



FINANCE COMMITTEE

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102nd Session
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Brussels, 14 March 2019.

REPORT ON THE AUDIT COMMITTEE

(Item XII (1) on the Agenda)

1. The purpose of this document is to provide an update to the Finance Committee on the activities of the WCO Audit Committee, which held its Thirteenth Meeting at WCO Headquarters on 11 and 12 February 2019.
2. At that meeting, the Audit Committee noted the draft Operational Plan for 2019/2020 and examined the results of the permanent audit activities, including the implementation of the Operational Plan for 2017/2018, the mid-term results as at 31 December 2018 of the Operational Plan for 2018/2019, and the status of implementation of recommendations accepted or partly accepted at earlier meetings of the Audit Committee.
3. The Audit Committee noted the results of the Internet-based risk survey and approved the 2018/2019 management audit activities, which concerned an external audit on “The effectiveness of certain WCO-funded Capacity Building projects” carried out by the external Auditor, Ernst & Young. The Committee also approved the internal audit on “Mission management procedures”.
4. For financial year 2019/2020, the Committee proposed one external audit on Risk Mapping, and one internal audit on the Financial Statement Closure Process.
5. The Finance Committee is invited to take note of the appended “Executive Summary” of the Report on the Thirteenth Meeting of the Audit Committee, which has been approved by the Audit Committee Chairperson. The full Report on the meeting will be presented to the Policy Commission for consideration at its next session.

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EXECUTIVE SUMMARY

I. Welcome and Adoption of the Agenda

The Audit Committee held its Thirteenth Meeting at WCO Headquarters on 11 and 12 February 2019. The meeting was chaired by Mr. Bjørn Røse, Special Adviser to the Norwegian Ministry of Finance. The Chairperson welcomed all delegations and the Observer for the Finance Committee. He also extended a warm welcome to all new members.

The draft Agenda was adopted.

II. Permanent audit activities (WCO Strategic Plan and monitoring framework related to pending audit recommendations)

i. Presentation of the draft Operational Plan for 2019/2020, including proposed Key Performance Indicators, Deliverables and Prioritization Methodology (WCO Strategic Plan)

- Discussion on proposed Key Performance Indicators and Prioritization Methodology

The Audit Committee took note of a presentation by the Deputy Secretary General on the proposal for the Operational Plan 2019/2020, including proposed Key Performance Indicators, Deliverables and Prioritization Methodology.

The Deputy Secretary General provided an overview of the new three-year Strategic Plan (2019/2022) which had been created in close cooperation with Members. The new Plan was more process-oriented, based on the WCO Mission and Vision; seven issues had been defined as priorities, including Coordinated Border Management, Digital Customs and Data Analysis.

The structural changes to the Strategic Plan had impacted the new Operational Plan, which contained information on each Key Performance Indicator (KPI) and the concrete actions planned regarding the seven priorities and emerging trends. The new Operational Plan was structured quite differently to previous ones; the number of specific goals had been significantly reduced, from 92 to 30.

The Audit Committee approved the KPIs, and agreed that they should be presented and discussed during the next stages of the adoption of the Strategic Plan. The Audit Committee regards "integrity" as a vital issue for the WCO, as an international organization, and the global Customs community, and invited the Policy Commission and Council to consider whether the issue of "integrity", including not only the risk of corruption and fraud, but also transparency and governance more generally, should be added to the seven priority issues, whereby the 2019/2022 WCO Strategic Plan would be based on not seven, but eight, main priorities and emerging trends.

ii. Review of the implementation of the Strategic Plan for 2017/2018

The Audit Committee took note of the results of the implementation of the Strategic Plan for 2017/2018. Out of the 99 deliverables in the Operational Plan, 92 were fully implemented. The Audit Committee regards this result as satisfactory and requested that work continue on those activities that had not been finalized so that they could be accomplished in future.

iii. Review of the implementation of the Strategic Plan for the first half of 2018/2019 (status of mid-term results and prognoses for end results)

