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WFP/EB.A/2016/5-C/2

Resource, Financial and Budgetary Matters

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

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## **Report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ)**

The Executive Director is pleased to submit herewith the report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) pertaining to WFP. The report covers the following agenda items::

- Audited Annual Accounts, 2015 (WFP/EB.A/2016/6-A/1)
- Appointment of Two Executive Board Members to the Selection Panel for the Appointment of Two Audit Committee Members (WFP/EB.A/2016/6-B/1/Rev.1)
- Use of the Immediate Response Account for Preparedness Activities (WFP/EB.A/2016/6-C/1)
- Annual Report of the Audit Committee (WFP/EB.A/2016/6-D/1/Rev.2)
- Annual Report of the Inspector General (WFP/EB.A/2016/6-E/1) and Note by the Executive Director (WFP/EB.A/2016/6-E/1/Add.1)
- Report of the External Auditor on the School Feeding Programme (WFP/EB.A/2016/6-F/1) and Management Response (WFP/EB.A/2016/6-F/1/Add.1)
- Report of the External Auditor on WFP Aviation (WFP/EB.A/2016/6-G/1) and the Management Response (WFP/EB.A/2016/6-G/1/Add.1)
- Report on the Implementation of the External Auditor Recommendations (WFP/EB.A/2016/6-H/1)
- Report on the Utilization of WFP's Advance Financing Mechanisms (1 January–31 December 2015) (WFP/EB.A/2016/6-I/1\*)
- Report of the Executive Director on the Utilization of Contributions and Waivers of Costs (General Rules XII.4 and XIII.4 (h) (WFP/EB.A/2016/6-J/1\*)
- Update on the Financial Framework Review (WFP/EB.A/2016/5-C/1\*)

## COPY OF LETTER RECEIVED FROM THE UNITED NATIONS — NEW YORK

Reference: AC/1946

Advisory Committee on  
Administrative and Budgetary Questions

6 June 2016

Dear Ms. Cousin,

Please find attached a copy of the report of the Advisory Committee on your submissions including the Audited Annual Accounts for 2015 (WFP/EB.A/2016/6-A/D) and the Use of the Immediate Response Account for Preparedness Activities (WFP/EB.A/2016/6-C/D). A list of documents that were before the Advisory Committee is contained in the annex to the report of the Committee.

I should be grateful if you could arrange for the Committee's report to be placed before the Executive Board at its forthcoming session, as a complete and separate document. I would appreciate it if a printed version of the document could be provided to the Advisory Committee at the earliest possible opportunity.

Yours sincerely,

Carlos G. Ruiz Massieu  
Chairman

Ms. Ertharin Cousin  
Executive Director  
World Food Programme  
Via Cesare Giulio Viola, 68-70  
00148 Rome, Italy

## WORLD FOOD PROGRAMME

### Resource, Financial and Budgetary Matters

#### Report of the Advisory Committee on Administrative and Budgetary Questions

#### I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered a total of 13 reports of the World Food Programme (WFP), three of which are submitted to the Executive Board for approval; nine reports are submitted for consideration; and one report is submitted for information. Subsequent to the consideration by the Advisory Committee of the above-mentioned reports, an additional report (EB.A/2016/6-E/1/ Add.1), submitted to the Executive Board for consideration, was also provided to the Committee<sup>1</sup> (see annex for the full list of reports). During its consideration of the reports, the Advisory Committee met with the Assistant Executive Director, Resource Management and Chief Financial Officer; and Director, Resource Management Integration and Support Office, who provided additional information and clarification, concluding with written responses received on 31 May 2016.

#### II. Documents submitted to the Executive Board for approval

##### A. Audited Annual Accounts, 2015

2. The report on the audited annual accounts for 2015 contains: (a) the Executive Director's statement, statement on internal control, financial statements I-V and notes to the financial statements in section I; and (b) the opinion of the External Auditor on the financial statements and the long-form report of the External Auditor in section II.
3. The External Auditor has issued an unqualified audit opinion on the WFP's Financial Statements for the financial period ended 31 December 2015. The Advisory Committee notes that the External Auditor has made four recommendations, all of which have been accepted by the management of WFP. **The Advisory Committee recommends that WFP secretariat implement the recommendations of the External Auditor as soon as possible.**

