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RESOURCE AND FINANCIAL MATTERS

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COMMENTS OF THE ACABQ (September 1996)

The Executive Director is pleased to submit herewith the report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) pertaining to the Biennial Audited Accounts (1994-95), Financial Report and Statements.

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AC/1300

Advisory Committee on
Administrative and Budgetary Questions

4 October 1996

Dear Ms. Bertini,

Enclosed please find two copies of the report of the Advisory Committee on Administrative and Budgetary Questions on the World Food Programme's Audited Biennial Accounts (1994-95), Financial Report and Statements. I should be grateful if you would arrange for this to be reproduced in-verbatim and placed before the Executive Board at its forthcoming session as a complete and separate document. A printed version (in all languages) of the document should be provided to the Advisory Committee at the earliest possible opportunity.

Yours sincerely,

C.S.M. Mselle
Chairman

Ms. Catherine Bertini
Executive Director
World Food Programme
Via Cristoforo Colombo, 426
00145 Rome
Italy



REPORT OF THE ADVISORY COMMITTEE ON ADMINISTRATIVE AND BUDGETARY QUESTIONS

1. The Advisory Committee on Administrative and Budgetary Questions has considered the statements of the Executive Director of the World Food Programme (WFP) and the report of the External Auditor of WFP on the financial statements for the biennium 1994-1995. During its consideration of the matter, the Advisory Committee met with representatives of the World Food Programme.
2. As indicated in paragraph 3 of the Executive Director's submission, "under WFP's Financial Regulation 11.10, after the Executive Board's review, the reports of the External Auditor and the audited financial statements, together with the comments thereon of the ACABQ, the FAO Finance Committee and the Board itself, will be forwarded to the United Nations General Assembly and the FAO Conference." In the view of the Advisory Committee, the procedure currently followed by WFP under Financial Regulation 11.10, for reporting to legislative bodies and obtaining approval of the audited accounts, merits review and simplification.
3. In this connection, the Advisory Committee recalls that, under WFP General Regulation 11, the Executive Board is the legislative organ responsible for the intergovernmental supervision and direction of the management of WFP. Specifically, under General Regulation 11 (b)(iv), the Executive Board is responsible for decisions on administrative plans and budgets, and under General Regulation 29 (e), the Board establishes Financial Regulations to govern the management of WFP. In this regard and recalling that under Financial Regulation 11.1 the Board appoints the External Auditor to perform the audit of the accounts of WFP, the Advisory Committee recommends that the Executive Director prepare appropriate amendments to Financial Regulation 11.10 for review and approval by the appropriate legislative bodies, whereby the Executive Board will have final authority for the approval of the WFP audited financial statements as the final recipient of the WFP accounts and of the report of the External Auditor.
4. The Advisory Committee notes the "Statement of the Executive Director" presented in the introductory paragraphs to the report of the External Auditor. In the view of the Committee, the Executive Director's statement needs further clarification, as it does not address each and every recommendation of the External Auditor. The Committee believes that the replies contained in paragraphs 14-21 of the statement are incomplete. For example, crucial issues, such as those pointed out by the External Auditor in paragraphs 92-97 of his report, are not replied to sufficiently.
5. The Advisory Committee recommends that the Executive Director submit to the Executive Board, through the ACABQ and the FAO Finance Committee, a separate report on the subject of implementation and follow-up of the recommendations of the External Auditor. The report should deal comprehensively with each of the recommendations of the External Auditor, indicating steps that have been taken or will be taken by the Executive Director to correct or remedy the situation, as well as the intended time frame for their implementation. The Advisory Committee recommends that the first of these reports be submitted in 1997 on the issues raised by the External Auditor on the WFP accounts for 1994-1995.
6. With regard to the observation of the External Auditor, the Advisory Committee exchanged views with the representatives of WFP. The Committee notes from paragraphs



15 and 21 of the Executive Director's statement that implementation of a number of the Auditor's recommendations is underway, such as those relating to the improving of quality of financial administration and the launching of the new information system, while others are being submitted to the Executive Board for consideration, such as the creation of a provision for the coverage of after-service medical liabilities.

7. With regard to the issue of undisbursed expenditure pointed out by the External Auditor in paragraphs 40-44 of his report, the Advisory Committee notes that out of the total undisbursed expenditure of 322.9 million dollars¹¹, as at 31 December 1995, half of this amount (161.1 million dollars) represented provisions to meet the cost estimates in respect of internal transport, storage and handling (ITSH) of commodities shipped during the biennium. The Committee further notes that only 13.1 million dollars were backed up by contracts, while the rest (148 million dollars) are estimates to meet future ITSH costs.
8. In this regard, the Advisory Committee endorses the view of the External Auditor that such ITSH obligations should be raised in the WFP accounts only in conformity with the United Nations accounting standards and be cleared within a reasonable period of time. The Committee understands that WFP is currently developing a new methodology for administering and recording ITSH obligations in order to bring the accounting of ITSH costs in line with the United Nations accounting standards. The Committee urges the Executive Director to review the issue promptly and report on the proposed changes in the report that she will submit in 1997 on the implementation of the recommendations of the External Auditor (see paragraph 5 above).
9. As pointed out in paragraph 81 of the Auditor's report, the United Nations accounting standards require that "liabilities for end-of-service benefits (and post-retirement benefits) be provided for in the accounts to the extent required by the financial policies of the organization." In this connection, the External Auditor has indicated that end-of-service benefits accrued to Professional staff are not provided for and their amount is not disclosed in the financial statements as at 31 December 1995. The External Auditor further noted that after service medical coverage at 1 January 1996 was being estimated at the time of the audit by an actuary engaged by the FAO but that the actuarial estimates were not available. The Advisory Committee notes from paragraphs 21 and 22 of the Executive Director's statement that the Executive Director proposes to establish a provision of 20 million dollars towards the coverage of after-service medical liabilities. In this connection, it is estimated that at the end of 1993, WFP had liability of 41.6 million dollars and that by the end of 1995 it should be higher.
10. With regard to the proposal of the Executive Director to establish a fund towards the coverage of after-service medical liabilities, the Advisory Committee recommends that the Executive Director submit, in conjunction with the 1998-1999 budget, a policy proposal to the Executive Board, through the Advisory Committee. This proposal should discuss all relevant issues such as how the remaining balance will be amortized, the number of staff, the actuarial estimates, etc.

¹ All monetary values are expressed in United States dollars.



