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AUDITED BIENNIAL ACCOUNTS (2000–2001)—SECTION I

Report of the Executive Director on the Financial Administration of the World Food Programme for the Biennium 2000–2001

Note to the Executive Board

This document is submitted for approval by the Executive Board.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact the Supervisor, Meeting Servicing and Distribution Unit (tel.: 066513-2328).

Executive Summary

This set of documents is submitted to the Executive Board in accordance with General Regulation XIV.6 (b) and Financial Regulation 13.1, which provide for the submission of the audited biennial financial statements of the Programme. It also includes the following documents:

- **Report of the Executive Director on the Financial Administration of the World Food Programme for the Biennium 2000–2001 (Section I),** which sets out the operational and financial highlights of the financial administration of the Programme during the biennium (WFP/EB.3/2002/5-A/1/1) and concludes with a series of recommendations to the Executive Board;
- **Opinion of the External Auditor on the Audited Financial Statements (Section II)**, which includes notes, in respect of the WFP Fund, including its funds and accounts (WFP/EB.3/2002/5-A/1/2);
- **Long-Form Report of the External Auditor (Section III),** providing detailed information on the outcome of their audit work during the biennium, covering both financial and management matters (WFP EB.3/2002/05-A/1/3); and
- **Final Report on the Implementation of Recommendations in the 1998–1999 Report of the External Auditor (Section IV)** (WFP/EB.3/2002/5-A/1/4), and the **Progress Report on the Implementation of Recommendations in the 2000–2001 Report of the External Auditor (Section V)** (WFP/EB.3/2002/5-A/1/5).

These documents address the following questions:

- What significant changes in the financial administration of the Programme occurred during this biennium and what are their implications?
- What was the outcome of the audit by the External Auditor for the period 2000–2001 and what steps have been taken or are being taken by the Secretariat to implement the External Auditor's recommendations from the previous and the current biennium?
- On the basis of financial results obtained during the biennium, what key decisions were made by the Executive Director in discharging his responsibilities in the administration of the financial affairs of the Programme, and what proposals are being put forward to the Executive Board?

Highlights

In this biennium, WFP implemented major changes in its financial policies, regulations and rules; implemented a new corporate information systems (WINGS—the WFP Information Network and Global System); undertook extensive analysis and clearing-up of its long outstanding accounts and financial records; implemented new Board decisions; introduced new accounting policies and processes; and strengthened financial administration to the extent possible and within the resources available. These changes and decisions were made to improve the Programme's ability to account, report and monitor the usage of its financial resources, to conform better with applicable accounting standards, to address audit recommendations, and to be able to provide more adequate and transparent financial statements and other reports to management, to the Executive Board and to the donors. These changes and their implications are as follows:

- **Implementation of the revised Resource and Long-Term Financing (R&LTF) policies in 2000** resulted in the introduction and reclassification of items within cost categories (other direct operational costs [ODOC], direct support cost [DSC] and programme support and administrative [PSA]), and the application of a single rate for levying indirect support costs primarily to fund the PSA budget.

- **Data clean-up prior to migration to WINGS** resulted in the identification of unspent balances of closed and completed projects totalling US$77.5 million and in the formulation of requests for reprogramming of these funds from the donors concerned, should they agree not to have these balances refunded. This is covered in another paper (WFP/EB.3/2002/5-E/1).
- **The installation of WINGS** resulted in the reclassification of reserves to provide more transparent reporting (Immediate Response Account [IRA] and DSC Advance Facility), and the establishment of the Staff Cost Variance Account for project-funded staff, which will require Board approval.
- **Improvements in treasury management,** particularly in the area of investment management, required the establishment of a post for an Investment Officer to monitor the performance of investment managers handling more than US$600 million of WFP's short-term investments. The Executive Director proposes confirmation of this post and its funding from interest income until the end of this biennium.
- **Improvements in financial management and reporting** resulted in the establishment of special accounts for long-term loan, for TC/IT standby equipment and services, and for the United Nations Humanitarian Response Depot (UNHRD).
- **Identification of a surplus** (dividends) of US$10 million from the Self-Insurance Special Account will necessitate the Executive Director's requesting approval by the Board for its use.
- Transfer of US$3.0 million from the unearmarked surplus of the General Fund to the Kosovo Flight Disaster Special Account to cover expenses relating to the final **resolution of issues relating to the Kosovo flight disaster.** The Executive Director also seeks confirmation by the Executive Board of this transfer.

Opinion and Report of the External Auditor

The financial statements and the relevant notes for the biennium 2000–2001 are the first set of financial statements produced from WINGS, with the first year of the biennium being based on the legacy systems. In reviewing the financial statements and the adequacy of systems and controls in place, the External Auditor rendered an unqualified opinion, i.e. that these statements present fairly the results of the financial performance and position of the Programme at the end of the biennium. There are, however, areas where improvement is needed. Some key audit recommendations are: use of a clearer method of valuation of commodities contributions; a changeover to accrual basis of accounting for income; obtaining information for determining the after-service medical liabilities to local staff; and finalization of all guidelines, directives, and manuals relating to finance and administration.

The External Auditor also carried out reviews on management matters relating to treasury management, follow up on the implementation of the Financial Management Improvement Programme (FMIP), and decentralization.

- Regarding **treasury operations**, the External Auditor concluded that the cash resources donated and/or entrusted to the Programme had been prudently managed and that good progress had been made in improving treasury management and activities.
- On **follow-up on the implementation of FMIP**, the External Auditor noted the successful introduction of WINGS and considered that the Programme had achieved the original objectives of FMIP, that of improving WFP's overall financial management. At the same time, the External Auditor pointed out that achieving the FMIP objectives had necessitated the Programme's moving onto the next stage: having to establish adequate maintenance and support services for this new system, fully rolling out WINGS in all country offices, upgrading and enhancing systems, completing the HR/Payroll module, and introducing new requirements that were not originally part of the scope of FMIP. In this document, the Executive Director sets out these next steps and presents funding proposals for achieving them, including the establishment of a capital asset fund as a longer-term solution for budgeting and funding these expenditures, which are of longer duration and fixed in nature.

- On the **review of the decentralization process** by way of conducting a survey in two regional bureaux, the External Auditor presented the outcome of such a survey and recommended that in future: the establishment of bureaux be done on a comparative basis; some of the basic agreements be renegotiated in order to get more Government Counterpart Cash Contribution (GCCC) funding for these offices; and directives on the management and control of inventory be finalized.

Financial Results

During the biennium, the income and expenditures increased in line with the increase in the level of operations. Compared with the 1998–1999 biennium, the Programme's contribution and other income increased significantly, from US$2,881.7 million to US$3,301.6 million, and total expenditures rose from US$2,917.5 million to US$3,189.6 million. Net results of operations for the biennium was an excess of income over expenditure of US$112.0 million, as opposed to a shortfall of US$35.8 million in the previous biennium.

PSA income—made up of ISC recoveries, GCCC and savings from cancellation of prior years' outstanding obligations—was US$195.2 million, while PSA actual expenditure was US$235.9 million, resulting in a deficit of US$40.7 million. The causes for this shortfall are further discussed in another paper (WFP/EB.3/2002/5-C/1). The deficit was funded from the unearmarked surplus of the General Fund, most of which came from interests, and the Executive Director seeks the Board's confirmation of this transfer.

