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**Executive Board
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Agenda item 6



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REPORT OF THE FAO FINANCE COMMITTEE

The Executive Director is pleased to submit herewith the report of the FAO Finance Committee pertaining to WFP. The report covers the following agenda items:

- Fourth Progress Report on the Implementation of International Public Sector Accounting Standards (WFP/EB.A/2007/6-A/1)
- Funding of Employee Termination Payments (WFP/EB.A/2007/6-B/1)
- Update on the WFP Management Plan (2006–2007) (WFP/EB.A/2007/6-C/1)
- Costs and Benefits of New Initiatives in Profile Raising: Report by the External Auditor (WFP/EB.A/2007/6-D/1)
- Progress Report on the Implementation of the Recommendations of the External Auditor (WFP/EB.A/2007/6-E/1)
- Annual Accounts (2006) (WFP/EB.A/2007/6-F/1/1,2)
- Report of the Executive Director on the Utilization of Contributions and Waivers of Costs (General Rules XII.4 and XIII.4 (g)) (WFP/EB.A/2007/6-G/1 + Corr.1)
- Update on Capacity Building (Strategic Objective 5) (WFP/EB.A/2007/6-H/1)
- Report on WFP's Investment Performance (WFP/EB.A/2007/6-I/1)
- Status Report on WINGS II (WFP/EB.A/2007/6-J/1)

May 2007



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l'agriculture

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Naciones
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para la
Agricultura
y la
Alimentación

FINANCE COMMITTEE

Hundred and Eighteenth Session

Rome, 17 – 25 May 2007

Final Report on WFP Matters

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REPORT OF THE HUNDRED AND EIGHTEENTH SESSION OF THE FINANCE COMMITTEE

17–25 May 2007

INTRODUCTION

1. The Committee submitted to the Council the following report of its Hundred and eighteenth Session.
2. The following representatives were present:
Chairperson: Mr Aamir Khawaja (Pakistan)
Members: Mr Søren Skafte (Denmark)
Mr Eckhard W. Hein (Germany)
Mr Augusto Zodda (Italy)¹
Mr Seiichi Yokoi (Japan)
Ms Ana María Baiardi Quesnel (Paraguay)
Mr Roberto Seminario (Peru)
Mr Ahmed I. Al-Abdulla (Qatar)
Mr Lee Brudvig (United States of America)
H.E. Mary M. Muchada (Zimbabwe)
3. The Chairperson informed the Committee that Mr Aboubakar Bakayoko (Côte d'Ivoire) would regretfully be unable to attend this 118th Session of the Finance Committee. The Committee also noted that H.E. Mary M. Muchada had been designated to replace Ms Verenika Mutiro Takaendesa as the representative of the Republic of Zimbabwe at this session. Further, H.E. Romualdo Bettini had been designated to replace Mr Augusto Zodda as the representative of Italy during the first four days of this session.

COSTS AND BENEFITS OF NEW INITIATIVES IN PROFILE RAISING

4. The External Auditor, in presenting the Report on the Costs and Benefits of New Initiatives in Profile Raising, explained that the report addressed wider issues of communications, fundraising and advocacy.
5. The Secretariat noted that the report had been received only recently and informed the Committee that a comprehensive response to the recommendations and to the issues raised by the Committee would be provided in the follow-up report on External Audit recommendations to be presented to the Executive Board at the Second Regular Session.
6. The Committee encouraged and commended WFP's efforts to broaden its donor base to attract new traditional and non-traditional donors. The Committee also endorsed the recommendations of the External Auditor as contained in the report.

¹ H.E. Romualdo Bettini replaced Mr Zodda from 17 to 22 May 2007.



PROGRESS REPORT ON THE IMPLEMENTATION OF THE EXTERNAL AUDITOR RECOMMENDATIONS

7. The Secretariat introduced the report and informed the Committee that the current report contained information on the progress of implementation of recommendations that were ongoing as at end of December 2006. The report also included recommendations on the Treasury Management audit that were reported to the Board in February 2007.
8. The Secretariat responded to questions raised by the Committee on specific recommendations, the timing of implementation and on the presentation of the summary of recommendations.
9. The Committee noted the useful discussion on the issues and expressed its appreciation of the new base line of the current document as agreed with the External Auditor, where completed recommendations were no longer included.

ANNUAL ACCOUNTS (2006)

10. The Secretariat introduced the 2006 Annual Accounts informing the Committee that these were an important step in the progress towards IPSAS implementation. The Accounts included a report by the External Auditor but did not include an audit opinion, which under the Financial Regulations, was only required for the Biennial Accounts for 2006-2007.
11. The Committee discussed a number of issues arising from the Accounts and in particular relating to the timing of IPSAS implementation, staff liabilities and accounting transaction errors noted by the External Auditor.
12. The Secretariat explained, and the External Auditor confirmed, that the Accounts were in full compliance with UNSAS, and constituted a first step towards the goal of implementing IPSAS compliant reports in 2008. The accounts were consistent with current WFP accounting policies in respect of staff liabilities and that the accounting issues raised by the External Auditor had been corrected in the finalization of the Accounts.
13. The Committee expressed satisfaction on the explanations provided and its appreciation on the progress made by the Secretariat. The Committee also took note of the Secretariat's intention to review the implications of implementing IPSAS in 2008 and to inform the Board should a deferral become necessary and appropriate.

