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**Executive Board
Annual Session**

Rome, 6–10 June 2005

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6



Distribution: GENERAL
WFP/EB.A/2005/6-F
12 April 2005
ORIGINAL: ENGLISH

REPORT OF THE ADVISORY COMMITTEE ON ADMINISTRATIVE AND BUDGETARY QUESTIONS (ACABQ)

Report on Resource, Financial and Budgetary Matters Submitted to the First Regular Session of the Executive Board, 2005

The Executive Director is pleased to submit herewith the report of the ACABQ pertaining to WFP. The report covers different agenda items of the first regular session of the Board 2005, as follows:

- Business Process Review: Working-Capital Financing (WFP/EB.1/2005/5-C);
- Financial Framework for Strategic Priority 5 Implementation (WFP/EB.1/2005/5-A);
- Funding Arrangements for United Nations Staff Safety and Security (WFP/EB.1/2005/10 and Corr. 1);
- Update on the WFP Management Plan 2004–2005 (WFP/EB.1/2005/5-G);
- Follow-Up on the Recommendations of the External Auditor (WFP/EB.1/2005/5-F);
- Report of the External Auditor on Financial Reporting Standards of the World Food Programme (WFP/EB.1/2005/5-E); and
- Proposed Programme of Work of the External Auditor for the 2004–2005 Biennium (WFP/EB.1/2005/5-D).

COPY OF LETTER RECEIVED FROM THE UNITED NATIONS — NEW YORK

AC/1565

Advisory Committee on
Administrative and Budgetary Questions

1 March 2005

Dear Mr. Morris,

Please find attached a copy of the report of the Advisory Committee on Administrative and Budgetary Questions on the reports entitled “Working Capital Financing (WFP/EB.1/2005/5-C), the Financial Framework for the Implementation of Strategic Priority 5 (WFP/EB.1/2005/5-A), Funding Arrangements for Staff Safety and Security (WFP/EB.1/2005/10 and Corr.1), an Update on the Management Plan for 2004-2005 (WFP/EB.1/2005/5-G), Follow-up on the Recommendations of the External Auditor (WFP/EB.1/2005/5-F), and the report by the External Auditor; Financial Reporting Standards of the World Food Programme (WFP/EB.1/2005/5-E) and the Proposed Programme of Work of the External Auditor for the 2004-2005 Biennium (WFP/EB.1/2005/5-D).

As discussed, please bring the foregoing to the attention of the Board and inform it that you will take the relevant observations of the Advisory Committee into account when implementing the decisions of the Board.

Yours sincerely,

Vladimir V. Kuznetsov
Chairman

Mr. James T. Morris
Executive Director
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The Advisory Committee has considered the World Food Programme reports on working capital financing (WFP/EB.1/2005/5-C), the financial framework for the implementation of strategic priority 5 (WFP/EB.1/2005/5-A), funding arrangements for staff safety and security (WFP/EB.1/2005/10 and Corr. 1), an update on the management plan for 2004–2005 (WFP/EB.1/2005/5-G) and the follow-up on the recommendations of the external auditor (WFP/EB.1/2005/5-F). It also had before it the reports by the external auditor on the financial reporting standards of the World Food Programme (WFP/EB.1/2005/5-E) and the proposed programme of work of the external auditor for the 2004–2005 biennium (WFP/EB.1/2005/5-D). During its consideration of these reports, the Advisory Committee met with representatives of the Executive Director, who provided additional information.

Contrary to normal procedure, these documents were submitted to the Executive Board of the WFP in January 2005, before they were considered by the Advisory Committee and in the absence of its report. The Advisory Committee trusts that all efforts will be made to ensure that this does not occur again.

The Advisory Committee understands that the Executive Board in fact, took decisions on all of the proposals before it (WFP/EB.1/2005/13). Nevertheless, the Advisory Committee undertook a detailed examination of the Executive Director's proposals since it was informed by representatives of the Executive Director that they had indicated to the Board that they would await the Committee's report prior to taking any further action. On the basis of its consideration, the Committee sees no reason why the Executive Director should not proceed to implement the decisions of the Executive Board which are as follows:

Business Process Review: Working-Capital Financing

Decision 2005/EB.1/7, which authorizes the establishment of a working-capital advance ceiling of US\$180 million, changes to Financial Regulations 10.6 and 8.1, and further roll-out of working-capital financing to seven country operations during 2005, outlined in document WFP/EB.1/2005/5-C.

