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**Executive Board
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Rome, 24–26 May 2004

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6



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

The Executive Director is pleased to submit herewith the report of the ACABQ pertaining to WFP. The report covers different agenda items as follows:

- Consolidated Financial Report (WFP/EB.A/2004/6-A/1);
- Audited Biennial Accounts (2002–2003)
(WFP/EB.A/2004/6-B/1/1–3);
- Report of the Inspector-General (WFP/EB.A/2004/6-C/1); and
- Update on the WFP Management Plan, 2004–2005
(WFP/EB.A/2004/6-E/1).

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COPY OF LETTER RECEIVED FROM THE UNITED NATIONS—NEW YORK

Reference: AC/1544

Advisory Committee on
Administrative and Budgetary Questions

13 May 2004

Dear Mr. Morris,

Please find attached a copy of the report of the Advisory Committee on the reports entitled “Consolidated Financial Report for 2002-2003” (WFP/EB.A/2004/6-A/1 and Corr.1), “Audited Biennial Accounts 2002-2003: Section I, II and III” (WFP/EB.A/2004/6-B/1/1, WFP/EB.A/2004/6-B/1/2 and WFP/EB.A/2004/6-B/1/3), “Report of the Inspector General” (WFP/EB.A/2004/6-C/1), and “Update on the WFP Management Plan for 2004-2005” (WFP/EB.A/2004/6-E/1).

I should be grateful if you could arrange for the report to be reproduced *in verbatim* and placed before the Executive Board at its forthcoming session to be held 24-26 May 2004, 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,

(signed)

Vladimir V. Kuznetsov
Chairman

Mr. James T. Morris
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

1. The Advisory Committee has considered the World Food Programme's consolidated financial report for 2002-2003 (WFP/EB.A/2004/6-A/1 and Corr.1), the audited biennial accounts (2002-2003): Section I, II and III (WFP/EB.A/2004/6-B/1/1, WFP/EB.A/2004/6-B/1/2 and WFP/EB.A/2004/6-B/1/3) and the report of the Inspector General (WFP/EB.A/2004/6-C/1). The Committee also had before it an update on WFP biennial management plan for 2004-2005 (WFP/EB.A/2004/6-E/1). During its considerations of the reports, the Advisory Committee met with representatives of the Executive Director of WFP, who provided additional information and clarification.

Consolidated financial report and audited biennial accounts for 2002-2003

2. The consolidated financial report (WFP/EB.A/2004/6-A/1) is submitted to the Executive Board for information. Section I of the audited biennial accounts for 2002-2003 (WFP/EB.A/2004/6-B/1/1) includes the report of the Executive Director on the financial administration of WFP for 2002-2003. Conclusions and recommendations to the Executive Board are shown in paragraph 56 of document WFP/EB.A/2004/6-B/1/1, which includes the request to transfer \$20 million from the General Fund and \$24.1 million from the PSA Equalization Account to the DSC Advance Facility reserve to bring the balance of the latter to \$60 million, as approved in the Management Plan for 2004-2005. The Advisory Committee recommends that the Executive Board approve the proposal of the Executive Director.
3. Section II of the audited biennial accounts for 2002-2003 (WFP/EB.A/2004/6-B/1/2) includes the audit opinion of the External Auditors on WFP financial statements for 2002-2003, and Section III (WFP/EB.A/2004/6-B/1/3) includes the long-form report of the External Auditors with comments and recommendations on financial matters. The Advisory Committee notes that the External Auditors gave an unqualified opinion on the WFP financial statements.
4. In its long-form report, the External Auditors observed that the audit results gave rise to a significant level of uncertainty over the accuracy of disclosure by programme category, although not in relation to the validity of the transactions themselves. The auditors pointed out serious weaknesses in the accounting and disclosure of project expenditure and support costs, distortions in the information held in WINGS and its reporting functions, shortcomings in the financial oversight and guidance provided by WFP headquarters in Rome and Regional Bureaux to country offices and the failure of WFP to comply with its full cost recovery principle by not charging indirect support costs to certain specific contributions from the Programme's major donor (WFP/EB.A/2004/6-B/1/3, paras. 11-26). The Committee trusts that the Executive Director will address fully these shortcomings and report on actions taken in the context of its biennial budget for 2006-2007.
5. The Advisory Committee recommends that the Executive Board approve the 2002-2003 financial statements of WFP, together with the report of the External Auditors.



Report of the Inspector-General

6. The report of the Inspector-General (WFP/EB.A/2004/6-C/1) provides information on initiatives undertaken by the Division of Oversight Services; summarizes the audit, investigations and inspections undertaken during 2002-2003 and their impact; reports total recoveries for the period; describes cooperation with other oversight units and host governments; and provides a preview of work in 2004-2005.
7. The Advisory Committee notes that the Office of Internal Audit conducted 10 audits at WFP headquarters and in 24 field offices in 2002-2003. The Unit's work plan was shared and coordinated with the External Auditors. Significant issues are described in paragraph 9 of document WFP/EB.A/2004/6-C/1, which includes staff security matters. The Committee notes that security training has not been systematized to ensure timely, regular training for new staff and training updates for existing staff. In some countries, the security plan has not been finalized, and in others, country directors do not have copies of the finalized security plan. The Committee urges the Executive Director to take immediate steps to address the problems noted by the internal auditors and, in particular, those mentioned on issues of staff security. The Advisory Committee is actively seized with the question of inter-organizational security matters and will be revisiting the matter in the fall 2004 in the context of the Secretary-General's phase 2 report on security, to be presented to the General Assembly at its fifty-ninth session. The Committee has consistently emphasized the need for a clear and coherent system-wide security plan which promotes an integrated, coordinated approach among all concerned.
8. The Advisory Committee notes that the Office of Inspections and Investigations uncovered more than \$2.8 million worth of losses due to theft, fraud or mismanagement leading to either excessive expenditure or to non-recovery of commodity losses, with total recoveries of \$4.7 million during the biennium (WFP/EB.A/2004/6-C/1 para. 15).

