

برنامج
الأغذية
العالمي



Programme
Alimentaire
Mondial

World
Food
Programme

Programa
Mundial
de Alimentos

**Executive Board
Third Regular Session**

Rome, 23 - 26 October 2000

FINANCIAL AND BUDGETARY MATTERS

Agenda item 4

For approval

E

Distribution: GENERAL

WFP/EB.3/2000/4-B/1

31 August 2000

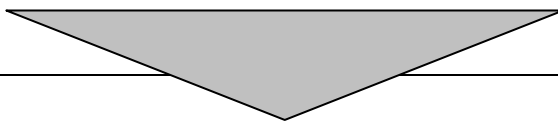
ORIGINAL: ENGLISH

**AUDITED BIENNIAL ACCOUNTS
(1998–99)**

Financial Report and Statements

This document is printed in a limited number of copies. Executive Board documents are available on WFP's WEB site (http://www.wfp.org/eb_public/EB_Home.html).

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.

| | | |
|---|-------------------|-------------------|
| Director, Finance and Information Systems Division (FS): | Ms Jessie Mabutas | tel.: 066513-2700 |
|---|-------------------|-------------------|

| | | |
|----------------------|-----------------|-------------------|
| Deputy Director, FS: | Mr Eric Whiting | tel.: 066513-2701 |
|----------------------|-----------------|-------------------|

| | | |
|--------------------------------|-----------------|-------------------|
| Chief, Accounts Branch (FSFA): | Mr Armando Diaz | tel.: 066513-2230 |
|--------------------------------|-----------------|-------------------|

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

The Audited Biennial Accounts (1998-99) submitted to the Executive Board present the financial statements and reports pertaining to the financial operations of WFP for the biennium 1998-99.

The documentation is submitted in accordance with the General Regulations and Financial Regulations. The additional information included on the WFP financial statements comprises:

- i) The financial statements in respect of the WFP Fund, including its funds and accounts for the biennium 1998-99 in accordance with General Regulation XIV.6(b) and Financial Regulation 13.1.
- ii) The opinion and report of the External Auditor on the audit of the financial statements and relevant schedules relating to the accounts of the 1998-99 financial period in accordance with Financial Regulation 14.8.
- iii) Two reports on the implementation by the Secretariat of recommendations contained in the reports of the External Auditor for the prior biennium, 1996-97, and for the current biennium, 1998-99.
- iv) The Statement of the Executive Director which highlights the significant financial issues influencing the financial operations of WFP during the biennium. The Executive Director's Statement concludes with a series of recommendations in respect of the audited biennial accounts for approval by the Board. The Executive Director recommends to the Executive Board that it approve:
 - The 1998-99 biennial financial statements of WFP, together with the report of the External Auditor, pursuant to General Regulation XIV.6(b).
 - the utilization of the unused Prior 1996 fund balances of US\$86.8 million to fund operations and to replenish the Immediate Response Account (IRA) as follows:

| Programme Category | millions US\$ |
|---------------------------|----------------------|
| Development | 20.0 |
| Emergency | 29.0 |
| Protracted Relief | 28.0 |
| IRA | <u>9.8</u> |
| Total | <u>86.8</u> |

- The replenishment of the Operational Reserve through a transfer of US\$13.5 million from the unearmarked portion of the General Fund.
- The transfer to a Reserve for Staff Benefits of any surplus arising from the difference between the actual valuation of the staff benefit schemes and the book value of the investments to be used to offset actual deficits in the event that these arise as a result

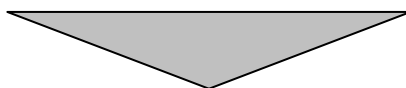


of future actuarial valuations.

- The transfer to the Immediate Response Account of the net insurance recoveries dating back to 1989-1994 amounting to US\$510,011.89.

Pursuant to General Regulation XIV.6, the financial statements and the opinion and report of the External Auditor are also submitted to the Advisory Committee on Administrative and Budgetary questions (ACABQ) and the FAO Finance Committee for their review and comments. The reports of these bodies are submitted to the Board as addenda to this document.

Draft Decision



The Board approves the recommendations contained in this document
(WFP/EB.3/2000/4-B/1).



TABLE OF CONTENTS

| | Page |
|---|------|
| Statement of the Executive Director | 6 |
| Opinion of the External Auditor | 17 |
| Certification of Financial Statements | 18 |
| Financial Statement 1998–99 | 19 |
| Report of the External Auditor | 49 |
| Progress report on the implementation of recommendations in the 1998–99 audit report of the External Auditor | 102 |
| Final Progress report on the implementation of recommendations in the 1996–97 audit report of the External Auditor | 121 |



STATEMENT OF THE EXECUTIVE DIRECTOR

Introduction

1. The Executive Director has the honour to submit herewith the financial statements of the World Food Programme (WFP), accompanied by the opinion and the long form report of the External Auditor, for the biennium ended 31 December 1999. This submission is made in accordance with Article XIV.6(b) of WFP's General Regulations and Financial Regulation 13.1.
2. As a practice introduced in the previous biennium, the Executive Director is presenting to the Executive Board a consolidated package of documents providing financial and accounting information as well as other audit related matters. These are:
 - This Executive Director's Statement, which presents the operational highlights in the financial administration of the Programme during the biennium, provides further details and explanations on financial data reflected in the financial statements and notes thereto, provides additional comments on issues raised during the audit, and presents proposals to the Executive Board on financial issues requiring resolution.
 - The Biennial Financial Statements as certified by the Executive Director pursuant to Financial Regulation 13.3.
 - The opinion of the External Auditor on the financial statements, together with his long-form report setting out the observations and recommendations arising from his audit work during the biennium and the responses provided by the Secretariat during the biennium, which is submitted verbatim.
 - Two other documents in matrix form summarizing the recommendations of the External Auditor for the biennia 1996-97 and 1998-99, and detailing the responses of the Secretariat together with information on actions taken to date or to be taken within specified dates.

Operational Highlights in the Financial Management of WFP

3. The Secretariat continued to resource and finance the operations of WFP and prepare the financial statements for the biennium 1998-99 based on the Resource and Long-term Financing (R<F) policies, which were approved by the Committee on Food Aid Policies and Programmes (CFA) at its Fortieth Session in November 1995. During the 1998-99 biennium and to the present, further developments were introduced to strengthen the financial framework of WFP, and improve existing financial systems and procedures in support of the decentralization and delegation of financial authority and responsibility to the field offices. Specific significant operational developments during this period were:
 - The review of the R<F model and its associated policies by the Board at the conclusion of the first biennium of operation. The review resulted in the Board effecting significant changes to WFP's existing R<F policies in February 1999; these changes took effect on 1 January 2000.
 - The consequent approval by the Board of the revised Financial Regulations, which took effect on 1 January 2000.
 - The issuance of the Financial Rules in August 1999, which were revised on the basis of the new Financial Regulations; they took effect on 1 January 2000.



- A more aggressive implementation of projects resulting in an excess of expenditures over contributions.
- The transfer from FAO to WFP, on 1 January 1999, of the full management for the Programme's treasury operations comprising cash management and investment of funds not immediately required for operations.
- The issuance of an investment management policy in September 1999, the appointment of an Internal Investment Committee to oversee the management and control of WFP investments, and the hiring of external fund managers and a custodian to handle the investments of funds and the related activities, respectively.
- The setting aside of a provision of US\$44.8 million in the financial accounts of WFP for after-service medical liabilities from benefits accrued by international staff and retirees during their past service with WFP.
- The completion of the decentralization of the processing and direct recording of financial transactions in five regional clusters (covering 30 country offices) and in two stand alone country offices.
- The issuance of a comprehensive Country Office Accounting Guide to support the decentralization of financial authority and responsibilities and the initiation of a more proactive guidance and supervision of financial management procedures in the field.
- The completion and submission to donors of Standardized Project Reports for directed multilateral contributions for the years 1996 to 1998.
- The extensive analysis of accounts (particularly those with long-outstanding balances) resulting in reprogramming and refunding of unused fund balances, reduction in the balances of old pledges, earlier cancellation of unused commitments, and an improvement in the process of clearing unliquidated obligations.
- The changes in the presentation of the financial statements and accompanying notes to provide more transparency in the accounts of the Programme.
- The continuous implementation and follow-up on the implementation of audit recommendations to the extent possible and within available resources.

Financial Results of Operations

4. The significant financial results of operations for the biennium are as follows:

| For the Biennium Ended 31 December | 1999 | 1997 | Increase (Decrease) | % |
|--|-----------------------|---------|------------------------|------|
| | <i>(million US\$)</i> | | | |
| INCOME | 2 881.7 | 2 600.8 | 280.9 | 10.8 |
| EXPENDITURE | 2 917.5 | 2 377.8 | 539.7 | 22.7 |
| EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE | (35.8) | 223.0 | (258.8) | - |

Compared with the previous biennium, the increase in income resulted largely from increased donor contributions to Emergency Operations while income in both the Development and Protracted Relief programme categories decreased. Expenditure levels for Emergency and Protracted Relief increased, while Development expenditures



decreased in line with the lower levels of income in this programme category. The shortfall in income over expenditure reflects an improved rate of implementation of projects for which income had been received in the prior biennium. The shortfall of US\$35.8 million should be viewed in the context of the prior biennium surplus of US\$223.0 million and reserves and fund balances of US\$518.2 million.

↳ **Contribution Income**

5. The total contributions by funding window are summarized in the following table:

| For the Biennium Ended 31 December FUNDING WINDOW | 1999 | | 1997 | |
|--|----------------|--------------|----------------|--------------|
| | (million US\$) | % | (million US\$) | % |
| Multilateral | 719.7 | 25.9 | 783.2 | 31.1 |
| Directed Multilateral | 1 963.5 | 70.6 | 1 330.5 | 52.8 |
| Bilateral | 65.2 | 2.3 | 26.5 | 1.1 |
| Prior 1996 | 24.3 | 0.9 | 363.9 | 14.4 |
| General Fund | 9.6 | 0.3 | 17.2 | 0.7 |
| TOTAL | 2 782.3 | 100.0 | 2 521.3 | 100.0 |

There was a significant change in the mix of income from contributions by funding window between 1996-97 and 1998-99. Contributions received under the Multilateral funding window of US\$719.7 million compared unfavourably with an amount of US\$783.2 million for the 1996-97 biennium. Conversely, contributions of US\$1,963.5 million received under the Directed Multilateral funding window compared favourably with the 1996-97 amount of US\$1,330.5 million.

6. The increase in Directed Multilateral contributions is a reflection of donors' positive response to emergency situations. The decrease in Multilateral contributions is of concern as this is the funding window that allows greater flexibility in implementing projects, especially those requiring rapid deployment of resources. The details of contributions for each funding window and programme category are given in Note 3 to the Financial Statements.

↳ **Contributions Receivable**

7. The increase in contributions receivable from US\$665.7 million in 1997 to US\$1,032.9 million in 1999 is generally due to the positive response of donors by way of pledges to more crisis situations that occurred during the 1998-99 biennium. Specifically, a total of US\$335.0 million was pledged in the last quarter of 1999 alone, half of which came from two major donors. In line with the WFP accounting policy these contributions will be recognized as income when received in 2000.
8. A working group, created in 1997 and comprising members from the Division of Finance and Resources and External Relations, and from the Operations Department, continued serving as a forum for the management of receivables during 1998-99. Although there is still room for improvement in the pledge management process, the following ageing schedule shows a very positive result in the collection and clean-up of old contributions, with only 6.1 percent of uncollected pledges being more than two years old.



| As At 31 December 1999 | | |
|---|-----------------------|--------------|
| AGEING OF CONTRIBUTION RECEIVABLES | (million US\$) | % |
| 1999 pledges | 725.3 | 70.2 |
| 1998 pledges | 244.3 | 23.7 |
| 1997 pledges | 44.6 | 4.3 |
| 1996 pledges | 13.9 | 1.3 |
| Prior 1996 | 4.8 | 0.5 |
| TOTAL | 1 032.9 | 100.0 |

Costs

9. The R<F policies prescribed the categorization of costs to be met by donor contributions under the principle of full cost recovery. These costs were categorized as Direct Operational Costs, Direct Support Costs and Indirect Support Costs. The table below sets forth the total expenditures incurred for the past two biennia:

| For the Biennium Ended 31 December | 1999 | | 1997 | | |
|---|--------------------|-----------------------|----------------|-----------------------|----------|
| | EXPENDITURE | (million US\$) | % | (million US\$) | % |
| Operational Costs | | | | | |
| Commodities | 1 357.2 | 46.5 | 1 374.2 | 57.8 | |
| Ocean transport | 395.0 | 13.6 | 220.8 | 9.3 | |
| Air, overland and ITSH | 522.9 | 17.9 | 284.1 | 11.9 | |
| Other | 125.0 | 4.3 | 128.5 | 5.4 | |
| Direct Operational Costs (DOC) | 2 400.1 | 82.3 | 2 007.6 | 84.4 | |
| Direct Support Costs (DSC) | 269.5 | 9.2 | 141.3 | 5.9 | |
| Indirect Support Costs (ISC) | 247.9 | 8.5 | 228.9 | 9.6 | |
| TOTAL EXPENDITURES | 2 917.5 | 100.0 | 2 377.8 | 100.0 | |

The details of these costs by programme category and funding window are shown in Note 3 to the Financial Statements.

10. The increase in expenditures of US\$539.7 million over the previous biennium was due to three main factors: 1) an increase in tonnage delivered, 6.2 million tons in 1998-99 compared with 4.9 million tons in 1996-97; 2) increases in average freight by 13.6 percent; and 3) increases in the number of airlift operations. Notwithstanding the increased tonnage delivered, the expenditure on commodities decreased due to significant decreases in the price of commodities.
11. The increase in DSC reflects the fact that 1998-99 was the first biennium in which DSC, as a cost category, was fully implemented. The ISC, which was funded from the recovery rates approved by the Board for each of the programme categories, increased by US\$19.0 million. In terms of percentage of total expenditures, ISC reduced from 9.6 to 8.5 percent.



📁 Donor Reporting

12. One of the new elements of the R<F policies is the introduction of Standardized Project Reports (SPRs) for submission to donors for their directed multilateral and bilateral contributions. For multilateral contributions, reporting requirements are met by the submission of the audited biennial financial statements.
13. During the biennium, substantial improvements were made in the timely submission of SPRs, as shown below:

| STANDARDIZED PROJECT REPORTS | No. of Reports | Completed By (Date) |
|------------------------------|----------------|---------------------|
| 1996 Projects | 76 | Jul. 1998 |
| 1997 Projects | 176 | Sep. 1999 |
| 1998 Projects | 216 | Mar. 2000 |

For projects in 1999, 280 SPRs are expected to be provided to donors by September 2000.

14. An amendment has been made to the 1999 SPRs to enhance the consistency between the SPR and the cost categories presented in Statement I. Specifically, the ISC is calculated on the contribution received, which is used to fund the Programme Support and Administration (PSA) budget and presented as income to the General Fund in Statement I. This was done to rectify previous SPRs, wherein the ISC was shown as a percentage of actual direct costs (DOC and DSC) and was therefore not fully consistent with the Statement I presentation. With this amendment, the ISC charges reflected in both the SPRs and the financial statements are now consistent.
15. Bilateral and other donors of non-standard contributions periodically receive specific financial reports on the status of their accounts. Significant progress has been made in preparing reports for Special Operations, and all reports up to the end of 1999 will be completed before the end of 2000.

Reserves and Fund Balances—Limitations on Use

16. As at 31 December 1999, WFP's Reserves and Fund Balances total US\$391.5 million which is backed up by cash of US\$828.8 million, less various payables and obligations. As presented in the table below, these Reserves and Fund Balances are tied to specific programme categories or projects through conditions set by donors:



| For the Biennium Ended 31 December FUND ANALYSIS | 1999 | | 1997 | |
|---|----------------|--------------|----------------|--------------|
| | (million US\$) | % | (million US\$) | % |
| Bilateral | 72.9 | 18.6 | 90.8 | 17.5 |
| Programme/Project Funds | | | | |
| Directed Multilateral | 5.9 | 1.5 | 107.5 | 20.7 |
| Multilateral | 95.1 | 24.3 | 67.4 | 13.0 |
| Prior 1996 | 122.8 | 31.4 | 158.5 | 30.6 |
| General Fund | | | | |
| Special Accounts | 32.3 | 8.3 | 15.6 | 3.0 |
| Operational Reserve | 43.5 | 11.1 | 57.0 | 11.0 |
| Unearmarked | 19.0 | 4.9 | 21.4 | 4.1 |
| TOTAL RESERVE AND FUND BALANCES | 391.5 | 100.0 | 518.2 | 100.0 |

17. Bilateral and Directed Multilateral fund balances are restrictively tied to specific projects and activities and are limited by the conditions of the agreements with individual donors. Multilateral and Prior 1996 fund balances are tied to specific programme categories while the Special Accounts and the Operational Reserve of the General Fund are tied to the specific purposes for which these were created.
18. The unearmarked balance of the General Fund amounts to US\$19.0 million and can be considered to be at the free disposal of WFP, subject to Executive Board approval.

📌 *Reprogramming and Refund of Unused Fund Balances*

19. The R<F policies, which came into effect in January 1996, created the Multilateral, Directed Multilateral and Bilateral funding windows. In order to account for the pledges, balances of contributions received, and activities approved prior to the policies, a fourth funding window, Prior 1996, was temporarily created. These activities are now reaching the final stages of implementation.
20. A comprehensive review of the Prior 1996 funding window was undertaken in 1999 which led to US\$48.2 million being reprogrammed to ongoing projects after consulting with the donors concerned and US\$2.3 million being refunded to donors at their request. The total contributions receivable have also been substantially reduced to US\$4.8 million.
21. In previous biennia, reprogramming was achieved by adjustments to current income. In view of the relative magnitude of the reprogramming during 1998-99, it was decided that the more appropriate accounting treatment would be to show reprogramming and refunds as adjustments to the opening fund balances. The accounting treatment and presentation by way of additional lines in the financial statements and notes was endorsed by the External Auditor, who considered that these improved transparency.
22. As at 31 December 1999, the fund balances for Prior 1996 totalled US\$122.8 million, out of which US\$36.0 million will be reprogrammed or refunded to the donors concerned after due consultations. The remaining balance of US\$86.8 million represents an accumulation of project surpluses from the time WFP started operations to the end of 1995.
23. The Executive Director recommends that the Board approve the utilization of the unused Prior 1996 fund balances totalling US\$86.8 million to fund operations and to replenish the Immediate Response Account (IRA) as follows:



| Programme Category | Millions US\$ |
|--------------------|---------------|
| Development | 20.0 |
| Emergency | 29.0 |
| Protracted Relief | 28.0 |
| IRA | 9.8 |
| Total | 86.8 |

The proposal to allocate US\$9.8 million to the IRA would bring the funding up to the level established by the Executive Board of US\$35 million. The remainder of US\$77 million is proposed for allocation to the Development, EMOP and PRRO programme categories in accordance with the respective size of the portfolios.

Operational Reserve

24. The Operational Reserve went down from US\$57.0 to US\$43.5 million as US\$13.5 million was used in accordance with Financial Regulation 10.5 to cover expenditures and ensure continuity of operations for Development Projects under the Prior 1996 funding window. The level of confirmed contributions appeared sufficient to cover the negative fund balance reported under the Prior 1996 funding window for Development in the 1996-97 financial statements. However, a more detailed analysis during the 1998-99 biennium revealed that a confirmed contribution amount was in fact for projects under the Directed Multilateral funding window. Therefore, the anticipated confirmed contribution under the Prior 1996 funding window did not materialize in 1998-99. It should be noted that the Operational Reserve was mostly funded from surpluses identified under the Prior 1996 funding window.
25. Financial Regulation 10.5 and Financial Rule 110.1, which provide for the use of the Operational Reserve, do not address the issue of replenishment in the event that the confirmed contributions do not materialize. The Secretariat intends to review Financial Regulation 10.5 and Financial Rule 110.1, and to submit a proposal to the Executive Board to address such exceptional situations when confirmed contributions are not received for reimbursement of the Operational Reserve.
26. The Executive Board is requested to approve the replenishment of the Operational Reserve to the level of US\$57.0 million through a transfer of US\$13.5 million from the unearmarked portion of the General Fund which is at the full disposal of WFP.

Transfers Between Activities

27. Pursuant to General Rule XII.4, the Executive Director approved the utilization of US\$15.1 million unrestricted cash resources from the General Fund to implement development projects. The funding was provided to avoid abrupt termination of activities and to facilitate the process of reduction in the Development portfolio. During the 1996-97 biennium, US\$6.1 million was transferred to the Development programme category to cover actual costs incurred. US\$9.0 million was transferred during 1998-99 to cover the balance required by the projects.



