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# FINANCE COMMITTEE

**Hundred and Sixty-seventh Session**

**Rome, 29 - 31 May 2017**

**Annual Report of the Audit Committee**

Queries on the substantive content of this document may be addressed to:

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**EXECUTIVE SUMMARY**

- The “Annual Report of the Audit Committee” is submitted to the Board for consideration.
- The Executive Summary of the “Annual Report of the Audit Committee” is included within the main document presented to the Committee for its review.

**GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE**

- The Finance Committee is requested to endorse WFP’s “Annual Report of the Audit Committee” for consideration 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 take note of the “Annual Report of the Audit Committee”.**



**World Food Programme**

**Executive Board  
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WFP/EB.A/2017/6-E/1

Resource, Financial and Budgetary Matters

**For consideration**

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

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## **Annual Report of the Audit Committee**

### **Draft decision\***

The Board takes note of “Annual Report of the Audit Committee” (WFP/EB.A/2017/6-E/1).

### **To the Executive Board**

The WFP Audit Committee is pleased to submit its Annual Report to the Executive Board for consideration, as required under the WFP Audit Committee Terms of Reference<sup>1</sup> decided at the 2011 Second Regular Session.

The report is intended as a summary of the principal activities and opinions of the Audit Committee from 1 April 2016 to 31 March 2017. The latter date coincides with finalization of the annual financial statements – a prime focus of the Audit Committee. More detailed information on the committee's activities can be found in the Audit Committee's meeting minutes, action items attached to meeting minutes and summaries of discussions with the WFP Executive Board Bureau.

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

James Rose

Chairperson

31 March 2017

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

<sup>1</sup> WFP Audit Committee Terms of Reference.

## Executive Summary

The Audit Committee implemented its work plan in accordance with its terms of reference with the full cooperation of the Executive Director and management. Neither substantial internal control weaknesses nor misstatements in the March 2016 financial statements<sup>2</sup> were brought to the committee's attention. The Audit Committee relied on assurances and presentations from management, the Office of the Inspector General and the External Auditor.

The Audit Committee has been fully engaged in the personnel changes in the Office of the Inspector General and continues to be a major participant in the selection process for the new Inspector General, while supporting the current Officer in Charge. The Audit Committee is pleased with the Officer in Charge's stewardship of the office in the interim and with efforts to improve protocols for future proactive integrity review engagements. The Audit Committee has also assured itself of the full independence and capability of Office of the Inspector General to conduct independent investigations at its discretion.

Overall risk management and internal control processes continue to improve. Management demonstrates a willingness to continue driving improvement and modification of controls as WFP processes change. That being said, WFP is at a point where its increased enterprise risk management work and the organizational design of "second line of defence" compliance and control systems should be evaluated.

In March<sup>3</sup>, the Audit Committee reviewed preliminary reports that were to be disseminated by the External Auditor and the Office of the Inspector General regarding WFP's decentralization approach and regional bureaux, respectively. The committee believes that WFP should review its Fit for Purpose organizational design at the functional level with a view to improving the efficiency and effectiveness of oversight controls. Opportunities to centralize management and operational activities that do not need to be implemented at the country level should be considered, as noted in the committee's March 2017 meeting minutes.

The Audit Committee also reviewed several presentations regarding the Integrated Road Map and country strategic plans. The committee perceives the country strategic planning process as aligned with and critical to WFP's contribution to the Sustainable Development Goals.

Given the expiration of the terms of Mr Rose and Ms Petruškevičienė, the Audit Committee, in collaboration with management and the Executive Board Bureau representatives, has selected two new members for the Board's approval<sup>4</sup>. For the purposes of leadership continuity during the transition of Audit Committee members, the committee selected Mr Kana as Vice-Chair of the Audit Committee.

## Introduction and Function of the Audit Committee

### Terms of reference

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

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<sup>2</sup> Presented at the 142nd Audit Committee Meeting from 22–24 March 2017.

<sup>3</sup> Ibid.

<sup>4</sup> WFP/EB.A/2017/6-C/1.

- external audit;
- values and ethics; and
- allegations of inappropriate activity.

The AC has structured this report accordingly.

### **Composition of the Audit Committee**

3. A list of the AC's current members is provided in Annex II. This composition reflects gender and regional balances as determined by the Board.
4. Prior to the December 2016 meeting, the AC elected Mr Suresh Kana as Vice-Chair.

