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**Executive Board
First Regular Session**

Rome, 19–21 February 2007

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6



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19 February 2007

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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:

- Update on the WFP Management Plan (2006–2007) (WFP/EB.1/2007/6-A/1 + Corr.1)
- Report of the WFP External Auditor on Treasury Management (WFP/EB.1/2007/6-B/1)
- Progress Report on Implementation of the External Auditor Recommendations on 2004–2005 Operations (WFP/EB.1/2007/6-C/1)

COPY OF LETTER RECEIVED FROM THE UNITED NATIONS — NEW YORK

Reference: AC/1616

Advisory Committee on
Administrative and Budgetary Questions

15 February 2007

Dear Mr. Morris,

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

- Update on the WFP Management Plan (2006-2007) (WFP/EB.1/2007/6-A/1 + Corr.1)
- Report of the WFP External Auditor on Treasury Management (WFP/EB.1/2007/6-B/1)
- Progress Report on Implementation of the External Auditor Recommendations on 2004-2005 Operations (WFP/EB.1/2007/6-C/1)

I should be grateful if you could arrange for the report to be placed before the Executive Board at its forthcoming session, as a complete and separate document. A printed version (in all languages) of the document should be provided to the Advisory Committee at the earliest possible opportunity.

Yours Sincerely,

Rajat Saha
Chairman

Mr. James T. Morris
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

1. The Advisory Committee has considered the following reports submitted by the World Food Programme: (a) Update on the WFP Management Plan (2006-2007) (WFP/EB.1/2007/6-A/1 + Corr.1); (b) Report of the WFP External Auditor on Treasury Management (WFP/EB.1/2007/6-B/1); and (c) Progress Report on Implementation of the External Auditor's Recommendations on 2004-2005 Operations (WFP/EB.1/2007/6-C/1). During consideration of these reports, the Advisory Committee had a video conference with the Deputy Executive Director and other representatives of the WFP.

Update on the WFP Management Plan (2006-2007)

2. The Advisory Committee notes that direct costs of the biennial programme of work outlined in the biennial Management Plan, totaled \$5.8 billion. Since the approval of the Plan, the programme of work had increased by \$125 million and, as at 30 November 2006, totaled approximately \$5.9 billion. Distribution of this amount is as follows: (a) 45 per cent for food; (b) 12 per cent for external transport; (c) 24 per cent for landside transport, storage and handling; (d) 8 per cent for other direct operational costs; and (e) 11 per cent direct support costs.
3. With regard to programme support and administrative (PSA) expenditures, the Committee notes from the report that, for the 2006-2007 biennium, the Board approved a budget in the amount of \$375.8 million. As at 30 November 2006, expenditures amounted to \$169 million, or approximately 45 per cent of the approved budget.
4. The Advisory Committee notes with concern that the deficit in the standard staff cost variance account of WFP for the 2004-2005 biennium totaled \$79.2 million, including an amount of \$58.6 million as a result of foreign exchange fluctuations. This deficit was funded from the PSA equalization account and from indirect support cost (ISC) income. The report indicates that a mechanism is now in place for the 2006-2007 biennium to eliminate foreign exchange exposure risk. For the 2006-2007 biennium, a deficit of \$14.5 million is projected.
5. The Advisory Committee trusts that the sharing of related administrative costs continues to be appropriately monitored so as to avoid an increase in overhead costs.
6. WFP established a Walk the World Division in February 2005 and anticipated that corporate sponsors would fund the 2006 Walk. On that basis, an amount of \$2.6 million was advanced from the 2006 PSA budget with the expectation of recovery from corporate sponsorship and other proceeds from the walk. As the expected corporate donations did not materialize, WFP now proposes that the income deficit of \$2.6 million be covered from the general fund.
7. The Advisory Committee notes that WFP does not plan to sponsor the 2007 Walk and expects that no additional expenditures will be incurred in this respect. Upon enquiry, WFP informed the Committee that indeed no additional expenditures would be incurred in connection with 2007 Walk and that the Walk the World Division has been discontinued, reducing the 2007 budget by \$2.6 million.