The Advisory Committee has been informed periodically on the status and progress of this initiative and of the five pilot projects carried out in the Democratic Republic of Congo, the Occupied Palestinian Territories, Indonesia, West Africa and China. It recognizes the very positive results achieved through working-capital financing in the pilot projects, and notes that this business model introduces a great deal of flexibility at the operational level, as well as an increased level of authority delegated to the Executive Director for authorizing advance spending. The Advisory Committee emphasizes the need for timely, close and careful monitoring to accompany these new measures. It also stresses that the cooperation of donors is key to the success of this enterprise and encourages the donor community to support this promising effort fully.

Financial Framework for Strategic Priority 5 Implementation

Decision 2005/EB.1/5, which approved the financial framework for country and regional capacity-building set out in document WFP/EB.1/2005/5-A.

The Advisory Committee is of the opinion that WFP should continue to mainstream ancillary capacity building activities supporting food aid intervention, on the condition that they are not to the detriment of its core mandate. It is informed that capacity-building activities are limited in scope and governed by separate financial rules. Capacity-building activities consist largely of transfer of knowledge to governments of countries which have a capacity for self-sufficiency, but require WFP presence and know-how during emergencies. The increased capacity will allow WFP to eliminate its presence completely in certain countries and focus on those in greater need.



Funding Arrangements for United Nations Staff Safety and Security

Decision 2005/EB.1/21, which

- approved continued support to the Secretary-General in implementing a strengthened and unified security-management system for United Nations staff around the world and advocating for the central funding of related security costs in accordance with General Assembly Resolution 59/276;
- authorized use of the General Fund on a one-off basis for fund WFP's share of the United Nations staff security management system costs for 2004–2005 up to the total amount approved by the General Assembly, plus WFP costs for the Malicious Acts Insurance Policy and contributions to United Nations reform.

The Advisory Committee recalls in this connection that the Executive Director had amended his proposals with respect to support costs prior to the adoption of decision 2005/EB.1/21 in order to reflect General Assembly resolution 59/276. With respect to security matters, the Advisory Committee emphasizes the need for WFP to coordinate very closely with the United Nations, New York to ensure proper integration with UNSECOORD and to avoid any duplication. In this connection, the Advisory Committee points to the statement made in paragraph 24 of its report on a Strengthened and Unified Security Management System for the United Nations (A/59/539) submitted to the General Assembly at its 59th Session that “... at each and every United Nations duty station there should be an integrated team which has been organized to fully respond to the requirements of the security profile at that duty station”.

Follow-Up on the Recommendations of the External Auditor

The Advisory Committee commends WFP on its system of reporting on the follow-up and implementation of audit recommendations, which presents comprehensive information on the position of the secretariat, and the status and timeframes for implementation of the recommendations in a clear, user-friendly format. The categorization of the recommendations (fundamental, significant, merits attention) and their prioritization provides additional clarity. To further improve on the information provided, the Advisory Committee suggests that WFP consider narrowing down the target timeframes for completion of the recommendations, from the biennial to, for example, a quarterly level.

Concerning the recommendations on air operations, the Advisory Committee was informed that certain aviation standards of WFP and DPKO are not yet fully aligned. According to WFP, this is due to differences in the nature of their operations. Consequently, the Advisory Committee is of the opinion that more work needs to be done to address the request of the High-Level Committee on Management (HLCM) for WFP to expand air services to manage all United Nations humanitarian air operations.

The Advisory Committee trusts that there will be renewed and intensified effort to coordinate air operations between WFP and DPKO, and other United Nations operations.

Financial Reporting Standards of the World Food Programme

The Advisory Committee notes that the United Nations task force for the continuing evolution of United Nations Accounting Standards has not yet been able to reach a consensus on moving the United Nations System to the adoption of independently-recognised international accounting standards. The Advisory Committee requests that WFP keep the United Nations task force closely informed of its efforts and progress in this area including through the CEB, and assist the task force in working towards acceptance of these standards where appropriate.



Proposed Programme of Work of the External Auditor for the 2004–2005 Biennium

As for the proposed programme of work of the external auditor for the 2004–2005 Biennium, the Advisory Committee notes that an equal number of topics are to be reviewed in the financial and management audit areas. It is informed that in the Financial Audit area, the auditor will focus on issues related to the system upgrade to the WFP information Network and Global System (WINGS), strengthening financial management internal controls, accounting issues for programme expenditure, decentralization and separate funding and accounting arrangements for cargo preference. The proposed areas for management audit are results based management, the WINGS information system, communication systems, post delivery losses and international accounting standards. In addition to the above, as part of standard procedures, the external auditor will also follow-up on the recommendations from 2002–2003 reports.