Update on the management plan for 2004-2005

9. The update on the management plan for 2004-2005 in document WFP/EB.A/2004/6-E/1 is submitted pursuant the request of the Executive Board at its October 2003 session. Since the approval of the management plan, the operational budget, initially estimated at \$3.9 billion, has increased by approximately \$1 billion to reach \$4.9 billion, resulting mainly from the addition of the Iraq Oil-for Food Programme (\$870 million) and the new emergency operations requirements that were not included in the original plan (\$96 million). Operational expenditure at the end of March 2004 amounted to \$768.2 million, comprising food purchases of \$531.8 million and commodities in-kind of \$60.8 million and transport and other direct operational costs of \$175.6 million. Direct support costs (DSC) expenditure, the variable cost of managing operations in country offices, amounted to \$54 million for the same period (WFP/EB.A/2004/6-E/1, paras. 9-12). The Committee notes that the level of expenditure reported as at March 2004 is in-line with the amounts budgeted for 2004-2005 (see WFP/EB.3/2003[4-A, 5(A, B, C, D)]/2, paras. 12-14).
10. The Advisory Committee recalls that the biennial management plan for 2004-2005 introduced a new approach to the biennial budget. The budget for 2004-2005, which is "zero-based" and focused on results, was built on the basis of needs and designed to meet the requirements of all approved programmes and projects, including provision for extending programmes that were due to expire in 2004-2005, instead of focusing, as in the past, on estimated levels of fund-raising (see WFP/EB.3/2003[4-A, 5(A, B, C, D)]/2, para. 8). The Committee notes that the update of resource projections for 2004-2005 shows a lower level of available funding than indicated in the original management plan



(i.e., about 80 percent of planned requirements). Based on these figures, WFP intends to keep the expenditure level of its programme support and administrative (PSA) budget not higher than 90 per cent of the approved level of \$305 million until additional donations become available. PSA expenditure for the first quarter of 2004 amounts to \$30.4 million (see WFP/EB.A/2004/6-E/1, paras. 13-18). The Committee notes that, as of the end of the first quarter of 2004, information is provided on a limited number of activities foreseen in the Management Plan for 2004-2005, as it is quite early in the biennial cycle to report on meaningful developments of all activities.

11. The Advisory Committee notes that the significant reduction projected in the level of resources for 2004-2005 would negatively impact the programme and activities of WFP; however to date managers have not reported any results from projected budget cuts, as it is quite early in the cycle and managers are still analyzing the potential impact of the need to keep PSA expenditure at 90 per cent of requirements, and at this stage no major review or change to the anticipated results of the Management Plan is foreseen (see WFP/EB.A/2004/6-E/1, paras. 20-23).
12. The Advisory Committee notes the information provided on developments and activities of the Direct Support Cost Advance Facility, the Immediate Response Account and the provision to fund the impact of the reduced US dollar exchange rate variance on staff cost during the first quarter of 2004 (see WFP/EB.A/2004/6-E/1, paras. 24-30).
13. As regards non-recurring, one time expenditures for security upgrades, capacity building and capital investments, the Executive Board authorized the Executive Director to allot \$ 49 million from the PSA Equalization Account for this purpose. Paragraphs 32-38 of document WFP/EB.A/2004/6-E/1 highlight the progress achieved in these areas during the period.
14. The Executive Board approved \$19 million under the Capital Asset Fund (CAF) for the WFP Information Network and Global System (WINGS) upgrade and related capital costs. Implementation of activities for CAF projects are described in paragraphs 40-41 of document WFP/EB.A/2004/6-E/1. It is not clear how the information provided on CAF projects relate to the items of table 46 on page 57 of the Management Plan for 2004-2005 (WFP/EB.3/2003/5-A/1). In the Committee's opinion, WFP should have reported on progress made in all items listed as part of the WINGS upgrade and related costs in accordance with approved plans. The Committee recalls that, as indicated on page 56 of the Management Plan for 2004-2005, the "CAF will be subjected to monitoring and reporting and will have a framework for control comprising early warning, pre-emptive control, benchmarking and performance measurement." The Committee trusts that future roll-outs of WINGS will address the limitations of the system pointed out by the External Auditors.
15. Provisions for results-based management activities were approved in the amount of \$6.1 million under the PSA budget and \$4.1 million as a one-time investment to cover the start-up costs of institutionalizing RBM throughout the organization during the biennium (see WFP/EB.3/2003[4-A, 5(A, B, C, D)]/2, para. 28). Paragraph 42 of document WFP/EB.A/2004/6-E/1 highlights progress made as of the end of March. As indicated above, the reporting period is too short to have a meaningful report on all matters; however, an attempt should have been made to highlight progress made on RBM issues discussed under the heading "Management priorities, expected results and performance indicators" of the Management Plan for 2004-2005 (see WFP/EB.3/2003/5-A/1, paras. 160-200 and table 50); this should be done in the future.