### **Audit Committee activities**

5. This report covers the period from 1 April 2016 to 31 March 2017. It provides an overview of the AC's work and highlights issues that require the attention of the Board and the Executive Director.
6. The AC met three times during this period – in June 2016, December 2016 and March 2017. Between formal meetings, telephone conferences were held by AC members or by the AC Chair with the Inspector General, WFP management, the External Auditor or the Executive Board Secretary regarding matters that required the AC's attention.
7. AC meetings are usually attended by the Executive Director, relevant Assistant Executive Directors, the Chief of Staff, the Inspector General and their officers.
8. On the first and last days of each meeting, the AC holds executive sessions for members only, generally with WFP's Executive Director. These sessions focus on strategic issues and provide the AC with insights into WFP's priorities and needs. The sessions are also used to share the AC's concerns with the Executive Director and to communicate matters requiring the Executive Director's urgent attention.
9. The AC's meetings with the Executive Board Bureau continue to be an essential link to the Board: the Bureau provides the consolidated views and priorities of WFP's Member States, and provides the AC's primary means of advising the Board on the status of WFP governance, risk and control efforts.
10. The first meeting of United Nations Audit Committees took place in November 2016 in New York for the purpose of sharing best practices among United Nations oversight panels. Mr James Rose, AC Chair, attended the meeting, where WFP was commended for its governance model's maturity and practices.
11. The mandates of two AC members will expire in 2017. The Executive Board established a selection panel to identify candidates to replace the departing members.<sup>5</sup> AC member Mr Suresh Kana represented the committee on the panel.
12. On matters regarding personnel of the Office of the Inspector General (OIG), the AC Chair met the General Counsel, the Executive Director and the Officer in Charge of OIG on several occasions to ensure an appropriate transition of leadership.
13. The AC Chair also sat on the selection panel for the new Inspector General along with Board members and management.
14. Field visits are critical for AC members' understanding of WFP's operations. Visits are planned in consultation with the Assistant Executive Director of the Resource Management Department, the Executive Board Bureau, the Executive Board Secretariat and country directors. Expenses are covered by the AC budget and are minimized by arranging travel in the geographic region of the AC member participating in the field visit.

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<sup>5</sup> WFP/EB.A/2016/6-B/1/Rev.1.

15. The AC is pleased to note that a field visit took place in 2016: AC member Ms Irena Petruškevičienė visited WFP's country offices in Jordan and Lebanon. The visit included meetings with country directors and heads of divisions and visits to schools benefiting from the school meal programme, an e-card distribution centre, refugee camps, households, WFP-contracted shops, and a cash-for-work livelihoods project. The aim of the field visit was to improve the committee's understanding of cash-based transfer (CBT) operations, risks and relevant risk-mitigation measures, CBT developments in the country context, school meals and cash-for-work programmes. The visit also aimed to increase understanding of WFP's impact on beneficiaries' everyday lives, local community life and countries' economies. In addition, the field visit was a good opportunity to inform country office staff about the role and activities of the AC.
16. The AC is committed to continuing to gain a regional or country perspective on WFP's operations at minimal cost to WFP by undertaking field visits or holding AC meetings in regional or country offices, with visits to field operations included in the agenda.
17. Audit committees in the public and private sector are charged with assessing their organizations' risk-management efforts. This includes the assessment of management's effort to: i) establish, with the governing board, the organization's risk appetite; and ii) assess and mitigate enterprise risks within that risk appetite. The AC is grateful to the Executive Director, senior management and the Executive Board Bureau for their assistance in discharging these duties.