Cash Holdings

28. WFP's cash holdings as at 31 December 1999 and 1997 and the commitments thereon are presented in the following table:

| For the Biennium Ended 31 December | 1999 | | 1997 | |
|--|----------------|-------------|----------------|-------------|
| ANALYSIS OF CASH HOLDINGS | (million US\$) | % | (million US\$) | % |
| Cash and term deposits | 828.8 | 100.0 | 781.6 | 100.0 |
| Less commitments | | | | |
| Monetized funds | 10.4 | 1.3 | 1.3 | 0.2 |
| Outstanding obligations and provisions | 352.3 | 42.5 | 279.1 | 35.7 |
| Accounts payable | 76.9 | 9.3 | 25.3 | 3.2 |
| After-service medical liabilities | 44.8 | 5.4 | – | |
| CERF loan | – | | 2.5 | 0.3 |
| Operational reserve | 43.5 | 5.2 | 57.0 | 7.3 |
| Total Commitments | 527.9 | 63.7 | 365.2 | 46.7 |
| UNCOMMITTED CASH | 300.9 | 36.3 | 416.4 | 53.3 |

29. Despite the shortfall of income over expenditures during the 1998-99 biennium, the cash holdings at the end of 1999 increased by US\$47.2 million compared with 1997. This is mainly attributable to an increased level of outstanding obligations/provisions and accounts payable at the end of 1999.
30. After deducting the liabilities and reserve to which the cash holdings are earmarked, the uncommitted portion refers to the following: 1) cash received in lieu of commodities in which the actual purchase takes place several weeks later; 2) unspent cash contributions of completed projects awaiting reprogramming or refund to donors; 3) unspent cash contributions of new or ongoing projects awaiting to be reprogrammed; and 4) accumulated cash from the unearmarked portion of the General Fund.
31. The uncommitted cash at the end of 1999 covers approximately 3.6 months of disbursement. This compares with an uncommitted cash level at the end of 1997 which covered 6.4 months of disbursement. Thus, despite the increase of cash resources in absolute terms, these have actually depleted by way of increased utilization for projects that were in progress in 1996-97 as well as for the emergency situations that occurred in 1998-99.

Investment of Funds

32. Pursuant to Financial Regulation 11.2 and in line with the new investment management policies issued in September 1999, five external investment managers were appointed and given a portfolio of around US\$120 million each in February 2000. This move was designed to maximize interest earnings with a low level of investment risk on cash holdings that were not immediately needed for actual disbursements of project expenditures.



📌 *Interest*

33. The interest income increased from US\$73.8 million in 1996-97 to US\$80.1 million in 1998-99 due to higher average cash holdings in 1998-99 compared with the prior biennium. The interest earnings in 1998-99 permitted the funding of the prior-period after-service medical liabilities (US\$44.8 million), the Financial Management Improvement Programme (FMIP) activities (US\$16.3 million) and the shortfall in PSA income (US\$8.3 million).

📌 *Establishing Treasury Operations and Security in Systems*

34. In his audit report, the External Auditor commented on the delayed establishment of written procedures for the newly assumed responsibility of treasury operations and the institution of more secure computer systems. This was due to limited resources made available at the time WFP assumed these new responsibilities. However, early this year a comprehensive study was conducted by a professional firm. The study resulted in the preparation of a treasury manual, to be issued soon, covering both cash and investment management, and in the strengthening of security in the computer systems of the Treasury Unit.

Separation Payments Scheme and Compensation Plan Reserve Fund

35. The Separation Payments Scheme (SPS) covers separation entitlements to WFP's General Service staff while the Compensation Plan Reserve Fund (CPRF) provides compensation in case of death, injury or illness attributable to the performance of official duties. Based on the latest available actuarial valuation, which is as at 31 December 1997, the accrued liabilities for the two schemes total US\$13.2 million.
36. The above accrued liabilities are fully funded by FAO-managed investments with a total book value of US\$19.3 million as at 31 December 1999. The excess of investments over accrued liabilities of US\$6.1 million is also reflected in the books as part of the accrued liabilities.
37. Since the two schemes are over-funded, the actuarial consultants have suggested that the annual contributions may be reduced in the future. However, the External Auditor is of the opinion that the excess belongs to WFP as a whole and recommends the reapportionment of such excess. A new actuarial valuation of the accrued liabilities as at 31 December 1999 is currently in progress and the final outcome could change the figure of the excess. The Executive Director proposes that the actual surplus, if any, be retained as a Reserve for Staff Benefits to be used to offset actual deficits in the event that these arise as a result of future actuarial valuations.

Insurance Accounts and Recoveries

38. The financial statements include amounts for insurance claims and recoveries dating back to the period 1989 to 1994, with a net value of US\$510,011.89. This amount represents recoveries on insured losses; such recoveries are made through the sale of scrap commodities declared as losses and payments from carriers for which no claims are outstanding with the insurance company.
39. The External Auditor suggested that due to the impossibility of retrieving relevant supporting documentation to properly analyse these accounts, they would have to be written off. The Secretariat is of the opinion that the best use for these accounts is to transfer them to the IRA. The Executive Board is requested to approve the transfer of funds pertaining to these old insurance accounts to the IRA.



40. The External Auditor also drew attention to the insurance recoveries subsequent to 1994 that are payable to donors. The Secretariat recognizes the urgency of clearing these accounts and reporting them to donors. In the event that the reconciliation work being undertaken results in unidentifiable recoveries, the Secretariat will make proposals to the Board on the utilization of such funds.

Field Financial Management

41. The extensive delegation of headquarters functions to the field over the past two years has had significant implications for field financial management because these delegations brought with them the decentralization of the related financial authority and responsibilities, including direct access to the accounting systems at headquarters. This exercise was implemented in many country offices dealing with a large percentage (nearly 30 percent) of total expenditures. Thus, late last year the Field Finance Branch at headquarters stood up to this new challenge of financial supervision and monitoring. In addition, before the end of 2000, a strategy for reinforcing this branch will be adopted in view of further decentralization taking place and of the implementation of SAP.

Special Account—Flight KSV 3275 Disaster

42. In response to the crash of the WFP chartered flight KSV 3275 near Pristina on 12 November 1999, the Executive Director immediately established a special account in accordance with Financial Regulation 5.1, and obtained the Board's authorization to fund the special account from the unearmarked balance of the WFP General Fund. The special account is used to fund all WFP expenditures related to the accident which are considered extraordinary and cannot be covered under the PSA budget. Total expenditure recorded up to 31 December 1999 was US\$ 400 000. The Secretariat reported to the Board, at its First and Second Regular Sessions of 2000, on the events occurring subsequent to the accident and on the expenditures incurred. Additional information is provided in Note 21 to the Financial Statements.

Financial Management Improvement Programme (FMIP)

43. During the 1998–99, significant progress was made towards the completion of FMIP. Indeed, plan implementation was one of the management matters covered by the External Auditor, who concluded that while important progress had been achieved, there was concern that the October 2000 go-live date indicated in the implementation plan at the time of the audit appeared unrealistic.
44. The Secretariat is well aware of the risks and uncertainties that go with the implementation of systems of this nature and magnitude. However, to manage this effectively and achieve timely completion, there is need to set challenging milestone dates for all elements of the work (e.g. system configuration, testing, user training) while monitoring those high-risk areas that are likely to emerge as the work is progressing, and to take appropriate corrective action to minimize delays. Thus, the Secretariat has developed and followed procedures for risk assessment and management, cost control, monitoring and reporting, issues resolution, data migration, contingency planning, and disaster recovery. Executive management's oversight of programme implementation continues with the objective of putting the new corporate information system into place as soon as possible without jeopardizing its quality and integrity.



Recommendations in Respect of the Audited Accounts for Executive Board Action

45. The Executive Director recommends to the Executive Board that it approve:
- The 1998-99 biennial financial statements of WFP, together with the report of the External Auditor, pursuant to General Regulation XIV.6(b).
 - The utilization of the unused Prior 1996 fund balances totalling US\$86.8 million to fund operations and to replenish the IRA as follows:

| Programme Category | Millions US\$ |
|--------------------|---------------|
| Development | 20.0 |
| Emergency | 29.0 |
| Protracted Relief | 28.0 |
| IRA | 9.8 |
| Total | 86.8 |

- The replenishment of the Operational Reserve through a transfer of US\$13.5 million from the unearmarked portion of the General Fund.
- The transfer to a Reserve for Staff Benefits of any surplus arising from the difference between the actual valuation of the staff benefit schemes and the book value of the investments, to be used to offset actual deficits in the event that these arise as a result of future actuarial valuations.
- The transfer to the IRA of the net insurance recoveries dating back to 1989-1994 amounting to US\$510,011.89.



WORLD FOOD PROGRAMME FINANCIAL STATEMENTS 1998-99

OPINION OF THE EXTERNAL AUDITOR

My staff audited the accompanying financial statements numbered I to III and the supporting notes numbered 1 to 22 of the World Food Programme for the financial period ended 31 December 1999. These financial statements are the responsibility of the Executive Director of the World Food Programme. My responsibility is to express an opinion on these financial statements based on the audit.

The audit was conducted in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. These standards require that the audit be planned and carried out to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and evaluating the overall financial statement presentation.

As a result of this audit, I am of the opinion that the financial statements present fairly the financial position at 31 December 1999 and the results of the operations for the period then ended; that they were prepared in accordance with the Organization's stated accounting policies, which were applied on a basis consistent with that of the preceding period, except for the changes detailed in paragraphs 47, 48, 49 and 50 of my attached Long-Form Report, with which I concur; and that the transactions were in accordance with the Financial Regulations and legislative authority.

Signed by:

Pierre JOXE
Premier Président de la Cour des Comptes
de la République Française
External Auditor



Biennial Accounts 1998–99**Certification of Financial Statements**

To the best of my knowledge and information, all material transactions have been properly entered in the accounting records of the World Food Programme and are properly reflected in the attached financial statements and supporting schedules (Financial Rule 113.6).



Catherine Bertini
Executive Director

Rome, 20 July 2000



TABLE OF CONTENTS

| | Page |
|---|------|
| STATEMENT I | 20 |
| Statement of Income and Expenditure and Changes in Reserves and Fund Balances for the Biennium Ended 31 December 1999 | |
| STATEMENT II | 21 |
| Statement of Assets, Liabilities and Reserves and Fund Balances as at 31 December 1999 | |
| STATEMENT III | 22 |
| Statement of Cash Flow for the Biennium Ended 31 December 1999 | |
| NOTES TO THE FINANCIAL STATEMENTS | 23 |



STATEMENT I
STATEMENT OF INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES
FOR THE BIENNIUM ENDED 31 DECEMBER 1999
(million dollars)

| | Note | Development, Rehabilitation and Disaster Preparedness | Emergency Operations | Protracted Relief Operations | Special Operations | General Fund | Trust Funds | Total WFP Fund | Prior Period 1996-97 |
|---|-----------|--|-------------------------|------------------------------------|-----------------------|--------------|---------------|-------------------|-------------------------|
| INCOME | 3 | | | | | | | | |
| Commodity contributions | 4 | 396.9 | 748.6 | 244.6 | - | - | - | 1 390.1 | 1 438.9 |
| Other contributions | 4 | 217.0 | 749.5 | 276.7 | 74.2 | 9.6 | 65.2 | 1 392.2 | 1 082.4 |
| Government cash contributions for local costs | | - | - | - | - | 2.4 | - | 2.4 | 3.5 |
| Interest | | - | - | - | - | 73.2 | 6.9 | 80.1 | 73.8 |
| Currency exchange adjustments | | 0.9 | - | - | - | 0.7 | - | 1.6 | (7.2) |
| Miscellaneous income | | - | - | - | - | 15.3 | - | 15.3 | 9.4 |
| Transfer of indirect support cost contributions to General Fund | 5 | (74.0) | (85.1) | (44.9) | (5.3) | 215.7 | (6.4) | - | - |
| TOTAL INCOME INCLUDING TRANFER | | 540.8 | 1 413.0 | 476.4 | 68.9 | 316.9 | 65.7 | 2 881.7 | 2 600.8 |
| EXPENDITURE | 3, 18, 19 | | | | | | | | |
| Operational costs in commodities | | 363.4 | 741.4 | 252.4 | - | - | - | 1 357.2 | 1 374.2 |
| Other operational costs: | | | | | | | | | |
| Ocean transport | | 73.5 | 236.1 | 81.5 | - | - | 3.9 | 395.0 | 220.8 |
| Air, overland and ITSH | | 34.5 | 343.0 | 118.8 | - | - | 26.6 | 522.9 | 284.1 |
| Other | | 11.0 | 27.9 | 3.5 | 37.7 | 4.9 | 40.0 | 125.0 | 128.5 |
| Direct Support Costs | | 24.1 | 146.7 | 54.3 | 30.9 | 0.4 | 13.1 | 269.5 | 141.3 |
| Indirect Support Costs | 6 | - | - | - | - | 247.9 | - | 247.9 | 228.9 |
| TOTAL EXPENDITURE | | 506.5 | 1 495.1 | 510.5 | 68.6 | 253.2 | 83.6 | 2 917.5 | 2 377.8 |
| Excess/(Shortfall of income over expenditure) | | 34.3 | (82.1) | (34.1) | 0.3 | 63.7 | (17.9) | (35.8) | 223.0 |
| Reserves and fund balances, beginning of period | | 49.3 | 155.0 | 120.2 | 8.9 | 94.0 | 90.8 | 518.2 | 294.2 |
| Reprogramming of unused fund balances | 14 | - | (13.2) | (34.7) | (0.3) | - | - | (48.2) | - |
| Refund of unused fund balances | 14 | - | (1.5) | (0.8) | - | - | - | (2.3) | - |
| Provisions for prior after-service medical costs | 18 | - | - | - | - | (44.8) | - | (44.8) | - |
| Savings on cancellation of prior period obligations | 19 | - | - | - | - | 4.4 | - | 4.4 | 1.0 |
| Transfers between activities | 13 | 7.5 | 1.5 | - | - | (9.0) | - | - | - |
| Transfer to/(from) reserves | 16 | 13.5 | - | - | - | (13.5) | - | - | - |
| RESERVES AND FUND BALANCES, END OF PERIOD | | 104.6 | 59.7 | 50.6 | 8.9 | 94.8 | 72.9 | 391.5 | 518.2 |

The accompanying notes form an integral part of these financial statements.



STATEMENT II
STATEMENT OF ASSETS, LIABILITIES AND RESERVES AND FUND BALANCES
AS AT 31 DECEMBER 1999
(million dollars)

| | Note | Development, Rehabilitation and Disaster Preparedness | Emergency Operations | Protracted Relief Operations | Special Operations | General Fund | Trust Funds | Total WFP Fund | Prior Period 1996-97 |
|--|------|--|-------------------------|------------------------------------|-----------------------|--------------|-------------|-------------------|-------------------------|
| ASSETS | 17 | | | | | | | | |
| Cash and term deposits | 7 | 154.5 | 237.1 | 124.0 | 19.1 | 206.9 | 87.2 | 828.8 | 781.6 |
| Investments held by FAO | 8 | - | - | - | - | 19.3 | - | 19.3 | - |
| Contributions receivable | 4 | 123.7 | 602.2 | 294.9 | 11.7 | 0.4 | - | 1 032.9 | 665.7 |
| Other accounts receivable | 9 | - | - | - | - | 47.1 | - | 47.1 | 44.8 |
| TOTAL ASSETS | | 278.2 | 839.3 | 418.9 | 30.8 | 273.7 | 87.2 | 1 928.1 | 1 492.1 |
| LIABILITIES | | | | | | | | | |
| Contributions not yet received | 4 | 123.7 | 602.2 | 294.9 | 11.7 | 0.4 | - | 1 032.9 | 665.7 |
| Monetized funds held in trust | 22 | - | - | - | - | 10.4 | - | 10.4 | 1.3 |
| Outstanding obligations | 10 | 36.6 | 91.3 | 35.3 | 10.2 | 27.1 | 11.6 | 212.1 | 177.2 |
| Accounts payable | 11 | - | - | - | - | 76.9 | - | 76.9 | 25.3 |
| Provisions | 12 | 13.3 | 86.1 | 38.1 | - | - | 2.7 | 140.2 | 101.9 |
| Staff-related schemes | 18 | - | - | - | - | 64.1 | - | 64.1 | - |
| CERF loan | 15 | - | - | - | - | - | - | - | 2.5 |
| TOTAL LIABILITIES | | 173.6 | 779.6 | 368.3 | 21.9 | 178.9 | 14.3 | 1 536.6 | 973.9 |
| RESERVES AND FUND BALANCES | | | | | | | | | |
| Operational reserve | 16 | - | - | - | - | 43.5 | - | 43.5 | 57.0 |
| Fund balances | | 104.6 | 59.7 | 50.6 | 8.9 | 51.3 | 72.9 | 348.0 | 461.2 |
| TOTAL RESERVES AND FUND BALANCES | | 104.6 | 59.7 | 50.6 | 8.9 | 94.8 | 72.9 | 391.5 | 518.2 |
| TOTAL LIABILITIES, RESERVES AND FUND BALANCES | | 278.2 | 839.3 | 418.9 | 30.8 | 273.7 | 87.2 | 1 928.1 | 1 492.1 |

The accompanying notes form an integral part of these financial statements.



STATEMENT III
STATEMENT OF CASH FLOW
FOR THE BIENNIUM ENDED 31 DECEMBER 1999
(million dollars)

| | Note | WFP Fund | Prior Period 1996-97 | Prior Period 1994-95 |
|---|------|---------------|-------------------------|-------------------------|
| Cash inflow (outflow) from operating activities: | | | | |
| Excess (shortfall) of income over expenditure (Statement I) | | (35.8) | 223.0 | 161.3 |
| (Increase) in other accounts receivable | 9 | (2.3) | (17.3) | 11.8 |
| Increase in monetized funds held in trust | 22 | 9.1 | - | - |
| Increase in outstanding obligations | 10 | 34.9 | 2.3 | 24.4 |
| Increase in accounts payable | 11 | 51.6 | 1.8 | (1.7) |
| Increase/(Decrease) in provisions | 12 | 38.3 | (46.1) | (72.0) |
| Increase in staff-related schemes | 18 | 64.1 | - | - |
| Less: interest income | | (80.1) | (73.8) | (54.3) |
| Net cash inflow from operating activities | | 79.8 | 89.9 | 69.5 |
| Cash from investing and financing activities: | | | | |
| (Increase) in investments* | 8 | (19.3) | - | - |
| (Decrease) in loan-CERF | 15 | (2.5) | - | (11.0) |
| Add interest income | | 80.1 | 73.8 | 54.3 |
| Net cash from investing and financing activities | | 58.3 | 73.8 | 43.3 |
| Cash inflow (outflow) from (to) other sources: | | | | |
| Reprogramming of unused fund balances | | (48.2) | - | - |
| Refund of unused fund balances | | (2.3) | - | - |
| Provisions for prior after service medical costs | 18 | (44.8) | - | - |
| Savings on cancellation of prior period obligations | | 4.4 | 1.0 | 4.7 |
| Net cash inflow (outflow) from (to) other sources | | (90.9) | 1.0 | 4.7 |
| Net increase in cash and term deposits | | 47.2 | 164.7 | 117.5 |
| Cash and term deposits at beginning of period | 7 | 781.6 | 616.9 | 499.4 |
| Cash and term deposits at end of period | 7 | 828.8 | 781.6 | 616.9 |

* As explained in Note 8, the investments held by FAO were merely disclosed as a note in the financial statements in prior bienniums. If the investments were reflected in the 1996-97 books, the increase in 1998-99 would be US\$5.7 million only.

The accompanying notes form an integral part of these financial statements.



NOTE 1: OBJECTIVE AND ACTIVITIES OF THE WORLD FOOD PROGRAMME

46. The World Food Programme (WFP) was established in 1963 as the food aid arm of the United Nations system. Its main purposes are to:
- use food aid to support economic and social development;
 - meet refugee and other emergency and protracted relief food needs;
 - promote world food security in accordance with the recommendations of the United Nations and FAO.
47. In achieving the above purposes, WFP, on request, implements food aid programmes, projects and activities to:
- aid in economic and social development, concentrating its efforts and resources on the neediest people and countries;
 - assist in the continuum from emergency relief to development by giving priority to supporting disaster prevention, preparedness and mitigation and post-disaster rehabilitation activities;
 - assist in meeting refugee and other emergency and protracted relief food needs, using this assistance to the greatest extent possible to serve both relief and development purposes;
 - provide services to bilateral donors, United Nations agencies and non-governmental organizations (NGOs) for operations that are consistent with the purposes of WFP and that complement WFP's operations.
48. WFP's activities are financed by voluntary contributions from Member States, government agencies, intergovernmental bodies, and other public and appropriate non-governmental (including private) sources, and by miscellaneous income from other sources.
49. The Programme has its headquarters in Rome, Italy, and conducts activities through 91 offices around the world. Its policies and budget are determined and approved by the Executive Board, its governing body. However, decisions on requests for assistance to meet emergency needs that exceed the level of authority delegated to the Executive Director are made jointly by the WFP Executive Director and the Director-General of FAO.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Financial Period

50. The financial period of the Programme is a biennium. These financial statements refer to the period ended 31 December 1999.

II. Accounting Convention

51. These financial statements are prepared in accordance with the Financial Regulations and Rules of the World Food Programme, and governing body decisions. Within this framework, the financial statements are prepared under the historical cost convention and in accordance with the United Nations Common Accounting Standards, except when the



nature of WFP's operations requires different internationally accepted accounting standards. The format of the financial statements is designed to show clearly the financial position of WFP and to meet the managerial requirements of the Board and of the Executive Director.

