by the External Auditor or, with the approval of the Chairman, by other management steering committees e.g. the Investment Committee.

Confidentiality of meetings and Minutes

22) The deliberations of the Audit Committee and the minutes of the meetings are confidential unless otherwise decided. The documents and informational material circulated for the consideration of the Audit Committee shall be used solely for that purpose and treated as confidential.
**Reporting**

23) The Audit Committee shall prepare a report on its work for the previous year for presentation to the ED during the first calendar quarter. It will include recommendations with respect to changes to its mandate. The Audit Committee will also prepare a report for the annual session of the Executive Board in May each year. The Chairman shall present these reports.

24) The chairman will interact regularly with the ED on the results of Audit Committee deliberations as well as on forthcoming issues relevant to its business.

**Indemnity of Members**

25) Audit Committee members are indemnified from actions taken against them as a result of activities performed in the course of business of the Audit Committee, as long as such activities were performed in good faith.
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AC</td>
<td>Audit Committee</td>
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<tr>
<td>COSO</td>
<td>Committee of Sponsoring Organizations of the Treadway Commission</td>
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<tr>
<td>ERM</td>
<td>enterprise risk management</td>
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<td>IPSAS</td>
<td>International Public Sector Accounting Standards</td>
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<td>NAO</td>
<td>National Audit Office</td>
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<td>OSD</td>
<td>Oversight Services Division</td>
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<td>OSDA</td>
<td>Office of Internal Audit</td>
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<td>OSDI</td>
<td>Office of Inspections and Investigations</td>
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<td>UN</td>
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