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FINANCE COMMITTEE

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Work Plan of the External Auditor

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EXECUTIVE SUMMARY

- The Cour des comptes of France is pleased to present the “Work Plan of the External Auditor”.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to note the Work Plan of the External Auditor on the audit of the World Food Programme and to endorse it for information by the Executive Board.

Draft Advice

- **In accordance with Article XIV of the General Regulations of WFP, the FAO Finance Committee advises the WFP Executive Board to note the “Work Plan of the External Auditor”.**



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For information

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

Work Plan of the External Auditor

For the period July 2017 to June 2018

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Cour des comptes
FRANCE



EXTERNAL AUDIT OF THE WORLD FOOD PROGRAMME

Work Plan of the External Auditor for the period
July 2017 to June 2018



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I. Mandate and objectives

1. This document, submitted to the World Food Programme (WFP) Executive Board for information, is the External Auditor's annual work plan of audit activities for July 2017 to June 2018.
2. Through an Executive Board decision of 10 November 2015, WFP external audit was entrusted to the First President of the Cour des Comptes of France for the period 1 July 2016–30 June 2022 in accordance with Article 14.1 of the WFP Financial Regulations.
3. The External Auditor's mandate is set out in Article XIV of the WFP Financial Regulations and its annex, and in the call for applications for the appointment of the External Auditor. The External Auditor's terms of reference comprise the call for applications, together with the offer of services of the External Auditor – particularly his detailed technical offer, which was approved by the Board.
4. The responsibilities of the External Auditor consist of auditing the financial statements of WFP (Article 14.1 of the Financial Regulations) and making observations, if he sees fit, regarding the effectiveness of the financial procedures, the accounting system, internal financial controls and, in general, the administration and management of WFP (Article 14.4 of the Financial Regulations).
5. The mandate given to the External Auditor in the terms of reference approved by the Board covers both the auditing of the financial statements and a review of the performance and regularity of the management of WFP.
6. Pursuant to Article XIV.6 (b) of the General Regulations and by virtue of Articles 13.1 and 13.3 of the Financial Regulations of WFP, the Executive Director of WFP is responsible for the preparation and submission of the financial statements. In conformity with Article 3.1 of the Financial Regulations, the Executive Director is also responsible for the financial management of WFP's activities, for which he is accountable to the Board.
7. A letter of engagement with the Executive Director was signed on 12 December 2016 in order to ensure that, in accordance with the ISA 210 standard, the respective obligations of WFP management and the External Auditor are clearly understood.
8. The objective of the audit of the financial statements is to obtain reasonable assurance about whether the financial statements give a true and fair view, in all material respects, of the financial position of WFP as at 31 December 2017 and of the results of the operations recorded during the financial year, in accordance with International Public Sector Accounting Standards (IPSAS); whether the financial statements have been prepared in compliance with the Financial Regulations and the stated accounting policies; whether the accounting policies applied are consistent with those of the previous financial year; and, finally, whether the transactions have been performed in compliance with the Financial Regulations and legislative authority.
9. Within the framework of the financial audit, the External Auditor is to review and, if necessary, test certain internal control mechanisms that have a material impact on preparation of the financial statements. The External Auditor takes into account the internal controls applicable to the preparation of financial statements with the aim of developing audit procedures appropriate to the subject and with no aim of expressing an opinion on the effectiveness of those controls. This work primarily aims to determine the financial audit strategy but it may also help to highlight opportunities for enhancing internal control, which will be shared with WFP.
10. With regard to the review of management performance, the audits will aim to determine whether, in the areas reviewed, activities are carried out in accordance with the principles of economy, efficiency and effectiveness and whether there is scope for improvement.
11. The performance audits will also aim to ensure that activities, financial transactions and information are, in all material respects, in conformity with the provisions of WFP's basic texts.