At the end of the biennium, the Programme had cash and investments of US$905 million, of which US$487.9 million represented net of all receivables and liabilities that were already committed and obligated and US$417.1 million represented closing reserve and fund balances consisting of US$113.9 million of reserves, US$164.9 million of project fund balances, and US$138.3 million of Trust Fund and General Fund balances. The cash and investment accounts of the Programme are the subject of another paper (WFP/EB.3/2002/5-D/1).

At the end of the biennium, the Executive Director has identified US$205.5 million as being available for re-programming. This consists of:

- **Surplus of US$86.1 million, whose re-programming requires approval of the Executive Board.** This consists of prior-'96 surplus with no identifiable donors, self-insurance dividends, interest income credited to the General Fund, and excess of loan proceeds for repayment of principal and interest.
- **Surplus of US$41.9, whose reprogramming requires the approval of the donor concerned.** This surplus consists of insurance recoveries, General Accounts of Trust Funds, and prior-'96 surplus with identifiable donors.
- **Unspent balances of US$77.5, whose reprogramming requires the approval of the donor concerned.** These unspent balances consist of unexpended funds from closed and completed projects. This is the subject of another paper (WFP/EB.3/2002/5-E/1).

In order for WFP to have a more comprehensive and strategic approach in the use of these surplus and unspent balances, the Executive Director has also developed an expenditure plan for US$200.25 million that will be carried out as these funds become available, i.e. through Board approval or donor consent. Details of that plan are set out in the Executive Director's report.

Draft Decision

The Executive Board:

a) approves the establishment of a Staff Cost Variance Account to record variances between standard and actual costs of project-funded staff members;

b) confirms the establishment of an Investment Officer post for 2002–2003, funded from interest income;

c) approves the present manner of retaining the excess of assets over liabilities as part of the staff benefit funds and looks forward to receiving a more comprehensive proposal once the asset and liability study of these funds is completed;

d) confirms the transfer of US$3 million from the unearmarked surplus of the General Fund to the Kosovo Special Account;

e) approves the establishment of a capital asset fund and the transfer of the remaining balance of the FMIP Special Account as at 31 December 2001 to this account and the systems' enhancement as detailed in the expenditure plan;

f) confirms the funding of the PSA expenditure shortfall of US$40.7 million from the unearmarked surplus of the General Fund;

g) approves the use of the following surpluses and loan proceeds to fund in part the expenditure plan of the Executive Director and to transfer such amounts to the relevant funds where they will be reprogrammed:

  ◊ prior-1996 fund balances without identifiable donors, totalling US$13.5 million;

  ◊ surplus of the Self-insurance Special Account of US$10 million, as a dividend;

  ◊ unearmarked surplus of the General Fund, 2001, of $22.7 million; and

  ◊ US$39.9 million of the proceeds of the long-term loan over expected repayments;

h) takes note of the expenditure plan of the Executive Director as outlined in paragraphs 80–82 of the Report of the Executive Director; and

i) approves the 2000–2001 biennial financial statements of WFP, together with the report of the External Auditor, pursuant to General Regulation XIV.6 (b).

INTRODUCTION

1. The Executive Director has the honour to submit herewith, pursuant to Article XIV.6 (b) of the General Regulations and Financial Regulations 13.1 and 13.2, the financial statements of the World Food Programme (the Programme) for the biennium ended 31 December 2001.

2. This report presents to the Executive Board the operational and financial highlights of the financial administration of the Programme during the last biennium, as required in Article XIV, paragraphs 2 and 3 of the General Regulations. It also includes a summary of key financial results achieved during this period and improvements made in responding to and implementing external audit recommendations, and outlines the challenges that lie ahead in further improving the management of the financial resources of the Programme. The accompanying documents to this report are:

- the opinion of the External Auditor on the audited financial statements for 2000–2001, in accordance with Financial Regulation 14.8;
- the long-form report of the External Auditor with comments on financial and management matters setting out the observations and recommendations arising from their audit work during the biennium, and the responses provided and actions taken by the Secretariat, as required by Financial Regulation 14.4; and
- two other documents in matrix form summarizing the recommendations of the External Auditor for the biennia 1998–1999 and 2000–2001 and detailing the responses of the Secretariat, together with information on actions taken to date or to be taken within specified dates.

3. The biennium 2000–2001 was particularly unique and challenging for the Programme, in terms not only of the increased levels of operations and programme implementation but also of the financial administration of the Programme. Changes were made in financial regulations, rules and policies; corporate information systems; Executive Board decisions; and other management initiatives—all to improve further the Programme’s ability to account for its financial resources usage.

4. This report highlights those changes and their implications, and decisions taken by the Executive Director to properly address or implement them. It also sets out those actions that require approval by the Executive Board, with the appropriate recommendations by the Executive Director.

OPERATIONAL HIGHLIGHTS

A. Revised Resource and Long-Term Financing Policies and the New Financial Regulations

5. In January 2000, the Revised Resource and Long-Term Financing policies and the new Financial Regulations and Rules of the Programme came into effect. The implementation of these policies and regulations led to several key changes and implications:

- The introduction of other direct operational costs (ODOC) as a cost category and the resulting change in the definition of direct support costs (DSC) meant that accounting and financial reporting changed, and so adjustments were made to previous financial statements to allow for cost comparisons with previous biennia.

- The use of a single rate for the indirect support costs (ISC) for all programme categories, except for selected bilateral operations and trust funds, instead of varied rates for each programme category greatly reduced the administrative burden in the rate's application. The single rate also resulted in more equitable burden-sharing between programme categories to cover the programme support and administrative budget, which to a great extent is fixed in nature and requires a more assured level of funding.
- Immediately after implementation in 2000, the single rate of 7.8 percent was subjected to review by the Executive Board, in May and October of this year. This issue is covered in more detail in a separate paper that is also submitted during this Third Regular Session of the Board (WFP/EB.3/2002/5-C/1).
- Establishment of PSA-funded standard country office structure, with other support costs being funded through DSC, also required changes in the allocation and accounting of DSC among projects and donors.

B. WFP Information Network and Global System

6. In January 2001, the Programme's corporate information system, WFP Information Network and Global System was introduced, and except for the Human Resources and Payroll functionalities, the new system "went live" at Headquarters and in two regional bureaux. Once the four other regional bureaux were fully set up, WINGS was rolled out and completed in September 2001. And late in 2001, roll-out in large country offices (handling about 60 percent of WFP's resources) started; to date, these 14 country offices have full access to WINGS.

7. The later part of 2001 was also devoted to preparations for installation of the Human Resources and Payroll modules, which went live with the successful preparation of the January 2002 payroll for all International Professional and General Service staff in Rome. Along with this, WFP took over administration of its own payroll functions from the Food and Agriculture Organization (FAO). Although it is now operational, this module is not yet completed as prescribed in its original design, mainly because of the complexity of the United Nations entitlement system. There are several critical functionalities to be addressed before the module is completed, including Human Resources management and payroll reporting, retroactive actions prior to 2002, controls and control overrides, provision of sufficient documentation and certain validations and automations. <u>Hence, the funding of this completion phase is included in a comprehensive expenditure plan of the Executive Director, set out in paragraphs 80–82 of this report.</u>

8. The installation of WINGS represents the completion of the most significant and strategic component of FMIP. It has achieved the long-term objectives of the programme begun by the Executive Director in late 1995.