REPORT OF THE EXECUTIVE DIRECTOR ON THE UTILIZATION OF CONTRIBUTIONS AND WAIVERS OF COSTS (GENERAL RULES XII.4 AND XIII.4 (G))

14. The Secretariat introduced the report which was issued to the Board annually for information in accordance with General Rules XII.4 and XIII.4 (g).
15. The Committee discussed the report noting the reduced levels between 2005 and 2006 and received clarifications on the basis of recording in-kind staff services.
16. The Committee took note of the report.

UPDATE ON THE WFP MANAGEMENT PLAN (2006-2007)

17. The WFP Secretariat presented the fifth Update on the WFP Management Plan (2006-07), outlining that it was a regular document provided to the Executive Board. The Secretariat highlighted: a relatively small increase to the 2006-07 Programme of Work; that the forecasted funding level for the current biennium was unchanged from the last update note; and that the ISC income forecast for the current biennium had been reduced by US\$20 million dollars to reflect actual ISC income



generated in 2006. The request for Board approval of funding for the remainder of the WINGS II project was also outlined. Finally the potential impact of the PSA Equalization Account balance at the end of 2007 was discussed.

18. The Committee asked for, and received, clarification on a number of points and recommended that:

- a more up-to-date breakdown of the Programme of Work by cost component (outlined in paragraph 6 of the document) be included in this and future updates;
- that, in line with paragraph 11 of the document, future planning assumptions should consider the potential impact on ISC of: un-utilized and reprogrammed contribution balances; the lower rate of ISC income generated on Bilateral Operations and Trust Funds; and waivers under General Rule XIII.4.
- that the draft decision on the funding of WINGS II should be amended as follows: The Board:
 - i) takes note of the progress made on the WINGS II project and its current funding status, as outlined in paragraphs 14 – 19;
 - ii) approves that the US\$10 million advance approved by the Board in the First Regular Session 2007 from the WFP General Fund to the WINGS II Special Account be converted into a permanent transfer of funds to the Special Account;
 - iii) approves a further transfer of funds from the General Fund to the WINGS II Special Account to cover WINGS II expenditure up to a maximum of US\$24 million;
 - iv) looks forward to regular reports on the WINGS II project.

REPORT ON WFP'S INVESTMENT PERFORMANCE

19. The Committee took note of the information provided in document FC 118/27 – *Report on WFP's Investment Performance*.

FOURTH PROGRESS REPORT ON THE IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

20. The Secretariat presented the fourth progress report informing the Committee that the main focus of the report was to update the Board on the progress of IPSAS implementation with focus on the impact of three main areas: Inventories, Fixed Assets and Employee Benefits.

21. The report proposed an amendment to General Rule XIII.6, making it compatible with IPSAS requirements related to valuing in-kind contributions at fair value.

22. The Secretariat provided clarifications to questions related to contributions, fair value, recognition and funding of Employee Benefits liabilities, and governance added value resulting from IPSAS adoption.

23. The Committee welcomed the report and agreed with the draft decision regarding the proposed amendment of General Rule XIII.6.

FUNDING OF EMPLOYEE TERMINATION PAYMENTS

24. The Secretariat presented the report informing the Committee that funding was needed to provide for employee termination payments. The report proposed the establishment of a reserve and funding source for this purpose.

25. The report proposed an initial amount be utilized for such payments with progress on utilized amount and potential further funding requirement being brought to the Board for decision when appropriate.



26. The Secretariat provided clarifications on questions raised by the Committee related to staff rules and regulations, differing staff contractual arrangements and the operational imperatives which required WFP to have sufficient flexibility and resources to adjust staffing levels.

27. The Committee recognized and supported the logic of establishing a reserve for termination payments for which there was clear authority to pay. It further advised that there should be clear and transparent criteria for approving termination payments for SSA, SC and ALD contracts holders and that such criteria should be approved by the Executive Board.

28. The Committee noted that WFP operated under UNDP and FAO staff rules for administrating different categories of staff and recommended that the Board review this issue.

UPDATE ON CAPACITY BUILDING (STRATEGIC OBJECTIVE 5)

29. The Committee received document FC 118/30 – *Update on Capacity Building (Strategic Objective 5)*, but given its late arrival, offered no comment.

STATUS REPORT ON THE WINGS II PROJECT

30. The Committee took note of the information provided in document FC 118/32 – *Status Report on the WINGS II Project*.