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Programme
Alimentaire
Mondial

World
Food
Programme

Programa
Mundial
de Alimentos

**Executive Board
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AUDITED BIENNIAL ACCOUNTS (2002–2003): SECTION III

**Long-form Report of the External Auditor with
Comments on Financial Matters**

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NOTE TO THE EXECUTIVE BOARD

This document is submitted for approval by the Executive Board.

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

Director, Finance Division (FS): Mr S. Sharma tel.: 066513-2700

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REPORT OF THE EXTERNAL AUDITOR ON THE AUDIT OF THE ACCOUNTS OF THE WORLD FOOD PROGRAMME FOR THE FINANCIAL PERIOD 1 JANUARY 2002 TO 31 DECEMBER 2003

Comprising:

Executive Summary	<i>(paragraphs 1 to 4)</i>
Scope and approach of the audit	<i>(paragraphs 5 to 10)</i>
Detailed findings for 2002–03	<i>(paragraphs 11 to 27)</i>
Follow up to 2000–01 External Auditor’s Report	<i>(paragraphs 28 to 29)</i>
Acknowledgement	<i>(paragraph 30)</i>



EXECUTIVE SUMMARY

Overall Results of the Audit

1. I have audited the accounts of the World Food Programme (WFP) in accordance with the Financial Regulations and in conformity with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency.
2. My audit revealed no weaknesses or errors that I considered material to the accuracy, completeness and validity of the financial statements as a whole and I have placed an unqualified opinion on the WFP's financial statements for the period 2002-03.
3. Under the authority of the Additional Terms of Reference Governing External Audit appended to the Financial Regulations, my report includes specific observations and recommendations directed at improving the WFP's financial management and control. In addition to this report, and as part of my 2002-03 audit, I am also presenting reports on my review of WFP's air operations; vulnerability analysis and mapping work undertaken by the Secretariat; and corporate governance. In October 2003, I reported to the Executive Board on my review of WFP's Human Resources Strategy.

Main Audit Findings and Recommendations

4. This present report sets out the scope and approach of my financial audit for 2002-03; detailed findings from that work; and comments on follow up to the 2001-02 External Auditor's report. The detailed findings presented further below set out the most significant issues, with recommendations for action, which arise from the work carried out by my staff at headquarters and in their visits to the seven Regional Bureaux and ten country offices. I have made a number of specific recommendations directed towards improved financial management and reporting; better financial monitoring by headquarters and the Regional Bureaux; and improved use of the WINGS system.

SCOPE AND APPROACH OF THE AUDIT

Audit Scope

5. I have audited the accounts of the World Food Programme (WFP) for the financial period 1 January 2002 to 31 December 2003 in accordance with Chapter XIV of the Financial Regulations and the Additional Terms of Reference Governing External Audit appended thereto.

Audit Objectives

6. The main purpose of the audit was to enable me to form an opinion as to whether the expenditure recorded in the financial period had been incurred for the purposes approved by the Executive Board; whether income and expenditure were properly classified and recorded in accordance with the Financial Regulations; and whether the financial statements present fairly the financial position at 31 December 2003.



Audit Standards

7. My audit was carried out in conformity with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. These standards require me to plan and carry out the audit so as to obtain reasonable assurance that the financial statements are free from material misstatement. The WFP's management are responsible for preparing these financial statements and I am responsible for expressing an opinion on them based on evidence obtained in my audit.

Audit Approach

8. In accordance with the Common Auditing Standards, my audit included a general review of the accounting systems and such tests of the accounting records and internal control procedures as I considered necessary in the circumstances. The audit procedures are designed primarily for the purpose of forming an opinion on WFP's financial statements. Consequently my work did not involve detailed review of all aspects of financial and budgetary systems and the results should not be regarded as a comprehensive statement on them. My audit included focused work in which all areas of the financial statements were subject to direct substantive testing. A final examination was carried out to ensure that the financial statements accurately reflected WFP's accounting records and were fairly presented.
9. My audit was supported during the biennium by visits undertaken by my staff to all seven of the WFP Regional Bureaux and ten Country Offices, where they reviewed the operation of controls during the biennium and undertook substantive testing of transactions at each location. At the end of each of these audit visits, my staff provided a management letter to the Executive Director outlining their key findings. A list of the countries and locations visited is at Annex 1. My staff also provided the Executive Director with management letters as a result of their audit planning work, their review of the mid-biennium closure of the financial systems and their review of the Information Systems environment at Headquarters in Rome. In total, 20 management letters were provided to the Executive Director, to highlight areas for the improvement of the financial control environment within WFP.