8. The Advisory Committee commends WFP for its outreach efforts, while trusting that the problems experienced in 2006 will be taken fully into account for the Programme's involvement in any future Walks. In that context, estimates of corporate sponsorship funds for the 2008 Walk should be prepared with great care, so as to ensure that they are subsequently received and that no further recourse to the PSA budget or the general fund will be required in future. In this regard, the Advisory Committee regrets that no other option appears feasible but to meet the 2006 Walk the World deficit of \$2.6 million on a one-time and exceptional basis from the general fund.
9. The Committee notes that the cost of WINGS II is now estimated at \$49 million and the Executive Board had approved an appropriation of \$15 million. The project is currently an additional \$34 million short of the target and an additional \$17 million is needed during the current biennium. The Advisory Committee notes with concern that although WFP will continue to try to secure donor contributions, including from private-sector entities, no contingency plan has been made in case private funds do not materialize. In this context, WFP is requesting that the Executive Board approve an advance in the amount of \$10 million from the general fund to the WINGS II special account. The Advisory Committee has no objection to the approval of such an advance but expects that the \$10 million will be reimbursed once funds are received from direct donor contributions and private sector donors. The Committee trusts that WFP will develop a well thought-out and realistic fundraising strategy in a timely manner to avoid the necessity of future advances from WFP funds. It will continue to monitor the developments in this regard.
10. WFP contributes a pro-rata share to the United Nations Department of Safety and Security (DSS), representing field-related security costs apportioned amongst all participating organizations. The Advisory Committee recalls General Assembly resolution 58/295 of 18 June 2004, in which the Assembly endorsed the Advisory Committee's view that the United Nations Secretariat and United Nations specialized agencies, funds and programmes share a common responsibility for the security and safety of their staff and ought, in their common interest, to provide adequate and assured funding for security (see A/58/758, para. 31; and A/61/642, para. 12). The Advisory Committee has no objection to the proposal that DSS-related costs be funded from the general fund.
11. Subject to the observations above, the Advisory Committee recommends adoption by the Executive Board of the draft decision in page 3 of the Update on the WFP Management Plan (2006–2007).

Report of the WFP External Auditor on Treasury Management

12. The Committee notes from the report of the WFP external auditor on treasury management that, since 2002, the Programme has retained cash resources in excess of \$1,000 million. The external auditor's independent audit reviewed the control and custody of cash balances, as well as the arrangements for corporate fund management. The external auditor concluded generally that cash funding is adequately safeguarded and that reasonable returns on investment were received. The external auditor presented 11 recommendations to further strengthen the Programme's corporate fund management and these are detailed in its report.



13. The Committee notes that the Audit Committee of WFP discussed a draft risk profile and action plan in July 2006 as a preventive measure to identify external and internal risks. The Advisory Committee notes with appreciation that this risk management exercise is being actively developed by the Programme and that a risk management handbook was under preparation at the time of the review. Upon enquiry, the Committee was informed that a Risk Management Guide had been issued and that it was intended that the Guide would be expanded to progressively provide more detailed guidance on risk management to managers. The Advisory Committee believes that the Risk Management Guide could be a useful tool for other United Nations entities.

Progress Report on Implementation of the External Auditor's Recommendations on 2004–2005 Operations

14. The Advisory Committee recognizes that the successful implementation of audit recommendations is a work-in-progress. The progress report on audit recommendations indicates in table 1 that 45 recommendations were issued with regard to 2004–2005 operations, and that a total of 30 recommendations, or 72 per cent, were implemented as at 31 December 2006. The Committee trusts that WFP will continue its efforts to expeditiously implement outstanding recommendations and provide explanations for the non-implementation of any recommendations in the context of the forthcoming budget.
15. The Advisory Committee welcomes the implementation of the recommendations contained in its previous report (see WFP/EB.2/2006/5(A,D,E,F,G,H,I)/2). The Committee requests that an updated summary table of external audit and Advisory Committee recommendations be included with WFP's 2008–2009 budget proposal.

Documentation

For approval by the Executive Board

- Update on the WFP Management Plan (2006–2007) (WFP/EB.1/2007/6-A/1 + Corr.1).

For consideration by the Executive Board

- Report of the WFP External Auditor on Treasury Management (WFP/EB.1/2007/6-B/1).
- Progress Report on Implementation of the External Auditor Recommendations on 2004–2005 Operations (WFP/EB.1/2007/6-C/1).