III. Fund Accounting

52. Pursuant to WFP's Financial Regulations, the financial statements of the World Food Programme Fund ("WFP Fund") are maintained on a "fund accounting" basis and present a consolidated situation of all activities carried out by the Programme. A fund is an accounting entity with a self-balancing set of accounts recording cash and other financial and non-financial resources, together with related liabilities and residual equities or balances, and changes therein. Funds were segregated for the purpose of conducting specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations and presented as programme category funds, a general fund including special accounts, and trust funds.
53. The financial statements have been prepared in a form consistent with the prior biennium and in accordance with the Resource and Long-Term Financing (R<F) model implemented as of January 1996 and the new Financial Regulations that took effect on 1 January 1998. The model classifies received contributions by programme category funds and by funding windows.
- a) Depending on the specific conditions and degree of flexibility allowed, the three funding windows are:
 - **Multilateral:** WFP determines the Country Programme or WFP activities for which the contribution will be used and how it will be used, or determines a contribution made in response to an appeal made by WFP for a specific operation. In such cases, the donor will accept the reports submitted to the Executive Board as sufficient for meeting the donor's requirements.
 - **Directed Multilateral:** This funding window deals with contributions that are other than a response to an appeal made by WFP for a specific emergency operation, which the donor requests WFP to direct to a specific activity or activities initiated by WFP or to a specific Country Programme or Country Programmes. The contributed funds are reported separately under the standardized project reports.
 - **Bilateral:** WFP accepts bilateral contributions only if they are for activities consistent with the objectives and policies of WFP's mission statement and compatible with assistance provided by WFP in the recipient country.
 - b) Contributions received through multilateral and directed multilateral funding windows go towards funding any of the four WFP programme categories:
 - **Development Rehabilitation and Disaster Preparedness (DRDP)** – to support economic and social development.
 - **Emergency Relief (EMOP)**—to meet emergency needs. This programme comprises the International Emergency Food Reserve (IEFR) and the Immediate Response Account (IRA).
 - **Protracted Relief (PRO)**—to meet protracted relief needs.
 - **Special Operations (SO)**—to rehabilitate and enhance transport infrastructure and, if necessary, and in extraordinary circumstances, permit speedy and efficient delivery of food assistance to meet emergency and protracted relief needs.



Bilateral contributions and the related expenditures are accounted for as trust funds in accordance with the Financial Regulations.

- c) The General Fund is the accounting entity established for recording, under separate accounts, indirect support cost recoveries, miscellaneous income, interest income, Programme Support and Administration (PSA) costs, special accounts established by the Executive Director under Financial Regulation 7.3, operational reserve and contributions received that are not designated to a specific programme category, project or a bilateral project. General Fund income and expenditure are detailed in Note 3.5.
 - d) The Trust Fund is an identifiable subdivision of the WFP Fund, established by the Executive Director in order to account for a special contribution, the purpose, scope and reporting procedures of which have been agreed on with the donor. Trust Funds include Bilateral Operations (including Iraq SCR 986), the Junior Professional Officers Scheme, Quality Improvement or Impact Grant, Disaster Mitigation, Gender Activities and Airlift Activities (Operation Lifeline Sudan). These are detailed in Note 3.6.
54. WFP continued to receive some commodities and cash against contributions confirmed before implementation of the R<F policies. Expenditures will continue to be incurred against these contributions, as well as against contribution balances carried forward from the previous biennium, until exhausted. These contributions and expenditures are shown separately under a fourth funding window, Prior 1996.
55. Notes 3.1 to 3.6 provide an analysis of income and expenditure under each of the programme category funds. In the course of preparing the 1998 standardized donor reports during the 1998-99 biennium, certain income and expenditure items were realigned to the appropriate funding windows within programme categories but did not have any effect across the income or expenditure line items.

IV. Foreign Currencies

56. The financial statements are expressed in United States dollars. Transactions in other currencies are translated into United States dollars at the United Nations operational rates of exchange prevailing at the time of the transaction. At the end of the financial period, assets and liabilities in currencies other than United States dollars are translated to United States dollars at the applicable United Nations rate of exchange in effect at the end of the biennium, which approximates to the market rate.
57. However, in Statement II the items “contributions receivable” and “contributions not yet received” are recorded in United States dollars at the time of the confirmation of the contribution.
58. Exchange differences are credited or charged to the statement of income and expenditure. The Programme enters into forward exchange contracts for hedging purposes.

V. Basis of Accounting

59. All income, other than interest, is recognized when received. Interest income and all expenditure are recognized on the accrual basis of accounting.

V. (i) Contributions and Income

60. Specific treatment of the major categories of income is described below.



✧ **A. Commodity contributions**

- a) Commodity contributions in kind are valued on the world market prices, at the Food Aid Convention (FAC) price or at the donor's invoice price, as may be applicable. The donor value of Development contributions is adjusted according to information provided by donors. Commodities pledged under the FAC are normally valued at FAC prices for each crop year or, when requested by the donor, at the donor price.
- b) Cash in lieu of commodities is recorded at the cash value of contributions pledged and received.

61. Contributions other than commodities are recorded as income.

✧ **B. Contributions for Indirect Support Costs**

62. Contributions for indirect support costs are disclosed as transfers to the General Fund in Statement I and the accompanying notes.

✧ **C. Income other than contributions**

63. Miscellaneous income is recognized on a cash basis. Interest income is accrued as income in the biennium to which it relates.

V. (ii) Expenditure

64. Expenditure includes:

- a) all disbursements with regard to the activity of the current biennium;
- b) outstanding obligations backed up by legal commitments, such as contracts or purchase orders; and
- c) provisions relating to internal transport, storage and handling (ITSH) costs, which are established on the basis of the date of issue of the bill of lading, except for amounts under bilateral operations that are provided for at the time of issuing the request for issuance of shipping instructions.

V. (iii) Buildings and Equipment

65. The cost of buildings and equipment is charged to expenditure in the year of purchase. It is included in the accounting records at a nominal value of one dollar.

V. (iv) Commodity Losses

66. Pre-delivery commodity losses are covered by the International Cargo Self-Insurance Account.

V. (v) Demurrage and Despatch

67. Demurrage costs paid by WFP are generally receivable from recipient governments and/or suppliers. Demurrage receivable is disclosed net of despatch and recoveries against ITSH costs payable to the same governments.

V. (vi) Direct Support Costs

68. Direct support costs are those directly linked to the provision of support to an operation and which would not be incurred should that activity cease.



VI. Staff Costs

69. Staff salaries and entitlements are set according to a predetermined scale of staff grades.
70. Separation payments and compensation due to work-related death, injury or illness of General Service staff and after-service medical benefits to General Service and Professional staff covered by the FAO Staff Rules are fully provided for. Other personnel-related liabilities, such as repatriation costs, accrued leave and termination indemnities are charged when disbursed (see also Note 18).

VII. International Cargo Self-Insurance Account

71. WFP has been self-insuring its consignments since 1 May 1994. The self-insurance scheme covers all losses. However, each shipment is reinsured with an external company against losses exceeding US\$0.75 million per consignment or US\$1.5 million per vessel.
72. The self-insurance account is credited with premia charged to projects on a basis equivalent to commercial rates. Claims lodged offset with recoveries from carriers are charged to the self-insurance account.
73. Up to 30 April 1994, WFP shipments were insured through all-risk policies with external companies. The cover excluded individual claims of less than US\$10,000 because these were covered by the existing self-insurance fund, the balance of which is reported under the self-insurance account.
74. Consistent with the previous biennium, the self-insurance account is accounted for as a special account under the General Fund.

VIII. Investments Held by FAO

75. The investments are held and managed by FAO on behalf of WFP and are stated at the lower of cost and market value determined on a total portfolio basis. (See also Notes 8 and 18.)

NOTE 3: INCOME AND EXPENDITURE BY PROGRAMME CATEGORY AND FUNDING WINDOW

76. This note covers specifications of income and expenditure by programme category and funding window, which are shown in Notes 3.1 to 3.6.



NOTE 3.1
SPECIFICATION OF INCOME AND EXPENDITURE BY FUNDING WINDOW
FOR THE BIENNIUM ENDED 31 DECEMBER 1999

(million dollars)

| | DEVELOPMENT, REHABILITATION AND DISASTER PREPAREDNESS | | | | Prior Period 1996-97 |
|---|--|----------------------------------|------------------|--------------|---------------------------------|
| | Multilateral | Directed Multilateral | Prior 96* | Total | |
| INCOME | | | | | |
| Commodity contributions | 296.4 | 90.0 | 10.5 | 396.9 | 516.0 |
| Other contributions | 163.1 | 52.6 | 1.3 | 217.0 | 197.8 |
| Government cash contributions for local costs | - | - | - | - | - |
| Interest | - | - | - | - | - |
| Currency exchange adjustments | 0.9 | - | - | 0.9 | (1.4) |
| Miscellaneous income | - | - | - | - | - |
| Transfer of indirect support cost contributions to General Fund | (54.0) | (20.0) | - | (74.0) | (70.4) |
| TOTAL INCOME-NET OF TRANSFERS TO GENERAL FUND | 406.4 | 122.6 | 11.8 | 540.8 | 642.0 |
| EXPENDITURE | | | | | |
| Operational costs in commodities | 268.2 | 92.7 | 2.5 | 363.4 | 503.3 |
| Other operational costs: | | | | | |
| Ocean transport | 58.9 | 13.8 | 0.8 | 73.5 | 65.3 |
| Air, overland and ITSH | 20.9 | 13.6 | - | 34.5 | 31.1 |
| Other | 9.6 | 1.1 | 0.3 | 11.0 | 8.6 |
| Direct Support Costs | 16.8 | 1.7 | 5.6 | 24.1 | 9.6 |
| Indirect Support Costs | - | - | - | - | - |
| TOTAL EXPENDITURE | 374.4 | 122.9 | 9.2 | 506.5 | 617.9 |
| Excess/(Shortfall) of income over expenditure | 32.0 | (0.3) | 2.6 | 34.3 | 24.1 |
| Reserves and fund balances, beginning of period | 45.7 | 14.5 | (10.9) | 49.3 | 66.3 |
| Savings on cancellation of prior period obligations | - | - | - | - | - |
| Transfers between activities | 9.0 | - | (1.5) | 7.5 | 6.6 |
| Transfers to/(from) reserves | - | - | 13.5 | 13.5 | (47.7) |
| Reserves and fund balances, end of period | 86.7 | 14.2 | 3.7 | 104.6 | 49.3 |

* As the confirmed contributions received in 1998-99 were insufficient to cover current expenditures and the deficit at the beginning of the biennium, a transfer was made from the Operational Reserve (Note 16) to ensure continuity of operations.



NOTE 3.2
SPECIFICATION OF INCOME AND EXPENDITURE BY FUNDING WINDOW
FOR THE BIENNIUM ENDED 31 DECEMBER 1999
(million dollars)

| | EMERGENCY OPERATIONS | | | | Prior Period 1996-97 |
|---|-----------------------------|----------------------------------|-----------------|----------------|---------------------------------|
| | Multilateral | Directed Multilateral | Prior 96 | Total | |
| INCOME | | | | | |
| Commodity contributions | 19.9 | 714.4 | 14.3 | 748.6 | 593.4 |
| Other contributions | 64.7 | 688.1 | (3.3) | 749.5 | 540.2 |
| Government cash contributions for local costs | - | - | - | - | - |
| Interest | - | - | - | - | - |
| Currency exchange adjustments | - | - | - | - | - |
| Miscellaneous income | - | - | - | - | 0.1 |
| Transfer of indirect support cost contributions to General Fund | (5.2) | (79.9) | - | (85.1) | (54.3) |
| TOTAL INCOME-NET OF TRANSFER TO GENERAL FUND | 79.4 | 1 322.6 | 11.0 | 1 413.0 | 1 079.4 |
| EXPENDITURE | | | | | |
| Operational costs in commodities | 23.9 | 710.8 | 6.7 | 741.4 | 576.3 |
| Other operational costs: | | | | - | |
| Ocean transport | 3.8 | 231.3 | 1.0 | 236.1 | 90.9 |
| Air, overland and ITSH | 19.6 | 321.4 | 2.0 | 343.0 | 153.3 |
| Other | 18.7 | 8.0 | 1.2 | 27.9 | 25.4 |
| Direct Support Costs | 7.8 | 137.3 | 1.6 | 146.7 | 106.4 |
| Indirect Support Costs | - | - | - | - | - |
| TOTAL EXPENDITURE | 73.8 | 1 408.8 | 12.5 | 1 495.1 | 952.3 |
| Excess/(Shortfall) of income over expenditure | 5.6 | (86.2) | (1.5) | (82.1) | 127.1 |
| Reserves and fund balances, beginning of period | 19.0 | 11.0 | 125.0 | 155.0 | 28.8 |
| Reprogramming of unused fund balances | - | - | (13.2) | (13.2) | - |
| Refund of unused fund balances | - | - | (1.5) | (1.5) | - |
| Savings on cancellation of prior period obligations | - | - | - | - | - |
| Transfers between activities | - | - | 1.5 | 1.5 | (0.9) |
| Transfers to/(from) reserves | - | - | - | - | - |
| Reserves and fund balances, end of period | 24.6 | (75.2) | 110.3 | 59.7 | 155.0 |



NOTE 3.2 (continued)
DETAIL OF EMERGENCY INCOME AND EXPENDITURE
FOR THE BIENNIUM ENDED 31 DECEMBER 1999
(million dollars)

| | EMERGENCY OPERATIONS | | | Prior Period 1996-97 |
|---|----------------------|-------------|----------------|-------------------------|
| | IEFR | IRA | Total | |
| INCOME | | | | |
| Commodity contributions | 748.6 | - | 748.6 | 593.4 |
| Other contributions | 708.3 | 41.2 | 749.5 | 540.2 |
| Government cash contributions for local costs | - | - | - | - |
| Interest | - | - | - | - |
| Currency exchange adjustments | - | - | - | - |
| Miscellaneous income | - | - | - | 0.1 |
| Transfer of indirect support cost contributions to General Fund | (82.8) | (2.3) | (85.1) | (54.3) |
| TOTAL INCOME-NET OF TRANSFER TO GENERAL FUND | 1 374.1 | 38.9 | 1 413.0 | 1 079.4 |
| EXPENDITURE | | | | |
| Operational costs in commodities | 741.4 | - | 741.4 | 576.3 |
| Other operational costs: | - | - | - | - |
| Ocean transport | 234.5 | 1.6 | 236.1 | 90.9 |
| Air, overland and ITSH | 336.6 | 6.4 | 343.0 | 153.3 |
| Other | 9.1 | 18.8 | 27.9 | 25.4 |
| Direct Support Costs | 141.7 | 5.0 | 146.7 | 106.4 |
| Indirect Support Costs | - | - | - | - |
| TOTAL EXPENDITURE | 1 463.3 | 31.8 | 1 495.1 | 952.3 |
| Excess/(Shortfall) of income over expenditure | (89.2) | 7.1 | (82.1) | 127.1 |
| Reserves and fund balances, beginning of period | 133.6 | 21.4 | 155.0 | 28.8 |
| Reprogramming of unused fund balances | (13.2) | - | (13.2) | - |
| Refund of unused fund balances | (1.5) | - | (1.5) | - |
| Savings on cancellation of prior period obligations | - | - | - | - |
| Transfers between activities | 1.5 | - | 1.5 | (0.9) |
| Transfers to/(from) reserves | - | - | - | - |
| Reserves and fund balances, end of period | 31.2 | 28.5 | 59.7 | 155.0 |



NOTE 3.3
SPECIFICATION OF INCOME AND EXPENDITURE BY FUNDING WINDOW
FOR THE BIENNIUM ENDED 31 DECEMBER 1999
(million dollars)

| | PROTRACTED RELIEF OPERATIONS | | | | Prior Period 1996-97 |
|---|------------------------------|--------------------------|------------|---------------|-------------------------|
| | Multilateral | Directed Multilateral | Prior 96 | Total | |
| INCOME | | | | | |
| Commodity contributions | 84.5 | 167.2 | (7.1) | 244.6 | 329.5 |
| Other contributions | 91.1 | 177.4 | 8.2 | 276.7 | 252.4 |
| Government cash contributions for local costs | - | - | - | - | - |
| Interest | - | - | - | - | - |
| Currency exchange adjustments | - | - | - | - | - |
| Miscellaneous income | - | - | - | - | - |
| Transfer of indirect support cost contributions to General Fund | (18.1) | (26.8) | - | (44.9) | (37.2) |
| TOTAL INCOME-NET OF TRANSFER TO GENERAL FUND | 157.5 | 317.8 | 1.1 | 476.4 | 544.7 |
| EXPENDITURE | | | | | |
| Operational costs in commodities | 92.9 | 159.2 | 0.3 | 252.4 | 294.6 |
| Other operational costs: | | | | | |
| Ocean transport | 32.7 | 48.8 | - | 81.5 | 57.6 |
| Air, overland and ITSH | 34.3 | 84.8 | (0.3) | 118.8 | 104.0 |
| Other | 1.0 | 2.2 | 0.3 | 3.5 | 2.1 |
| Direct Support Costs | 15.2 | 38.9 | 0.2 | 54.3 | 25.2 |
| Indirect Support Costs | - | - | - | - | - |
| TOTAL EXPENDITURE | 176.1 | 333.9 | 0.5 | 510.5 | 483.5 |
| Excess/(Shortfall) of income over expenditure | (18.6) | (16.1) | 0.6 | (34.1) | 61.2 |
| Reserves and fund balances, beginning of period | 2.4 | 73.4 | 44.4 | 120.2 | 58.6 |
| Reprogramming of unused fund balances | - | - | (34.7) | (34.7) | - |
| Refund of unused fund balances | - | - | (0.8) | (0.8) | - |
| Savings on cancellation of prior period obligations | - | - | - | - | - |
| Transfers between activities | - | - | - | - | 0.4 |
| Transfers to/(from) reserves | - | - | - | - | - |
| Reserves and fund balances, end of period | (16.2) | 57.3 | 9.5 | 50.6 | 120.2 |



NOTE 3.4
SPECIFICATION OF INCOME AND EXPENDITURE BY FUNDING WINDOW
FOR THE BIENNIUM ENDED 31 DECEMBER 1999
(million dollars)

| | SPECIAL OPERATIONS | | | | Prior Period 1996-97 |
|---|--------------------|--------------------------|--------------|-------------|-------------------------|
| | Multilateral | Directed Multilateral | Prior 96 | Total | |
| INCOME | | | | | |
| Commodity contributions | - | - | - | - | - |
| Other contributions | - | 73.8 | 0.4 | 74.2 | 48.3 |
| Government cash contributions for local costs | - | - | - | - | - |
| Interest | - | - | - | - | - |
| Currency exchange adjustments | - | - | - | - | - |
| Miscellaneous income | - | - | - | - | - |
| Transfer of indirect support cost contributions to General Fund | - | (5.2) | (0.1) | (5.3) | (5.9) |
| TOTAL INCOME-NET OF TRANSFER TO GENERAL FUND | - | 68.6 | 0.3 | 68.9 | 42.4 |
| EXPENDITURE | | | | | |
| Operational costs in commodities | - | - | - | - | - |
| Other operational costs: | | | | | |
| Ocean transport | - | - | - | - | - |
| Air, overland and ITSH | - | - | - | - | - |
| Other | - | 37.6 | 0.1 | 37.7 | 38.6 |
| Direct Support Costs | - | 30.0 | 0.9 | 30.9 | - |
| Indirect Support Costs | - | - | - | - | - |
| TOTAL EXPENDITURE | - | 67.6 | 1.0 | 68.6 | 38.6 |
| Excess/(Shortfall) of income over expenditure | - | 1.0 | (0.7) | 0.3 | 3.8 |
| Reserves and fund balances, beginning of period | 0.3 | 8.6 | - | 8.9 | 5.1 |
| Reprogramming of unused fund balances | (0.3) | - | - | (0.3) | - |
| Savings on cancellation of prior period obligations | - | - | - | - | - |
| Transfers between activities | - | - | - | - | - |
| Transfers to/(from) reserves | - | - | - | - | - |
| Reserves and fund balances, end of period | - | 9.6 | (0.7) | 8.9 | 8.9 |



NOTE 3.5
SPECIFICATION OF INCOME AND EXPENDITURE
FOR THE BIENNIUM ENDED 31 DECEMBER 1999
(million dollars)

| | GENERAL FUND | | | | | | Total | Prior Period 1996-97 |
|--|---|-----------------------|---|--------------------------|--|--|--------------|-------------------------|
| | Programme Support and Administrative Costs | Other General Fund | Special Accounts | | | | | |
| | | | Financial Management Improvement Programme | Public Affairs Branch | International Cargo Self- Insurance Account | Kosovo Flight Disaster (see Note 21) | | |
| INCOME | | | | | | | | |
| Commodity contributions | - | - | - | - | - | - | - | - |
| Other contributions | - | 5.0 | 4.5 | 0.1 | - | - | 9.6 | 17.2 |
| Government cash contributions for local costs | 2.4 | - | - | - | - | - | 2.4 | 3.5 |
| Interest | - | 70.4 | 1.0 | - | 1.8 | - | 73.2 | 65.6 |
| Currency exchange adjustments | - | 0.7 | - | - | - | - | 0.7 | (5.8) |
| Miscellaneous income* | - | 1.0 | - | 0.1 | 14.2 | - | 15.3 | 9.3 |
| Transfer of indirect support cost contributions to General | 215.7 | - | - | - | - | - | 215.7 | 178.0 |
| TOTAL INCOME-NET OF TRANSFER TO GENERAL FUND | 218.1 | 77.1 | 5.5 | 0.2 | 16.0 | - | 316.9 | 267.8 |
| EXPENDITURE | | | | | | | | |
| Operational costs in commodities | - | - | - | - | - | - | - | - |
| Other operational costs: | | | | | | | | |
| Ocean transport | - | - | - | - | - | - | - | - |
| Air, overland and ITSH | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | 4.9 | - | 4.9 | 14.2 |
| Direct Support Costs | - | 0.4 | - | - | - | - | 0.4 | 0.1 |
| Indirect Support Costs | 230.8 | 0.3 | 16.2 | - | 0.2 | 0.4 | 247.9 | 228.9 |
| TOTAL EXPENDITURE | 230.8 | 0.7 | 16.2 | - | 5.1 | 0.4 | 253.2 | 243.2 |
| Excess/(Shortfall) of income over expenditure | (12.7) | 76.4 | (10.7) | 0.2 | 10.9 | (0.4) | 63.7 | 24.6 |
| Reserves and fund balances, beginning of period | - | 78.4 | 6.8 | 0.2 | 8.6 | - | 94.0 | 26.8 |
| Provisions for prior after-service medical costs | - | (44.8) | - | - | - | - | (44.8) | - |
| Savings on cancellation of prior period obligations | 4.4 | - | - | - | - | - | 4.4 | 1.0 |
| Transfers between activities | 8.3 | (34.0) | 16.3 | - | - | 0.4 | (9.0) | (6.1) |
| Transfers to/(from) reserves | - | (13.5) | - | - | - | - | (13.5) | 47.7 |
| Reserves and fund balances, end of period | 0.0 | 62.5 | 12.4 | 0.4 | 19.5 | - | 94.8 | 94.0 |

* Miscellaneous income of US\$14.2 million under the Self-Insurance Account represents premiums charged to projects. Assuming a traditional loss ratio of about 0.8 percent, it is estimated that there is potentially a further US\$14.5 million in claims to be raised on shipments prior to 31 December 1999 and paid to WFP.