9. Throughout the years of its implementation, FMIP was audited by both internal and external auditors. During this biennium, the External Auditor undertook a specific review of the completion of FMIP, focusing on the migration of financial and operational data from the legacy systems to WINGS and the functionality of WINGS itself as well as its functionality for the FMIP budget.

10. As a result of their review, the External Auditor concluded that more time should have been provided for data analysis and clean-up, with a later date for going live with the new system. However, the Secretariat explained to the Auditor during the audit, and they later agreed, that the benefits achieved in migrating and going live with WINGS in January 2001 outweighed the risks involved, taking into consideration that such risks had been mitigated to the greatest extent possible.

11. In their audit of the functionality of WINGS, the External Auditor did not observe any significant systems weaknesses or malfunctions, and considered the installation and implementation of the new corporate information system a success.[1]

12. In reviewing the use of the FMIP budget, the External Auditor also indicated that given the change in scope (the addition of Payroll, which was not in the original budget), overall costs were contained. Nevertheless, they also indicate that the process of implementation is far from complete, as the Programme now moves to further roll-out of WINGS to every country office (with varying degrees of access depending on connectivity and size of the office), train staff appropriately and build increasingly effective support structures for WINGS.

13. We fully agreed with the External Auditor's observations, as these are the "next big steps" that the Programme must take to ensure that this corporate information system continues to be rolled out, maintained, supported and further enhanced in order that it can operate effectively and thereby maximize the benefits achieved with FMIP. To achieve these benefits, the Executive Director has approved strategies for rolling out WINGS to every country office, taking into account connectivity, resources and other geographical and technological infrastructures required; for maintaining and supporting the system; and for making additional significant enhancements that either were not in the original design or that arise from new business needs for accounting, monitoring and corporate reporting. Proposals for funding these activities are included in the Executive Director's expenditure plan, set out in paragraphs 80–82 of this report.

⇨ *Impact of WINGS Prior to the Changeover to the New System*

14. WINGS had a significant impact on the business processes of the Programme, even before its installation in January 2001. Prior to go-live of WINGS, extensive data clean-up, analysis, restructuring and adjustment of financial data were undertaken. With this extensive work, many benefits were gained, including the closure of projects, which led to the identification of surpluses or unspent project balances that were made available for reprogramming or refund to donors. The Secretariat has kept the Board informed of these issues and how they were resolved or are being resolved. An overview of these surpluses, including proposals on how these should be fully cleared, is set out in paragraphs 80–82 of this report.

15. Another benefit of the project closure exercise was the preparation and submission to donors of 826 Standardized Project Reports (SPRs) on their multilateral and bilateral contributions. These are described in Table 1.

[1] See WFP/EB.3/2002/5-A/1/3, Long-Form Report of the External Auditor, paragraph 261.

TABLE 1: NUMBER OF SPRS SUBMITTED IN 2000–2001

Project year	No. of reports	Completed by (date)
1998 projects	216	March 2000
1999 projects	280	September 2000
2000 projects	330	December 2001

16. Included in the SPRs reported during 2000–2001 were a number of projects that were operationally and financially closed (33 in 1999 and 105 in 2000). There was also good progress made in completing all outstanding financial reports for Special Operations (SOs), with most of the 2000 reports being completed by the end of 2001.

17. Projects closed in 1999 and 2000 were migrated to WINGS as closed projects and are the subject of a separate report submitted to this October session of the Board (WFP/EB.3/2002/5-E/1). That report concludes with a presentation of net cash surpluses of US$77.59 million, which are available for reprogramming with the donor's consent or for refund to donors. <u>Any funds that become available for reprogramming after consultation with the donors concerned will be used to fund the Executive Director's expenditure plan, set out in paragraphs 80–82 of this report.</u>

18. For other bilateral and other non-standard contributions, donors periodically receive financial reports on the status of their accounts. Reporting for the period to 31 December 2000 was completed before the end of 2001.

⇨ *Impact of WINGS after the Changeover to the New System*

19. After the changeover, new policies and procedures had to be formulated and put in place. The changes were made to adapt the systems to the design or standard functionality of WINGS, or to better follow the applicable accounting standards, or to disclose information related to new policies, or to improve the transparency in reporting results of financial operations. The External Auditor concurred with all these changes. These are described briefly below.

Immediate Response Account

20. The accounting method for the IRA, which was established as a cash reserve within the International Emergency Food Reserve (IEFR) (a flexible resource facility that enables WFP to respond quickly to emergency needs) was changed. Until this biennium, the IRA had been accounted for as a sub-category of the emergency operation (EMOP) programme category, with contributions reported as income when received and expenditures incurred. This method did not reflect accurately the revolving and replenishing character of the IRA.

21. In WINGS, the IRA is now separately accounted for as a reserve of the General Fund. Allocations are charged against this reserve to fund immediate needs, for EMOP, protracted relief and recovery operation (PRRO) or SO programme categories. The IRA is then credited with replenishments, either by contributions from donors or recovery from the operations funded initially, or, with the consent of the donors concerned, from insurance recoveries from commodity losses and interest income from bilateral funds due to them. At the end of the biennium, the IRA reserve had a balance of US$37 million.

Direct Support Cost Advance Facility

22. The DSC Advance Facility (DSCAF) is a guarantee mechanism set up by the Board during the budget approval process to provide DSC advances to projects pending the receipt of confirmed contributions. The DSCAF is now also separately accounted for as a reserve of the General Fund. Advances made to projects are charged and recoveries are credited to the DSCAF upon receipt of relevant contributions. At the end of this biennium, the DSCAF had a balance of US$13.4 million, representing advances not yet recovered from confirmed contributions.

Staff Cost Variance for Project-Funded Staff

23. With the implementation of staff cost accounting in WINGS, all staff costs are initially recorded at standard cost rates, for both PSA and project-funded staff, instead of only for PSA-funded staff, the method used in the legacy systems. With this new procedure of charging project staff costs at standard cost, a variance results between these and the actual costs. It is good practice to use a separate account in recording this variance (which could be either a surplus or a deficit) in order to provide management with a more transparent accounting of actual costs, and to better assess the reasonableness of standards costs.

24. For 2001, this account was introduced, but the resulting variance, a surplus of US$3.0 million, was charged back to the project budgets, and not to a variance account. This was due to the recommendation of the External Auditor that the approval of the Executive Board was necessary for the creation of this equalization account. <u>Therefore, the Executive Director requests that the Board approve the creation of a Staff Cost Variance Equalization Account, a reserve that will be made up of all variances between standard and actual cost of project-funded staff members.</u>

More Accurate and Timely Financial Reporting

25. The implementation of WINGS has led to an improvement in the corporate financial reporting capability, in terms of the quality of information produced in the financial statements and the ability to produce these on a real-time basis. Some of these improvements are:

- WINGS allows a distinction between income and expenditures for commodity contributions received in-kind from cash contributions, a distinction that could not be made in the legacy systems.
- Expenditures in all cost categories are now recorded in WINGS on the creation of a definite commitment, unlike in the legacy systems, where landside transport, storage and handling (LTSH) expenditures were initially recorded on the basis of estimates outlined in the LTSH matrix. This change has allowed for a closer and more accurate matching in the financial statements of LTSH costs with income.
- WINGS allows for more accurate information on foreign exchange gains and losses for projects and for donor contributions, at every stage of any transaction except at disbursement.
- The Third-Party Agreement (TPA) mechanism in WINGS has been implemented, allowing more appropriate administration and reporting of receipts and payments for cost-covering services provided by the Programme to other United Nations organizations and implementing partners that do not fall within the main programme categories.