II. Audits and reports

12. In accordance with the terms of reference, each year the External Auditor must issue an audit report on the financial statements of WFP (to be submitted to the Board for approval) accompanied by an opinion on the accounts, two reports on the performance and regularity of the management of WFP, otherwise referred to as "performance audit reports" (to be submitted to the Board for consideration) and ten management letters prepared following visits to field offices (regional bureaux, country offices and other offices). The External Auditor will also validate the draft annual report on implementation of the External Auditor's recommendations submitted by the Secretariat to the Board for consideration.
13. As a rule, management letters related to field offices will be sent only to the Secretariat. However, the External Auditor reserves the right to address in his reports to the Board any matters observed at field offices that should be brought to the attention of the Board.
14. The audit of the financial statements will be carried out in two stages at WFP Headquarters: an interim audit in the autumn of the financial year under review (from 16 to 27 October 2017 for the 2017 financial year) to understand and test the internal control mechanisms, and a final audit in the first quarter after the closing of the accounts (from 19 February to 9 March 2018 for the 2017 financial year), to examine a certain volume of transactions.
15. Each of the two performance audits will involve two missions at Headquarters between September 2017 and February 2018: a preparatory mission to finalize the audit planning and to identify key processes, and a final mission to test controls, to collect evidence and to draw conclusions.
16. Each year, the External Auditor will undertake ten field visits, mainly to country offices and regional bureaux. These audits will address the regularity of offices' management and will also contribute to the performance audits according to the themes selected. They may also involve the checking of samples selected in line with risks in areas affecting the financial statements. For the period from July 2017 to June 2018, field audits will take place between September 2017 and February 2018.
17. While the terms of reference stipulate seven country office visits and three regional bureau audits, the External Auditor may adapt this distribution if necessary.
18. For the period from 1 July 2017 to 30 June 2018, the date for submission of final performance audit reports to the Board Secretariat is 6 April 2018; it is 20 April 2018 for the audit report on the financial statements and the opinion on the accounts.

III. Standards and methods

19. As provided for in Article 14.3 of the Financial Regulations, the audit of the financial statements will take place in accordance with International Standards on Auditing (ISA), the WFP Financial Regulations and the additional terms of reference annexed thereto. These standards are part of the International Standards of Supreme Audit Institutions (ISSAI), which also govern the method followed by the External Auditor for the performance and regularity audits.
20. All of these standards require the External Auditor to comply with the applicable rules of professional conduct, exercise professional judgement and demonstrate critical thinking and independence throughout the audit. Neither the legislative bodies nor the governing bodies of an organization may interfere in the selection of matters to be audited, the planning, scheduling or execution of work, the reporting of results or the monitoring of audits.
21. For audit planning purposes, work on both the financial audits and the performance audits will be structured around three core objectives: understanding the entity, evaluating the internal control system, and identifying important risks.

22. The External Auditor will plan his work in order to:
 - address the main concerns of WFP and its governing bodies with regard to the objectives of efficiency, effectiveness and economy in the governance and use of the resources provided by donors. Therefore, the audits should address significant issues, particularly those of financial or strategic importance;
 - cross this approach with, first, an analysis of the risks of any kind that could compromise WFP's capacity to achieve the results expected by the Member States and, second, the internal audit and evaluation programmes. Areas selected for control should bring added value to WFP, particularly because the related risks are high and because the areas have not been thoroughly examined by recent audits performed by other oversight bodies.
23. In his planning, the External Auditor will also take into consideration his capacity to perform the audit of the area concerned, taking into account the information available and the resources and timeframe provided.
24. In order to define his work plan for the period from July 2017 to June 2018 and his multi-year audit strategy, the External Auditor updated his risk analysis, which enabled him to identify a list of areas of control likely to require a performance audit because of their importance to WFP and the added value of auditing them.
25. The number of potential audit areas obviously exceeds the number of audits to be performed between July 2017 and June 2018 (two).
26. Annex I presents not only the two subjects selected for audit during the period from July 2017 to June 2018, but also a reserve list of priority areas, prepared from a multi-year perspective with a view to enhancing the predictability and coherence of planning from one year to the next. This expanded list will also help inform subsequent discussions with management, other oversight bodies and the Board, particularly to avoid duplication of work.
27. Topics mentioned for subsequent periods are merely indicative. The External Auditor is obliged to audit only the subjects selected for the first period. The multi-year strategy is revised each year during preparation of the annual work plan.
28. Also from a multi-year perspective (three bienniums), annex II contains a list of field audits to be carried out. The same reservations apply as for annex I concerning adaptability in the years following the first period.
29. During the operational planning stage of each audit, the present annual work plan should be supplemented by a preliminary assessment that makes it possible to define more precisely the scope of the audit, to prepare terms of reference to be submitted to management and to draw up an engagement plan for the audit teams.
30. In order to carry out this operational planning work, the External Auditor will organize working meetings with WFP management before the start of each audit assignment.