NOTE 3.6
SPECIFICATION OF INCOME AND EXPENDITURE
FOR THE BIENNIUM ENDED 31 DECEMBER 1999
(million dollars)

| | TRUST FUNDS | | | | | | | Prior Period 1996-97 |
|---|---|-------------------------|--|------------------------|----------------------|--|---------------|-------------------------|
| | Junior Professional Officer Scheme | Bilateral Operations | Quality Improvement and other Trust Funds | Disaster Mitigation | Gender Activities | Airlift Activities- Operation Lifeline Sudan | Total | |
| INCOME | | | | | | | | |
| Commodity contributions | - | - | - | - | - | - | - | - |
| Other contributions | 11.0 | 25.3 | 6.5 | 1.2 | 1.2 | 20.0 | 65.2 | 26.5 |
| Government cash contributions for local costs | - | - | - | - | - | - | - | - |
| Interest | 0.2 | 6.8 | - | (0.1) | - | - | 6.9 | 8.2 |
| Currency exchange adjustments | - | - | - | - | - | - | - | - |
| Miscellaneous income | - | - | - | - | - | - | - | - |
| Transfer of indirect support cost contributions to General Fund | (1.0) | (4.3) | - | - | - | (1.1) | (6.4) | (10.2) |
| TOTAL INCOME-NET OF TRANSFER TO GENERAL FUND | 10.2 | 27.8 | 6.5 | 1.1 | 1.2 | 18.9 | 65.7 | 24.5 |
| EXPENDITURE | | | | | | | | |
| Operational costs in commodities | - | - | - | - | - | - | - | - |
| Other operational costs: | | | | | | | | |
| Ocean transport | - | 3.9 | - | - | - | - | 3.9 | 7.0 |
| Air, overland and ITSH | - | 6.1 | - | - | - | 20.5 | 26.6 | (4.3) |
| Other | - | 40.0 | - | - | - | - | 40.0 | 39.6 |
| Direct Support Costs | 8.5 | - | 1.7 | 2.3 | 0.6 | - | 13.1 | - |
| Indirect Support Costs | - | - | - | - | - | - | - | - |
| TOTAL EXPENDITURE | 8.5 | 50.0 | 1.7 | 2.3 | 0.6 | 20.5 | 83.6 | 42.3 |
| Excess/(Shortfall) of income over expenditure | 1.7 | (22.2) | 4.8 | (1.2) | 0.6 | (1.6) | (17.9) | (17.8) |
| Reserves and fund balances, beginning of period | 1.7 | 80.8 | 3.6 | 4.7 | - | - | 90.8 | 108.6 |
| Savings on cancellation of prior period obligations | - | - | - | - | - | - | - | - |
| Transfers between activities | - | - | - | - | - | - | - | - |
| Transfers to/(from) reserves | - | - | - | - | - | - | - | - |
| Reserves and fund balances, end of period | 3.4 | 58.6 | 8.4 | 3.5 | 0.6 | (1.6) | 72.9 | 90.8 |



NOTE 4
SUMMARY STATUS OF CONTRIBUTIONS AS AT 31 DECEMBER 1999
AND FOR THE BIENNIUM ENDED 31 DECEMBER 1999
(million dollars)

| | Balance of contributions outstanding as at 1 January 1998 | | | New contributions and contribution adjustments | | | Receipts | | | Balance of contributions outstanding as at 31 December 1999 | | |
|---|--|--------------|--------------|---|----------------|----------------|----------------|----------------|----------------|--|--------------|----------------|
| | Commodities* | Cash | Total | Commodities | Cash | Total | Commodities | Cash | Total | Commodities | Cash | Total |
| DEVELOPMENT | | | | | | | | | | | | |
| Multilateral contributions | 52.4 | 16.1 | 68.5 | 293.2 | 174.4 | 467.6 | 296.4 | 163.1 | 459.5 | 49.2 | 27.4 | 76.6 |
| Directed Multilateral contributions | 17.3 | 25.8 | 43.1 | 87.9 | 53.9 | 141.8 | 90.0 | 52.6 | 142.6 | 15.2 | 27.1 | 42.3 |
| <i>Prior 96</i> contributions | 14.7 | 10.6 | 25.3 | (2.2) | (6.5) | (8.7) | 10.5 | 1.3 | 11.8 | 2.0 | 2.8 | 4.8 |
| TOTAL DEVELOPMENT | 84.4 | 52.5 | 136.9 | 378.9 | 221.8 | 600.7 | 396.9 | 217.0 | 613.9 | 66.4 | 57.3 | 123.7 |
| EMERGENCIES | | | | | | | | | | | | |
| Multilateral contributions | 0.3 | 6.4 | 6.7 | 27.7 | 66.6 | 94.3 | 19.9 | 64.7 | 84.6 | 8.1 | 8.3 | 16.4 |
| Directed Multilateral contributions | 96.6 | 214.5 | 311.1 | 815.6 | 861.6 | 1 677.2 | 714.4 | 688.1 | 1 402.5 | 197.8 | 388.0 | 585.8 |
| <i>Prior 96</i> contributions | 5.2 | 28.0 | 33.2 | 9.1 | (31.3) | (22.2) | 14.3 | (3.3) | 11.0 | - | - | - |
| TOTAL EMERGENCIES | 102.1 | 248.9 | 351.0 | 852.4 | 896.9 | 1 749.3 | 748.6 | 749.5 | 1 498.1 | 205.9 | 396.3 | 602.2 |
| PROTRACTED RELIEF | | | | | | | | | | | | |
| Multilateral contributions | 8.8 | 48.5 | 57.3 | 120.7 | 151.6 | 272.3 | 84.5 | 91.1 | 175.6 | 45.0 | 109.0 | 154.0 |
| Directed Multilateral contributions | 49.2 | 51.1 | 100.3 | 162.1 | 223.1 | 385.2 | 167.2 | 177.4 | 344.6 | 44.1 | 96.8 | 140.9 |
| <i>Prior 96</i> contributions | 2.8 | 7.8 | 10.6 | (9.9) | 0.4 | (9.5) | (7.1) | 8.2 | 1.1 | - | - | - |
| TOTAL PROTRACTED RELIEF | 60.8 | 107.4 | 168.2 | 272.9 | 375.1 | 648.0 | 244.6 | 276.7 | 521.3 | 89.1 | 205.8 | 294.9 |
| SPECIAL OPERATIONS | | | | | | | | | | | | |
| Multilateral contributions | - | 0.4 | 0.4 | - | (0.4) | (0.4) | - | - | - | - | - | - |
| Directed Multilateral contributions | - | 7.7 | 7.7 | - | 77.8 | 77.8 | - | 73.8 | 73.8 | - | 11.7 | 11.7 |
| <i>Prior 96</i> contributions | - | - | - | - | 0.4 | 0.4 | - | 0.4 | 0.4 | - | - | - |
| TOTAL SPECIAL OPERATIONS | - | 8.1 | 8.1 | - | 77.8 | 77.8 | - | 74.2 | 74.2 | - | 11.7 | 11.7 |
| GENERAL FUND | | | | | | | | | | | | |
| Special Accounts | - | - | - | - | 4.6 | 4.6 | - | 4.6 | 4.6 | - | - | - |
| General Fund | - | 1.5 | 1.5 | - | 3.9 | 3.9 | - | 5.0 | 5.0 | - | 0.4 | 0.4 |
| TOTAL GENERAL FUND | - | 1.5 | 1.5 | - | 8.5 | 8.5 | - | 9.6 | 9.6 | - | 0.4 | 0.4 |
| TRUST FUNDS | | | | | | | | | | | | |
| JPO Scheme | - | - | - | - | 11.0 | 11.0 | - | 11.0 | 11.0 | - | - | - |
| Bilateral Operations | - | - | - | - | 25.3 | 25.3 | - | 25.3 | 25.3 | - | - | - |
| Quality Improvement and other Trust Funds | - | - | - | - | 6.5 | 6.5 | - | 6.5 | 6.5 | - | - | - |
| Disaster Mitigation | - | - | - | - | 1.2 | 1.2 | - | 1.2 | 1.2 | - | - | - |
| Gender Activities | - | - | - | - | 1.2 | 1.2 | - | 1.2 | 1.2 | - | - | - |
| OLS | - | - | - | - | 20.0 | 20.0 | - | 20.0 | 20.0 | - | - | - |
| TOTAL TRUST FUNDS | - | - | - | - | 65.2 | 65.2 | - | 65.2 | 65.2 | - | - | - |
| GRAND TOTAL | 247.3 | 418.4 | 665.7 | 1 504.2 | 1 645.3 | 3 149.5 | 1 390.1 | 1 392.2 | 2 782.3 | 361.4 | 671.5 | 1 032.9 |

* Commodities include cash in lieu of commodity contributions.



NOTE 5
INDIRECT SUPPORT COST CONTRIBUTIONS
AND FOR THE BIENNIUM ENDED 31 DECEMBER 1999
(million dollars)

| | Development, Rehabilitation and Disaster Preparedness | Emergency Operations | Protracted Relief and Operations | Special Operations | Trust Funds | Total | Prior Period 1996-97 |
|---|--|-------------------------|--|-----------------------|-------------|--------------|-------------------------|
| Multilateral | 54.0 | 5.2 | 18.1 | - | - | 77.3 | 71.7 |
| Directed Multilateral | 20.0 | 79.9 | 26.8 | 5.2 | - | 131.9 | 73.9 |
| <i>Prior 96</i> | - | - | - | 0.1 | - | 0.1 | 22.2 |
| Bilateral | - | - | - | - | 6.4 | 6.4 | 10.2 |
| Total Contributions for Administrative Support | 74.0 | 85.1 | 44.9 | 5.3 | 6.4 | 215.7 | 178.0 |

WFP recovers indirect support costs from contributions to the various activities under its management. These recoveries are recognized as transfers from the programme categories to the General Fund and the related expenditure under the General Fund. Indirect support costs support the execution of projects and activities but cannot be directly linked to their implementation.



NOTE 6
INDIRECT SUPPORT COSTS
AND FOR THE BIENNIUM ENDED 31 DECEMBER 1999
(million dollars)

| | Expenditure for the period 1998-99 | Prior period 1996-97 |
|--|--|-------------------------|
| Programme Support and Administrative costs | 230.8 | 226.2 |
| Special Accounts and other General Fund | 17.1 | 2.7 |
| Total Indirect Support Costs | 247.9 | 228.9 |

Programme Support and Administrative costs are net of currency adjustment gain of US\$2.7 million for headquarters salaries (1996-97, US\$0.1 million).

NOTE 6.1
PROGRAMME SUPPORT AND ADMINISTRATIVE COSTS
AND FOR THE BIENNIUM ENDED 31 DECEMBER 1999
(million dollars)

| | Expenditure for the period 1998-99 | Prior period 1996-97 |
|---|--|-------------------------|
| Headquarters | | |
| Staff costs | 80.8 | 84.8 |
| Other costs | 47.2 | 40.3 |
| TOTAL | 128.0 | 125.1 |
| Statutory Requirements | | |
| External audit | 0.5 | 0.5 |
| Contributions to other UN organizations | 1.8 | 1.5 |
| TOTAL | 2.3 | 2.0 |
| Field Offices | | |
| Staff costs | 74.2 | 76.4 |
| Local operating costs | 26.3 | 22.7 |
| TOTAL | 100.5 | 99.1 |
| Total Programme Support and Administrative Costs | 230.8 | 226.2 |



NOTE 7
CASH AND TERM DEPOSITS
(million dollars)

| | Balance as at 31 December 1999 | Balance as at 31 December 1997 |
|---|--------------------------------------|--------------------------------------|
| Bank and cash holdings at headquarters: | | |
| Through FAO | - | 735.5 |
| Direct | 800.1 | 32.1 |
| Bank and cash holdings at country offices: | | |
| In convertible currencies | 20.3 | 12.4 |
| In non-convertible currencies | 8.4 | 1.6 |
| Total | 828.8 | 781.6 |

WFP's total bank and cash holdings are managed centrally and accounted for in the General Fund for reasons of economy of scale. These bank and cash holdings are distributed among the programme category funds in Statement II, resulting in a self-balancing set of accounts for each fund. The balance includes cash placed in term deposits to fund the after-service medical Liabilities. Effective January 1999, WFP took over the treasury functions from FAO, and all bank accounts, except for four payroll accounts are now managed directly by WFP.



NOTE 8
INVESTMENTS HELD BY FAO
(million dollars)

| | Balance as at 31 December 1999 |
|--------------------------------|--------------------------------------|
| Separation Payments Scheme | 18.5 |
| Compensation Plan/Reserve Plan | 0.8 |
| Total | 19.3 |

The above amounts represent the book values of the investments held by FAO on behalf of WFP as at 31 December 1999. These funds, which are invested and managed by FAO, cover the corresponding liabilities under the Separation Payments Scheme and Staff Compensation Plan administered by FAO. In prior biennia, these funds were disclosed as a note to the financial statements. Beginning with the 1998-99 biennium, they are recorded in the accounts of WFP as investments held by FAO to mirror the payable to WFP presented in the accounts of FAO.

NOTE 9
OTHER ACCOUNTS RECEIVABLE
(million dollars)

| | Balance as at 31 December 1999 | Balance as at 31 December 1997 |
|---|--------------------------------------|--------------------------------------|
| Personnel advances | 12.0 | 6.6 |
| Demurrage receivable from recipient governments and suppliers | 3.4 | 1.9 |
| Country office receivables | 6.9 | 4.8 |
| Rental and refurbishment of headquarters premises, receivable from the Italian Government | 13.7 | 10.0 |
| Accrued interest | 4.6 | 12.6 |
| Other UN organizations | 1.6 | 6.6 |
| Other receivable amounts | 4.9 | 2.3 |
| Total | 47.1 | 44.8 |

NOTE 10
OUTSTANDING OBLIGATIONS AS AT 31 DECEMBER 1999
(million dollars)

| Programme Category | Multilateral | Directed Multilateral | Prior 96 | Bilateral | Total | Balance as at 31 December 1997 |
|--|--------------|--------------------------|------------|-------------|--------------|--------------------------------------|
| Development, Rehabilitation, Disaster Preparedness | 28.4 | 7.0 | 1.2 | - | 36.6 | 38.1 |
| Emergency Operations | 4.9 | 85.6 | 0.8 | - | 91.3 | 80.4 |
| Protracted Relief Operations | 20.7 | 14.5 | 0.1 | - | 35.3 | 23.5 |
| Special Operations | - | 9.9 | 0.3 | - | 10.2 | 4.1 |
| General Fund | 27.1 | - | - | - | 27.1 | 18.8 |
| Trust Funds | - | - | - | 11.6 | 11.6 | 12.3 |
| Total | 81.1 | 117.0 | 2.4 | 11.6 | 212.1 | 177.2 |



NOTE 11
ACCOUNTS PAYABLE
(million dollars)

| | Balance as at 31 December 1999 | Balance as at 31 December 1997 |
|--|--------------------------------------|--------------------------------------|
| Other United Nations organizations | 29.4 | 2.8 |
| Despatch to be offset by demurrage | 1.2 | 1.3 |
| Insurance recoveries payable to donors and in suspense | 23.0 | 12.6 |
| Other payables | 23.3 | 8.6 |
| Total | 76.9 | 25.3 |

Net despatch earned is payable to the recipient countries.

NOTE 12
PROVISIONS AS AT 31 DECEMBER 1999
(million dollars)

| Programme Category | Multilateral | Directed Multilateral | Prior 96 | Bilateral | Total | Balance as at 31 December 1997 |
|--|--------------|--------------------------|------------|------------|--------------|--------------------------------------|
| Development, Rehabilitation, Disaster Preparedness | 8.8 | 4.0 | 0.5 | - | 13.3 | 14.1 |
| Emergency Operations | 6.2 | 79.3 | 0.6 | - | 86.1 | 50.7 |
| Protracted Relief Operations | 14.5 | 23.6 | - | - | 38.1 | 30.8 |
| Special Operations | - | - | - | - | - | - |
| General Fund | - | - | - | - | - | - |
| Trust Funds | - | - | - | 2.7 | 2.7 | 6.3 |
| Total | 29.5 | 106.9 | 1.1 | 2.7 | 140.2 | 101.9 |



NOTE 13
SCHEDULE OF TRANSFERS BETWEEN ACTIVITIES
(million dollars)

| | Development, Rehabilitation and Disaster Preparedness | Emergency Operations | General Fund | | | | |
|--|--|-------------------------|---|-----------------------|-------------|---------------------------|---------------------|
| | | | Programme Support and Administrative Costs | Other General Fund | FMIP | Kosovo Flight Disaster | Net General Fund |
| Transfer from other General Fund for projects in Senegal, Mozambique, Rwanda and Jamaica | 9.0 | - | | (9.0) | | | (9.0) |
| Correction of transfers made in the prior biennium | (1.5) | 1.5 | | - | | | - |
| Transfer from other General Fund to FMIP | - | - | | (16.3) | 16.3 | | - |
| Transfer from other General Fund to the Special Account Kosovo Flight Disaster | - | - | | (0.4) | - | 0.4 | - |
| Transfer from other General Fund to cover PSA deficit | - | - | 8.3 | (8.3) | | | - |
| Net Transfers | 7.5 | 1.5 | 8.3 | (34.0) | 16.3 | 0.4 | (9.0) |



NOTE 14: REPROGRAMMING/REFUND OF UNUSED FUND BALANCES

77. During 1998-99, a review of unused fund balances was undertaken for the Prior 1996 funding window for Emergency Operations, Protracted Relief and Special Operations programme categories. With the agreement of the donors concerned, the unused balances were either reprogrammed or refunded.

NOTE 15: CENTRAL EMERGENCY REVOLVING FUND (CERF)

78. The Department of Humanitarian Affairs - Central Emergency Revolving Fund (DHA-CERF) was established by the Secretary-General of the United Nations under United Nations General Assembly resolution 46/182 of 19 December 1991. In 1993, WFP availed itself of this facility for the emergency operation in Tajikistan pending the identification of suitable donors. As no donors were identified to cover the CERF loan, the United Nations agreed to write off the balance of US\$2.5 million in the present biennium.

NOTE 16: OPERATIONAL RESERVE

79. Financial Regulation 10.5 calls for the maintenance of an Operational Reserve for the purpose of ensuring the continuity of operations in the event of a temporary shortfall of resources.
80. An amount of US\$13.5 million was transferred from the Operational Reserve to cover expenditures for Development projects under the Prior 1996 funding window. The Operational Reserves at 31 December 1999 and 1997 are US\$43.5 and US\$57.0 million respectively.

NOTE 17: FIXED ASSETS—BUILDINGS AND EQUIPMENT, FURNITURE AND VEHICLES

81. The historical cost of buildings, equipment, furniture and vehicles as at 31 December 1999 is US\$114.4 million, representing information from 78 countries. These items are charged to expenditure and shown in the accounting records at a nominal value of one dollar.
82. During the 1998-99 biennium, a total of US\$6.5 million was written off the inventory records, mainly because the assets had been transferred to the recipient country or had become irreparable or obsolete.

NOTE 18: PERSONNEL-RELATED LIABILITIES

83. The Programme's eligible staff members are entitled to certain benefits on separation from service. The extent to which such liabilities are provided for is explained in paragraphs 36 through 42.