- The field office financial recording interface, COAG-SAPInt (country office accounting guidelines—SAP Interface), has allowed for a quicker update of field office transactions in the corporate systems, as transactions are uploaded directly into WINGS on a monthly basis.
- WINGS also prepares real-time financial statements, which has allowed the preparation and submission of monthly financial statements for immediate review by management.

C. Decisions Taken by the Executive Board during the Biennium

26. During the biennium, there were decisions taken by the Executive Board that impacted financial operations of the Programme.

⇨ *Operational Reserve*

27. The operational reserve was replenished through a transfer of US$13.5 million from the General Fund, with the Board's approval in October 2000, bringing the balance to the authorized level of US$57.0 million.

28. In May 2001, the Board also approved the amendment of Financial Regulation 10.6 to allow the Executive Director to request the Board to approve the replenishment of the operational reserve from the unearmarked portion of the General Fund should contributions against which expenditures have been incurred prove to be uncollectible.

⇨ *Staff Safety and Security Account*

29. In October 2001, the Board approved the one-off use of the unearmarked surplus of the General Fund to fund the Programme's share of the 2002–2003 United Nations Security Coordinator (UNSECOORD) budget, for US$6.5 million. A separate account for United Nations Staff Safety and Security was set up to ensure availability of these funds and monitor expenditures against these through charges received from the United Nations.

D. Other Management Initiatives and New Financial Activities

30. In addition to the implementation of R&LTF, WINGS and Board decisions, the Programme embarked on other management initiatives to further improve financial administration both at Headquarters and in country offices.

⇨ *Treasury Management*

31. During the biennium, the Programme took a number of important steps towards strengthening its treasury management. These steps were conveyed to the Board through information papers submitted in October 2001, February 2002 and a final paper to be submitted in October of this year, (WFP/EB.3/2002/5-D/1). Briefly, the steps taken are as follows:

- development and formulation of investment policies and guidelines;
- hiring of professional investment managers who invest cash not immediately needed for operations;
- proactive management of cash transfers to field offices and monitoring of the Programme's cash position on a daily basis to ensure that daily cash requirements for operations are available, keeping those not immediately needed in short-term investments with a higher yield;

- providing assistance to country offices in their obtaining the best possible exchange rates for local currencies vis-à-vis the United States dollar;
- configuration of current electronic banking systems to facilitate direct processing of disbursements and enable automatic bank reconciliations in WINGS; and
- strengthening of the Investment Committee with additional memberships, introduction of rules of procedures and annual planning, broadening the scope of the committee's review to include both cash and investment management and reporting to the Executive Director.

32. As a result of active cash management both at Headquarters and in the country offices, coupled with good investment performance, interest income earned over the biennium increased significantly, from US$80.1 million in 1998–1999 to US$88.5 million in 2000–2001.

33. In March 2002, the Executive Director established the post of Investment Officer to perform the monitoring of the performance of the investment managers in lieu of the withdrawal by the International Fund for Agricultural Development (IFAD) of its proposal to render this service. This post has been funded from interest income up to 31 December 2003, after which it will be included in the PSA budget of 2004–2005. <u>The Executive Director requests confirmation of the establishment of this post and the funding of the post from interest income to 31 December 2001.</u>

34. The Programme's treasury management was one of the management matters reviewed by the External Auditor during the biennium. In their report, the External Auditor has highlighted areas that require improvement, concluding, however, that the "funds donated and/or entrusted to the WFP have been prudently managed."[2]

⇨ *Transition to Euro Currency*

35. The Programme also managed and implemented a strategy that resulted in a seamless introduction of the euro on 1 January 2002.

⇨ *Long-Term Investments and Loans*

36. As detailed in Note 25 to the financial statements, a special account was established by the Executive Director to record a long-term loan with a government agency in a donor country for the purchase of commodities. To ensure the repayment of interest and principal over the 30-year period of the loan, US$66.3 million of the cash contribution was invested in long-term securities, and the remaining US$39.9 million in short-term investments. The interest generated from the short-term investments was credited to the special account and could provide a source of funding for the Programme's future activities.

⇨ *Staff Related Funds—After-Service Medical Benefits, Separation Payments Scheme and Compensation Plan Reserve Fund*

37. At present, FAO manages two of these staff-related funds, i.e. the Separation Payments Scheme and the Compensation Plan Reserve Fund. These funds had total accrued liabilities of US$10.3 million, with a total book value of US$19.1 million as at 31 December 2001. WFP manages the funds for the After-Service Medical Benefits (ASMB).

[2] See WFP/EB.3/2002/5-A/1/3 (section III), Long-Form Report of the External Auditor, paragraph 164.

38. Early in 2002, the Secretariat decided to have an independent actuarial review done of its staff-related funds, separate from the usual joint valuation with other participating United Nations agencies in Rome, owing to a difference of opinion on the methodology for determining the Programme's liability. This independent actuarial study was followed with an asset and liability study to ascertain the appropriate strategy for investing these staff-related funds, as WFP intended to take over their management from FAO.

39. The independent valuation concluded that as at 31 December 2001, the value of the Programme's After-Service Medical Benefits liabilities was US$41.2 million. As the Board may recall, these liabilities were fully funded at US$44.8 million in 1999 and are now in short-term investments with a book value of US$47.0 million.

40. For purposes of presentation in the financial statements for 2000–2001, the excess of assets over the estimated liabilities is reflected as such under the liabilities in the financial statements. However, within the next months, a complete strategy for accounting and handling of these funds, including the takeover of the FAO-managed funds, will be implemented. The External Auditor agreed with this approach. The Executive Director seeks the approval of the Executive Board to keep in place the present procedure of retaining the excess of assets over liabilities as part of the staff benefit funds.

⇨ *TC/IT Standby Equipment and Services*

41. In order to set up appropriate financial arrangements for preparedness and immediate emergency situations and to enhance telecommunications and information and communications technology (TC/ICT) support services in these activities, a TC/IT Standby Equipment and Services Special Account was established by the Executive Director in January 2000, for financing standby and use of equipment and services. The special account was initially funded with US$2.0 million from additional PSA income generated during the biennium, and costs of this equipment is subsequently recovered from the relevant projects. This mechanism allows for a capacity for responding immediately to emergencies and is a transparent way of ascertaining TC/IT-related costs that are defrayed at the early stages of a project.

⇨ *United Nations Humanitarian Response Depot*

42. In response to the mandate given by United Nations General Assembly resolution 46/182 to the Programme as the manager and coordinator of the United Nations Humanitarian Response Depot in Brindisi, Italy, a special account was established to account for the Depot's operations. This procedure has allowed for a distinct and transparent way of determining the financial status of this operation, including an asset-management inventory system.

⇨ *Self-Insurance Account*

43. The Self-Insurance Account (SIA), which was established in 1995 and used to account separately for the financial transactions of the Programme's insurance scheme for international cargo, has net fund balances over the last three biennia as detailed in Table 2.

