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**Executive Board
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RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 5



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11 November 2011

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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 ACABQ pertaining to WFP. The report covers the following agenda items:

- WFP Management Plan (2012–2014)
(WFP/EB.2/2011/5-A/1)
- Proposed Terms of Reference of the Audit Committee of the World Food Programme (WFP/EB.2/2011/5-B/1)
- Report of the External Auditor on Procurement of Landside Transport, Storage and Handling Contracts (WFP/EB.2/2011/5-C/1)
- Management Response to the Recommendations of the Report of the External Auditor on Procurement of Landside Transport, Storage and Handling Contracts (WFP/EB.2/2011/5-C/1/Add.1)
- Report of the External Auditor on Management of Projects (WFP/EB.2/2011/5-D/1)
- Management Response to the Recommendations of the Report of the External Auditor on Management of Projects (WFP/EB.2/2011/5-D/1/Add.1)
- Efficiency at WFP (WFP/EB.2/2011/5-E/1)
- Work Plan of the External Auditor for the Period July 2011 to June 2012 (WFP/EB.2/2011/5-F/1)

COPY OF LETTER RECEIVED FROM THE UNITED NATIONS — NEW YORK

Reference: AC/1755

Advisory Committee on
Administrative and Budgetary Questions

10 November 2011

Dear Ms. Sheeran,

Please find attached a copy of the report of the Advisory Committee on your submissions concerning:

- WFP Management Plan (WFP/EB.2/2011/5-A/1)
- Proposed Terms of Reference of the Audit Committee of WFP (WFP/EB.2/2011/5-B/1)
- Report of the External Auditor on Procurement of Landside Transport, Storage and Handling Contracts (WFP/EB.2/2011/5-C/1)
- Management Response to the Recommendations of the Report of the External Auditor on Procurement of Landside Transport, Storage and Handling Contracts (WFP/EB.2/2011/5-C/1/Add.1)
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- Efficiency at WFP (WFP/EB.2/2011/5-E/1)
- Work Plan of the External Auditor for the Period July 2011 to June 2012 (WFP/EB.2/2011/5-F/1)

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,

(signed)

Collen V. Kelapile
Chairman

Ms. Josette Sheeran
Executive Director
World Food Programme
Via Cesare Giulio Viola, 68-70
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WORLD FOOD PROGRAMME

Resource, Financial and Budgetary Matters

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee has considered the World Food Programme's (WFP) Management Plan for 2012-2014 (WFP/EB.2/2011/5-A/1) and the Proposed Terms of reference of the Audit Committee of WFP (WFP/EB.2/2011/5-B/1), both submitted for approval by the Executive Board. Other documents presented for consideration and information are contained in Annex I to the present report. During its consideration of these reports, the Advisory Committee met with the Deputy Executive Director for Resource Management and Accountability and other representatives of WFP, who provided additional information.

II. Budget cycle and presentation

2. WFP's management plan for 2012-2014 represents the first rolling three-year Management Plan, with an annual budget for the first year for approval and projections for the second and third years for consideration by the Executive Board (WFP/EB.2/2011/5-A/1, para. 1). WFP indicates that the introduction of a rolling management plan would allow for annual funding adjustments and lead to increased planning stability and improved oversight and transparency. The Advisory Committee notes from the management plan that it is also for the first time that WFP's budget allocations are linked to its Strategic Objectives and Management Result Dimensions (see paras. 9 and 11 below), allowing resources to be aligned with priorities to ensure the effective implementation of the Strategic Plan (ibid., para. 28 and Figure II.2). **The Advisory Committee notes the efforts undertaken by WFP to improve its budgeting process and welcomes the linkage between WFP's financial resources, its Strategic Objectives and the Management Result Dimensions as presented in the management plan. The Committee trusts that the expected transparency and accountability in the utilization of WFP financial resources will be reflected in the future budget submissions.**