IV. Audit areas

A. Performance audits

1. Food-related losses

31. In 2016, WFP reported USD 21.1 million of food losses (23,786 mt) in its financial statements: these losses, suffered in the difficult environments in which WFP operates, are almost double those of 2015 but nevertheless represent less than 1 percent of the total food distributed.
32. Losses reported in the financial statements and in the annual report on losses¹ include only post-delivery losses, i.e., incidents occurring after the arrival of food commodities in the recipient countries and before their distribution to beneficiaries or their transfer to cooperating partners. Losses occurring before delivery to a country are not registered in these reports but rather through

¹ Report on Post-Delivery Losses for the period ended 31 December 2016 (WFP/EB.A/2017/10-B).

LESS, the Logistics Execution Support System. Post-distribution losses are tracked through other mechanisms such as COMET, the corporate tool for programme management.

33. The purpose of auditing food-related losses will be to examine the effectiveness, efficiency and consistency of WFP's management of such losses. All types of losses, including those occurring before the arrival of food in a recipient country and unintended uses of food after its distribution to beneficiaries, will be taken into consideration.
34. Losses causing no financial harm, because they are covered either by all risk insurance or by other reimbursement and recovery mechanisms, will be included in the audit. Theft, fraud and accidents, even if the subject of financial reimbursement, are not without impact on WFP because they translate into a loss of effectiveness.
35. A broad view of the notion of food-related losses will be adopted. Events that may not fit the definition of food-related losses, such as possible litigation with suppliers, transporters or states, or food quality and food safety incidents, can cause delays and raise costs, harming WFP's reputation and in the end compromising its achievement of its objectives.
36. The objectives of the audit will be to:
 - identify and quantify all losses, of whatever nature, related to food supplied by WFP, from the definition of the food basket to final consumption;
 - examine inventory, analytical and accounting mechanisms as they pertain to food-related losses;
 - analyse the effectiveness of the measures put in place by WFP to prevent and mitigate such losses and verify in particular how WFP protects itself against the financial, legal and reputational harm that could be caused by the food that it purchases and distributes.

2. *Scale-up and scale-down of resources in emergency operations*

37. L2 and L3 operations, whether they correspond to emergency operations (EMOP) or to protracted relief and recovery operations (PRRO), are initiated by the Executive Director based on five criteria: scale, complexity, the nature of the emergency, mobilization capacity and reputational risk. They involve the mobilization of additional resources at the level of the regional bureau (for L2 operations) or Headquarters (for L3 operations).
38. In 2016, WFP had to deal with an unprecedented number of emergency operations of levels 2 and 3, up to 12 at the same time. Most of them were attributable to long-term conflicts lasting months or even years; some were also caused by climatic phenomena.
39. The proliferation of emergencies creates a substantial risk of excessive demand (overstretch) for WFP's services, which puts extreme pressure on its resources. The situation is exacerbated by the need to intervene rapidly in highly unstable environments.
40. Four key elements will be taken into account during this audit: funding, human resources, commodities and infrastructure.
41. The scaling-up during the initial phase of emergency operations is a decisive stage for WFP, which must define the appropriate level of resources and deploy them almost immediately, all the while maintaining effective management.
42. The scaling-down of resources at the end of an emergency operation presents another key moment: post-crisis activities must be carefully conceived and planned to ensure the return of stability and reconstruction. Resources must be rescaled and adapted to new objectives.
43. The audit will aim to:
 - Assess how WFP analyses emergency situations and defines the appropriate level of resources to be allocated during the initial and final phases of operations;
 - Analyse mechanisms for deploying (during initial phases) and downsizing (during final phases) resources, including data collection and monitoring;

- Identify major weaknesses and risks affecting the allocation and use of resources during the initial and final phases of emergency operations and verify the robustness of internal controls and mitigation measures.

B. Field audits

44. The terms of reference of the External Auditor state that he will audit ten field offices each year, including a number of regional bureaux and country offices.
45. In establishing the schedule, we took into account our analysis of the risks and how recently the latest audits were carried out by one of the oversight bodies.
46. For each year, we have also selected – with a few exceptions – country offices located in the zones covered by the regional bureaux due to be examined that year.
47. Most WFP interventions are currently carried out in emergencies in zones posing substantial security risks. Given the difficulty of working in such environments, which are by nature unstable, we do not rule out excluding one or more countries that are scheduled for a visit.
48. The extent of funds involved has been taken into account, yet our professional judgement can lead us to depart from a strictly financial approach in certain cases.
49. Annex II contains the list of anticipated sites. Period 3 (2018–2019) is suggested as a model, with a view to improving coordination with the other oversight bodies.
50. The audits will systematically examine the regularity of management with regard to finance, human resources, asset management and coordination with other bodies.
51. The field audits will also enable the collection of information useful for the two performance audits to be carried out during the year and the completion of additional checks required for the audit of WFP's financial statements.
52. The development of centres of excellence, designed as a means of strengthening South–South cooperation, is a key element of the WFP Strategic Plan. In due course, the External Auditor may schedule an examination of one or more of these centres in the framework of field visits. If necessary, an overview of this theme would then be included in one of the External Auditor's reports submitted to the Board.