TABLE 2: INCOME, EXPENDITURE AND FUND BALANCE FOR SIA (US$ million)

Biennium	Income to SIA	Expenditure of SIA	Fund balance
Before 1996			9.5
1996–1997	7.8	8.7	8.6
1998–1999	16.0	5.0	19.6
2000–2001	18.6	7.5	30.7
Total	**42.4**	**21.2**	

44. The surplus has arisen from a combination of lower loss rates and higher than anticipated recoveries made by the insurer, both of which have allowed the insurer more recently to fix premiums at a rate lower than the international market for such business. Within the surplus, US$20.7 million represents an amount to cover future claims against the SIA and other costs of this account.

45. At the end of this biennium the Secretariat feels that now is the appropriate time to consider a first use of the SIA fund balance, and proposes that:

- US$20.7 million be retained by the Programme as a prudent reserve for future claims and other costs of this account; and
- the resulting balance of US$10 million as surplus, or "dividend", be put forward for reprogramming, as set out in paragraphs 80–82 of this report.

⇨ *Kosovo Flight Disaster Special Account*

46. During the biennium, the legal issues surrounding the Kosovo flight disaster were resolved with US$3.0 million transferred from the unearmarked surplus of the General Fund to the Kosovo Special Account to cover expenses relating to legal resolution of the accident. It is anticipated that no more expenditure will be incurred in 2002 for this issue, and the special account will be closed in the next biennium, as soon as some of the outstanding obligations are fully liquidated. The Executive Director recommends that the Board confirm the transfer of US$3.0 million from the General Fund to this special account.

⇨ *FMIP Special Account*

47. The completion of the mandate of FMIP as a special programme should also signify the closure of the FMIP Special Account. The balance remaining in the account will be transferred to a capital asset fund, which will be used to account separately for capital expenditures relating to systems development and infrastructure enhancements. The modalities for the budgeting and accounting of this capital asset fund will be presented in the course of presentation of the budget for 2004–2005. The Executive Director recommends that the Board approve the transfer of the balance of this special account as at 31 December 2001 to a capital asset fund.

⇨ *Contribution Management*

48. The management of contributions was significantly improved during the biennium. A new branch, Contributions and Project Accounting (FSC), was created through the redeployment of existing staff from other branches within FS Division. FSC has the main objective of managing contributions and financial reporting to donors in a more effective manner than previously. Regular meetings were held during the biennium with offices involved in the contribution process (RE, FS and ODP), leading to regular review and resolution of issues arising from contribution management.

⇨ *Valuation of Commodity Contributions at Actual Costs*

49. Improvements were also introduced in the recording of commodity contributions. Commodity values recorded at the time of a donor pledge are adjusted to actual costs on the basis of procurement price information when the commodities are eventually supplied to the Programme. This has resulted in a more accurate recording of the commodity contribution values reported in the Programme's financial statements as commodity contributions in-kind income and expenditure.

⇨ *Management of Project Closures*

50. A tighter management of project closure was effected during the biennium, resulting in the closure of 120 projects. A comprehensive review was begun of the balances of these projects and other projects closed prior to 2000 and migrated to WINGS, to identify and make available donor funds for reprogramming or refund to donors. Further details on this exercise are covered in a separate paper to the Board (WFP/EB.3/2002/5-E/1) <u>and the use of the surpluses identified from these closed projects is incorporated in the proposal in paragraphs 80–82 of this report</u>.

⇨ *Financial Guidelines*

51. Various directives and guidelines were issued during the biennium to provide guidance on the implementation of changes in financial policies and procedures from the last biennium. In particular, WINGS Bulletin 47—Guide to the 2000–2001 Closure Process and Preparation of Financial Statements—reflected a comprehensive set of organization-wide biennial closure procedures. This was a key document in the successful preparation of these biennial financial statements and their submission to the External Auditor within the time frame set out in the financial regulations.

52. With the implementation of WINGS and the introduction of several new business processes, the provision of direction and guidance is an area where there is still a lot of work to be done, as noted in the Progress Report on the Implementation of Recommendations in the 2000–2001 Report of the External Auditor (WFP/EB.3/2002/5-A/1/5).

⇨ *Strengthening Financial Administration*

53. In an attempt to address previous concerns raised by both the Internal and External Auditors of the Programme, several initiatives were also introduced to strengthen and improve both quality of work and staffing resources in the the Programme's overall financial management. The most important of these initiatives are detailed below.

- ➢ Within the strategy adopted to strengthen the Programme's management capacity, the position of the Assistant Executive Director for Administration was created to more closely coordinate the functional areas that included financial management, Human Resources, Information and Communications Technology, and Management Services. The former Financial and Information Systems Division was split into two divisions, i.e. Information and Communications Technology (ICT) and the Finance Division. This change allowed for the appointment of Directors who had the relevant competencies to manage and focus on these two areas of administration.

- In the eventual takeover from FAO of the responsibility for WFP's payroll, a Payroll Unit, as part of the Payments and Payroll Branch (FSP), was established and organized in early 2000 to assume this most challenging work.
- In an effort to improve the quality of financial services, 17 professional staff with extensive experience in the private and public sectors were hired at Headquarters and in country offices.
- Comprehensive and relevant training and support in WINGS and COAG-SAPInt was provided to staff at Headquarters and in the country offices within the available resources and time constraints.
- Supervision of field financial management was restructured and strengthened in accordance with the External Auditor's recommendations by gradually shifting the approach from the traditional function of processing and accounting for country offices' returns to technical and procedural support, guidance and training. Participation in the Programme's emergency rapid response initiatives and in ensuring business continuity in financial support services in the country offices was also strengthened.
- In line with the decentralization and delegation of authority to the field, regional bureaux were staffed by professional international Finance and Administrative Officers. This process should continue as there remains significant room for improvement, particularly because of the very broad mandate of these officers, who cover both the financial and administrative matters for their offices.

MANAGEMENT OF AUDIT RECOMMENDATIONS

54. The production of the Programme's financial statements for audit and the successful completion of the audit required significant close coordination between the Secretariat and the External Auditor, in particular during the closure period, when both the External Auditor and the Office of Internal Audit (OEDA) provided assistance to the Secretariat on the resolution of certain issues.

55. With the efforts and commitment of WFP's staff, this coordination resulted in the presentation of a set of financial statements that the External Auditor was able to audit and on which the Auditor was able to provide an unqualified opinion within an acceptable time frame.

56. The task of producing a set of financial statements through a consolidation of information from the legacy systems and from WINGS—a completely new, integrated system—at a time of significant organizational change (e.g. owing to decentralization) was a complex one. The unqualified opinion given by the External Auditor is an indication of the Programme's success in this particular endeavour.

57. All External Auditor recommendations are detailed in a progress matrix (WFP/EB.3/2002/5–A/1/5). The Programme has improved its ability to manage the actions taken in response to those recommendations by adding specific timelines to the progress matrix, as suggested by the FAO Finance Committee.

FINANCIAL HIGHLIGHTS

58. A detailed analysis of the results of the financial operations of the Programme during the biennium are presented in both the audited financial statements and the accompanying notes (WFP/EB.3/2002/5-A/1/2) and the Budgetary Performance Report, 2000–2001 (WFP/EB.3/2002/5-B/1). At the corporate level of the WFP Fund, the most significant financial results of operations for the biennium are summarized below.