##### *Financial performance*

4. The Executive Director has provided information on the financial performance for WFP in paragraphs 7 to 16 of her statement. The total revenue for 2015 was USD 4,910.9 million, a decrease of USD 539.5 million or 10 percent compared with 2014, mainly due to the decrease of USD 629.9 million in monetary contributions. The total expenses for 2015 were USD 4,816.3 million, a decrease of 398.3 million or 8 percent when compared with 2014.
5. Statement II on financial performance indicates a surplus of USD 94.6 million in 2015, compared with a surplus of USD 235.8 million in 2014. The report of the External Auditor indicates that WFP operations had registered high levels of deficits in 2011 and 2012, and the restoration of balance between expenses and revenue during 2013 to 2015 is a welcome development. The External Auditor also provides a financial analysis across different categories of funds for 2015, which indicates that the deficit in the programme category funds and bilateral operations and trust funds was offset by a surplus in the General Fund and special accounts (see WFP/EB.A/2016/6-A/1, sect. II, para. 17).
6. The Executive Director indicates in her statement that in 2015, the volume of food commodities distributed was 3.1 million metric tonnes, a decrease of 0.1 metric tonnes compared with 2014; in monetary terms, USD 1,784.1 million worth of food commodities were distributed in 2015, 10 percent lower compared with 2014 (*ibid.*, sect. I, para. 12). At the same time, Note 2.4 of the financial statements indicates that the stock of food items as at 31 December 2015 was valued at USD 634.7 million, an increase of USD 68.9 million compared with the value of food stock as at 31 December 2014. The External Auditor notes that WFP has increasingly been using cash-based

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<sup>1</sup> Note by the Executive Director on the Annual Report of the WFP Inspector General (WFP/EB.A/2016/6-E/1/Add.1)

transfers in the preceding years, which has resulted in a decline in the volume of food distributed and an increase in food aid extended through cash-based transfers. Nevertheless, the External Auditor notes that in 2015, both food distribution and cash-based transfers declined in comparison with 2014 (*ibid.*, sect. II, para. 26). The Advisory Committee was informed upon enquiry that the decrease in food distribution resulted mainly from funding constraints in relation to the Syria emergency. The Committee was further informed that the increase in the year-end stock of food items in 2015, compared with that in 2014, resulted from higher food inventory holdings in the country operations of Ethiopia and Yemen, and in the Global Commodity Management Facility.

7. The breakdown of other expenses provided in Note 4 of the financial statements indicates increases in 2015 under specific items such as, air operations, other contracted services and training and meetings compared with the corresponding levels of expenses for 2014. The Advisory Committee was informed upon enquiry that the increase in the trainings and meetings expenses is mainly attributed to travel costs of consultants to emergency-related locations (mainly South Sudan, Ebola-affected countries, Syria and Yemen). **The Advisory Committee trusts that WFP will provide explanations to its Executive Board as to the reasons for increases for the remaining items under the other expense category.**
8. The Executive Director further indicates that in 2015, total staff costs (USD 770.6 million), decreased by USD 80.0 million (or 9 percent) compared with 2014 (*ibid.*, para. 13). The Advisory Committee was informed upon enquiry that this was due to the one-time inclusion of post-employment benefits of National Staff in 2014, coinciding with a change in employment contracts of approximately 3,600 such staff members. Subsequently, WFP was able to access more comprehensive data upon which the external actuary could base the calculation of post-employment benefits in respect of those staff members. This led to the recognition of a one-time expense of USD 101.9 million in the employee benefit liabilities for National Staff in 2014.

### **Financial position**

9. The Executive Director's statement indicates that as at 31 December 2015, WFP's total net assets, comprising fund balances and reserves were valued at USD 4,009.2 million, compared with a net asset value of USD 3,922.7 million in 2014. In this respect, the External Auditor notes that the reserves of WFP stood at USD 298.5 million as at 31 December, reflecting a decrease of USD 32.9 million compared with 2014. According to the Executive Director, the decrease in reserves in 2015 was due to a decrease in the amount of USD 51.5 million in the Programme Support and Administrative Equalization Account, partly offset by an increase in the Immediate Response Account (see WFP/EB.A/2016/6-A/1, sect. I, paras. 17–18).
10. The External Auditor notes that the total assets of WFP were valued at USD 5.23 billion in 2015, an increase of USD 78.1 million compared with 2014. The External Auditor also notes increases in the current contributions receivable (USD 133.6 million), inventories (USD 71.5 million) and property, plant and equipment (USD 19.3 million), and decreases in cash and cash equivalents (USD 49.8 million), non-current contribution receivable (USD 56.6 million) and short-term investments (USD 36.8 million). Total liabilities were valued at USD 1.22 billion in 2015, a decrease of USD 8.4 million compared with 2014, mainly due to decreases in loans (USD 27 million) and payables and accruals (USD 22.1 million). Upon request, the Advisory Committee was provided with the financial ratios, reflecting WFP's assets and liabilities as at 31 December 2016, shown in the table below.