### **Risk Management and Internal Controls**

18. The AC recognizes that an effective enterprise risk management (ERM) programme and a sound system of internal controls are vital for a large global organization such as WFP, and notes WFP's efforts to strengthen its ERM and internal controls. The AC also recognizes that even the most well-designed ERM programme and internal controls cannot eliminate all risks or prevent negative events.
19. Accordingly, the AC recommends that the Board and management continue to refine their statements of risk appetite to make them more applicable for use in setting and communicating the level of risk required to balance humanitarian objectives with other operational objectives such as waste and fraud prevention.
20. WFP's work on ERM and internal controls is based on:
  - a) work carried out by the Operational Risk Management Service, which identifies risks that may affect individual business units – country offices, regional bureaux and Headquarters divisions – as well as risks to the entire organization, especially in emergencies;
  - b) detailed statements of assurance on the effectiveness of internal controls which, for 2016, have been certified and signed by a significant number of WFP managers, including the Deputy Executive Director, Assistant Executive Directors, Regional Directors, country directors, directors of all WFP offices and directors of divisions in Headquarters; and
  - c) internal audits carried out by OIG to provide assurance on governance, policy, risk, resources, operational and accountability issues through independent and objective oversight services.
21. The AC noted that every WFP office is expected to maintain an up-to-date risk register. The Corporate Risk Register identifies 14 major risks, each with its: i) risk category; ii) likelihood; iii) impact; iv) risk level; and v) risk owner(s). Major risks that may adversely affect achievement of the overall objectives of WFP are included and periodically updated in this register.

22. Of the 14 major risks in the Corporate Risk Register, some are particularly relevant for WFP in the context of the WFP Strategic Plan (2017–2021), the country strategic planning process, the Financial Framework Review and the new Corporate Results Framework. These risks are as follows:
23. *Inability to meet humanitarian commitments.* This is particularly relevant given the sharp increase in the number, scale and intensity of Level 2 and Level 3 humanitarian crises, especially in West Asia and Africa. At the time of this report drafting, there are 11 Level 2 and Level 3 crises – an unprecedented number for WFP. The risks relate to adequate funding, the availability of properly trained and experienced staff, and the difficulties in maintaining surge deployment of people and associated logistics over long periods. The AC noted the last of these as a potentially serious risk that could affect not only WFP’s operations but also its mission.
24. *Challenging funding environment.* Long-term beneficiary needs continue to be significantly higher than usual, given the multiple simultaneous Level 2 and Level 3 emergencies, which strain the financial capacity of donors. Combating this risk requires multiple initiatives, such as advocacy for longer-term flexible and more predictable funding, local resource mobilization initiatives, increased contributions from non-traditional donors, a transparent methodology for resource allocation and – most important – an ability to show clear results and the impact of donor funding via the new activity-based financial framework.
25. *Lack of sufficient skills for new initiatives, especially CBTs.* In 2016, WFP transferred USD 879 million to more than 14 million beneficiaries through CBTs – a significant percentage of the organization’s total committed funding for the year. This share has been rapidly rising over the last few years. Given changes in donor preferences and outcome evidence, the share of CBTs in total funding is likely to be even greater in the future. Designing appropriate CBT schemes at the country level, choosing the right cooperating partners and implementing complex CBT programmes involving multiple intermediaries and delivery agencies while ensuring that the benefits accrue to the desired beneficiaries require very different skills from those needed in food distribution.
26. Simply because these transfers involve cash, the risks of financial misconduct and fraud are automatically higher than in the supply of food. While noting the potential risks in this area, the AC highlights the need to: i) design appropriate risk appetite thresholds for each of WFP’s major CBT programmes; ii) make fuller use of the vast and rapidly increasing CBT data sets through data analytics and related tools to inform the design of dynamic, data-informed risk controls; and iii) align, wherever possible, the risk-control frameworks in CBT operations with WFP’s non-cash programmes. As in earlier years, the AC advised investing not only in people with the requisite skills, but also in greater oversight and appropriate controls of CBT programmes without affecting their speed and efficiency. CBT programme oversight is currently too widely dispersed, making it difficult to reach maturity in terms of efficiency and effectiveness.
27. *Fraud and corruption risks.* The low levels of partner capacity in some geographic areas and programmes, combined with increasing operational risks in crisis zones and the growth of CBT use, can create additional fraud and corruption risks. While reported instances of fraud, and the amounts involved, appear to be relatively low compared with the scale of WFP’s operations, the AC urges WFP to pay greater attention to such risks as they can have deleterious impacts on the organization’s reputation. No humanitarian organization, or – for comparison purposes – donor-country safety-net programme, can operate with zero appetite for fraud. However, cases of known fraud or clear signs of potential fraud must result in immediate action and WFP must have zero tolerance for the perpetrators of fraud.