A. Results of Operations

TABLE 3: SUMMARY OF TOTAL INCOME AND EXPENDITURES OF THE WFP FUND

	2000–2001	1998–1999	% increase
	(US$ million)		
Income of the WFP Fund			
Commodities	907.8	898.9	1.0
Cash contributions	2 289.3	1 883.4	21.6
Other income (interest, etc.)	104.5	99.4	5.1
Total income of the WFP Fund	**3 301.6**	**2 881.7**	**14.5**
Commodities received	907.8	898.9	1.0
Commodities purchased	605.3	458.3	32.1
Direct operational costs	1 076.3	1 042.9	3.2
Direct support costs	370.6	269.5	37.5
Indirect support costs	229.6	247.9	(7.4)
Total expenditure	**3 189.6**	**2 917.5**	**9.3**
Excess/(shortfall) of contributions over expenditure	112.0	(35.8)	

B. Income of the WFP Fund

59. Resources of the Programme consisted of commodities and services given in-kind, cash contributions, and other income generated in the regular course of its business, such as interest income. The above total income to the WFP Fund was donated to the Programme through various funding windows detailed in Table 4.

TABLE 4: BREAKDOWN OF TOTAL INCOME OF THE WFP FUND, BY FUNDING WINDOW

	2000–2001		1998–1999		Increase/ (decrease)	
Funding window	**US$ million**	**%**	**US$ million**	**%**	**US$ million**	**%**
Programme categories						
Multilateral	730.9	22.1	643.3	22.3	87.6	13.6
Directed multilateral	2 171.2	65.8	1 831.6	63.6	339.6	18.6
Others						
Bilateral and other trust funds	97.2	2.9	65.7	2.3	31.5	47.9
Prior 1996 surplus	2.2	0.1	24.2	0.8	(22.0)	(90.9)
General Fund	300.1	9.1	316.9	11.0	(16.8)	(5.3)
Total	**3 301.6**		**2 881.7**		**419.9**	

60. Table 4 indicates that contributions increased significantly during the biennium, in particular for 2001, when the Programme received US$1.9 billion in contributions—the highest annual amount in its history. It should also be noted that contributions through the directed multilateral funding window continued as an increasing trend from 1998–1999 through 2000–2001. However, the continued decline in contributions through the multilateral funding window since 1996 was compensated during the biennium 2000–2001 by the large donations received, as stated above, and by some reprogrammed funds from the 1998–1999 surplus. The significant implications of the expanding use of the directed multilateral funding window is that it constrains the Programme's flexibility in programming resources and therefore in meeting food needs where they are most required. It also requires very stringent fund management and reporting to donors—i.e. an almost customized level of reporting.

61. Contributions of US$3.3 billion by programme category are detailed in Table 5.

TABLE 5: BREAKDOWN OF CONTRIBUTIONS

	2000–2001		1998–1999	
Programme category	**US$ million**	**%**	**US$ million**	**%**
Development	454.2	13.8	540.8	18.8
Emergency	1632.7	49.4	1413.0	49.0
Protracted relief and recovery	750.1	22.7	476.4	16.5
Special Operations	67.3	2.0	68.9	2.4
Others				
Trust funds	97.2	3.0	65.7	2.3
General Fund	300.1	9.1	316.9	11.0
Total	**3 301.6**		**2 881.7**	

62. Contributions for the development programme category continue to decline, both in terms of its allocation from the total contributions during the biennium (18.8 percent in 1998–1999, down to 13.8 percent of total contributions in 2000–2001) and in absolute amounts (US$540.8 million in 1998–1999 down to US$454.2 million in 2000–2001).

63. On the other hand, the PRRO programme category continued to increase, both in terms of its allocation from the total contributions during the biennium (16.5 percent in 1998–1999 up to 22.7 percent of total contributions in 2000–2001) and in absolute amounts (US$476.4 million in 1998–1999 up to US$750.1 million in 2000–2001).

64. The emergency programme category increased in absolute amounts (from US$1,413.0 million in 1998–1999 up to US$1,632.7 million in 2000–2001). There was only a relative increase of less than half a percent in terms of its allocation, of almost half of the total contributions received during the year.

65. The General Fund consists of income generated from recoveries from indirect support costs (US$188.5 million), interest income (US$81.6 million), GCCC (US$3.0 million) and other miscellaneous income (US$27.0 million).

⇨ *Contributions Receivable*

66. In principle, when donors give a confirmed pledge to make a contribution to WFP, a receivable is created for that amount. The increase in contributions receivable from US$1,032.9 million in 1999 to US$1,644.9 million in 2001 is due mainly to the increased level of contributions and the manner in which some of these are collected by way of reimbursement. At the end of the biennium, while expenditures had already been incurred, the corresponding receivables remained in the books because the cash contribution had not yet been received. Thus, in Table 6 below, there is a higher than normal level of contribution receivables outstanding at 31 December 2001.

TABLE 6: AGING OF INCOME RECEIVABLE TO THE WFP FUND

	2000–2001		**1998–1999**	
Year of confirmation of income	**US$ million**	**%**	**US$ million**	**%**
2001	1 052.8	64.0	-	-
2000	293.4	17.8	-	-
1999	100.9	6.1	725.3	70.2
1998	114.8	7.0	244.3	23.7
1997	37.4	2.3	44.6	4.3
1996	45.6	2.8	13.9	1.3
Prior 1996		0.0	4.8	0.5
Total	**1 644.9**[3]		**1 032.9**	

[3] This amount includes receivables for commodity contributions (US$262.3 million) and other cash contributions (US$1,382.6 million)—see Audited Biennial Accounts, Note 5 (WFP/EB.3/2002/5-A/1/2).

67. As shown in Table 6, receivables confirmed in 1996 increased from the outstanding balance at the end of the 1998–1999 biennium because of adjustments effected during the analysis and clean-up of closed projects, as discussed above. The receivable confirmed prior to 1996 (the R&LTF period) has now reached a zero balance as an outcome of the clean-up exercise.

C. Expenditures of the WFP Fund

68. Total expenditures incurred for the past two biennia are detailed in Table 7.

TABLE 7: EXPENDITURES OF THE WFP FUND

	2000–2001		1998–1999		Increase/ (decrease)	
Expenditure	**US$ million**	**%**	**US$ million**	**%**	**US$ million**	**%**
DOC						
Commodities in-kind	907.8	28.5	898.9	30.8	8.9	1.0
Commodities purchased	605.3	19.0	458.3	15.7	147.0	32.1
Ocean transport and related costs	442.2	13.9	395.0	13.6	47.2	11.9
Landside transport storage and handling	515.4	16.1	522.9	17.9	(7.5)	(1.4)
Other direct operational costs	118.7	3.7	125.0	4.3	(6.3)	5.0
DSC						
Direct support costs	370.6	11.6	269.5	9.2	101.1	37.5
ISC						
PSA expenditures	229.6[4]	7.2	247.9	8.5	(18.3)	(7.4)
Total expenditures	**3 189.6**		**2 917.5**		**272.1**	**9.3**

69. The increase in total expenditures of US$272.1 million over the previous biennium is due primarily to the increased level of operations during the biennia. Tonnage delivered increased to 7.0 million tons in 2000–2001 from 6.2 million tons in 1998–1999. Detailed explanations for these variances are provided in the Budgetary Performance Report (WFP/EB.3/2002/5-B/1).