Audit Conclusion

10. My report includes a number of observations and recommendations intended to be of benefit to the Executive Board; and, in accordance with normal practice, my staff record additional findings in management letters to the Secretariat. None of these matters materially affected my audit opinion on WFP's financial statements for the biennium and, notwithstanding the observations in this report, my examination revealed no weaknesses or errors that I considered material to the accuracy, completeness and validity of the financial statements as a whole. Accordingly I have placed an unqualified opinion on WFP's financial statements for 2002-03.

DETAILED FINDINGS FOR 2002-03

Changes in Presentation of the Financial Statements and Notes

11. During their fieldwork, my staff found a significant number of cases where expenditure incurred on a project within one programme category had been posted to a different project



within another programme category. In Angola, for example, more than \$2 million of expenditure on a special operation (the Angola Air Operation) had been posted to the country's PRRO due to funding constraints on the Special Operation. My staff identified similar cases in other field offices: expenditure on an emergency operation posted to a special operation in Southern Africa; expenditure on a development project posted to a PRRO in Mali; expenditure on a PRRO posted to an emergency operation in Armenia. The results of audit testing gave rise to a significant level of uncertainty over the accuracy of disclosures by programme category, although not in relation to the validity of the transactions themselves. As a result, the presentation of project expenditure by Programme category is not included in the audited 2002-03 financial statements. The information is now presented in the Executive Director's Report on the Financial Administration of the World Food Programme and is therefore unaudited.

12. In addition, following the move to financial reporting on an accruals basis, the accounts reflect a necessary restatement of the prior period figures for comparative purposes.
13. My staff worked closely with the Secretariat to clarify and simplify the presentation of the financial statements and the Notes to the accounts. This has resulted in improvements in the disclosure of expenditures by programme and funding and greater clarity in the notes describing the results of the WFP for the biennium. The financial statements now report results and supporting information by the three main activities conducted by the WFP: programme categories; the General Fund and Special Accounts; and Bilateral Operations and Trust Funds.

Accounting and Disclosure of Project Expenditure

14. As noted above, my staff found a significant number of cases where expenditure incurred on a project within one programme category had been posted to a different project within another programme category. They found further cases of expenditure posted to incorrect projects within the same programme category (expenditure on one PRRO posted to another PRRO in Angola, for example). Although this has no direct impact on the financial statements, the practice distorts the management information held in WINGS, making it less useful for decision making and the evaluation and performance measurement of projects. This also affects the accuracy of the annual standard project reports submitted to donors for those projects where incorrect postings occur.
15. One of the reasons cited by WFP staff for the incidence of inaccurate recording is the need to circumvent strong system controls in WINGS where there are funding constraints on projects. This occurs where there are delays in receiving funding for particular projects from donors; or where funding has been pledged by donors but the funds have not yet been made available to field offices in WINGS due to internal delays in the system. As a key financial control, WINGS does not allow expenditure to be posted against a project where there is insufficient funding. My staff found that WFP's response to this in the country offices they visited had been to charge expenditure to another active project with sufficient funding available.

Recommendation 1. To ensure accuracy in the reporting of financial information, particularly in financial statements and donor reports, I recommend that senior management undertake regular reviews of the information recorded in WINGS to confirm that expenditure is correctly posted to the project to which it relates.

Recommendation 2. I also recommend that management improve the internal processes for ensuring the prompt programming of funding to field offices in WINGS, to facilitate the accurate recording and reporting of project expenditure.



16. My staff found that another cause of inaccurate recording of project expenditure was the utilisation of outstanding balances on projects where operations were completed. They noted several examples where spending authorisations had been issued to field offices for balances on projects which were no longer operational; and where expenditure incurred on a current project had been posted to an old project, even though there was no longer any activity under the programme category in the country. For example, in Armenia and Colombia, expenditure had been posted against the EMOP emergency operations programme category, although the countries in question had no emergency operations at the time of audit. In Albania, no direct support costs had been reported for the first six months of a protracted relief and recovery operation because the support costs had been charged to a regional emergency operation which had finished a year previously. Misposting within the same programme category occurs particularly when one project succeeds another in the same country. In such cases the first project may not be closed in financial terms in WINGS until a significant time after the second project has become operational. During this period the remaining project balances are used up by activities on the new project.

Recommendation 3. Once operations are complete I recommend that projects should be closed promptly in financial terms ; and that any remaining balances identified should only be redeployed on receipt of further instructions from the donor on their use and application.