The Audit Committee took note of the progress made on the implementation of the Strategic Plan during the first half of the current financial year. It noted that most of the goals would be achieved by the end of the financial year, except in some areas where, for various reasons, additional action was needed. Work in these areas, such as the promotion of performance measurement, would continue during the next fiscal year. As it can be difficult to identify from the mid-term results alone which goals are at risk of not being achieved by the end of the financial year, and which goals will be achieved without difficulty, the Audit Committee asked the Secretariat to add a new "Prognosis" column to the result tables in next year's Report, and to indicate in that column which goals were at risk of not being achieved by the end of the financial year without the implementation of corrective measures. A final evaluation of all tactical activities for the current financial year would be provided to the Policy Commission in June 2019.

iv. Status of implementation of pending recommendations which were accepted or partially accepted at earlier meetings of the Audit Committee

The Audit Committee took note of the reported status of implementation of the 13 pending audit recommendations which were accepted or partially accepted by the Audit Committee during earlier meetings. Of the six pending recommendations of the Audit Committee meeting in 2018 concerning the WCO Strategic Communications Plan, the majority of the recommendations are expected to be implemented in 2020. An International Conference on the Communications Strategy will be organized in the second half of 2019.

Regarding the recommendations from the earlier external Audit on "Members' Involvement", the Audit Committee endorsed the Recommendations for Customs Attachés in Brussels which had been jointly produced by the Customs Attaché Association and the WCO Secretariat. As regards the draft model MoU, the Audit Committee believes that the coverage of cost and funding should be added to the main principles. Furthermore, the Audit Committee agreed to submit the following questions to the Policy Commission :

1. Who should have the authority to sign new MoUs ?
2. Should the relevant committees be informed before or after the signature of an MoU ?
3. If the authority to sign MoUs is given to the Secretary General, is he/she allowed to delegate this authority to the Deputy Secretary General or Directors ?

III. Approval of the 2018/2019 Management Audit activities

i. Report on the Internet-based risk survey

The Audit Committee noted the report on the Internet-based risk survey, to which 10 out of 12 members of the Audit Committee had responded. The Audit Committee decided to carry out another survey next year, while noting the remarks of the WCO Internal Auditor and the Secretariat to invite more Members to participate in the future and to consider the implementation of an automated tool.

ii. Audit on “The effectiveness of certain WCO-funded Capacity Building projects” - An external audit carried out by the WCO’s external Auditor EY (Ernst & Young)

The external Auditor presented its audit on the effectiveness and efficiency of selected current WCO capacity building projects, namely : the Mercator Programme, ESA Project II and the Container Control Programme (joint programme of WCO and UNODC) in four countries (Panama, Azerbaijan, Malawi and Kenya).

The Audit Committee expressed its appreciation for the report and for the audit itself, which was found to be more specific and operations-related than earlier audits. The lessons learned were of particular interest to the Capacity Building Directorate and to the Members involved in these projects.

- Secretariat comments on recommendations, and discussion and acceptance of Audit recommendations

In response to the external Auditor’s presentation, the Secretariat agreed with the main conclusions from the results of the audits of the three different projects, in particular with the conclusions on project preparation, scoping and diagnostic analysis.

The Secretariat presented a number of actions aimed at addressing each of the 23 specific recommendations, and highlighted the importance of analysing them carefully in consultation with all relevant parties, with a view to deriving maximum benefit from them.

The Audit Committee endorsed the document for approval by the Policy Commission, noting that it provided a sound basis for the further development of methodologies by the Secretariat and Members when implementing capacity building projects.

iii. Internal Audit on Mission management procedures

The Internal Auditor presented the results of the internal audit on Mission management procedures to the Committee. The audit was carried out against the background of rapidly increasing travel costs; a comparison of the total WCO budget (including CCF donations) shows that, on average, the WCO spent roughly 18.7 % of the available budget on travel. The audit was based on interviews with 159 individuals, including WCO staff dealing with missions on a daily basis, such as travel and events staff, frequent travellers, fund managers, and external stakeholders.