Separation Payments Scheme (SPS) and Compensation Plan Reserve Fund (CPRF)

84. The liability in respect of separation entitlements accrued on behalf of the Programme's General Service staff is fully covered by funds set aside and invested in the Separation Payments Scheme operated by FAO. The provision as at 31 December 1999 amounted to US\$12.6 million.
85. Additional funds have been set aside and invested in the FAO Compensation Plan Reserve Fund to provide compensation for all staff members, employees and dependents in case of death, injury or illness attributable to the performance of official duties. The provision as at 31 December 1999 amounted to US\$0.6 million.
86. The historical asset values of the investment funds held by FAO are recorded in the books of WFP (see Note 8). As at 31 December 1999, these funds exceed the accrued liabilities by US\$6.1 million. The details are as follows:

| | SPS | CPRF | Total |
|--|----------------|------|-------|
| | (million US\$) | | |
| Book value of investments | 18.5 | 0.8 | 19.3 |
| Accrued liabilities | 12.6 | 0.6 | 13.2 |
| Excess of investments over liabilities | 5.9 | 0.2 | 6.1 |

Pending the calculation of the actuarial valuation of the liabilities, the excess of investments over accrued liabilities is reflected under the liability for staff related schemes. An actuarial valuation of the accrued liabilities as at 31 December 1999 will be undertaken by FAO during 2000.

After-service medical liabilities Plan (ASMCP)

87. Based on FAO's actuarial study on after-service medical liabilities (ASML), WFP's share as at 31 December 1997 was US\$44.8 million. In previous accounting periods, the ASMCP costs were being paid and recorded as expenses as they were disbursed, and the accrued liabilities were not provided for in the accounts. In October 1999, the Executive Board decided to provide for the accrued liabilities as at 31 December 1997 of US\$44.8, to fund the accrued liabilities from the unearmarked balance of the General Fund, and to provide for the current service costs for after-service medical liabilities for 1998 and subsequent years from WFP's biennial budget. The provision for liabilities under the ASMCP at 31 December 1999 amounts to US\$44.8 million, and funds set aside are invested directly by WFP. An actuarial valuation at 31 December 1999 will be undertaken by FAO during 2000.

Others

88. The separation-related benefits consist of repatriation grants, repatriation travel and removal costs, termination indemnities, death grants and commutation of accrued annual leave. The related liabilities are not provided for, but the Programme has the ability to meet any legal liabilities arising therefrom over an extended period, unless a significant staff reduction programme is undertaken.



89. The Programme's estimated liability to staff in respect to accrued annual leave amounted to US\$5.5 million at 31 December 1999. This liability is not provided for in the accounts.
90. Staff pension arrangements are provided through participation in the United Nations Joint Staff Pension Fund (UNJSPF), supervised by the United Nations Pension Board. Actuarial valuations are undertaken every two years to determine whether the present and estimated future assets of the Fund will be sufficient to meet its present and estimated future liabilities, using various sets of assumptions as to future economic and demographic developments. The economic assumptions used for the Regular Valuation as at 31 December 1997 were the same as those used in the previous Regular Valuation as at 31 December 1995; however, with respect to the future number of participants, a zero-growth rate was assumed. The result of the 1997 Regular Valuation was an actuarial surplus of 0.36 percent of pensionable remuneration, as against an actuarial deficit of 1.46 percent as at 31 December 1995.

NOTE 19: PRIOR PERIOD OBLIGATIONS AND PROVISIONS

91. As provided for under the Financial Regulations 9.9 pertaining to programme support and administration costs, unliquidated obligations at the end of the 12-month period beyond the end of the biennium are recorded as savings under the General Fund (US\$4.4 million).
92. Under the other programme categories, the cancellation of prior period obligations and provisions for ongoing projects results in a reduced level of expenditures in the Statement of Income and Expenditure in the current biennium. The total amount of such obligations and provisions written back in the 1998-99 biennium was US\$75.8 million, consisting of:

| | Million US\$ |
|---|--------------|
| Development, Rehabilitation and Disaster Preparedness | 14.2 |
| Emergency Operations | 43.4 |
| Protracted Relief Operations | 16.4 |
| Special Operations | 1.8 |
| Total | 75.8 |

NOTE 20: FINANCIAL MANAGEMENT IMPROVEMENT PROGRAMME (FMIP)

93. In May 1999, the Executive Board decided to convert into a grant the initial US\$10.0 million it had approved in October 1997 as an advance from the General Fund to FMIP. The Board also approved that the unfunded balance, up to an overall FMIP cost ceiling of US\$37.0 million, be covered through a further grant from the General Fund. For the biennium ended 31 December 1999, a total of US\$16.3 million was transferred from the General Fund, net of interest income earned from 1996-99 totalling US\$1.0 million.



NOTE 21: SPECIAL ACCOUNT—KOSOVO FLIGHT DISASTER

94. In response to the WFP-chartered flight KSV 3275 plane crash in Pristina on 12 November 1999, in which there were no survivors, the Executive Director immediately established a special account in accordance with Financial Regulation 5.1 as a source of funding and charging of expenditures in connection with the aftermath of the disaster.
95. Total expenditure recorded up to 31 December 1999 was US\$0.4 million. This figure included travel costs for WFP staff and consultants, funeral arrangements, repatriation of the victims, ceremonies, accommodations provided to the victims' close family members, petty cash provision for incidental expenses and other expenditures such as counselling and communications costs.
96. As a subsequent event, WFP received confirmation on 10 March 2000 that the Presidenza del Consiglio of Italy will reimburse around ITL 210 million (about US\$100,000) of the expenses incurred in connection with the Special Account—Kosovo Flight Disaster.

NOTE 22: MONETIZED FUNDS HELD IN TRUST

97. Monetized funds represent proceeds from the sale of commodities after delivery to the recipient government and are to be spent for project purposes. The amounts reflect the cash balance at the end of the biennium and do not include any receivables or payables in respect to the managed funds. The responsibility for the management of such funds is as follows:
- a) The recipient government has title over the funds generated from the sale of commodities after delivery at an agreed-upon point. As a general principle, therefore, such funds are to be held and controlled by the recipient government.
 - b) However, when the interest of the WFP project so requires (e.g., when there is a risk of the funds being used for purposes other than those envisaged in the project agreement or used too slowly, or on the request of the recipient government), the relevant bank accounts are opened in the name of WFP, administered in accordance with the Programme's Financial Regulations and Rules, and treated as "funds in trust" liability account. The amount of monetized funds held in trust at 31 December 1999 was US\$10.4 million.
 - c) These monetized funds, either held and controlled by the recipient government or administered by WFP, are audited annually by local external auditors selected and appointed by the relevant project management. They are also audited by WFP's internal and external auditors in the course of their audit cycle.



Paris, 25 July 2000

Excellency,

I have the honour of enclosing herewith the financial statements of the World Food Programme for the biennium 1998-99, together with my opinion and my detailed report on the accounts and on the management of the organization throughout this biennium.

Accept, Excellency, the expression of my highest consideration.

Signed by:

Pierre JOXE
Premier Président
de la Cour des Comptes
de la République Française
External Auditor

H.E. Mohammad Saeed Nouri-Naeni
President of the Executive Board
of the World Food Programme
Rome
Italy





REPORT OF THE EXTERNAL AUDITOR
ON THE FINANCIAL STATEMENTS OF THE WORLD FOOD PROGRAMME
FOR THE FINANCIAL PERIOD 1 JANUARY 1998 TO 31 DECEMBER 1999

CONTENTS

| | <u>Paragraphs</u> |
|--|--------------------------|
| Introduction | 1 |
| Audit Scope | 2-5 |
| Review of Management Matters | 6-7 |
| Previous Recommendations | 8 |
| <u>SUMMARY</u> | 9-43 |
| Financial Matters | 9-31 |
| Management Matters | 32-41 |
| Other Matters | 42-43 |
| <u>LONG-FORM REPORT</u> | 44-199 |
| Financial Matters | 44-149 |
| Format of Financial Statements | 44-52 |
| Overview of WFP Activity during the Biennium | 53-57 |
| Surpluses, Reserves and Fund Balances | 58 |
| Reprogramming and Refund of Unused Fund Balances | 59-60 |
| Transfers between Activities | 61 |
| Transfers from Reserves (Operational Reserve) | 62 |
| Contributions | 63-77 |
| Expenditure | 78-92 |
| Country Office Expenditure | 93-103 |
| Programme Support and Administrative (PSA) Costs | 104-111 |
| Cash Management | 112-114 |
| Investment Management Policy | 115-119 |
| Bank Accounts | 120-122 |
| Monetized Funds Held in Trust | 123-124 |
| Interest for Trust Funds and Special Accounts | 125-126 |
| Accounts Receivable and Payable | 127-144 |
| Staff-related Schemes | 145-149 |
| Management Matters | 150-159 |
| Decentralization Policy | 150 |
| Creation and Modification of "Clusters" | 151 |
| Missions of the Regional Offices | 152-154 |



| | |
|---|---------|
| Shortcomings in the Implementation of some specific tasks | 155 |
| Funding of the Regional Offices | 156 |
| Decentralization of Regional Bureaux | 157 |
| Follow-up of the Decentralization Policy | 158 |
| Evaluation of the Results of the Decentralization Policy | 159 |
| Human Resources Management | 160-174 |
| Legal Background and Personnel Policy Constraints | 160-163 |
| Budget and Post Control | 164-167 |
| Post Creation and Recruitment | 168-169 |
| Temporary Duty Assignments | 170-173 |
| Casual Labour | 174 |
| Financial Management Improvement Programme | 175-199 |
| Background and Audit Scope | 175-176 |
| The Three Strategic Support Systems Implementation | 177-182 |
| The Five Strategic Business systems Implementation | 183-188 |
| SIMSS and OASIS 1 Combined Implementation | 189-191 |
| System Introduction Activities Status | 192-193 |
| FMIP Cost and Funding | 194-196 |
| Overall Conclusion | 197-199 |
| Management of the Office of the Executive Director | 200-204 |
| Other Matters | 201-203 |
| Action taken in response to previous reports | 201-203 |
| Acknowledgements | 204 |



REPORT OF THE EXTERNAL AUDITOR ON THE FINANCIAL STATEMENTS OF THE WORLD FOOD PROGRAMME FOR THE FINANCIAL PERIOD 1 JANUARY 1998 TO 31 DECEMBER 1999

Introduction

1. My staff audited the financial statements of the World Food Programme (WFP) for the period 1 January 1998 to 31 December 1999, which were submitted by the Executive Director in accordance with Financial Regulations 12.4 and 13.1 to 13.3 of the WFP.¹

Audit Scope

2. The scope of the audit was determined in compliance with Article XIV of the Financial Regulations of the WFP as well as with the Additional Terms of Reference Governing External Audit appended thereto.
3. The audit was carried out in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. These standards require that the audit be planned and carried out so as to issue an audit opinion on the fair presentation of the financial statements and in compliance with legislative authority. The Executive Director is responsible for preparing these financial statements, and I am responsible for expressing an opinion on them.
4. The audit included an examination, on a test basis, of evidence supporting the disclosures in the financial statements. Also, it included assessing the accounting principles used and the compliance with legal authority as well as evaluating the overall presentation of financial statements. Pursuant to item 6 (c) of the additional terms of reference governing external audit, my staff requested, on 25 April 2000, information pertaining to cases of fraud or presumptive fraud known to the Programme. On 6 July 2000, my staff was provided with a reply listing nine cases considered as fraud and presumptive fraud in accordance with the criteria and current practice of other United Nations organizations, the highest amount for these misappropriations or overpayments being US\$58,000. With respect to contingent liabilities, the Secretariat informed my staff that at the time of writing this report some of the families of the victims in the Kosovo crash lodged claims totalling US\$25 million against all parties to the incident.
5. The audit enabled me to issue the audit opinion on the financial statements that is reproduced on page 102.

Review of Management Matters

6. In addition to the audit of the accounts, my staff carried out reviews under Financial Regulation 14.4 of the Programme. In 1998-99, this review of management matters focused on the implementation of the decentralization policy articulated in the Executive Director's Circular no 97/08 and on the various instruments of the Human Resources policy. Also, my staff reviewed the state of implementation of the Financial Management

¹ Unless otherwise specified, the Financial Regulations referred to hereinafter are the ones that came into force on 1 January 1998 after they were adopted in 1997 by the United Nations General Assembly and the FAO Conference.



Improvement Programme (FMIP) adopted in 1996 and examined the management of the Office of the Executive Director (OED). The conclusions of these reviews are incorporated in the present report.

7. In 1998-99 and the first four months of 2000, my staff visited 17 countries in Latin America, Africa and Asia, where they carried out management and financial audits of the WFP offices, including eight regional offices, as well as a selection of projects. Their observations and recommendations were reported separately to the Executive Director following the conclusion of each mission. They have been incorporated in the present report when and where appropriate. However, I observed that due to excessive delays (more than a year in certain cases), my staff completed their field visits for the year 2000 and issued the corresponding observations without having received replies to some of their 1999 Management Letters.

Previous Recommendations

8. The present report also includes comments on action taken in response to recommendations contained in previous reports when such matters remain significant enough to be brought to the attention of the Executive Board. Comments on such matters are either incorporated in the section where they belong or regrouped at the end of the report in a specific section where follow-up action is analysed and assessed.

SUMMARY

FINANCIAL MATTERS

Format of Financial Statements

9. As in the previous biennium, WFP prepared their 1998-99 financial statements in accordance with the funding model adopted by the Committee on Food Aid Policies and Programmes (CFA) in November 1995. The addition of new lines in Statements I, II and III for the biennium ended 31 December 1999 brings more transparency in the reporting of the operations of the biennium. More comments should, however, have been included in the notes. [paras. 44 to 51]

Overview of WFP' s Activities during the Biennium

10. In a context of sharp increase of food aid deliveries throughout the world, expressed in metric tons, in 1998 and 1999 compared to the 1996-97 biennium (+55 percent), WFP' s activities increased by 31.7 percent during the same period. From an overall point of view, this evolution is reflected mainly in a larger share of Emergency Operations within the programme categories, also of Directed Multilateral resources within the funding windows and of contributions in cash within the whole amount of contributions received. [paras. 53 to 56]

Overview of the Financial Situation of WFP

11. The reserves of the Programme were reduced by US\$126.7 million during the biennium, from US\$518.2 to US\$391.5 million, as disclosed in the bottom lines of Statements I and II (Reserves and Fund balances, end of period). Such a move is partially explained by the large-scale reprogramming and refunding exercise initiated in 1998-99. Although not new, this exercise was carried out in a much more extensive way during the 1998-99 biennium



and was reflected in the financial statements in a more transparent manner. It will be pursued during the next biennium. [paras. 57 and 58]

Reprogramming and Refund of Unused Fund Balances

12. A comprehensive review of Prior 1996 contributions, for which donors did not claim remaining funds, was carried out during the biennium. This cleaning-up exercise led to reprogramming or refunding of contributions of a global amount of US\$50.5 million recorded in the 1998-99 financial statements. However, another US\$118 million remains to be cleared, of which US\$90 million were pertaining to unidentified donors. Considering the significance of this figure and the important issues raised by the reprogramming of these funds, this question is a matter of debate and decision for the Executive Board. The Secretariat stated in response to my staff that the Executive Director would make a recommendation to the Executive Board on how to use these funds after a thorough analysis of all project and donors' contributions was completed. I commend such a decision. [paras. 59 and 60]

Transfers between Activities and from Reserves

13. The financial statements (Statement I and Notes 13 and 16) disclosed several transfers. First, US\$9 million was transferred from the General Fund to development activities. Second, within the General Fund US\$16.3 million was transferred from the reserves to the FMIP Special Account and US\$8.3 million was also transferred to cover the Programme Support and Administrative (PSA) budget shortfall. Third, US\$13.5 million was transferred from the Operational Reserve to cover expenditures under Prior 1996 Development Projects. I am of the opinion that this transfer is equivalent to a reduction of the authorized level of the Operational Reserve, which accordingly requires an Executive Board decision. The Secretariat believes that the Executive Director has the authority to use the Operational Reserve, but Executive Board approval is needed when the Reserve is used and not replenished due to the non-collection of a confirmed contribution. I recommend that the Financial Regulations be reviewed, as they do not provide for this kind of situation. [paras. 61 and 62]

Contributions

14. The valuation methods applied to contributions in kind were simplified following the introduction of a new procedure at the end of 1997, as an outcome of the implementation of the new Resource and Long-term Financing Policies (R<F). However, the audit disclosed a significant case that indicates the necessity for a more precise definition of a donor invoice and a stricter application of the procedure by the Programme. I recommend that the procedure be reviewed and made more effective. [paras. 63 to 66]
15. Contributions receivable were overstated in the general ledger and adjusted down in the 1996-97 financial statements to provide a fair estimate of the situation. A review of all pre-1996 pledges was carried out during the 1998-99 period, leading to their reduction from US\$62 million to US\$4.8 million still outstanding as at 31 December 1999. The ageing distribution of contributions receivable at biennium end was therefore more in line with the actual situation. However, to avoid new accumulation of old contributions, I recommend that an internal directive be promptly issued by the Secretariat. It should establish clear responsibilities for contribution management, impose an effective working relationship through regular meetings of the already existing interdivisional working group and regular reporting of difficulties encountered and decisions taken. [paras. 68 to 70]



16. Government cash contributions for local costs (GCCC) actually collected continued to decrease and to be substantially below the amounts requested by the Secretariat. The amount outstanding as at 31 December 1999 stood at US\$41 million. I recommend the prompt finalization and implementation of the new basic agreement to the effect that Financial Regulation 4.7 be fully enforced through adequate agreements with recipient governments or explicit waivers granted by the Executive Board. Also, I recommend that Financial Rules and instructions be issued to complement Financial Regulation 4.7 and provide the Programme with clear criteria and rules of procedures with respect to applicability of GCCC and valuation methods used to determine the amounts to be claimed. [paras. 73 to 77]

Expenditure

17. Compared to the previous biennium, Statement I discloses a rather stable level of expenditure in commodities and a sharp increase in the costs incurred for ocean transport and air, overland and internal transport, storage and handling (ITSH). The various factors explaining this increase are presented in paragraphs 80 and 81.
18. Contrary to my previous recommendation and the Secretariat's assurance that they would implement it, there was no modification of the accounting procedure to clearly distinguish unliquidated obligations from provisions and therefore dispense with the need for manual adjustments at closure. My staff noted the improvement in the process of regular clearing of old commitments but observed that the figures reported in the financial statements may underestimate the actual level of valid ITSH unliquidated obligations at biennium end. The Secretariat assured my staff that in the new system the information on the amount to be included in the provisions would be generated from a report, hence ensuring that the actual level of ITSH unliquidated obligation would not be underestimated. [paras. 83 to 86]
19. Although still not reported in the accounts, as I recommended in my previous report, the amount of cancelled obligations is now disclosed in Note 19 to the financial statements. However, the fact that biennial expenditure is reported net of the amount of cancelled obligations, which may vary substantially from one biennium to the other, affects the fair representation of the actual expenditure. Furthermore, direct useful comparison with the figure of the previous biennium cannot be made. For these reasons, I wish to reiterate my previous recommendation of a more transparent method of reporting the cancelled commitments. [paras. 87 to 89]
20. As in the 1996-97 biennium, the implementation of the direct support cost (DSC) concept in 1998-99 resulted in reclassifying a substantial amount of project expenditure, from DSCs to other operational costs, at the closure of the biennium. Although my staff's review disclosed that the basis for such reclassification was different and clearer, the absence of written guidelines has still to be noted. Also, some expenses previously charged on the PSA budget were transferred to DSCs. I noted, though, that a directive dated 21 March 2000 provided guidelines for the biennium 2000-01. [paras 90 to 92]
21. Expenditure incurred in country offices amounted to US\$580 million in 1998-99. Fundamental changes in the procedures for recording field transactions in the larger framework of the decentralization policy were implemented during the biennium. Direct access and transaction posting to the WFP Information System (WIS) in the field was already in place in one regional office by the end of last biennium. It was extended throughout 1998 and 1999 to five other regional offices and two stand-alone countries, covering 35 country offices altogether, for which all transactions were no longer entered into WIS at headquarters. My staff's review disclosed that under this policy, 71 percent of



1999 imprest accounts and 33 percent of 1999 Inter-Office Vouchers (IOV) returns were processed in the field [paras. 93 to 96]

22. The reviews my staff carried out in the field and at headquarters focused on how the changes were made. They revealed the absence of detailed instructions on the decentralization of country office returns processing, the late implementation of monitoring and checking procedures, the lack of adequate management tools to follow up the new policy and the reduction of the number of staff in the unit responsible for the implementation of the reform. Considering these weaknesses and their impact on the accounts, I recommend prompt and adequate measures aiming at reinforcing the control on the field transactions by headquarters. [paras. 97 to 103]