## Internal Audit and Investigations

28. The AC welcomed the OIG Strategic Development Plan (2017–2019), which took into account WFP's organizational changes through the Integrated Road Map (IRM).
29. OIG followed the agreed audit plan during the reporting period. Any changes in the plan reflected changing priorities.
30. At its December 2016 meeting, the AC discussed the 2017 Internal Audit Programme, noting the shift in focus of Office of Internal Audit engagements from country office operations to major challenges and risks. This focus ensures transparency in the most critical governance and risk areas facing WFP. As they are more targeted, these audit engagements and findings are more likely to identify gaps in governance, risk and control effectiveness than cyclical country audits.
31. The AC regularly reviews the consolidated list of outstanding audit recommendations and continues to note the high rate of acceptance of internal audit recommendations by WFP management and the follow-up on implementation of uncompleted agreed actions.
32. OIG, with the AC's endorsement, awarded Deloitte a contract to perform an external quality review of the audit work conducted within the Office of Internal Audit. The external quality review team evaluated the alignment of WFP's internal audit activities with the definition of internal auditing, code of ethics and standards of the Institute of Internal Auditors. The AC noted with satisfaction that the review team awarded OIG the highest possible grade in all performance indicators and did not feel it was necessary to issue any recommendations.
33. The AC supports the Inspector General's focus on the risks of fraud and corruption. Committee members took note of the new investigation guidelines, which were clearer, shorter and more legally consistent, facilitating awareness and prevention of fraud throughout WFP.
34. The AC took note of the proactive integrity reviews (PIRs), a new counter-fraud and corruption instrument introduced in 2016. However, the methodological framework providing guidelines on planning, execution, reporting and dissemination of PIR reports was not set up prior to the introduction of PIRs. The AC noted that five PIRs were completed in 2016. At its March meeting, the AC received a draft of the PIR manual. To facilitate the implementation and use of PIRs, the AC believes it necessary to finalize and approve the manual without delay.
35. At its March 2017 meeting, the AC received the OIG Assurance Opinion and Annual Report of the Inspector General. The report was in alignment with previous reports and briefings provided to the AC and cited no material deficiencies in enterprise-level controls.
36. The AC also examined the opinion of OIG based on its internal audits, inspections, investigations and assurance services.
37. OIG comprises two units: the Office of Internal Audit (OIGA) and the Office of Inspections and Investigations (OIGI). The work and output of both these units played a role in OIG's assurance opinion for 2016. The main finding of OIG's annual overall assurance opinion for 2016 was satisfactory, and the controls carried out did not disclose any significant weaknesses in internal control, governance or risk management processes throughout WFP that could seriously compromise the organization's achievement of its objectives.
38. OIG's audit universe comprises 165 organizational entities plus information technology (IT), which are broken down into auditable units. All auditable units are ranked according to the probability of identified risks occurring and the consequences of the risks, and rated on a three-point scale: high, medium or low. Based on this methodology, 20 audits were completed in 2016. Of these, ten were thematic or process audits, eight were field audits and two involved IT.