The Internal Auditor highlighted the main findings and proposed that the 18 recommendations regarding the travel policy, procedures within the Secretariat, and IT-based processes be grouped under four main subject headings :

- Increasing the use of synergies to implement a coherent travel policy (high priority).
- Modifying and updating the WCO travel policy (medium priority).
- Completing the documentation for the Travel Request application (high priority).
- Improving the functionality of processes and workflows (medium priority).

The Secretariat suggested actions aimed at responding to each group of specific recommendations made by the Internal Auditor.

The Committee endorsed the 18 recommendations proposed by the Internal Auditor and seconded by the Secretariat for approval by the Policy Commission, noting that the recommendations provided a sound basis for improving mission management at the Secretariat and could possibly lead to some savings.

iv. Update on developments concerning the improvements of the ERP tool

The Audit Committee took note of a presentation on the status of the implementation of the ERP by the Secretariat. The implementation, which had started in July 2017, was now practically accomplished. Accounting operations were running smoothly, workflows had been documented, and in-house training for key users had been organized.

IV. Risk management and risk mitigation (Identification of WCO's risk culture)

The Audit Committee took note of a presentation by the Internal Auditor of a schematic diagram highlighting the major risk areas. Whilst some areas were already included in the risk mapping currently in place within the WCO, other areas should be considered in a more proactive way to ensure that all aspects of risk were taken into account in future.

It is the view of the Internal Auditor that it is vital for any organization, including the WCO, to have up-to-date knowledge of the risks threatening the organization, as well as an active risk culture at all levels of the organization, and an active and independent Internal Audit function. The Internal Auditor further believes that introducing an automated tool could contribute to improved risk management, and that

the WCO should carry out a new risk mapping project in the course of the next financial year.

The Audit Committee took note of the document on risk management and risk mitigation, and agreed to recommend to the Policy Commission and Council that a new risk mapping project related to WCO activities be carried out through an external audit in the financial year 2019/2020.

V. Approval of the 2019/2020 Audit Plan

The Audit Committee reviewed the updated 2019/2020 Audit Plan, which consisted of the annual risk assessment and a total of 13 audit proposals, and discussed the proposed audits.

The Committee agreed to carry out a new electronic risk assessment.

The Committee tasked the external Auditor with carrying out a renewed risk mapping in the form of an External Audit. The last risk mapping exercise was done in 2013/2014 and, due to the evolving nature of risks, the Committee agreed there was a need to refresh this activity.

The Committee tasked the Internal Auditor with carrying out an Internal Audit on the Financial Statement Closure Process, with a special focus on liquidity. As Members' statutory contributions have not increased significantly for several years, while operating costs continue to increase, and as the WCO has started using the reserves for funding special tasks, and there is also an inherent risk of donations not keeping pace with the running costs of the projects they are funding, the Audit Committee believes this audit will bring to light any potential and future risks to the liquidity situation of the Organization.

The Audit Committee agreed to recommend the approval of the 2019/2020 Audit Plan to the Policy Commission and Council.

VI. Other business

(a) Reporting of cases emerging from the WCO Protected Disclosure Policy

There were no cases to report during the current financial year.

(b) Updated report on waivers related to calls for tenders

There were no cases of waivers related to calls for tenders during the current financial year.

(c) Other (Internal Auditor)

The Chairperson emphasized the need for the Internal Auditor, the Secretariat and the Audit Committee to safeguard the independence and objectivity of the post of Internal Auditor, and to avoid possible conflict between audit tasks and the Internal Auditor's other duties within the Secretariat.

VII. Designation of Chairperson and Vice-Chairperson of the Audit Committee

The Committee agreed to recommend to the Council that Norway continue to serve as Chair for the next financial year, and that Bangladesh be re-elected as Vice-Chair.

VIII. Date of the next meeting of the Audit Committee

The Chairperson indicated that the next meeting of the Audit Committee would be held in February 2020. The precise date would be determined when the calendar of meetings for 2019/2020 was drawn up for approval by the Council.