Programme Support and Administrative (PSA) costs

23. As the principles laid down in the long-term financing policies adopted in 1995 were not yet fully implemented in the 1998-99 biennium, the assessment of the full PSA costs incurred by WFP as well as the funding of such costs have remained a complicated issue throughout this biennium. Regarding the expenditure funded under the PSA budget, the field visits disclosed that the delineation between PSA costs and DSCs was not clear cut or backed by a consistent set of guidelines. The creation of regional offices initially funded under DSCs added to the confusion. Also, the closure instructions issued to the field offices led to a limitation of the amount of outstanding obligations charged on the 1998-99 PSA. [paras. 104 to 107]
24. The 1998-99 PSA appropriations initially set at US\$205 million were brought up to a revised figure of US\$225.6 million, as detailed in the table of paragraph 108. In the end, the final shortfall of income over expenditures for the biennial operations amounted to US\$12.7 million compared to US\$43.7 million in the previous biennium. However, my staff observed that the transfer of some costs from indirect support costs (ISC) to DSC, the utilization of DSCs to fund regional offices, the carrying-forward of outstanding obligations at biennium end and the reversal of some expenses from the FMIP to the PSA have to be taken into account for the comparison between the two biennia. [paras. 108 to 111]

Cash and Investment Management and Headquarters Accounts

25. Cash and deposits held by WFP remained substantial, reaching US\$828.8 million as at 31 December 1999 and representing 11 months of current cash expenditure. With respect to cash management, a fundamental change occurred when WFP took over the Treasury functions from FAO, effective 1 January 1999. This significant move was not supported by an adequate and timely delivery of instructions and documentation. I wish to insist on the urgency for the Programme to have the necessary instruments to manage the Treasury functions in a modern and efficient way on the basis of the study of Treasury operations initiated in January 2000. Also, I recommend that the Secretariat promptly finalize the written procedures applicable to the management of investment and reinforce its structure to ensure effective control and supervision of the external managers and of the bank accounts. [paras. 112 to 120]

Field Bank Accounts and Monetized Funds Held in Trust

26. The difficulties encountered in the field bank reconciliation and the deficiencies observed in headquarters control of these field bank accounts call for strong measures by the Secretariat to reinforce the financial discipline in this respect. I noted the implementation, in June 2000, of a database as an effective monitoring tool. Also, I



recommend that more attention be given to the management of the monetized funds held in trust, as local audits were not performed on a regular basis and as the amount of cash recorded on these accounts in some countries largely exceeded the operational requirements. [paras. 121 to 124]

Interest

27. The interest earned by WFP during the biennium amounted to US\$80.1 million, an increase of nearly 10 percent compared to the previous biennium. Out of this global revenue, US\$6.9 million was redistributed to Trust Funds, as disclosed in Note 3.6, and US\$2.8 million was transferred to the two Special Accounts related to the FMIP (US\$1 million) and the Self-Insurance Account (US\$1.8 million), as disclosed in Note 3.5. [paras. 125 and 126]

Accounts Receivable and Payable

28. Accounts receivable and payable amounted, respectively, to US\$47.1 million and US\$76.9 million, as at 31 December 1999. Accounts receivable increased by 5 percent compared to the 1996-97 biennium. During the same period, accounts payable more than trebled (from US\$25.3 million to US\$76.9 million) for reasons mainly attributable to information system difficulties incurred in 1999 by other United Nations organizations providing services to WFP. As a result, the reconciliation process with UNDP and FAO was not completed at the time of writing this report. The discrepancies were not material enough to justify a qualification in my opinion. The reconciliation should, however, be continued until all discrepancies are accounted for. In the case of FAO, the audit also disclosed the need to reconcile the payable account with the payroll transactions, since the data was generated by two different systems. [paras. 127 to 134]
29. The audit also disclosed a lack of regular monitoring of all payable and receivable accounts. On many occasions the review carried out by my staff revealed that clearing and adjustments should have been made before the closure and reflected in the financial statements. I noted that some adjustments to the accounts submitted for audit were rightly made upon my staff's request. Furthermore, the accumulation of suspense accounts was a source of concern.
30. I wish to stress the absolute necessity to clear all provisional or uncertain entries before the data migration to the new system. My comments especially apply to personal advances to staff, receivable from Host Government, project preparation costs, despatch and demurrage accounts, insurance accounts and insurance recoveries payable to donors. [paras. 135 to 144]

Staff-related Schemes

31. FAO manages two staff-related schemes on behalf of WFP: the Separation Payment Scheme (SPS) for General Service staff and the Compensation Payments Revolving Fund (CPRF) for separation due to death, disability or sickness. For the 1998-99 biennium, WFP disclosed in Statement II assets and liabilities with respect to these two schemes. However, contrary to the recommendation I made in my report on the 1996-97 FAO accounts, Statement II and Note 18 report as a liability an amount that in fact includes the excess of assets over actual liabilities. The Secretariat explained that they considered it prudent to leave the excess of investments as they were until they were provided with the result of the more recent actuarial study. I recommend that the Programme adjust its records as soon as it has been provided with the relevant information and that the Executive Board decide on the reappropriation of any excess of investment. [paras. 145 to 149]



MANAGEMENT MATTERS

Decentralization Policy

32. In May 1997 the Executive Board commended the decision of the Executive Director to implement a reform whose main objectives were to “*decentralize decision-making, moving it as close as possible to the field operations and to simplify, rationalize and speed up decisions relating to emergency operations*”. My general appreciation is that the reform, although not completed, was timely and duly launched and that the results were globally positive at this stage with respect to support given to the operations. However, my opinion is that there is much room for improvement in the administrative, financial and monitoring areas. [para. 150]
33. First, I recommend that the decision to create or modify the perimeter of a cluster be prepared against a clearly defined procedure and always formalized through a circular from the Executive Director. Second, all functions performed by the regional managers should be described in detailed instructions, and any change of the basic pattern should be documented. Third, I recommend that particular attention be given by the Secretariat to the follow-up of staff training and LTSH reviews. Fourth, I think that every effort should be made to match, as closely as possible, the posts and their funding source in the regional offices. Fifth, a clear policy should be set up regarding the situation and the responsibilities of regional bureaux. Sixth, I recommend a greater involvement of headquarters managerial structure to control, monitor and follow up the reform, and I think that the time has come to make an evaluation of the cost-effectiveness of the decentralization process. Also, I recommend that the results of the review of the decentralization process by a firm hired by the Programme in late 1999 be brought to the attention of the Executive Board as soon as they are known. [paras. 151 to 159]

Human Resources Management

34. The WFP Professional staff and headquarters General Service staff are subject to FAO staff rules, whereas UNDP staff rules apply to locally recruited staff. The lack of autonomy of the Programme with respect to the possibility of its creating contractual instruments more adapted to its specificity has proved to be a heavy constraint for several years. The very nature of the Programme’s resources and the increasing number of its emergency operations require a greater flexibility than the one provided by the FAO manual. As a consequence of the several attempts at implementing contracts more adapted to WFP’s situation over the last 15 years, the Programme now has staff members performing the same duties under different legal arrangements. A new indefinite contract was approved by FAO Council in November 1999. Its objective is to simplify and gradually unify the management of professional international staff. Also, new contracts were devised by UNDP for locally recruited staff in the field. However, the audit visits revealed slow progress in their implementation. [paras. 160 to 163]
35. The total staff expenditure reached US\$267.7 million for the 1998-99 biennium, of which US\$147.7 million was funded through the PSA budget. In fact, staff expenses could also be financed under DSCs and even under operational costs for casual labour or various other sources, such as special grants and interests from bilateral contributions. There was no precise and definite border between the first two categories. The reviews carried out in the regional and country offices, and for which results were communicated in Management Letters addressed to the Executive Director, disclosed that the Programme had difficulties in keeping an updated and accurate view of the overall situation in the field. The review conducted at headquarters also confirmed these difficulties. [paras. 164 to 167]



36. The procedure to create posts varies according to the type of funding, with more delegation given to the managers for the DSC-funded posts. Also, the audit missions often disclosed that the staffing tables reflected in the post control system at headquarters showed discrepancies with the actual situation. Notwithstanding the utilization of instruments such as the Generic Job Profiles and the rosters for recruitment of Professional staff, the filling of vacancies still remained a slow process, even if, according to the Secretariat, it compared favourably with that of other United Nations organizations. [paras. 168 and 169]
37. The review disclosed the absence of legal basis to support the incentives established by the Programme through the so-called "Parallel posts" and "Rest and Recuperation" procedures. I recommend that these procedures be introduced in the FAO manual to deal with these specific situations. I also recommend that guidelines be issued to deal with temporary duty assignments and casual labour. [paras. 170 to 174]

Financial Management Improvement Programme

38. Formally approved by the Executive Director in February 1996, the FMIP was conceived as a collection of integrated long-, medium- and short-term activities aimed at improving overall financial management at both headquarters and country office level. Major progress was accomplished in the FMIP implementation. The observations I made in my previous report regarding compliance with legal authority and funding have been addressed: the FMIP has been duly established as a Special Account, and funding up to the revised ceiling of US\$37 million has been secured. [paras. 193 to 195] However, as foreseen in my previous report, the initial deadline for the three support systems implementation proved unrealistic.
39. The audit mainly focused on the eight strategic systems, which are the main deliverables of the FMIP, accounting for about two thirds of the total cost. Together they will form WFP's new corporate information system. Many changes were made to the initial plan regarding the strategic systems components of the FMIP during the 1998–99 biennium. Originally selected for the sole procurement, finance and human resource systems, SAP R/3 should eventually also be used for travel and payroll and cover most of the requirements of the five business systems. Since WFP already had IBM as an implementing partner, all other contractual arrangements that took place after the initial SAP/IBM selection were not based on a competitive process, and IBM was the sole source of proposals. This approach was deemed beneficial to WFP in terms of practicality, cost and timeliness. As a result of the expansion in scope, the total contract value with them was almost doubled (US\$18 million compared to an initial amount of US\$9.8 million for the first contract signed). [paras. 175 to 191]
40. At the time of writing this report, only the commodity tracking system (COMPAS) can be considered fully operational. The go-live date for the SAP implementation, initially set for January 2000, had been since changed four times. [see paragraphs 178 and 188 to 190] In view of the work still outstanding, the 2 October 2000 present tentative date could not be considered realistic. [paras. 192 to 193]

Management of the Office of the Executive Director

41. My staff reviewed the various organizational, budgetary, financial and contractual aspects pertaining to OED. The audit disclosed compliance with the Programme's rules. I recommend that for simplicity, transparency and logical reasons, all the activities of the Executive Director be financed only through the PSA budget, as explained in paragraph 200.



OTHER MATTERS

Action taken in response to previous reports

✦ *Procurement*

42. I have to reiterate my previous recommendation that the Programme carefully check that the vendor and the payee are part of the same legal entity, as the audit disclosed that proper verifications were not always made. [para. 201]

✦ *Upgrading of Financial Information, Accounting and Procedural Discipline*

43. New manuals were usefully issued during the biennium. However, the Finance Manual issued in September 1994, which had not been updated since that date, notwithstanding the revision of the Financial Regulations and Rules, could not be effectively used during the 1998-99 biennium. A draft version subject to the completion of SAP was produced for my staff at the time of finalization of the present report. I commend such work. However, I noted that all too often the Secretariat took exceptions to my previous recommendations regarding the corrections of the current procedural weaknesses on the grounds of the imminent implementation of the new SAP financial system. [paras. 202 and 203]

LONG FORM REPORT

FINANCIAL MATTERS

Format of Financial Statements

44. The format of the 1998-99 Financial Statements is in accordance with the principles and funding model adopted by the Committee on Food Aid Policies and Programmes (CFA) in November 1995. The reporting of 1998-99 operations in Statements I and II is based on programme categories, while Notes 3.1 to 3.6 detail the funding of each programme category by funding windows. The operations of the previous biennium were reported along the same lines, and there was no change of accounting policies in that respect.
45. As already mentioned in my previous report, a consequence of the new representation of the Programme's operations is that the reserves and fund balances reported at the bottom of Statements I and II are "functional" in nature and do not reflect ownership. Such balances include funds at the disposal of WFP (i.e. "multilateral" contributions), funds whose use is entirely determined by the donor and funds corresponding to a variety of in-between situations. Similarly, the distribution of cash between the various programme categories disclosed in Statement II does not reflect any concept of ownership. Cash was apportioned as a balancing item for each programme category. The present accounting system of WFP does not allow for a practical way of reconstructing cash balances project by project.
46. Also, my staff noted the shortfall of income over expenditure for the bilateral operations of the biennium (US\$22.2 million). Such a situation, which already occurred in the previous biennium, is a result of an accounting treatment consistent with the accounting policy that records the contributions to bilateral operations directly as income when they are received, even if the related expenditures are not incurred in the same financial period. Such a presentation is likely to lead to the conclusion that the Programme is running a deficit in its Trust Fund activity and should be re-examined.



✧ *Disclosure of new lines*

47. The reporting differs from the previous biennium through the additions of new lines in the three statements. I concur with these changes, as they bring more transparency to the presentation of the operations and the situation of the Programme, but I think they called for further comments and clarifications in the notes.
48. In Statement I, three lines that impact the evolution of the level of reserves and fund balances between beginning and end of period were introduced at the bottom. Two of them reflect the reprogramming and the refund of unused fund balances. Note 14 states that the introduction of these two new lines is the result of a review of unused fund balances, which was undertaken for the Prior 1996 funding window for Emergency, Protracted Relief and Special Operations. However, I think that more detailed comments were needed from the Secretariat to explain the origin of the present situation, its impact on the accounts and the decisions to be made regarding the results of this reprogramming exercise. The third line relates to the “provisions for prior after-service medical costs”, following the decision of the Executive Board of 18 October 1999 to provide for the accrued liabilities with respect to this scheme. [para. 148]
49. In Statement II, the first two lines reflect the situation of the Programme with respect to the staff-related schemes concerning staff under FAO status. On the one hand the investments held by FAO on behalf of WFP to cover the Separation Payment Scheme (SPS) and the Compensation Plan Reserve Fund (CPRF) for the Programme’s eligible staff members are now recognized in the assets. On the other hand, on the liabilities side, the line “staff-related schemes” records the aggregate liabilities with respect to these two schemes and the After-service medical liabilities Plan (ASMCP), as detailed in Note 18. However, the excess of investments over accrued liabilities is also recorded under the liability side of the balance sheet for the two schemes run by FAO. This presentation does not correspond to the actual situation whereby the excess of investments belongs to the Programme as a whole. The third new line introduced on the liability side in Statement II reports the amount of monetized funds held in trust, as explained in Note 22.

✧ *Format Changes in the Notes*

50. The Trust Funds presentation (Note 3.5 of the financial statement) discloses a new category under the name of “Airlift Activities—Operation Lifeline Sudan”. Further comments are made below with respect to transactions related to this Trust Fund. Note 3.6 also reflects the operations of the Special Account created by the Secretariat after the Kosovo flight disaster. Note 21 gives details on this Special Account scope.

✧ *Rounding of Figures in the Financial Statements*

51. My staff noted during the review that the rounding procedure that was applied led to report detailed figures in Statement I and in the supporting Notes 3.1 to 3.6 that could represent differences of plus or minus US\$0.2 million, with the actual figures disclosed in the underlying documents. However, this problem did not affect the total amount reported to the Executive Board by the Secretariat.

✧ *Interim Financial Statements*

52. When reviewing the interim accounts for the year ended 31 December 1998, my staff observed that they did not contain a full set of notes. Financial Regulations do not state that the interim accounts are subject to a formal certification, neither do they provide that they are submitted to the Executive Board. However, in accordance with the provisions of the



Finance Manual, the Secretariat agreed that it would be good practice to prepare annual accounts in a similar format to the biennial financial statements. I commend such a decision whereby the Secretariat will, in future, prepare interim accounts with appropriate notes and disclosure.

Overview of WFP Activity during the Biennium

53. In 1998-99 global food aid deliveries expressed in metric tons (MT) increased sharply. According to the WFP-Interfais Food Aid Flows Report, total deliveries increased by 12.2 percent in 1998, compared to 1997, and they soared by 75.1 percent in 1999, compared to 1998, as summarized in the table below. This was a complete change from the two previous biennia, where deliveries fell by more than 55 percent between 1992-93 (32.59 million MT) and 1996-97 (14.62 million MT). In this context, WFP deliveries have increased, but not as steeply as global deliveries.

| | 1996 | 1997 | 1998 | 1999 | 1996-97 | 1998-99 |
|----------------------|------|--------|--------|--------|---------|---------|
| Global in million MT | 7.25 | 7.38 | 8.28 | 14.50 | 14.63 | 22.78 |
| Increase in percent | | + 1.8 | + 12.2 | + 75.1 | | + 55.7 |
| WFP in million MT | 2.19 | 2.57 | 2.85 | 3.42 | 4.76 | 6.27 |
| Increase in percent | | + 17.4 | + 10.9 | + 20 | | + 31.7 |

54. Commodity and cash contributions to the Programme rose from US\$2,520 million in the previous biennium to US\$2,780 million in the 1998-99 biennium, an increase of 10 percent. Contrary to the 1996-97 biennium, the share of income in commodity, including "Cash in lieu of commodities", decreased in real and relative terms: US\$1,390 million in 1998-99 compared to US\$1,440 million in 1996-97 (-3.5 percent). The share of "Other contributions" in cash increased steeply: US\$1,390 million in 1998-99 compared to US\$1,080 million in 1996-97 (+28.9 percent).

55. The small variation in the overall commodity contribution combined a more than 20 percent decrease in both Development and Protracted Relief Operations (PRO) programme categories, with an increase of the same magnitude for the Emergency Operations. As for cash contributions, the increase of receipts averaged 10 percent for Development and PRO and almost 40 percent for Emergency Operations (EMOPs). Cash income for Trust Funds increased almost by a factor of two and a half.

56. Multilateral contributions, as opposed to contributions directed to specific programmes and projects, represented a little over one fourth of total contributions to the Programme (one third in 1996-97), as shown in the following table.

| (in US\$million) | Amount | percent |
|-----------------------|----------------|--------------|
| Multilateral | 721.0 | 25.9 |
| Directed Multilateral | 1 963.5 | 70.6 |
| Bilateral | 72.1 | 2.6 |
| Prior 1996 | 24.3 | 0.9 |
| Total | 2 780.9 | 100.0 |



➤ *Overview of the Financial Situation of WFP*

57. The figures disclosed in Statement II, excluding contributions receivable and contributions not yet received, reflect an overall increase of the Programme liabilities (+US\$195.5 million) that outpaced the increase of assets (+US\$68.8 million) and contributed to an important negative variation of the reserves and fund balances (-US\$126.7 million). To give a better assessment of these figures, one has nevertheless to bear in mind the following:

- First, the net increase of the payable offsets the rise in the level of cash. A significant share of the payables as at end of biennium is due to FAO and UNDP payables. The refunding of large amounts of insurance recoveries payable to donors should also reduce the level of cash, as there is a backlog that should be paid in 2000-01.
- Second, the large-scale exercise of reprogramming and refunding unused fund balances (US\$50.5 million), once the funds are utilised, will eventually lead to a decrease of the level of cash and therefore to the amount of earned interest. The Programme has accumulated over its existence the excess of cash paid by donors over the actual costs of the projects that were managed. These outstanding unused balances will be progressively phased out. It is likely that the ratio of apparently untied reserves to the total of assets will continue to be significantly reduced in the coming years.

| (in US\$million) | 1994-95 | 1996-97 | 1998-99 |
|--|---------|---------|---------|
| (1) Fund balances | 284.9 | 461.2 | 348.9 |
| (2) Assets | 1 789.9 | 1 492.1 | 1 929.0 |
| (3) = (1) / (2) Ratio (percent) | 15.9 | 30.9 | 18.1 |
| (4) Assets contributions receivable excluded | 644.4 | 826.4 | 896.1 |
| (5) = (1) / (4) Ratio percent | 44.2 | 55.8 | 38.9 |

- Third, the US\$73.2-million increase in outstanding obligations and provisions (+26 percent) was actually lower than the overall expansion of Statement II (+29 percent).
- Fourth, the after-service medical liability (US\$44.8 million) that was financed in the 1998-99 biennium did not arise during that period. The provision funded put the financial records in accordance with the actuarial liability that the Programme would have had to finance in coming biennia anyway. From 1998-99 onwards, new accruals have been provided for. The amount of this provision will remain steady as long as the level of activity of the Programme does not change abruptly. As a matter of fact, in 1998-99 the disbursements for past liabilities almost equalled the accrued liability set aside for the biennium. Therefore, the assets tied up to that provision will continue to generate a sizeable interest income.

Surpluses, Reserves and Fund Balances

58. Statement I discloses a consolidated “shortfall of income over expenditure” that reflects the outcome of the operations of the biennium, bearing in mind the cancellation of prior period obligations and provisions that resulted in a reduced level of expenditure as



explained in note 19 and in further remarks made below (expenditure). This shortfall of US\$35.8 million, as compared to an excess of US\$223 million in the previous biennium, contributed to diminishing the level of the reserves and funds balances of the Programme. Also, as stated above, three new lines introduced at the bottom of Statement I have an impact on the level of reserves and explain their reduction from US\$518.2 million to US\$391.5 million as at 31 December 1999.