3. The Advisory Committee also recalls its comments at the time of its consideration of the proposed change to WFP management plan cycle in May 2011, as contained in paragraph 19 of the Committee's report¹ presented to the 2011 Annual Session of the Executive Board. **The Advisory Committee reiterates that the WFP Secretariat should continue, in consultation with its Executive Board, to develop proposals for streamlining the process of reviewing financial and administrative documents requiring the approval of the Executive Board, with a view to enhancing the effectiveness of interaction with the Advisory Committee, as well as with the other legislative bodies engaged in the process.**

4. With respect to the structure and presentation of the management plan for 2012-2014, the Advisory Committee notes that the plan provides an executive summary and a new

¹ WFP/EB.A/2011/6(A,B,C,D,E,F,G,H)/2 WFP/EB.A/2011/5-C/2

overview section on the annual budget for approval (section II). The Committee points out the repetition of the same information related to the 2012 budget, which appears both in the executive summary and in the new overview section. **The Advisory Committee understands that the budget for 2012, presented for approval, constitutes the main part of the management plan for 2012-2014. Nevertheless, the Committee is of the view that summary information related to future annual budgets submitted for approval should be consolidated into one section to avoid duplications. In this connection, the Committee reiterates its previous recommendation that WFP should endeavour to minimize duplications in the structure and presentation of future management plans so as to have a streamlined, concise and reader-friendly document.**

5. **The Advisory Committee is also of the view that information presented in tabular form should not be repeated in different sections of the management plan. The Committee encourages WFP management, where applicable, to cross-reference information so as to obviate the need for repetitions. Furthermore, the Advisory Committee is of the view that the level of detail should not be the same in the executive summary/overview section and in the main budget sections.**

III. WFP Management Plan 2012-2014

6. The proposed budget for 2012, for approval by the Executive Board, amounts to \$5,485.3 million (see WFP/EB.2/2011/5-A/1, table II.1 and paras. 52 to 56). The proposed resources would cover: Operational requirements (\$4,823.8 million, or 88 per cent); Programme support and administration (\$249.1 million, or 4.5 per cent); Special accounts and trust funds (\$369.3 million, or 6.7 per cent), and other estimated requirements (\$43.1 million, or 0.8 per cent). The Advisory Committee notes that the projected operational requirements for 2012 do not make provision for unforeseen requirements. Annex VII to the management plan provides information with respect to the trend of unforeseen requirements for the period from 2002 to 2011.

7. The projected operational requirements for 2013 and 2014, for consideration by the Executive Board, anticipate two scenarios: a low projection for foreseen requirements and a high projection for unforeseen requirements based on historical averages (*ibid.*, paras. 164 to 166). WFP indicates that, as an Organization funded entirely through voluntary contributions, the level of its actual operations depends on the level of contributions it receives (*ibid.*, paras. 12 and 38). **While encouraging WFP to continue its efforts to mobilize voluntary funding and to broaden the donor base, the Advisory Committee expects that implementation of the programmed activities will be regularly assessed against the availability of funds.**

Proposed operational requirements for 2012

8. The operational requirements for 2012 are estimated at \$4,823.8 million and are broken down by programme categories (*ibid.*, table III.1). WFP indicates that the projected operational requirements would provide assistance to 85 million beneficiaries in 74 countries, delivery of some 4.4 million metric tons of food and the utilization of cash and voucher transfers valued at \$255 million (*ibid.*, paras. 74 and 75). Information with respect to the

operational requirements by region is contained in paragraphs 120 to 163. Table III.2 provides a breakdown of the operational requirements of \$4,823.8 million for 2012 under the new financial framework, which segregates the cost of food and non-food activities (*ibid.*, paras. 82 to 107).

9. The Advisory Committee notes that it is also the first time that WFP's proposed budget links the Strategic Objectives, with a breakdown of budgetary allocations to each objective as follows: Strategic Objective 1: save lives and protect livelihoods in emergencies (\$2.6 billion, or 54 per cent); Strategic Objective 2: prevent acute hunger and invest in disaster preparedness and mitigation (\$0.4 billion, or 9 per cent); Strategic Objective 3: restore and rebuild lives and livelihoods in post-conflict, post-disaster or transition situations (\$1.1 billion, or 23 per cent); Strategic Objective 4: reduce chronic hunger and undernutrition (\$0.5 billion, or 11 per cent), and Strategic Objective 5: strengthen the capacities of countries to reduce hunger, including through hand-over strategies and local purchase (\$0.2 billion, or 3 per cent). (*ibid.*, p.7).