D. PSA Income and Expenditures

70. Total PSA income of US$195.2 million (consisting of GCCC contributions of US$2.4 million, cancelled prior-year obligations of US$4.3 million and ISC receipts of US$188.5 million) were used to fund PSA actual expenditures of US$235.9 million. The difference of US$40.7 million was funded from interest income that was credited to the General Fund. Therefore, the Executive Director recommends confirmation of this use of the surplus of the General Fund to cover the shortfall in PSA expenditures for 2000–2001.

[4] The US$229.6 million does not include a transfer made to the FMIP Special Account of US$6.3 million, which would give a total PSA expenditures figure of US$235.9 million.

E. Cash and Investment Balances

71. The Programme's cash and investment balances consist of cash receipts that are directly related to projects and those not directly related to projects. During the biennium, the Secretariat brought to the attention of the Executive Board the Programme's current cash holdings and how these were being managed and invested. This led to a closer review of the Programme's cash levels. A paper setting out the investment levels and policies of the Programme was presented to the Board in February 2002, and a final paper analysing the composition of these cash balances, and ascertaining the appropriate level of cash, is presented at this present Third Regular Session (WFP/EB.3/2002/5–D/1). These balances are summarized in Table 8.

TABLE 8: WFP CASH AND INVESTMENT BALANCES (US$ million)

	2000–2001	1998–1999
Cash and investments relating to projects		
Undisbursed cash contributions	391.1	506.2
Trust funds	80.8	87.2
Reserves	107.4	72.0
Subtotal	**579.3**	**665.4**
Cash and investments not relating to projects		
Long-term investments	85.4	19.3
Short-term investments	176.5	112.1
General Fund (special accounts and unearmarked balance)	63.8	51.3
Subtotal	**325.7**	**182.7**
Total	**905.0**	**848.1**

72. Of the US$905.0 million, US$325.7 million are related to specific purposes and not for projects. The US$905.0 million total cash and investment balance is earmarked for total net liabilities of US$487.9 million (Table 10), and for reserve and fund balances of US$417.1 million (Table 11).

F. Transfers between Funds and Accounts

73. In the course of the data analysis and clean-up and the migration of fund balances of the four programme categories from the old to the new system, a net difference of US$63,841 resulted between the categories (See Note 14 to financial statements for details) and was credited to the unearmarked surplus of the General Fund.

G. Reprogramming and Refund of Unused Fund Balances

74. During the biennium, a total of US$4.2 million representing unspent balances of closed projects was refunded to donors. In addition, a total of US$102.2 million was reprogrammed, of which US$86.8 million came from the prior-1996 surplus with unidentified donors (as approved by the Board in October 2000) and US$7.9 million with identified donors. These funds were programmed as in Table 9.

TABLE 9: SUMMARY OF REPROGRAMMING OF THE PRIOR-1996 SURPLUS DURING THE BIENNIUM (US$ million)

Programme category	Unidentified	Identified	Total
Development 1999 portion	12.7	0.0	**12.7**
Development 2000 portion	16.1	0.0	**16.1**
EMOP	34.0	2.7	**36.7**
PRRO	24.0	5.2	**29.2**
Total	**86.8**	**7.9**	**94.7**[5]

75. As at 31 December 2001, the fund balances for prior-1996 went down to US$30.8 million, out of which US$17.3 million will be reprogrammed or refunded to the donors concerned, after due consultations. The remaining balance of US$13.5 million represents surpluses for which the specific donors could no longer be identified. Use of this surplus is included in the expenditure plan of the Executive Director as set out in paragraphs 80–82 of this report. Once approved, this will close out the prior-1996 surplus. i.e. the cumulative surplus generated prior to the R&LTF.

H. Other Assets and Liabilities

76. The Programme's other assets and liabilities balances are detailed in Table 10.

TABLE 10: OTHER ASSETS AND LIABILITIES OF THE PROGRAMME (US$ million)

	2000–2001	1998–1999
Other assets		
Contributions receivable	1 644.9	1 032.9
Other accounts receivable – not relating to projects	91.4	47.1
Subtotal	**1 736.3**	**1 080.0**
Other liabilities		
Unrealized income	1 644.9	1 032.9
Monetized funds held in trust	57.3	10.4
Outstanding obligations—relating to projects	200.9	185.0
Outstanding obligations—not relating to projects	29.8	27.1
Accounts payable—relating to projects	31.6	0.0
Accounts payable—not relating to projects	87.7	76.9
Provisions	0.0	140.2
Staff benefit funds	66.0	64.1
Loans payable	106.0	0.0
Subtotal	**2 224.2**	**1 536.6**
Total	**(487.9)**	**(456.6)**

[5] Out of the US$94.7 million, US$7.7 million remains unallocated.

I. Reserves and Surpluses

77. As at 31 December 2001, total reserves and fund balances of the WFP Fund amounted to US$417.1 million, detailed in Table 11. The reserves of US$113.9 million are to be retained because they are earmarked for specific purposes and utilization, and the rest are being prepared for reprogramming or refunding.

TABLE 11: TOTAL RESERVES AND FUND BALANCES (US$ million)

Total reserves and fund balances		2000–2001
Reserves		
IRA	37.0	
Operational reserve	57.0	
DSC Advance Facility	13.4	
Staff Security and Safety Account	6.5	113.9
Subtotal–Reserves		**113.9**
Project fund balances		
Multilateral	201.3	
Directed multilateral	(67.2)	
Prior-1996 (a)	30.8	164.9
Trust funds		
Trust fund general accounts	40.9	
Other	33.6	74.5
General Fund		
Special accounts		
Self-Insurance Account	30.7	
Other special accounts	10.4	
Unearmarked surplus of the General Fund	22.7	63.8
Subtotal—fund balances		**303.2**
Total reserves and fund balances		**417.1**[6]

78. Out of total fund balances of US$303.2 million the Executive Director has identified US$46.2 million that could be made available for reprogramming, together withUS$39.9million of excess proceeds from the long-term loan, subject to Executive Board approval as follows:

- US$13.5 million of the prior-1996 surplus of US$30.8 million, for which donors could not be identified;
- US$10.0 million of the balance of US$30.7 million of the Self-Insurance Special Account, representing dividends to participating donors;

[6] For the US$417.1 million, Total Reserves and Fund closing balance, see Statement II of the Audited Biennial Accounts, Statement of Assets, Liabilities and Reserves and Fund Balances WFP/EB.3/2002/5-A/1/2, Section II.

- US$22.7 million of the unearmarked surplus of the General Fund that was generated mostly from interest income; and
- US$39.9 million of the excess of proceeds from a long-term loan over funds needed for the interest payments and repayment of the loan over 30 years.

The Executive Director seeks the approval of the Executive Board for the use of these cash surpluses.

79. In addition to the above surpluses, US$119.4 million of the fund balances was identified as at 31 December 2001 that could be available for reprogramming (subject to donor consent) or that will be refunded. These are:

- US$10.2 million of insurance recoveries payable to donors;
- US$29.2 million of the Donors' Trust Fund—General Accounts;
- US$2.5 million of the prior-1996 surplus;
- US$46.6 million of closed projects migrated to WINGS (WFP/EB.3/2002/5-E/1);
- US$30.9 million of completed projects for closure in 2002 (WFP/EB.3/2002/5-E/1).

The Executive Director intends to seek the approval of the donors concerned for the use of these unspent balances.