39. The main internal audit findings included the following:
- a) Two of the 20 audit reports for 2016 issued unsatisfactory ratings, meaning that “internal controls, governance and risk management practices were either not established or not functioning well”. These reports related to WFP’s operations in Yemen and country capacity strengthening:
    - i) In Yemen, extreme political instability and conflict, coupled with security and access restrictions and bureaucratic impediments, were major constraints to capacity and operations at the field level. While these hurdles did not hinder WFP’s ability to reach an increasing number of beneficiaries, they led to the ineffective implementation of protocols and mechanisms for ensuring that the speed of WFP’s response was commensurate with the needs of a Level 3 emergency.
    - ii) Regarding country capacity strengthening, the internal audit report found that, while there were successful examples, the overall design and implementation of WFP capacity-strengthening interventions did not make the best use of existing concepts, guidance and tools, ultimately resulting in limited internal and external visibility. These shortcomings were linked to inadequate systems, processes and practices for the mobilization and management of financial and human resources for capacity strengthening.
  - b) Of the 20 audit reports, 17 issued partially satisfactory ratings, meaning that “internal controls, governance and risk management practices are generally established and functioning, but need improvement”. One report, on the participatory gender audit, was not rated because of the methodology used.
  - c) OIG focused on four major risk themes for 2016:
    - i) *Organization-wide risk and oversight management.* The audit results for 2016 suggest that while a risk management framework is in place, it needs further strengthening to be effective as a driver for risk-based dialogue and decision-making, and to be firmly embedded in WFP’s day-to-day processes. This will continue to be a focus of the internal audit during 2017.
    - ii) *CBTs.* While OIG noted improvements in CBT operations in different geographical areas, significant risks remain given the nature of cash and the need for checks, balances and controls at multiple levels. OIG will continue to focus on CBTs in 2017.
    - iii) *Stretched capacity for emergencies and for the IRM.* WFP’s ability to deal with multiple emergencies, including five rated as Level 3 plus the IRM organizational transformation project, poses several major risks. These include overstressing resources throughout WFP; the ability and adequacy of WFP’s emergency management apparatus to cope with multiple demands; the risk that initial emergency responses may not be effectively scaled up when required; and the possible de-prioritization of other important areas and initiatives. The AC noted these observations.
    - iv) *Gaps in implementation of workforce planning and talent management.* The competence of staff is the foundation of all other components of internal control. The thematic audit of human resources management in country offices, which took place in the second half of 2016, highlighted significant gaps regarding workforce planning and talent management. Audit results drew attention to issues associated with the use of service contracts. The need to streamline and improve WFP’s recruitment, compensation and management of consultants and short-term professionals was highlighted through OIG’s advisory work. These observations were reinforced by other audits during the year, including that of WFP’s Yemen operations. These audits highlighted significant room for improvement in deployment and support to the scale-up of emergency operations, the effectiveness of workforce planning and other staff-related issues.

- d) The AC noted that compared with 2013, when 2 of the 13 audit reports were rated as satisfactory, 2014, when 7 out of 33 were rated satisfactory, and 2015, when there were 3 satisfactory ratings out of 18 reports, there were no satisfactory audit report ratings in 2016. This could reflect stricter and more comprehensive audit and examination standards; if so, this is a positive development. However, it may also reflect the more complex operational performance dynamics that can occur in conflict zones and in an organization that is stretched to deliver relief in multiple crises. In addition, OIG's audit plan specifically targets areas of high risk for review.
  - e) Achieving maturity in risk mitigation and internal controls will require a re-examination of ERM and coordination with other oversight functions in the second line of defence. Adequate resources for OIG – the third line of defence – should also be confirmed. OIG serves as an independent and objective consultancy to identify and communicate risk gaps.
40. Overall, the AC believes that in 2016 WFP gave appropriate attention to risk management and internal controls. With the next Strategic Plan, the country strategic planning process, the IRM and the new financial framework – with its more detailed coverage through activity-based processes for costing and data capture – the role of risk management and internal controls will become even more important.
41. These ongoing changes will require greater resources and skills for WFP's risk management, internal audit and assurance functions, including more skills-based staffing of OIG.

#### **Treasury and Investment Oversight**

42. The AC received information on the performance of WFP's short-term investment portfolio in the 2016 Annual Report on WFP Investment Management. Having considered the investment guidelines and restrictions – and the risk profiles of these investments – the committee is able to advise that these appear satisfactory.
43. The AC notes that WFP utilizes various options for currency trading and hedging based on its conservative risk-management practices. Monitoring of current practices should continue to ensure compliance with WFP policies and risk tolerance.

#### **Financial Statements**

44. Based on the information made available at its March 2017 meeting regarding preparation of the annual financial statements and the External Auditor's audit, the AC advised that the draft financial statements appeared to be ready for finalization by management and the External Auditor. No issues involving a lack of reasonable assurance or any material misstatements were reported to the AC.

#### **Accounting**

45. The External Auditor assured the AC that the financial statements had been prepared in accordance with International Public Sector Accounting Standards (IPSAS), including a change in accounting policy for the recognition of multi-year contribution revenue. In previous years, WFP recognized revenue for contributions stipulated for all future years, in the year it was received or receivable, and did not defer revenue related to future periods. This year, contribution revenue related to future years has been recognized as deferred revenue. In line with IPSAS, the comparative financial statements for 2015 have been restated for this accounting policy change. The AC welcomes this change in accounting policy and believes that it more accurately reflects contributions revenue for the current and future years in accordance with the underlying donor agreements.
46. All other accounting policies have been consistently applied as they were last year.
47. The AC noted with satisfaction that WFP continues to follow IPSAS developments by participating in the United Nations Task Force on IPSAS.