Disclosure of Support Costs

17. Administration and support costs are disclosed in the financial statements under the two categories of Direct Support Costs (DSC) and Programme Support and Administration (PSA). Direct Support Costs are defined as those costs which are directly attributable to the provision of support for a programme and which would not be incurred should that project cease. Programme Support and Administration costs are those costs which cannot be directly attributable to any programme category or activity. There is, however, no clear distinction between the types of expenditure which should be recorded under these two support cost categories. At present the amount disclosed in the financial statements under each category depends on budget allocations rather than on the actual amount or nature of the support costs incurred. At country level, for example, the Country Director, two national officers, three national staff plus \$55,000 per year are allocated as Programme Support and Administration costs. Any administration or support costs in excess of this budget are recorded as Direct Support Costs, regardless of whether or not they can be directly attributable to a particular programme or activity.
18. During their visit to Afghanistan, my staff found that the Country Office made no distinction at all between the two cost categories. All costs were initially recorded as direct support costs, with a year end journal for \$55,000 to programme support and administration being raised to use up the budget. In other countries visited during the audit, office rent had been classed as programme support in some countries and as direct support costs in others, depending on whether there was sufficient programme support budget to cover the cost. In some locations, such as Tanzania, an attempt had been made to establish clear definitions at the beginning of the year, although the budget was found to be insufficient to cover what the offices considered as their core non-programme running costs (rent, communications, office supplies etc). As a result, we found many cases where core staff (for example finance staff) and other costs had been charged as direct support costs.



19. During their visit to the Johannesburg Regional Bureau, my staff found that it had no programme support and administration budget available for its first six months of operation; and that all start-up costs for the office had been posted to the Regional emergency operation budget. They found that the Rome Regional Bureau had been funded entirely from the direct support costs of the Balkans Regional emergency operation and therefore had recorded no programme support expenditure at all. These inconsistencies in treatment are recorded directly in WINGS. In consequence the system is unable to produce accurate management information on actual levels of direct and indirect support costs incurred by the WFP. Our predecessors, the Cour des Comptes, raised the issue of accounting for PSA expenditure in their 1998-99 audit report and our audit findings confirm that this has not yet been satisfactorily addressed.

Recommendation 4. I recommend that management more clearly define PSA and DSC in terms of the type of expenditure each category is to cover, to ensure that administrative and support costs which cannot be directly attributable to a programme category or activity are consistently recorded as Programme Support and Administration in the financial systems.

WINGS Reporting Functions

20. My staff have found that the current configuration of WINGS limits the way in which expenditures can be monitored by management. One such weakness is an inability to produce expenditure reports by specific country office or business unit. It is impossible to produce a report to review all the transactions relating to a particular country office, unless specific actions are taken by the office at the time of setting up vendors and entering payment data. During their audit visits to the field, my staff found that only the Regional Bureau in Bangkok was able to produce specific monitoring reports for itself from WINGS. These limitations in the WINGS system render it difficult to hold Country Directors and managers accountable for the expenditure in their areas of responsibility.
21. The Programme's financial regulations stipulate that WFP maintain accounts on a fund accounting basis. Separate funds are created in WINGS for individual contributions from donors which identify, amongst other elements, contributions for commodities and ocean transport. However, funds from different donors for associated costs are transferred into 'cumulative funds' within the system and the individual contributions lose their identity. It is therefore not possible to follow an entire contribution through the system from receipt of income to the disbursement of expenditure, and to verify that all donor conditions on expenditure have been complied with. My staff found that where donors placed conditions on the use of their contributions, WFP staff have to retrospectively allocate expenditure back to the individual contributions as a manual procedure using an Excel spreadsheet, since the information is not available in WINGS.

Recommendation 5. WINGS is to be subject to a forthcoming upgrade and I recommend that WFP consider reconfiguring the system, to enable it to provide expenditure reports by field office and business unit; and to be capable of tracking individual donations from income through to expenditure.

Financial Oversight and Guidance

22. During their visits to the seven Regional Bureaux and ten country offices, my staff considered and discussed with management the monitoring and support roles of Rome Headquarters and the Regional Bureaux in relation to the country offices. My staff found that country offices did not always benefit from clear guidance on how to deal with



certain financial issues. This had led to a number of inaccuracies and inconsistencies in accounting treatments in different offices. Examples included accounting for recoverable sales taxes and Value Added Tax; accounting for advances and part payments to suppliers; accounting for the proceeds from the sale of unfit commodities; and issues dealing with the use of exchange rates.

23. My staff found that the relevant WFP finance manual, the Country Office Accounting Guide, was last updated in 1999, before the introduction of WINGS and the electronic cash book used for non-WINGS field offices (COAGSAPInt), and before decentralisation. Furthermore, financial and other guidance was only available in an English language version making it difficult for staff in several parts of the world to gain a full understanding of the requirements.

Recommendation 6. I recommend that management update the Country Office Accounting Guide as a matter of priority to provide a comprehensive manual to field offices which reflects the changes to the finance system introduced since 1999; and consider the issue of French and Spanish language versions of the Guide where appropriate. This recommendation was also made by my predecessors.