80. Table 12 summarizes the above cash surpluses and unspent balances and indicates the approvals needed for their use.

TABLE 12: SURPLUSES AND FUND BALANCES IDENTIFIED FOR ACTION (US$ million)

	2000–2001	
Use of surpluses subject to Executive Board approval		
Prior-1996—unidentified donors	13.5	
Self-Insurance Account dividend	10.0	
Unearmarked surplus of the General Fund—interest	22.7	
Excess of loan proceeds	39.9	**86.1**
Use of other surpluses subject to donor approval		
Insurance recoveries[7]	10.2	
General Account of Trust Funds[8]	29.2	
Prior-1996 of identifiable donors	2.5	**41.9**
Use of unspent balances subject to donor approval		
Closed projects migrated to WINGS	46.6	
Completed projects from closure 2001	30.9	**77.5**
Total		**205.5**

[7] The balance outstanding as at 16 August 2002 was US$10.2 million. The balance outstanding as at 31 December 2001 was US$11. 7 million; the difference of US$1.5 million has since been reprogrammed.

[8] The balance outstanding as at 16 August 2002 was US$29.2 million. The balance outstanding as at 31 December 2001 was US$40.9 million, the difference of US$11.7 million has since been re-programmed/refunded.

EXPENDITURE PLAN OF THE EXECUTIVE DIRECTOR FOR THE SURPLUSES AND UNSPENT BALANCES OF CLOSED AND COMPLETED PROJECTS

81. As indicated throughout this report, an expenditure plan for the use of these funds has been developed to assist in the strategic spending of cash surpluses generated at the end of this biennium and of unspent net cash surpluses from closed and completed projects. This plan is detailed in Table 13.

TABLE 13: EXPENDITURE PLAN FOR UTILIZATION OF SURPLUSES AND BALANCES (US$ million)

Revolvement of funds		
Transfer to fully replenish the IRA[9]	6.50	
Repayment of Central Emergency Revolving Fund (CERF) loan (used for Southern Africa EMOP)	20.00	26.50
Programme categories		
Development	30.00	
Emergency	90.00	
Protracted relief and recovery	40.00	160.00
Systems development and enhancement[10]		
WINGS HR/Payroll completion	2.60	
One-off support for LTSH management	2.40	
Replacement of Headquarters servers and LAN and ETNet phaseover	1.30	
Standardization of software licenses in country offices	0.70	
WINGS roll-out to every country office (including enhancement of COAG-SAPInt)	4.00	11.00
Recurring systems support costs		
WINGS support and maintenance	0.80	
Initial support for ongoing LTSH management activities	0.30	
Implementation of Minimum Security Telecommunications Standards (MISTS)	1.65	2.75
Total		**200.25**[11]

82. The above expenditure plan will be implemented depending on priorities and timing, because of the processes involved before the cash becomes available for programming and spending. Only those surpluses requiring Executive Board approval will become immediately available for expenditure, where the Executive Board approves them. The rest of the funds become available on specific approval by the donor concerned.

[9] The balance of the IRA reserve as at 16 August 2002 is US$28.5 million; to fully replenish this would require US$6.5 million.

[10] If all actions are approved, all balances shall be transferred to the Capital Asset Fund as and when the funds become available.

[11] This amount includes US$39.9 million, which will be defrayed subject to timing and priorities in funding urgent resource shortfalls for specific projects.

83. Of the surpluses and fund balances identified for action of US$205.5 million (Table 12), US$200.25 million has been included in the Executive Director's expenditure plan (Table 13). Should the Board and donors agree to the full use of all of the surpluses and fund balances, the balance of US$5.25 million will be used for projects within the programme categories.

RECOMMENDATIONS

84. The Executive Director recommends that the Executive Board:

a) approve the establishment of a Staff Cost Variance Account to record variances between standard and actual costs of project-funded staff members;

b) confirm the establishment of an Investment Officer post for 2002–2003, funded from interest income;

c) approve the present manner of retaining the excess of assets over liabilities as part of the staff benefit funds and looks forward to receiving a more comprehensive proposal once the asset and liability study of these funds is completed;

d) confirm the transfer of US$3 million from the unearmarked surplus of the General Fund to the Kosovo Special Account;

e) approve the establishment of a capital asset fund and the transfer of the remaining balance, including the systems' enhancement included in the expenditure plan, of the FMIP Special Account as at 31 December 2001 to this account,

f) confirm the funding of the PSA expenditure shortfall of US$40.7 million from the unearmarked surplus of the General Fund;

g) approve the use of the following surpluses and loan proceeds to fund in part the expenditure plan of the Executive Director and to transfer such amounts to the relevant funds where they will be reprogrammed:

- ◊ prior-1996 fund balances without identifiable donors, totalling US$13.5 million;
- ◊ surplus of the Self-insurance Special Account of US$10 million, as a dividend;
- ◊ unearmarked surplus of the General Fund, 2001, of US$22.7 million;
- ◊ US$39.9 million of the proceeds of the long-term loan over expected repayments;

h) take note of the expenditure plan of the Executive Director as outlined in paragraphs 80–82 of this report;

i) approve the 2000–2001 biennial financial statements of WFP, together with the report of the External Auditor, pursuant to General Regulation XIV.6 (b).

ACRONYMS USED IN THE DOCUMENT

ASMCP	After-Service Medical Coverage Plan
CFA	Committee on Food Aid Policies and Programmes
COAGSAPINT	Country Office Accounting Guide SAP Interface
COMPAS	Commodity Movement, Processing and Analysis System
CPRF	Compensation Plan Reserve Fund
DEV	Development
DHA-CERF	Department of Humanitarian Affairs – Central Emergency Revolving Fund
DOC	Direct Operational Costs
DSC	Direct Support Cost
DSCAF	Direct Support Cost Advance Facility
ELA	Emergency Logistics Authorization Mechanism
EMOP	Emergency Operation
FAC	Food Aid Convention
FAO	Food and Agriculture Organization of the United Nations
FITTEST	Groups of Fast IT and Telecoms Emergency and Support Teams
GCCC	Government Cash Contributions for Local Costs
GF	General Fund
GL:M	General Ledger:Millennium
HR	Human Resources
ICT	Information/communications technology
IEFR	International Emergency Food Reserve
IRA	Immediate Response Account
ISC	Indirect Support Recoveries
ISP	Institutional Strengthening Programme
JPO	Junior Professional Officer
LTSH	Landslide transport, storage and handling
NGO	Non-governmental organization
OASIS	Operational and Strategic Integrated System
ODOC	Other Direct Operational Costs
PRRO	Protracted Relief and Recovery Operation
PSA	Programme Support and Administrative costs

RLTF	Resource and Long-Term Financing
RMS	Resource Mobilization System
SAP	Systems Application Product
SIMMS	Strategic Integrated Management Support System
SO	Special Operation
SPR	Standard Project Reports
SPS	Separation Payment Scheme
STRIPSUS	Seperate Trading of Registered Interest and Principal of Securities
TC/IT	Telecommunications/information technology
UNDP	United Nations Development Programme
UNHRD	United Nations Humanitarian Response Depot
UNJSPF	United Nations Joint Staff Pension Fund
UNSECOORD	Office of the United Nations Security Coordinator
WINGS	WFP Information Network and Global System
WIS	WFP Information Systems