Programme support and administrative budget for 2012

10. Section IV of the management plan provides information related to the programme support and administrative (PSA) budget for 2012, which amounts to \$249.1 million. A summary of the main areas of increases and decreases is provided in table IV.1. As the PSA budget is funded from indirect support cost (ISC) recoveries from voluntary contributions under the full-cost recovery policy, WFP recommends that the current ISC recovery rate of 7 per cent be maintained for 2012 (paras. 167, 168, 178 and 179). An analysis of the ISC rate for 2012 is presented in table IV.4. **The Committee has no objection to the approach proposed by WFP on cost recovery.**

11. In addition to other budget presentation changes as highlighted in the preceding paragraphs, the Advisory Committee notes that it is also the first time that WFP's PSA budget is presented as part of a performance management framework consisting of five Management Result Dimensions (MRDs), with the aim of aligning resources with priority areas (*ibid.*, paras. 18 to 20, 214 to 218 and Figures IV.2 and IV.3) as follows:

- (i) MRD 1: securing resources (\$25.8 million, or 10 per cent);
- (ii) MRD 2: stewardship (\$75.7 million, or 30 per cent);
- (iii) MRD 3: learning and innovation (\$22.7 million, or 9 per cent);
- (iv) MRD 4: internal business processes (\$28.7 million, or 12 per cent), and
- (v) MRD 5: operational efficiency (\$96.2 million, or 39 per cent).

12. The Advisory Committee notes from the management plan that costs for cluster leadership (\$3.8 million) and the administration of justice (\$1.6 million) are mainstreamed into the PSA budget for 2012 (paras. 171 and 172). Budget allocations in this regard are provided in tables IV.2 and IV.3. The Committee enquired on the proposed provision of \$40,000 under non-staff costs for the Ethics Office. It was informed that the provision was for mediation services and would cover costs related to engagement of professional mediators to be selected from the United Nations roster. It was anticipated that four to six mediations would be provided, at an estimated cost of \$5,000 each, while part of funding was for relevant training, awareness and information campaign.

13. The Advisory Committee further notes from table IV.8 that WFP will establish a new Office of Nutrition from 2012. It is also indicated that the Office, headed by a Deputy Executive Director, will consist of four organizational units: (a) the Nutrition Partnerships and Interagency Affairs Unit, (b) the Food Safety, Quality and Product Development Unit, (c) the Nutrition Operational Support and Policy Unit, and (d) the Nutrition Research Unit (paras. 188 to 192). **The Advisory Committee recommends that the impact of this change on WFP's programme delivery be provided in future annual performance reports.**

14. WFP is requesting allocation of \$10 million from the Self Insurance Fund for 2012 to undertake a workforce re-profiling exercise, a targeted separation programme intended to better align the current workforce to meet the strategic and operational needs of WFP (ibid., paras. 21, 224 to 227). It is indicated that WFP's Human Resources Division was conducting a skills review of its international professional staff to identify the skills and knowledge requirements necessary for the successful implementation of the Strategic Plan and future activities. WFP indicates that re-training alone will not be sufficient, and that new talent may need to be recruited with a view to realigning the workforce. **The Advisory Committee is of the view that progress achieved through the workforce re-profiling exercise should be reported to the Executive Board in a timely manner and that lessons learned be shared with other organizations of the United Nations system.**

15. The forecast for the opening and closing balances of the unearmarked portion of the General Fund is presented in table IV.13. WFP proposes to establish a special account for estimated expenditures related to its Security Emergency Fund (\$7.3 million) and shared costs of the United Nations Department of Safety and Security (\$9.6 million) by using an advance of \$16.9 million from its Working Capital Financing facility for 2012. These costs would then be charged to Direct Support Costs of operations, where possible. WFP proposes to draw up to \$10 million from the General fund to cover costs that can not be funded by its operations (ibid., para. 230 and 231). **The Advisory Committee has no objection to the proposal.**