#### **Ratio analysis as at 31 December 2015**

<i>Current ratio</i> <i>Current assets:</i> <i>current liabilities</i>	<i>Total assets:</i> <i>total liabilities</i>	<i>Cash ratio</i> <i>Cash + short-term</i> <i>investments: current</i> <i>liabilities</i>	<i>Quick ratio</i> <i>Cash + short-term</i> <i>investments + accounts</i> <i>receivable:</i> <i>current liabilities</i>
8.6	4.3	3.0	7.3

11. **The Advisory Committee notes the financial sustainability of WFP, given the sufficiency of its assets to cover its immediate and longer-term liabilities.**

*Utilization of the budget*

12. The Executive Director indicates that the rate of utilization of the final direct project cost budget for WFP was 55 percent for 2015 (ibid., para. 23). This compares with the utilization rate of 57 percent in 2014 (WFP/EB.A/2015/6-A/1, para. 22). Financial Statement V provides a comparison of the budgeted and actual amounts for 2015 and Notes 1 and 6 to the financial statements provide further explanations in this regard. In particular, these notes to the financial statements indicate that while WFP's budget is prepared on the commitment basis, its financial statements are prepared on an accrual basis.
13. In its audit of the annual account for 2013, the External Auditor had observed that although the financial statements of WFP are IPSAS compliant, there is scope for further disclosure regarding the availability of funds against the budgeted amounts as shown in Statement V. The Advisory Committee recalls that in response to this observation, WFP management had agreed that it would be of value to provide additional information in Statement V on the amount of confirmed contributions available in the budget year for WFP to implement its projects. By providing such information, the reasons for any material differences between actual amounts and the budgeted amounts would be highlighted, which would better enable users of the financial statement to identify whether resources were obtained and used in accordance with the approved budget (see WFP/EB.A/2014/6 (A,B,C,D,E,F,G,H,I,J,K)/2, paras. 11-12). In this connection, the Advisory Committee notes that commencing in 2015, Statement V includes details relating to prioritized plans of work, taking into account the fact that WFP operations depend on the level of funding actually received.
14. **The Advisory Committee recommends approval of the audited annual accounts for 2015.**

**B. Use of the Immediate Response Account for Preparedness Activities**

15. The Executive Director proposes to increase the ceiling for the use of the Immediate Response Account for preparedness (IR-PREP) activities to USD 6 million per annum in her report (WFP/EB.A/2016/6-C/1), which also provides the background information and the current status of the use of IR-PREP facilities. According to the Executive Director, at present, the annual target for IRA is USD 200 million, but the authority for its use to fund preparedness activities has remained unchanged at USD 2 million since 2004, even though WFP faces increasing calls for joint preparedness activities with partners. The Executive Director further indicates that the revised IR-PREP limit would enable enhanced support for: WFP's emergency preparedness planning processes; establishment of baselines for responses; WFP's supply-chain, telecommunications and engineering services; and partners' capacities for joint responses to emergencies. The Executive Director also states that a pilot study initiated by WFP and the United Nations Children's Fund found that the average financial return on investment for humanitarian preparedness interventions is more than 200 percent (ibid., paras. 7 and 11).
16. The Advisory Committee was informed upon enquiry that WFP and UNICEF, in collaboration with a consultant, developed a model to estimate financial returns and time savings from specific preparedness efforts at the country level, including emergency supply prepositioning, infrastructure development, staff training and contingency arrangements for external contracts. Evaluations from nearly 50 different preparedness investments in three project countries showed that USD 5.6 million invested in preparedness efforts resulted in savings of USD 12 million. While cost savings resulted from 75 percent of preparedness investments, and savings of time resulted from 93 percent, 64 percent of investments saved both cost and time. **The Advisory Committee recommends approval of the use of the Immediate Response Account for preparedness activities up to a limit of USD 6 million per annum.**

### **C. Appointment of two Executive Board Members to the Selection Panel for the appointment of two members to the Audit Committee**

17. The Advisory Committee notes that WFP document, WFP/EB.A/2016/6-B/1/Rev.1, contains the proposal by the Bureau of the Executive Board for the appointment of two of the Board members to the selection panel for the appointment of two Audit Committee members (whose terms will come to an end in July 2017). In accordance with paragraph 19 of the terms of reference of the Audit Committee, the process for selection of members of the Audit Committee shall involve a selection panel, which shall include two representatives of the Executive Board, selected by the Board.