24. As a result of the decentralisation process, the responsibilities for financial monitoring and oversight were devolved from Rome Headquarters to the respective Regional Bureaux. During their visits to the seven Bureaux, my staff found that a very limited level of monitoring and oversight was being undertaken. In most cases they found that Regional Finance Officers had been concentrating on financial administrative support to the Bureaux and on the necessary task of clearing data input rejections from the WINGS system; and had spent little time providing support and oversight to the country offices in their region. Country offices which are not functionally linked to WINGS are required to send monthly financial returns to their Regional Bureau and to Headquarters, including expenditure reports, bank reconciliations and information on the status of advances. My staff found little evidence of any review conducted on these monthly returns at either Headquarters or at the related Bureau.

Recommendation 7. I recommend that the Regional Bureaux should have a clear responsibility to oversee and monitor the financial performance of the country and project offices in their region, to be in a position to ensure the integrity of the Programme's systems for budgetary and financial control.

25. The introduction of WINGS to country offices should offer an improved level of financial support and information. However, my staff noted a number of issues relating to the way in which WINGS was being utilised. The most common of these issues related to the automated bank reconciliation process, where relevant WFP staff demonstrated limited knowledge and understanding of how the process should be performed in WINGS. This affected the internal controls operating in a number of offices during the period. My staff also found a lack of understanding of the WINGS purchasing and payments processes in one Regional Bureau, which had led to the recording of purchase orders at the same time as the recording of expenditure transactions after the goods and services had been received.

Recommendation 8. I recommend that WFP provide refresher training on WINGS for field staff, to ensure the full and proper use of the system's functionality and adequate levels of internal control.

Cargo Preference Premium

26. During the biennium, my staff raised with the Secretariat two major concerns on the treatment of specific contributions from the Programme's major donor. Firstly, the WFP



was not disclosing fully the value of cash received from the donor and the corresponding amounts paid to suppliers for shipping services. This had the effect of understating both income and expenditure by \$200 million in the biennium. Secondly, by not charging indirect support costs on these contributions, WFP was failing to comply with its full cost recovery principle; and the Executive Director is unable to authorise waiver of indirect support costs in these circumstances. My staff recommended to the Secretariat that contributions and expenditure should be disclosed in the financial statements gross of the cargo preference premium and that the issue should be brought before the Executive Board for approval. In February 2004 the Board considered the issue of recovery of indirect support costs from these contributions and provided a waiver for the 2002-03 biennium.

Frauds, Ex-gratia Payments, Amounts Written Off and Contingent Liabilities

27. The Secretariat informed my staff that during the biennium WFP had identified 33 cases of fraud and presumptive fraud amounting to an estimated value of \$2.8 million. Amounts of \$232,775 were written off during the period as irrecoverable losses under Financial Regulation 12.4. Ex-gratia payments totaling \$158,000 were made during the period under Financial Regulation 12.5. Management informed my staff of contingent liabilities amounting to \$2 million.

FOLLOW-UP TO THE 2000-01 EXTERNAL AUDITOR'S REPORT

28. As a matter of good practice I have reviewed the progress made by the Secretariat in response to my predecessors' recommendations. Their final report for 2000-01 covered financial issues, treasury management, decentralisation and their follow up to Financial Management Improvement Programme (FMIP). My staff have reviewed the two papers produced by the Secretariat in response to the recommendations made (WFP/EB.3/2002/5-A/1/4 and 5).
29. They found that the Secretariat had implemented some of the major recommendations, such as the move to accruals accounting, the recommendations relating to treasury management and the FMIP. However other recommendations in respect of guidance manuals and other technical accounting issues remain to be implemented and are currently being addressed by the Secretariat. Some of these recommendations date back to my predecessors' 1998-99 report to the Executive Board. My staff have been informed that the Secretariat will produce a full response, detailing the WFP response to each recommendation for the Executive Board in October 2004.

Acknowledgement

30. I wish to record my appreciation for the co-operation and assistance provided by the Executive Director and the staff of the WFP during my audit.

John Bourn

Sir John Bourn
Comptroller and Auditor General, United Kingdom
External Auditor



ANNEX I**WFP BUREAUX AND COUNTRY OFFICES VISITED BY THE
EXTERNAL AUDITOR IN THE 2002-03 BIENNIUM**

Regional Bureau	Bureau location	Countries visited
Asia	Bangkok, Thailand	Phnom Penh, Cambodia
Mediterranean, Middle East and Central Asia	Cairo, Egypt	Islamabad, Pakistan Kabul, Afghanistan Mazar-e-Sharif, Afghanistan Termez, Uzbekistan
West Africa	Dakar, Senegal	Bamako, Mali
Southern Africa	Johannesburg, South Africa	Luanda, Angola
East and Central Africa	Kampala, Uganda	Lokichoggio, Kenya Nairobi, Kenya Kigali, Rwanda Dar Es Salaam, Tanzania
Latin America and the Caribbean	Panama City, Panama	Bogotá, Colombia
Eastern Europe	Rome, Italy	Yerevan, Armenia