Special accounts and trust funds

16. The Advisory Committee notes that an expanded section on special accounts and trust funds (section V) is contained in the management plan for 2012-2014 (ibid., para. 45). The total forecast of \$369.3 million for 2012 includes special accounts (\$164.2 million, or 45 per cent), corporate funds (\$111.6 million, or 30 per cent) and country-specific funds (\$93.5 million, or 25 per cent) (ibid., table V.1). For the period from 2012 to 2014, a forecast is presented in Figure V.4, which indicates that an overall growth level for the special accounts and trust funds are estimated at 7 per cent, including an increase by 5 per cent for the special accounts and 14 per cent for country-specific trust funds (ibid., paras. 276 and 277). The purposes and activities of the special accounts and trust funds are explained in paragraphs 22 to 24, 45 and 46, and 237 to 277 of the management plan.

17. A draft decision for consideration by the Executive Board is presented in the Management Plan for 2012-2014 (ibid., p. 13). **Taking into account its views as expressed in the paragraphs above, the Advisory Committee has no objection to the overall proposals submitted by WFP.**

IV. Proposed terms of reference of the Audit Committee

18. The report on the proposed terms of reference of the Audit Committee of WFP (WFP/EB.2/2011/5-B/1) is submitted to the Executive Board for approval. WFP indicates that the Executive Board, by its decision 2009/EB.1/7, decided that the Audit Committee, as a fully independent advisory body, would report to the Executive Board and to the Executive Director. In the same decision, the Board also decided that experience with the functioning of the Audit Committee and its terms of reference would be reviewed. Information with respect to the review process and the proposed changes to the existing terms of reference are provided in the document. It is indicated that a working group established to review the terms of reference of the Audit Committee included four members - two from the Bureau of the Executive Board, including its President and two from the WFP secretariat.

19. The Advisory Committee wishes to make the following observations, comments and recommendations for consideration by the Executive Board in taking a decision on the proposed changes to the terms of reference of WFP's Audit Committee.

20. With respect to the selection and appointment process of the members of the Audit Committee (ibid., paras. 18 to 24), the Advisory Committee notes that the selection panel shall include at least one representative of a member of the Executive Board and a member of the Audit Committee, along with three other members, to be appointed by the Executive Director. The Committee was informed, upon enquiry, that the 'three other members' would be selected by the Executive Director from WFP staff, external experts, members of the Executive Board or of the Audit Committee. **The Advisory Committee welcomes the proposal for the establishment of a selection panel for members of the Audit Committee, which, in the view of the Committee, would improve transparency of the selection process. With respect to the additional three members of the selection panel who are currently unspecified in the proposal, the Advisory Committee recommends that their possible source be further defined so as to ensure a fair mix of panel members that would guarantee a balanced outcome. Regarding the appointment to the selection panel of one member each from the Executive Board and the Audit Committee, the Advisory committee is of the view that it is not appropriate for the Executive Director to appoint a member from the Executive Board, given that the Board is an intergovernmental body.**

21. The Advisory Committee also notes from the proposal that an appointment to the Audit Committee may only be revoked by the Executive Board and the Executive Director. In this connection, the Committee was informed that the removal of a member of the Audit Committee would be done jointly by the Executive Board and the Executive Director. **The Advisory Committee is of the view that the wording outlining the procedure under paragraph 20 of the proposal does not make an explicit distinction between the status of the Executive Board as the governing body of WFP and the Executive Director as head of the WFP secretariat.**

22. With respect to the purpose and responsibilities of the Audit Committee, it is indicated that the Audit Committee aims to add value by strengthening accountability and governance within WFP (ibid., para. 1). It is also indicated in the proposed terms of reference that the Audit Committee will provide advice on strengthening interaction and communication among

Executive Board members, external and internal auditors, and WFP management, and that it has specific responsibilities, including advising on values and ethics, as well as on allegations of inappropriate activity (ibid., paras. 2 c), 3 f) and g)). **The Advisory Committee is of the view that the scope and some of the responsibilities of the Audit Committee, as described in the proposal, seem to go beyond the normal functions of an audit committee.**