## **Documents submitted to the Executive Board for consideration**

### **A. Update on the Financial Framework Review**

18. Information and proposals with regard to the WFP Financial Framework Review are contained in the document WFP/EB.A/2016/5-C/1\*. WFP is proposing fundamental changes to increase WFP's effectiveness and to meet the requirements of stakeholders, the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (ibid., executive summary).

#### ***Overview of the Financial Framework review***

19. The Executive Director indicates that WFP intends to propose an approach to link strategy, planning, implementation, resources and results to demonstrate the effectiveness and efficiency of its programmes at the Second Regular Session of the Executive Board in 2016. This will include proposals for WFP's support for the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs) through the WFP Strategic Plan (2017–2021), the country strategic planning approach, a new planning and budget structure, and the new Corporate Results Framework (ibid., para. 3).
20. The Advisory Committee was informed upon enquiry that the five-year duration of the WFP Strategic Plan (2017-2021) is an exception, mainly to allow for full engagement in the 2018-2021 Quadrennial Comprehensive Policy Review (QCPR) process and to harmonize WFP's strategic planning cycle with other participating agencies. The Advisory Committee was also informed that while the WFP Strategic Plan (2017–2021) will provide the overall programmatic framework for WFP's support towards the achievement of Strategic Development Goals (SDGs) at the country level, the Country Strategic Plan (CSP), will operationalize the Strategic Plan. The Committee was further informed that the Strategic Plan (2017-2021) aligns WFP to the 2030 Agenda for Sustainable Development by setting out a new results-framework comprised of two Strategic Development Goals, based on SDG 2 and SDG 17. **The Advisory Committee notes the steps taken by WFP to align its strategic plan with the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs).**

#### ***Prioritized work streams***

21. According to the Executive Director, at present, three prioritized work streams are being piloted at the country office level. WFP will present its final recommendations in this regard for approval at the Second Regular Session of the Executive Board for 2016. The three prioritized work streams are summarized as follows (ibid., executive summary and para. 8).
  - a) Budgeting for operational effectiveness to reduce internal fragmentation, simplify processes and maximize transparency, flexibility, predictability and accountability.
  - b) Resource-based planning to standardize resource-based plans at the country office level and to improve planning and performance management.
  - c) Macro advance financing to provide aggregated budget authority for country offices early in the process to reduce the effects of fragmented funding streams, increase the predictability of resources, and maximize efficiency and effectiveness.

22. The Executive Director also indicates that the country portfolio budget model and its supporting features are being tested in country offices during the first six months of 2016; results from the pilots for the resource-based planning at specific country offices will be assessed in July 2016; and macro-advance financing pilots are underway in four countries (ibid., paras. 56 and 62). The Executive Director further indicates that while WFP's current programme of work is based on needs assessments and will continue to be the basis of WFP's advocacy for full funding, resource-based planning will create a secondary operational planning layer to complement the needs-based plan. According to the Executive Director, as operational requirements consistently exceed the level of actual contributions, resource-based planning would lead to a more accurate comparison of planned versus actual costs and would enhance accountability. A final standardized platform for resource-based planning is expected to be rolled out in 2017 (ibid., paras. 53-54 and WFP/EB.A/2016/6-A/, para. 38).
23. In this context, the Advisory Committee recalls its view that WFP's current approach of budgeting, based on projections for ongoing requirements rather than on the anticipated level of resources, may not always provide a reliable basis for planning and forecasting its operations and does not facilitate measurement of its budget performance (see (WFP/EB.A/2013/6 (A-K)/2 WFP/EB.A/2013/5-A/2, para. 17). **The Advisory Committee, therefore, welcomes the efforts made by WFP towards developing a resource-based plan and looks forward to receiving updates on the results of pilots in select country offices in the next report of WFP on this matter.**