C. Audit of the financial statements

53. The External Auditor's preliminary assessment had led him to conclude that WFP's internal control environment is characterized by a high level of inherent risk owing to the nature and location of its main operations and its highly decentralized structure, which gives significant autonomy to country-level officials.
54. Experience gained during the 2016 financial audit confirmed the External Auditor's initial assessment and resulted in a strong coordination between all audit teams (field, performance and financial audits), in order to ensure that issues arising from the field are appropriately taken into consideration for financial audit purposes.
55. Moreover, the External Auditor in his report identified two areas of significant risks in the 2016 financial statements:
 - a) Cash-based transfers, because they play an increasing role in WFP's operations, are inherently highly risky and pose challenges to internal controls. The External Auditor will continue to dedicate an experienced auditor to CBT for the 2017 financial audit and will pay particular attention to the implementation of related recommendations issued in 2016.
 - b) Revenue recognition in respect of contributions, because of the importance of the subject for an organization entirely dependent on voluntary contributions. For the 2017 financial audit purpose, the External Auditor will continue to dedicate an experienced auditor to revenue recognition, will pay particular attention to the implementation of related recommendations issued in 2016 and will rely on in-depth direct confirmation procedures.
56. Due to the nature of WFP's activity and its highly decentralized organization, the External Auditor assessed that the risk of fraud was high (cases of fraud are tallied each year in

the report of the Inspector General). For the 2017 financial audit, the External Auditor will continue to dedicate a data analyst specializing in fraud detection utilizing Benford's Law and will pay particular attention to the implementation of related recommendations issued in 2016 in the context of the information technology systems review. Appropriately designed and enforced general information technology and application controls can help to prevent the risk of fraud.

57. In addition to the significant risks mentioned above and the risk of fraud, the External Auditor concluded that the following accounts are subject to both a high inherent risk and a high control risk:
- a) Cash and cash equivalents
 - b) Inventory
 - c) Vendor accounts, accrued charges, purchases
58. For these important accounts subject to an elevated combined risk, the External Auditor will perform extensive internal control testing during the interim audit and extensive validation testing during the final audit. He will also rely on third party direct confirmation procedures and will take into consideration issues, if any, reported by the field and performance audit teams.

ANNEX I**List of audit subjects selected for performance audits in the 2017–2018 period and indicative list of possible subjects for subsequent periods**

2016–2017 (reminder)	2017–2018	2018–2019/2019–2020/ 2020–2021/2021–2022
Review of decentralization	Food-related losses	Cash-based transfer beneficiary targeting
Changes in human resources	Scale-up and scale-down of resources at the start and closure of emergency operations	Budget planning and resource allocation in country strategic plans (CSPs)
		Private-sector partnerships for capacity-strengthening Performance measurement and CSPs Inter-agency coordination Cooperating partners Overhead cost structure Oversight function in WFP

ANNEX II

List of sites selected for field audits in the 2017–2018 period and list of field audits during the preceding and subsequent periods (indicative)

	2016–2017 (reminder)	2017–2018	2018–2019
Regional bureaux	Dakar	Cairo	Nairobi
	Bangkok	Johannesburg	Panama
Country offices and other offices	Cameroon	Lebanon	Haiti
	Central African Republic	State of Palestine	Honduras
	Burkina Faso	Ukraine	Guatemala
	Myanmar	Turkey	Jordan
	Lao People's Democratic Republic-Cambodia*	Nepal	Uganda
	Pakistan	Malawi	Somalia
	Addis Ababa**	Zimbabwe	Djibouti
	Copenhagen/Brussels/London***	Kenya	Geneva, New York, Washington

* Joint assignment on the two country offices during the same audit.

** Assignment on the WFP representative office at the African Union and on the country office during the same audit.

*** Assignment on the three liaison offices during the same audit.

Acronyms used in the document

EMOP	emergency operations
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
ISSAI	International Standards of Supreme Audit Institutions
PRRO	protracted relief and recovery operations