Reprogramming and Refund of Unused Fund Balances

59. The introduction of this new line at the bottom of Statement I is a result of a comprehensive review of contributions accumulated throughout time for which donors have received final reports and not claimed for remaining funds. I commend such a clean-up exercise, which was a necessity for all contributions made before the adoption of the new funding model (Prior 1996 contributions). Although donors are familiar with the notions of reprogramming or refunds of unused fund balances already implemented in the past, I think that an operation of such magnitude with substantial potential impact on the finance of the Programme deserves more explanations than those provided under Note 14:
- First, it should be observed that the figures recorded in the 1998-99 financial statements (US\$48.2 million for reprogramming and US\$2.3 million for refunding) represent only the first step in the whole process. Some unspent contributions amounting to US\$28 million, for which donors are identified, have still to be reprogrammed or refunded according to donors' decisions. Also, another US\$90 million remains to be cleared with respect to Prior 1996 contributions for which donors could not be identified.
 - Second, the US\$48.2 million were reviewed and already cleared after the donors agreed to a change of utilization of their unspent contributions. Reserves and fund balances were decreased accordingly, and the amount was recorded as income of the 1998-99 biennium.
 - Third, the real impact of the reprogramming exercise on the level of the reserves and fund balances of the Programme cannot yet be evaluated. However, the mechanism of this reprogramming exercise ultimately leads to the diminution of the reserves when the expenditure related to the reprogrammed contribution is incurred.
60. I think that such a situation raises several important issues, which are a matter of debate and decision for the Executive Board. The utilization of these reserves due to the lack of known contributors should be decided by the Member States. Also it should be noted that by eventually reducing the amount of cash backing the reserves, the reprogramming of contributions would have an automatic impact on the interest income that currently represents a substantial source of funding for the General Fund and the PSA budget.

Transfers between Activities

61. All the transfers between activities and the transfers within the General Fund are disclosed in Note 13. There is a net transfer of US\$9 million from the General Fund to Development activities. This transaction is the result of an earlier decision of the Executive Director to fund Development activities with additional cash contribution to the General Fund. A transfer of US\$1.5 million from Development activities to Emergency Operations corrects a previous error. The main transfer within the General Fund that covers the PSA shortfall of income is commented on in the relevant sections of the present report. The expenses already incurred for the special account created after the Kosovo flight disaster



(US\$0.4 million) was also financed by a transfer from the Other General Fund category. There was also a US\$16.3 million transfer to the FMIP Special Account.

Transfers from Reserves (Operational Reserve)

62. An amount of US\$13.5 million was transferred from the Operational Reserve to cover expenditure for Development projects under the Prior 1996 operations. As a consequence, the level of the Operational Reserve decreased from US\$57 million to US\$43.5 million in Statement II. However, I cannot concur with the explanations disclosed in Note 16 to justify such utilization of the Operational Reserve. In fact, this transfer was decided after the cancellation of pledges that were backing the transfer to the Operational Reserve of an assumed excess of income over expenditure in the 1996-97 accounts (cf. Note 3.1 to the 1996-97 financial statements). The Programme's regulations pertaining to the Operational Reserve (Financial Regulation 10.5 and decision 1997/EB.A/7) enable the Secretariat to use this reserve "to ensure the continuity of operations in the event of a temporary shortfall of resources", provided that "firm pledges have been announced, pending receipt of pledged contributions". It is my opinion that the transfer did not meet these legal requirements since it was made to address not a temporary shortfall of resources but a permanent one. It therefore led to a reduction in the authorized level of the Operational Reserve, and as such requires a decision of the Executive Board. The Secretariat believes that the Executive Director has the authority to use the Operational Reserve, but Executive Board approval is needed when the Reserve is used and not replenished by non-collection of a confirmed contribution. At the time of completion of this report, my staff had been given the assurance that such a request for approval would be submitted to the Executive Board at its October 2000 session. Furthermore, I recommend that the Financial Regulations be reviewed, as they do not provide for this kind of situation.

Contributions

📁 **Commodity Contributions**

63. The Programme receives both commodity and cash contributions. Regarding the valuation of contributions in kind, I stated in my previous report that a new procedure was issued at the end of 1997, to become effective in 1998. This new procedure, based on a uniform valuation methodology and a simplified pricing and accounting system, was implemented during the biennium and represented an improvement when compared to the previous practices. It was set up by the Secretariat in November 1997 for application of General Rule XIII.6 (Valuation of commodity pledges and services) and Financial Rule 104.4. It states that when a pledge is confirmed (and later when the commodity is shipped), the pledge (then the receipt) is recorded at the donor price when an invoice has been provided, and at the world market price in all other cases. However, for an important donor that does not send invoices for Emergency contributions, the commodities are valued at the estimated price based on the contractual document issued when the pledge is made. Such a practice, which I question, automatically leads to some discrepancies between estimates and actual situation. These differences are usually of a small amount. However, my staff's review of contributions, which was based on a judgmental sample, disclosed a significant case where the valuation method and its application by the Programme led to a substantial difference between estimates and actual value.
64. In this case, part of the contribution consisted of pulses, a generic notion covering a wide range of different commodities, and was valued at an estimate composite price of US\$613 per MT. The actual shipment (different kinds of cheaper pulses, such as lentils and peas)



remained valued on the same basis. As a result, the figure booked and retained by the Programme was more than double the actual value.

65. The argument that the initial and contractual document could be considered as a donor invoice was all the more questionable in this case, from my point of view, in that there was no specification of the delivered commodities contrary to the provisions of Financial Rule 104.4. Also, the discrepancy was such (US\$9.1 million was posted when the actual value was only US\$4.3 million) that my staff deemed it necessary, during the audit, to ask the donor to confirm the valuation made by the Programme. They were provided with a reply from the donor stating that “they do not amend the initial documentation from funding estimates to actual costs as they are identified due to the management burden”. Also that “the change of commodity could very well have resulted in an over 50 percent commodity (pulses) cost savings under the initial estimates”.
66. Having required and not received further confirmation from the Programme that the donor was aware of the amount posted in the accounts and did not challenge that figure, an adjustment to the financial statements was requested. I think that the donor confirmation was all the more important in that the support costs incurred by him are normally based on the operational costs including the price of commodities. However, the Secretariat did not follow up my staff’s recommendation, considering that the estimation method applied in this case was consistent with all Emergency contributions provided by this donor. This case is significant enough to raise procedural issues and entails the following recommendations:
- First, I think that clarifications are needed regarding the status of documentation recognized as donor invoice. An estimate, especially when the commodities are not specified, should not be considered an invoice.
 - Second, I recommend that a more detailed procedure be issued and implemented by the Programme that includes the utilization of more effective control to avoid the recurrence of such anomalies and the possibility to correctly adjust its records on actual costs.

📁 **Cash in Lieu of Contributions**

67. Expenditure in commodities is accounted for at the value of the corresponding income in commodities. As a result, commodity income and commodity expenditure should always be equal. However, commodity income includes “cash in lieu of commodities” (CLC). In line with the accounting policy of WFP, such cash is recorded as income when received. Until such cash is spent on procurement of commodities, it represents an excess of commodity income over expenditure in commodities. At the end of 1999, this excess amounted to US\$34.5 million.

📁 **Contributions Receivable**

68. Contributions receivable, representing pledges in kind and in cash not yet received from donors, rose by 55 percent from US\$665.7 million at the end of the 1996-97 biennium to US\$1,032.9 million as at 31 December 1999. In my previous report, I stated that my staff’s final review had resulted in adjusting down the amount of contributions receivable in respect to pre-1996 pledges. Following this global adjustment in the 1996-97 financial statements, a review of all pre-1996 pledges was carried out throughout the 1998-99 period, leading to their reduction from US\$162 million, as recorded in the financial systems, to US\$4.8 million still outstanding as at 31 December 1999. My staff was informed that this latter figure would be written off after the two donors mainly concerned



with these receivables confirmed these cancellations. I recommend such a clean-up process be achieved before the data migration to the new financial information system.

69. Altogether the present ageing situation of contributions receivable at biennium end (5.67 percent of the amount of remaining receivables coming from 1996-97 pledges, 23.65 percent from 1998 and 70.20 percent from 1999) appear more in line with the actual situation of the Programme. To prevent the accumulation of invalid contributions building up again, I recommended in my previous report that a clear definition of responsibilities be established between the various administrative units concerned with respect to registration of pledges, allocation of resources and monitoring of the outstanding value of pledges. I recommended also that the pledge management process be thoroughly reviewed and upgraded.
70. With respect to contributions management, the implementation since early 1999 of a new information system, the Resource Mobilization System (RMS), can be recognized as progress. However, some difficulties and unresolved issues still existed at biennium end (see para. 185). Furthermore, a clear definition of responsibilities for each of the three units involved in the contribution management process was never set out in writing. The reviews my staff performed between May 1999 and the final audit mission disclosed very slow progress in the establishment of a strong and effective working relationship amongst the three units concerned. Apart from the operations with respect to the Prior 1996 contribution cleaning exercise, no action was taken for the definition and implementation of detailed procedures in this area. Good management practices, such as the production of an ageing analysis of contributions receivable and necessary adjustments and write-offs of contributions, were not performed on a regular basis. It was observed that progress had to be made regarding the call forward of cash from donors and that the working relationship between the units responsible for Treasury and Resources should be clearly defined and implemented. I recommend that an internal directive be promptly issued by the Secretariat to establish clear responsibilities for contribution management, and to impose an effective working relationship through regular meetings of the already existing interdivisional working group and regular reporting of difficulties encountered and decisions taken.

Full-Cost Recovery Policy and Implementation

71. In November 1995 the CFA adopted a new funding model based on the principle that full cost recovery be applied to all programme categories undertaken by WFP. This model was reviewed twice. The latest revision was examined by the Executive Board at its first 1999 regular session. It adopted the Report of the Formal Working Group on the Review of WFP's Resource and Long-term Financing Policies and approved the recommendations contained therein. The Executive Board noted that the principle of full cost recovery from each donor in the financing of WFP continued to be fundamental to the Resource and Long-Term Financing policies of the Programme. Also, a major change resulting from the 1999 decision is the adoption of a single rate for indirect support costs (ISCs) levied on contributions, whatever the programme category, to fund PSA costs. This measure took effect on 1 January 2000.
72. My staff noted that for most of the contributions, the full cost recovery principle is met and can be checked when the pledges are released and the contributions paid. However, they could not be provided with a clear and written indication with respect to the way the Programme monitors the implementation of the full cost recovery principle in the case of an important donor. In this case support costs are not directly accounted for on a contribution-by-contribution basis but are paid on aggregate bases through different channels. I think that such a specific process should have called for a well-documented



procedure allowing the Programme to clearly disclose the way they control the implementation of the full cost recovery principle in that case. I recommend that such a procedure be quickly issued.

📌 **Government Cash Contributions for Local Costs (GCCC)**

73. In 1998-99, GCCC received what amounted to US\$2.4 million, a decrease of more than 30 percent from the US\$3.4 million cashed in the previous biennium. In 1998 and 1999, efforts were made at headquarters to provide the country offices with clearer guidelines and information regarding contributions to be collected from Host Governments. Also, my staff noted that the monitoring tools were improved and that the Programme has a better view of the situation with respect to the outstanding contributions for each country. Reconciliation between budgetary and accounting data is now carried out on a regular basis.
74. However, the reduction of the amount of GCCC collected during the biennium and the results of the reviews performed in the field and at headquarters by my staff provide clear indications of a lack of real progress towards an efficient and effective management of the whole issue. With respect to outstanding requests and the amounts to be sought from the governments, the field visits often disclosed different views between headquarters and the country office. In fact, as already stated in my previous two reports, legal and financial matters are closely intertwined.
75. Financial Regulation 4.7 requires government of recipient countries “*to contribute substantial portions of the costs of the Programme’s Country Offices*”. It has now been made very clear for many years that the enforcement of this requirement can be achieved only if the basic agreement with the recipient countries includes specific provisions creating a legal obligation to pay. The audit revealed that the situation described two years ago was very much the same. Country agreements were not revised; calls for GCCC continued to be issued without bearing any legal force. Also, no request for waivers was submitted to the Executive Board, and the decisions to seek or not to seek GCCC were taken by the Secretariat in a discretionary way, without reference to clearly defined criteria and rules of procedure.
76. My staff noted that as a result of the insufficient attention brought to this matter for a long period, out of US\$57 million requested from recipient countries by the Secretariat in respect of years 1987 to 1999, US\$41 million was still outstanding as at 31 December 1999. Over the 1994-99 period, the annual rate of recovery of the requested contribution varies from a minimum of 20 percent in 1997 to a maximum of 36 percent in 1994. At the time of writing this report, the Secretariat pointed out that it was in the process of finalizing a standard agreement to be negotiated and signed with all the countries where WFP is represented.
77. In view of the above, I wish to recommend the prompt finalization and implementation of the basic agreement to the effect that Financial Regulations be fully enforced through adequate agreements with recipient governments or explicit waivers granted by the Executive Board. Then the contributions based on these legal obligations should be accounted for as receivable. Also, I recommend that Financial Rules and instructions be issued to complement Financial Regulations 4.7 and provide the Programme with clear criteria and rules of procedures with respect to applicability of GCCC and valuation methods used to establish the amounts to be claimed.



Expenditure

78. As explained in the summary of significant accounting policies (Note 2.E.16), expenditure includes disbursement, unliquidated obligations to third parties and a provision for future disbursement, representing an estimate of costs remaining to be met in respect of internal transport, storage and handling (ITSH) of commodities shipped during the biennium.

✧ *Expenditure in Commodities*

79. The overall level of expenditure in commodity decreased by a small factor of 1.2 percent in 1998-99, to US\$1,357.2 million. This was the result of two opposite trends. First, expenditure for commodity in kind that reflects the level of in kind donations rose by 11.3 percent, to US\$905.3 million. Second, purchase of commodities out of cash in lieu of commodities was 19.4 percent below the 1996-97 level, to US\$451.5 million. At the end of the biennium, the amount corresponding to the commodities purchase contracts not yet disbursed (outstanding obligations) at US\$27.2 million was US\$42.9 million lower than at the end of 1997. This meant that the actual amount disbursed for food purchased—US\$494.4 million—was only 8.1 percent lower than the US\$538.3 million disbursed in 1996-97.

✧ *Sea Freight*

80. In 1998 and 1999, WFP ocean transport expenditure amounted to US\$395 million for about 5.7 million MT transported. This was substantially more than the previous biennium (US\$220.8 million and 4 million MT). In addition to the growth in tonnage transported, the higher expenditure resulted from the increased percentage of lined shipments (19.2 percent of the shipped volume instead of 14.8 percent in 1996-97), an increased volume shipped through the flag carrier of a very important donor and the price of bunkers. The average freight rate for each shipped MT was therefore 13.6 percent higher than in 1996-97. This increased shipping activity also resulted in a rise in the number of outstanding shipping contracts. The value of contracts entered in 1998-99 remaining to be disbursed at the end of 1999 (outstanding obligations) amounted to US\$70.6 million, an increase of US\$54.2 million compared to the situation at the end of 1997 (US\$16.4 million).

✧ *Air, Overland and ITSH*

81. The expenditure, including the new Trust Fund Operation Lifeline in Sudan amounted to US\$522.9 million, an 84 percent increase over 1996-97. However, as explained in paragraphs 87 to 89, the accounting principles governing the Programme do not lead to giving a real significance to this difference. The higher level of outstanding commitments in 1998-99 compared to the previous biennium (i.e. US\$55.9 million against -US\$37.9 million) was the result of an increased level of activity.

✧ *Other Operational Costs*

82. These expenses include all operational costs except commodities, transport or storage. Two thirds of them are incurred as Special Operations or Trust Funds. They amounted to US\$125 million in the biennium, approximately the same level as in the previous biennium. They included the share of Special Operations manually reclassified as Operational Costs. [see Direct Support Costs, para. 91]



✧ *Outstanding Obligations*

83. Outstanding or unliquidated obligations (ULOs) as at 31 December 1999 amounted to US\$212.1 million, an increase of nearly 20 percent when compared to the situation at the end of the previous biennium. For the most part these outstanding obligations were in respect of commodity purchases (US\$27.2 million), overland and sea freight (US\$99.7 million), ITSH (US\$21.6 million) and travel (US\$11.2 million).

✧ *Provisions for Future Disbursements*

84. Provisions for future disbursements in respect of ITSH amounted to US\$140.2 million as at 31 December 1999 as compared to US\$101.9 million as at 31 December 1997. As in the previous biennium the delineation between outstanding ITSH commitments reported as unliquidated obligations (US\$21.6 million) and as provisions (US\$140.2 million) did not flow from the accounting records but was based on a general review of the status of such commitments at the closure of the biennium.

85. In my report on the 1996-97 accounts, I had recommended that the accounting procedure for posting ITSH expenditure be modified to clearly distinguish, in the general ledger, unliquidated obligations from provisions and therefore dispense with the need for manual adjustments, which are less accurate. Despite the assurances given at that time by the Secretariat that such changes would be implemented in the course of the 1998-99 biennium, no measures were taken to introduce this accounting procedure in the general ledger. My staff was informed in the autumn of 1998, very soon after the Secretariat had committed themselves, that due to the fact that the new financial information system was soon to be implemented it had been estimated non-cost-effective to modify the legacy system. However, to facilitate the review of outstanding obligations and provisions with respect to the postings of ITSH in the financial statements, my staff agreed on the following principles:

- First, that the Commitment Requests (CRs) raised prior to 1 January 1999 would be carefully examined to distinguish surrenders, provisions and outstanding obligations.
- Second, that for CRs after 1 January 1999, the review would only divide them between obligations and provisions without questioning the validity of provisions regarding ITSH.

86. My staff did not question the fairness of the whole amounts posted as provisions and outstanding obligations in the financial statements. However, the figures reported by field offices and unexplained differences they revealed point at different accounting treatments. As a result, the above-mentioned figure of US\$21.6 million might underestimate the sum of all valid ULOs (i.e. supported by a legal commitment of the Programme). On the contrary, provisions are likely to be overestimated. Also, it is worth noting that the amounts recorded as a whole for future disbursements are higher than the actual needs of the Programme. The underlying calculations for the setting-up of these provisions have often overestimated the actual ITSH cost.

✧ *Cancellation of Outstanding Commitments*

87. Under the accounting method implicitly retained by WFP, biennial expenditure is reported in the financial statements net of the amount of cancelled outstanding commitments, i.e. cancellation of commitments set up in prior periods reduces the reported expenditure for the current period. Since the flow of outstanding commitments cancelled may vary substantially from one financial period to the next, it may affect the fair representation of expenditure in the financial statements of any given biennium. This could



have been the case for the operational expenditure pertaining to airfreight, overland and internal transport, storage and handling of commodities. These expenditures amounted to US\$522.7 million in 1998-99, a sharp increase compared to 1996-97 (US\$284.1 million). However, the real level of increase corresponding to the higher operational activities could not be directly ascertained since the amounts of cancelled obligations in the previous biennium remained unknown to the Programme.

88. In my previous report (see paragraphs 48 and 49) I recommended that WFP consider the advantages and feasibility of a more transparent method of reporting cancelled commitments. The Secretariat did not follow my recommendation that “*commitments cancelled after a reasonable period of time (e.g. one year) ... be reported as a credit to donors*”. Nevertheless, this amount is now disclosed in Note 19 to the financial statements. Cancelled obligations and provisions for ongoing projects amounted to US\$75.8 million. Although this effort of clarification should be commended, I am still of the opinion that these cancellations should appear in the actual financial statements and not only in the notes.
89. Finally, regarding the clearing process of old outstanding commitments, I would like to stress that it should be an ongoing process, with reminders regularly issued and checks frequently made by headquarters. My staff noted the efforts made by the Secretariat to issue clear instructions to the field regarding the principles to apply for these exercises. However, my staff’s field missions still revealed deficiencies with respect to this process. Also, they disclosed the weaknesses in the updating and monitoring process of the LTSH matrices in spite of the instructions given by headquarters to the field in the matter of rate reviews. I recommend that greater attention be given to this question, as an inappropriate level of estimates for LTSH can not only be detrimental to projects and donors but also have a negative impact on the accounts and be a source of difficulty when it comes to correcting them.

📌 **Direct Support Costs**

90. Direct Support Costs (DSCs) were introduced in the 1996-97 biennium following the implementation of the full cost recovery principle. The rate that is to be levied is identified in each project’s budget. The recoveries form part of the donor’s contribution. In fact, DSC recoveries and expenditure were not consistently applied during the 1996-97 biennium. Therefore, there is little relevance in comparing the 1996-97 expenses to those incurred in 1998-99. The DSC expenditures in 1998-99 amounted to US\$269.5 million. As in 1996-97, this amount did not flow directly from the general ledger figures.
91. First, part of the Special Operations expenses (US\$37.5 million out of US\$67.5 million) were manually reclassified as Other Operational Costs. In 1996-97 all the Special Operations were reclassified as Other Operational Costs, and in my report I criticized the fact that this reclassification was not properly documented. For the 1998-99 biennium, the reclassification was conducted on different criteria. According to the documentation provided to my staff, the Secretariat decided to categorize as Other Operational Costs only expenses that were directly linked to the implementation of operations, such as heavy lifting equipment and tools. However, my staff observed that the principles that guided this accounting treatment were not documented and that some errors were made in the splitting of expenses. They noted though that a directive dated 21 March 2000 provided some guidelines for the biennium 2000-01.
92. Second, regarding the transfers of expenses previously charged on PSA to the DSC category, the financial statements reflect only the manual transfers related to Trust Funds



(US\$0.8 million). This issue is more comprehensively addressed in paragraph 108 hereunder.