### **External Audit**

48. This is the first year of WFP's six-year contract with the Auditor General of France for the external audit of WFP. The AC discussed the audit and formed an opinion on the reliability of WFP's annual accounts. On the basis of the information presented, the AC concurs with the External Auditor's draft unqualified opinion.
49. The External Auditor made recommendations on improving internal controls at WFP. None of these recommendations have a material impact on the soundness of WFP's overall internal controls.
50. The External Auditor has conducted fieldwork for performance audits of WFP's human resources function and decentralization approach. The audit reports will be presented to the Board at its 2017 Annual Session.

### **Values and Ethics**

51. The AC noted no concerns regarding the establishment of values and ethics programmes at WFP.

### **Allegations of Inappropriate Activity**

52. The AC noted improvement in the disciplinary reporting process, which provides transparency regarding the nature of cases and their outcomes, and the timeliness of investigations.
53. The AC continues to recommend and facilitate collaboration between OIG and WFP's legal, ethics, ombudsman and human resources offices.
54. The AC noted that the previous Inspector General had been reluctant to undertake investigations without an active referral from a party outside OIG. This practice is no longer in place, with the Officer in Charge confident that OIG has the full authority to undertake investigations based on its own assessment of risks. The OIG investigation process is appropriately coordinated with the General Counsel and the Executive Director for such investigations.

### **Additional Perspectives and Insights**

55. In several meetings, the AC discussed the updated financial framework review and country strategic plans as the basis for future financial management and the setting of organizational objectives with regard to WFP's mission and Sustainable Development Goals. The following areas require attention from the Board and WFP management.
56. If Programme Support and Administrative (PSA) budget levels decline in the coming year, WFP will need to determine where appropriate cost-cutting measures can be implemented.
57. Adequate succession planning and diligence during the transition as the Executive Director and other senior staff change will be critical for WFP's ability to execute its mission.
58. While the Fit for Purpose mechanism for driving decision-making and resource allocation at the country level continues to be fundamentally sound, it deserves a detailed review. There would appear to be opportunities for field offices to focus more efficiently, effectively and easily on humanitarian needs if a more centralized approach to business processes was taken. Analysis of the organizational design of each functional component should assess metrics, organizational charts, decision-making, accountability, incentives and job descriptions to determine the optimal placement and alignment of process steps – at the field, regional, centralized global hub or Headquarters level. For example, decisions on the mix of transfer modalities – cash, vouchers, food, exclusive or open vendors, etc. – should be taken at the field level, country by country. However, data analytics on fraud trends, red flags and beneficiary risks related to CBT cards would appear to be carried out more effectively at a centralized fraud-detection global hub that could create economies of scale not possible for individual WFP offices.

59. Improving ERM, including the visibility of the chief risk officer, is another area where organizational design may produce value. Risk identification, issue tracking, organizational design and process improvement are areas that might be better aligned to ensure the efficient execution and communication of risk mitigation needs and status.
60. Cost accounting in the PSA portion of country financial framework documents needs to be undertaken to show the true costs of each programme by country. Ensuring transparency regarding the PSA costs necessary for each country programme does not preclude the Board from maintaining a single PSA rate chargeable against all contributions.
61. Noting the confusion with the roll-out of PIRs, the AC had the following insights:
  - a) PIRs remain an important tool for OIG to maintain and continue utilizing.
  - b) A major opportunity was missed by not incorporating into PIR processes OIGA's clearance of PIR statements on the adequacy of internal controls and internal control procedures. The PIRs' purpose is to identify any need to review cases of potential fraud or carry out further internal control analysis rather than to provide a full assessment of the adequacy of controls. In addition, the best PIRs or investigative efforts usually include audit staff along with investigative staff. WFP has revised its PIR protocols accordingly.
  - c) Communication requests from Member States' investigative and oversight services can be channelled directly to the functional area, such as OIG. However, the proper protocol would be to copy or inform the Executive Board Secretariat promptly that such communication is occurring, and whenever communication issues arise.
  - d) Management should supply the AC with its insights on the effectiveness of OIG leadership at regular intervals, including the results of engagement surveys and other feedback tools that may give rise to concerns or identify areas of improvement for OIG leadership.
  - e) Going forward, the AC should engage more with lower levels of OIG management at private meetings to ascertain that OIGI, OIGA and OIG interact collaboratively, and to assess the overall culture and effectiveness of OIG.