23. In addition, the Advisory Committee was informed that one of the major changes proposed was to confirm that the Audit Committee would serve primarily as an advisory body to the Executive Board and the Executive Director, as stipulated in paragraph 1 of the chapter on the purpose of the Audit Committee, and that it would not have any management decision-making or operational responsibilities. **Given the clarification that the Audit Committee is an advisory body, the Advisory Committee is of the view that the Executive Board may wish to consider renaming the Audit Committee to the “Audit Advisory Committee.”**

V. Efficiency at WFP

24. The report on Efficiency at WFP (WFP/EB.2/2011/5-E/1) is submitted in response to a request by its Executive Board at the 2010 Annual Session (ibid., para. 3). For the purpose of that report, WFP has adopted the definition of efficiency applied by the Organization for Economic Co-operation and Development, that is, efficiency as a measure of how economically resources/inputs (funds, expertise, times, etc.) are converted to results. As explained in paragraph 11 and 9 to 63, and illustrated in Figure 2 of the report, the core areas where efficiency approaches have been undertaken by WFP include: (a) preparedness and forward planning, including Advance Financing Facilities; (b) procurement; (c) shipping and transport; (d) programme and distribution, and (e) support services (Human Resources, Information Technology, Finance and Treasury). The Advisory Committee notes that WFP will present future progress with respect to efficiency in its Annual Performance Report (ibid., para. 80). **The Advisory Committee takes note of the report on efficiency and encourages WFP to continue to improve its efficiency.**

VI. Follow-up to recommendations of the External Auditor

Procurement of landside transport, storage and handling contracts

25. The report of the External Auditor with respect to WFP’s performance on procurement of Landside Transport, Storage and Handling (LTSH) contracts is contained in document WFP/EB.2/2011/5-C/1. WFP’s response to the recommendations of the External Auditor is reflected in document WFP/EB.2/2011/5-C/1/Add.1. The Advisory Committee notes that, of the eight recommendations proposed by the External Auditor, two have been implemented and the rest will be implemented during 2012 (three by March 2012, one by June 2012 and two by December 2012). With respect to recommendation 1 on the LTSH rate, according to the External Auditor, the actual LTSH rate averaged around 68 per cent of the estimated rate, indicating a tendency towards inflated estimations. The Committee notes that WFP’s Logistics Division has been enhancing monitoring and updating the LTSH cost matrix, following a three-month rather than the previous six-month cycle. **Drawing upon past experience, including previous findings of the External Auditor on WFP’s operations in**

Somalia, the Advisory Committee trusts that the ongoing enhancement of the procurement process will improve WFP's management of contracts for LTSH. The Committee expects that WFP will continue to report on the impact of the enhancement to its procurement process.

Management of projects

26. The Advisory Committee also had before it the report of the External Auditor on WFP's management of project budgets (WFP/EB.2/2011/5-D/1) and WFP's responses to the recommendations of the External Auditor (WFP/EB.2/2011/5-D/1/Add.1). The Committee notes that WFP has accepted all of the 11 recommendations of the External Auditor, of which 3 have been implemented, 4 to be implemented by 30 June 2012 and 4 by 31 December 2012.

27. The Advisory Committee welcomes the reports of the External Auditor and notes the follow-up actions by WFP on the recommendations contained in the two reports. The Committee stresses the importance of expeditious implementation of all the recommendations of the External Auditor.

Annex I

Other reports presented to the Advisory Committee

For consideration:

- Report of the External Auditor on Procurement of Laneside Transport, Storage and Handling contracts (WFP/EB.2/2011/5-C/1)
- Management response to the recommendations of the report of the External Auditor on Procurement of Laneside Transport, Storage and Handling Contracts (WFP/EB.2/2011/5-C/1/Add.1)
- Report of the external auditor on management of projects (WFP/EB.2/2011/5-D/1)
- Management response to the recommendations of the Report of the External Auditor on Management of Projects (WFP/EB.2/2011/5-D/1/Add.1)
- Efficiency at WFP (WFP/EB.2/2011/5-E/1)

For information

- Work Plan of the External Auditor for the Period July 2011 to June 2012 (WFP/EB.2/2011/5-F/1)