#### **B. Report of the External Auditor on WFP Aviation**

24. The External Auditor conducted an audit to ascertain whether WFP Aviation was managed in an economical, efficient and effective manner and in compliance with the guidelines and manuals governing it. The audit covered WFP Headquarters in Rome, two regional bureaux (RBs) and six Aviation Field Operations (AFOs) under six country offices (WFP/EB.A/2016/6-G/1). The External Auditor has issued 6 recommendations, and WFP's response to the recommendations is provided in document WFP/EB.A/2016/6-G/1/Add.1.
25. The External Auditor notes that WFP established the United Nations Humanitarian Air Service (UNHAS), a common service for all United Nations agencies and other organizations involved in humanitarian operations, to provide access to vulnerable and fragile communities. With an average fleet size of 58 aircraft in 13 countries, UNHAS has become the primary means of air transport for the global humanitarian community. In this respect, the External Auditor notes that the average seat occupancy in the fixed-wing aircraft reflected an unutilized capacity of 50-60 percent. WFP management responded that on occasions the passenger payload needed to be reduced to accommodate additional cargo payload and that lower seat occupancy was compensated by higher cargo offtake (ibid., paras. 5, 7-9 and 17).
26. Upon enquiry, the Advisory Committee was informed that in view of the prime objective of WFP aviation to meet the humanitarian imperative, UNHAS aircraft may operate to destinations with an appreciable payload to deposit passengers and cargo but return to base with low payload or even empty. The Committee was further informed that operational challenges such as limited availability of fuel, airfield limitations and lack of real-time weather reports also affect the ability to fly at full capacity. Concerning the actual share of cargo payload in UNHAS flights, the Advisory Committee was informed that this depends on the specific demands of individual operation's needs, and that significant variations exist across different operations or over time within the same operation.
27. The Advisory Committee considers that the capacity utilization of WFP aviation should be consistently measured in terms of overall payload, taking into account the observations of the External Auditor in this regard. The Committee is further of the view that an important opportunity exists to improve the overall efficiency and effectiveness of WFP Aviation, including through increased utilization of air assets and a review of the overall fleet composition.

28. The Advisory Committee was further informed that the WFP Aviation monitors such cost indicators as the operational cost per passenger kilometer, the operational cost per available seat kilometer and load factor, and that costs vary over time due to variations in the operational environment caused by different emergencies. **The Advisory Committee trusts that WFP will provide further information on the cost indicators at the time of the consideration of this matter by the Executive Board.**
29. The External Auditor further notes that the aircraft charter agreements signed by WFP with the Air Operator Certificate holders did not contain remedial clauses for securing an advance amount, bid security, performance security, liquidated damages and obligation of the supplier in the event of their failure to fulfil contractual obligations. In its response, WFP management stated that, taking into account best practices of the international air charter market, current WFP Aviation agreements are negotiated with a view to controlling costs and enabling timely responses; nevertheless, adopting remedial clauses would also be considered.
30. Upon enquiry, the Advisory Committee was informed that in over 12 years of its operation, the WFP Aviation Service has no cases of failed contracts. **The Advisory Committee concurs with the External Auditor that WFP Aviation consider reviewing the provisions of its Air Transport Manual to incorporate appropriate clauses to safeguard its interests in air charter agreements.**



## **Annex**

### **Documents submitted by WFP**

#### **For Approval**

- Audited Annual Accounts, 2015 (WFP/EB.A/2016/6-A/1)
- Appointment of two Executive Board Members to the Selection Panel for the appointment of two members to the Audit Committee (WFP/EB.A/2016/6-B/1/Rev.1)
- Use of the Immediate Response Account for Preparedness Activities (WFP/EB.A/2016/6-C/1)

#### **For consideration**

- Annual Report of the Audit Committee (WFP/EB.A/2016/6-D/1/Rev.2)
- Annual Report of the WFP Inspector General (WFP/EB.A/2016/6-E/1)
- Note by the Executive Director on the Annual Report of the WFP Inspector General (WFP/EB.A/2016/6-E/1/Add.1)
- Report of the External Auditor on the School Feeding Programme (WFP/EB.A/2016/6-F/1)
- WFP Management Response to the Recommendations of the Report of the External Auditor on the School Feeding Programme (WFP/EB.A/2016/6-F/1/Add.1)
- Report of the External Auditor on WFP Aviation (WFP/EB.A/2016/6-G/1)
- WFP Management Response to the Recommendations of the Report of the External Auditor on WFP Aviation (WFP/EB.A/2016/6-G/1/Add.1)
- Report on the Implementation of the External Auditor Recommendations (WFP/EB.A/2016/6-H/1)
- Update on the Financial Framework Review (WFP/EB.A/2016/5-C/1\*)
- Report on the Utilization of WFP's Advance Financing Mechanisms (1 January–31 December 2015) (WFP/EB.A/2016/6-I/1\*)

#### **For information**

- Report of the Executive Director on the Utilization of Contributions and Waivers of Costs (WFP/EB.A/2016/6-J/1\*)