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

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

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

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

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

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**Procedure 2: Appointment of the Chairperson**

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

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### Procedure 3: Observations of WFP Operations

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

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**Procedure 4: Declaration of Independence and Statement of Financial Interests**

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

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**Procedure 5: Approval of Minutes**

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

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**Procedure 6: Audit Committee Work Plan**

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

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

### **Audit Committee Work Plan**

<u>Stakeholder inputs</u>	<u>What to address</u>	<u>How to address</u>	<u>How documented</u>	<u>Results</u>
<ul style="list-style-type: none"> <li>-TOR review</li> <li>-Board input</li> <li>-Executive Director input</li> <li>-AC member input</li> <li>-AC self-evaluation</li> <li>-WFP Board AC presentation</li> </ul>	<ul style="list-style-type: none"> <li>Work Plan and calendar</li> <li>-Questions</li> <li>-Topics to pursue</li> <li>- Minutes action items</li> </ul>	<ul style="list-style-type: none"> <li>AC meetings</li> <li>-Agenda topics</li> <li>-Bureau discussions</li> <li>-Executive Director discussions</li> <li>Observation visits</li> <li>Document review</li> <li>Inspector General and Oversight Office (OIG)/management telephone calls</li> </ul>	<ul style="list-style-type: none"> <li>AC meeting minutes</li> <li>AC meeting minutes action items</li> </ul>	<ul style="list-style-type: none"> <li>AC Annual Report to the Board</li> </ul>

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### Procedure 7: Oversight of the Office of the Inspector General

- 7.1 In accordance with its Terms of Reference, the AC shall advise on the performance of the internal audit function and the Inspector General. The AC shall endeavour to understand the overall culture and work environment of OIG to the appropriate extent for a non-management Board or oversight entity. The following will be undertaken to assist in these efforts.
- 7.2 The AC shall hold periodic private and individual meetings with the Inspector General and her/his deputies for the Office of Internal Audit and the Office of Investigations. The AC shall also encourage OIG leadership to allow OIG managers and engagement leaders to present their work directly to the AC when appropriate.
- 7.3 To the extent that WFP conducts employee engagement surveys or other assessments of organizational culture, results related to the OIG shall be presented to the AC along with information on the context for these results.
- 7.4 The AC shall be provided with the results of OIG client assessment surveys completed at the end of engagements. If OIG is not performing such surveys, it shall inform the AC as to why.
- 7.5 The AC shall make periodic enquiries of management regarding the performance of the Inspector General and any concerns regarding her/his personal performance or that of the Inspector General function overall. Management shall proactively advise the AC of any concerns.



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

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

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

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

(Additional Information I Wish to Acknowledge – Optional)

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Signature: \_\_\_\_\_

Date: \_\_\_\_\_

**ANNEX II****Composition of Audit Committee**

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

**ANNEX III**

<b>AUDIT COMMITTEE ACTIVITIES</b>			
<b>APRIL 2016 – MARCH 2017</b>			
	<b>JUNE 2016</b>	<b>DECEMBER 2016</b>	<b>MARCH 2017</b>
Executive Session with Executive Board Bureau	√	√	√
Executive Session with Executive Director	√	√	√
Operations	√	√	√
Evaluation matters			√
Investment Committee			√
Oversight matters:			
– External audit	√	√	√
– Internal audit	√	√	√
Financial Statements			√
Accounting			√
Performance and risk management	√	√	√
Human resource matters	√	√	√
Internal control	√	√	√
Ethics matters	√		
Legal matters		√	
Allegations of inappropriate activity		√	√
Financial and budgetary matters	√	√	√

**Acronyms Used in the Document**

AC	Audit Committee
CBT	cash-based transfer
ERM	enterprise risk management
IPSAS	International Public Sector Accounting Standards
IRM	Integrated Road Map
IT	information technology
OIG	Office of the Inspector General
OIGA	Office of Internal Audit
OIGI	Office of Inspections and Investigations
PIR	proactive integrity review
PSA	Programme Support and Administrative (budget)
TOR	Terms of Reference