Country Office Expenditure

93. A substantial proportion (nearly 30 percent) of WFP expenditure is incurred at field office level. During the biennium, such expenditure amounted to some US\$580 million, an increase of 16 percent when compared to the figure for the previous biennium (US\$500 million). Out of this total, US\$420 million was processed through the imprest accounts managed by Country Directors (or regional managers) and US\$160 million through the local representation of the United Nations Development Programme (UNDP), which charges back such payment to the WFP via the IOV system. Regarding the evolution of the respective utilization of these two systems to process field transactions, it is worth pointing out that there was a clear move towards a transfer from the IOV to the imprest system. Factors such as the cost of the IOV system charged by UNDP, the greater flexibility provided by the imprest system for the country offices, especially in the case of Emergency Operations, and the improvement of banking facilities in some countries previously deprived of them can explain this gradual substitution during the biennium. In fact, excluding monetization and petty cash accounts, the number of bank accounts as recorded in the books of the Programme rose from 80 to 159.
94. However, contrary to the substantial reduction which was noted at the end of the previous biennium, total cash holdings at country offices rose by a significant amount: they reached US\$28.7 million, as compared to US\$14.0 million at the end of 1997. This resulted partly from an increase of US\$9.1 million from the monetized funds held in trust for reasons explained above. Also, one of the field audit missions in 1999 revealed that, notwithstanding the new procedures for replenishment of country office bank accounts, local receipts were not always taken into account in the requests for cash replenishment submitted to headquarters. Finally, considering the year 2000 problems, some country offices took steps to ensure local availability of funds at biennium end at a level higher than a normal situation would have required.
95. Fundamental changes in the procedures for accounting for field operations in the larger framework of the decentralization policy were implemented during the biennium. Direct access and transaction posting to the WFP Information System (WIS) in the field was already in place in one regional office by the end of last biennium. Then, in 1998 and 1999, access was given to five other regional offices and two stand-alone countries, altogether covering 35 country offices for which all transactions (imprest and IOVs) are no longer input into the WIS system at headquarters. My staff's review disclosed that under this policy, 71 percent of 1999 imprest accounts and 33 percent of 1999 IOVs returns were processed in the field.
96. Considering that the decentralization policy implied shifting the responsibility of accounting for field operations to regional finance and administrative officers, I made several recommendations in my previous report so that such a move be carefully prepared. Issuance of organization-wide financial and accounting instructions, to ensure standard treatment of transactions, definition of controls to be carried out on field transactions and setting-up a strong central unit to implement this reform and provide guidance to field personnel, were indicated as among the essential measures to be taken.
97. The reviews my staff carried out in the field and at headquarters focused on these aspects. They aimed at assessing the degree of implementation of these recommendations and checked the reality of action taken up to July 1999 as indicated by the Programme in the progress report submitted to the Executive Board (WFP/EB.3/99/3-B) at its Third



Regular Session in October 1999. They disclosed serious internal control weaknesses regarding the control and monitoring of the accounting decentralization process by headquarters and a lack of financial discipline already outlined in my previous report. Detailed findings were communicated separately to the Secretariat of WFP. They are summarized below.

98. First, it was noted that contrary to my recommendations, headquarters issued no detailed instructions on the decentralization of country office returns processing. These shortcomings were observed in particular with respect to the schedule of the WIS access transfer, the role and functions of the regional offices (definition of responsibilities and procedures) and the operational guidelines. Only three short directives, issued in 1998, stated in general terms the framework for the delegated responsibilities and the control maintained by headquarters. The processing guide was still in a draft status at the end of the biennium and the Country Office Accounting Guide, issued in August 1998, did not provide specific indications in that respect. It is true that training sessions were organized on an average of two weeks in each decentralized office, however, these sessions cannot be considered a substitute for adequate and precise guidelines.
99. Second, this lack of guidance and control appeared all the more worrying in that the monitoring and checking procedures that were supposed to be implemented at headquarters level were late, limited and consequently of no effect on the financial records of the 1998-99 accounts. Furthermore, the statements made in the above-mentioned progress report were not in agreement with the facts disclosed by the audit. Action was seriously initiated in that respect only when my staff started questioning the reality of measures reported in the progress report. In fact, only one request for supporting documentation had been sent to a regional office before October 1999.
100. Third, no adequate management tool was devised to measure, monitor and follow up the impact of the new policy at a global level. As an example of these deficiencies, the above-mentioned figures indicating the amount and percentage of expenditure processed in the field were not readily available and known only on an incomplete basis from the headquarters unit responsible for field transactions at the time of the review.
101. Fourth, the reduction of the number of staff in the central unit responsible for the implementation of the reform from 11 to 7 between December 1998 and December 1999 is contrary to the necessity of setting up a strong central unit to implement this reform and provide guidance to the field, as recommended in my previous report.
102. Consequences of these weaknesses and their impact on the accuracy and the fairness of the accounts of the biennium the audit revealed the following:
 - Transactions with regards to the IOV of one country office for one month were not posted in the financial systems.
 - There was a substantial increase of the country office suspense accounts balances from US\$2.6 million as at the end of 1997 to US\$3.6 million at the biennium closure (they were down to US\$1.5 million as at 31 December 1998). At the time of writing the present report the clearing exercise was still very limited and headquarters was not in a position to provide clear and satisfactory explanations to my staff regarding the origin and nature of the suspense items.
 - An insufficient discipline regarding the reconciliation of field returns with supporting bank statements was observed.
 - Headquarters encountered difficulties in having an accurate knowledge of the situation of field bank accounts, as detailed below under the paragraph dealing with field bank accounts.



- Interest earned in 1999 on one of the field bank accounts included in the audit sample was not posted as expenditure in the 1998-99 biennium, as should have been the case.
103. Although these errors or deficiencies were not material enough to justify a qualification of my opinion on the corresponding accounts, I consider that they raise serious internal control issues and support my observations regarding the insufficient attention given to the decentralized accounting process by headquarters. Considering the above, I wish to strongly recommend the prompt implementation of the following measures aimed at improving the organization and the methods of control on field processing, as they are of good practice whatever financial information system is used:
- The headquarters unit in charge of monitoring Field Accounting should be adequately reinforced;
 - The control activity by this unit on decentralized processing should be an ongoing process throughout the biennium so that global evaluation at headquarters and lessons to be learned and passed to the decentralized offices be timely and effectively carried out;
 - Adequate and monthly reporting should be required from the regional offices on the processing and controls implemented in their clusters so that headquarters are in a position to follow up on the actual situation and take corrective actions if necessary.

Programme Support and Administrative (PSA) Costs

104. The principles laid down in the long-term financing policies adopted in 1995, whereby the full cost recovery principle calls for PSA costs to be covered by GCCC and ISC levied on contributions to operational costs at predetermined rates approved by the Executive Board, were not yet implemented in the 1998-99 biennium. As a matter of fact, GCCC and ISCs did not fully cover PSA expenses. The assessment of the full PSA costs incurred by WFP as well as the funding of such costs have remained a complicated issue during this biennium as a result of the absence of a comprehensive policy addressing the matter. I had already noted this point in my previous report. It should also be observed that the creation of regional offices during the biennium added to the complexity, not to say the confusion, as detailed below (see also para. 156).

✦ *PSA Accounting*

105. When visiting the field throughout the biennium, my staff noticed that the delineation between PSA—and DSC-funded activities was neither clear nor backed by a consistent set of guidelines. Most regional offices were funded when they were created with DSCs only, and later were given PSA allotments as well. One of the main and lasting emergency operations was never given any PSA allotments, although a fully staffed country office was running it from its inception.
106. The field missions also disclosed that the country office reviews of the ULOs to be posted at the closure of the biennium against the PSA allotments were not conducted in accordance with the Programme accounting standards. In some cases the country office declared as ULO expenditure, which was not really legally committed before the end of the year. Also, my staff observed that instructions were given by the Secretariat in such a way that they implied a limitation of the amounts to be charged against the PSA allotment without any consideration given to the validity of the ULOs. The global impact of these practices on the financial statements and on the PSA budgetary implementation report, although obvious, could not be calculated, as my staff's findings were limited to a reduced



sample. However, I wish to recommend in future a more rigorous method of reviewing and reporting ULOs to be posted at biennium end against the PSA budget.

107. As already mentioned, the line “airfreight, overland and internal transport, storage and handling” in Statement I includes a new Trust Fund, created by the Secretariat in 1999. Operation Lifeline Sudan records the expenses incurred for airfreight on behalf of non-governmental organizations. The services provided by the Programme are prepaid (US\$20 million of income for the biennium) and an ISC contribution is levied on the payment. The level of operations in 1998-99 amounted to US\$20.5 million. My staff noticed that the ISC levy proceeds, US\$1.1million, were not transferred to the PSA in the accounts submitted to audit. They could concur with the Secretariat’s figure only after the accounts were adjusted and these monies were properly attached to the General Fund.

✦ *PSA Budget Implementation*

108. The 1998-99 recosted appropriation of US\$203.6 million included US\$4.5 million that were to be saved during the biennium and US\$7.4 million that were to be transferred from ISC to DSC. The additional contributions to the Programme by a major donor enabled the Executive Director to increase the level of appropriation three times, within her authority: by US\$12 million for 1998, by US\$10 million for 1999 and by US\$5.2 million at closure. The approved, recosted, revised and actual figures of the PSA are shown hereunder:

| PSA | 1998-99 | | | Actual |
|-------------------------------|--------------|--------------|-----------------------------|--------------|
| | Approved | Recosted | Revised as at October 99 | |
| (in US\$ million) | | | | |
| Income | | | | |
| GCCC | 3.0 | 2.0 | 2.0 | 2.4 |
| ISC | 188.0 | 188.0 | 194.0 | 215.7 |
| Miscellaneous | 14.0 | 13.6 | 29.6 | |
| Total | 205.0 | 203.6 | 225.6 | 218.1 |
| Expenditure | | | | |
| Country offices | 99.4 | 99.4 | 101.0 | 100.5 |
| Headquarters | 35.5 | 31.1 | 32.6 | |
| Management and administration | 79.5 | 79.5 | 90.0 | 130.7 |
| Statutory requirements | 2.5 | 2.5 | 2.0 | 2.3 |
| Savings | (11.9) | (11.9) | | |
| Currency exchange savings | | | | (2.7) |
| Total | 205.0 | 203.6 | 225.6 | 230.8 |

109. As indicated in Note 6, the administrative costs other than those falling under the PSA costs were funded, to an amount of US\$17.1 million, out of support costs for Special Accounts and Other General Fund. Among these Special Accounts were the FMIP, the Self-Insurance Account and the Kosovo Flight Disaster. The Other General Fund category contributed to balance the shortfall of income over expenditure for the PSA costs (US\$8.3 million) and to fund the FMIP (US\$16.3 million) and the Kosovo Flight Disaster (US\$0.4 million).



110. The final shortfall of income over expenditures for the biennial operations of the PSA amounts to US\$12.7 million. It is financed by the savings on cancellation of prior period obligations (US\$4.4 million) and a transfer from the General Fund (US\$8.3 million). In 1996-97 the shortfall of income over expenditures for the PSA amounted to US\$43.7 million. Comparison between the two biennia has to take into account the following, which reduced the level of PSA expenditure:
- First, out of the US\$7.4 million that was to be transferred from PSA costs to DSC, the audit disclosed, as stated above, manual adjustments to Trust Funds with an overall value of US\$0.8 million. It should be noted that the flexibility in posting expenses on PSA costs or DSCs could have enabled the Programme to achieve their saving goals. This information should be disclosed in the Budgetary Performance Report.
 - Second, as already reported, DSCs were utilized to fund several regional or country offices.
 - Third, as already mentioned, the review of Outstanding Obligations at the end of the biennium, especially in the field, revealed also that the level of PSA expenditure was reduced by authorizing for each field office a limited amount of ULOs only and carrying forward other expenses to the next biennium.
 - Fourth, my staff noted that at the end of 1999, US\$2.2 million expenses were reversed from the FMIP to the PSA. These expenses, exclusively made of staff salaries and consultants' fees, were described by the Programme as the implementation of my previous reports' comments on recurrent administrative expenses unduly charged to the FMIP.
111. I noted that the revised R<F policies include a large re-categorization of support costs. From 1 January 2000 on, there are now guidelines describing what is to be funded by ISCs, DSCs and what falls into the category of Other Direct Operational Costs.

Cash Management

112. Cash and deposits continued to increase during the biennium as reported in the table below. US\$80.1 million of interest was earned on these deposits (US\$73.8 million in 1996-97). Out of this US\$80.1 million, US\$70.4 million was posted in the General Fund and US\$6.9 million was recorded in the Trust Funds.

| | 1995 | 1997 | 1999 |
|---|-------------------------------------|-------|-------|
| | (in US\$ million as at 31 December) | | |
| Cash and deposits | 616.9 | 781.6 | 828.9 |
| of which held on behalf of bilateral donors | 145.8 | 109.4 | 88.3 |

113. The liquidity position of the Programme may be estimated in terms of disbursements. Cash disbursements (actual expenditure including Trust Funds) in 1998-99 amounted to US\$1,810 million: liquid assets thus represented some 11 months of current cash expenditure. Considering the size of these cash holdings and the fact that they were kept in bank accounts operated by the FAO Treasurer, I recommended in my previous report that the Programme take more initiative and responsibility in the management of their cash and short-term investments. A fundamental change occurred in the biennium with respect to cash management. As mentioned in Note 7, effective January 1999, WFP took over the



Treasury functions from FAO for all headquarters accounts. The Treasury Unit of WFP now directly manages all bank accounts. This significant move was not effectively supported by an adequate and timely delivery of instructions and documentation.

- First, the indispensable joint reconciliation of the FAO and WFP books with bank statements, which should have occurred at the time of the transfer, was not even completed before the end of the biennium due to the late submission of the relevant documents by FAO to WFP.
 - Second, guidelines or written procedures on the functions and processes performed in the Treasury Unit, including cash management, were still not available in May 2000. A draft Treasury Manual was issued on 24 May 2000, i.e. 16 months after the transfer of this responsibility to WFP. The work on this manual started only in January 2000.
 - Third, it should be observed that the instruction dealing with “FAO Interest Income, Currency Exchange Adjustments, Bank Charges and Counselling Charges” had not yet been updated at the time of writing this report.
114. In view of the above and other facts disclosed hereunder with respect to bank accounts and investment management, I have to strongly reiterate my previous recommendations and insist on the urgency for the Programme to have the necessary instruments to manage the Treasury function in a modern and efficient way. This should be done in particular on the basis of the study of Treasury operations initiated in January 2000 and the resulting proposals made by the consulting firm with respect to the strengthening of security systems and evaluation of Treasury systems.

Investment Management Policy

115. As a consequence of the above-mentioned transfer of the cash management and Treasury functions from FAO to WFP as from 1 January 1999, the Programme also took over the responsibility for the management of their own portfolio.
116. My staff noted that the amount of funds not immediately required for project implementation and therefore available for investment was around US\$650 million (the 1999 average monthly balance of headquarters’ bank accounts was US\$795 million). Consequently, as I already stressed in my previous report, both active and safe investment policies are desirable with respect to these substantial financial resources. However, as was noted for the Treasury functions, the policy and procedural instruments needed to exert this new responsibility were not issued on time and, for some of them, not yet finalized by mid-2000, when my staff carried out their final review on the 1998-99 accounts.
117. First, the investment management procedures dating back to January 1997, which had become obsolete with the issuance of an Executive Director circular on the new investment management policies in September 1999, were not yet superseded and, as already commented on above, the Treasury Manual was still at draft stage in mid-2000.
118. Second, it was underlined in March 1999 by an Internal Investment Review Group that “external investment managers” would be hired by 1 July 1999. Five managers were appointed in February 2000 only. The appointment process, including the selection of the managers, done through competition and the drafting of the contracts, extended from July 1999 to January 2000. Until their appointment, a temporary solution was found. As time deposits matured, the funds were transferred to a commingled short-term investment fund operated by the custodian of the assets. Although the interest income earned during 1999 appears close to other bank conditions at the time, I am of the opinion that the amount of investment held by the Programme would have deserved quicker and better attention following the transfer from FAO.



119. Third, since their appointment, each of the five managers was given US\$120 million to be managed according to the procedures outlined in an investment agreement, the assets remaining with the custodian. The outsourcing of the investment management to professional firms is now in line with the objective to conduct an active investment policy. I recommend that WFP promptly finalize the written procedures applicable to the management of investments and reinforce their structure to ensure effective control and supervision of the external managers and control of bank accounts.

Bank Accounts

📁 *Headquarters Bank Accounts*

120. At biennium closure, 26 headquarters bank accounts were opened in nine different banks, two of which retaining nearly 90 percent of the US\$800 million headquarters cash holdings. My staff noted that contrary to the Finance Manual rule whereby the bank statements must be reconciled with the cash books on a monthly basis, no such reconciliation was immediately performed in 1999 for the headquarters banks after WFP took over the Treasury function from FAO. However, the bank accounts were reconciled at the end of the biennium. I recommend that the rules governing the reconciliation of bank statements be strictly adhered to as they are essential for the monitoring of the accuracy of the accounting records and the safeguarding of WFP's assets.

📁 *Field Bank Accounts*

121. The review performed by Internal Audit on the reconciliation of bank statements to the general ledger and the "circularization" process, which my staff carried out, disclosed several discrepancies not fully explained at the time of writing the present report. Furthermore, the field visits and the audit at headquarters indicated a worrying lack of control of the Programme on its local banking assets. As in the 1996-97 biennium, my staff noted that it was difficult for WFP headquarters to closely monitor the opening and closing of field bank accounts. Some country offices were found to operate bank accounts not registered by WFP headquarters. In response to similar observations made during the previous biennium, it was stated in December 1997 that the unit in charge of the field would "develop a DATABASE to enhance a proper control and efficient data maintenance for the country office bank accounts". Such an instrument, developed in October 1999, only became fully operational in June 2000.
122. At the time of writing the present report the overall reconciliation of closing balances of bank accounts as at 31 December 1999 as per field bank statements and as per the general ledger still disclosed a number of discrepancies for an amount slightly under US\$0.5 million. I have to reiterate my previous recommendation that the rules governing the opening and closing of WFP bank accounts and the assignment of responsibilities for operating each individual bank account at headquarters and in the field be strictly adhered to.

Monetized Funds Held in Trust

123. The cash and term deposits described in Statement II include assets belonging to recipient countries involved in monetization operations. The amount of the corresponding liabilities is disclosed in the same statement. Liabilities are disclosed only when the two following conditions are met: a Trust Fund agreement is signed with a recipient country, and WFP is the sole manager of the involved accounts. Other assets related to these Trust Funds, such as free cash invested in fixed-term bonds or savings accounts, proceeds of



sales remaining to be collected as well as other liabilities, are not disclosed in WFP's financial statements. I commend this new disclosure. My staff could nevertheless concur with the liabilities recorded in Statement II only after a significant discrepancy (due to a joint monetization and imprest account) with the corresponding assets was reconciled.

124. According to the Programme's own regulations, these funds have to be regularly audited by local firms. The review of these funds disclosed that the local audits were not performed on a regular basis and that the overall amount of liquid assets, cash and investment of free cash, largely exceeded in some countries their operational requirements. I therefore recommend that more attention be given to the management of the monetized funds held in trust.

Interest for Trust Funds and Special Accounts

125. As already mentioned in paragraph 112, the interest earned by WFP during the biennium amounted to US\$80.1 million, an increase of nearly 10 percent compared to the previous biennium. Out of this global revenue generated by the investments, US\$6.9 million was redistributed to the Trust Funds as disclosed in Note 3.6 and US\$2.8 million was transferred to the two Special Accounts related to the FMIP (US\$1 million) and the Self-Insurance Fund (US\$1.8 million) as disclosed in Note 3.5. These transfers represented the sum of all interest earned on funds earmarked for these accounts, since their inception.
126. During the biennium, my staff observed that deductions were made before posting interest income to the Trust Funds and pointed out the necessity to re-examine the principles behind the computation of the interest to be reallocated. The legal basis of these deductions is questionable since there is no such provision in the Financial Regulations or Rules. Consequently, I recommend that the practice of deducting a part of the interest earned to the Trust Funds before they are allocated to them be stated in the Financial Regulations.

Accounts Receivable and Payable

127. Accounts receivable and payable amounted respectively to US\$47.9 million and US\$76.9 million, as at 31 December 1999. Accounts receivable increased by nearly 5 percent compared to the 1996-97 biennium. During the same period, accounts payable more than trebled (from US\$25.3 million to US\$76.9 million) for reasons mainly attributable to information system difficulties experienced in 1999 by other United Nations organizations providing services to WFP. Also, the accumulation of insurance recoveries payable in the general ledger as explained below is another significant cause of this sharp rise.
128. The review of the related accounts disclosed a lack of regular monitoring of the transactions recorded in the financial system and a need for stricter accounting procedures to be implemented throughout the biennium. The audit also revealed that on many occasions clearing and adjustments should have been made before the closure and reflected in the financial statements. I noted that some adjustments to the accounts submitted for audit were rightly made upon my staff's request. However, the accumulation of suspense records is a source of concern, especially in view of the upcoming change of the financial information system and the necessity to clear all provisional or uncertain entries before the data migration. My observations and recommendations on the most significant corrections and decisions to be taken are detailed in the following paragraphs.



📁 *Situation with FAO*

129. At the end of the biennium, WFP's books recorded a net payable of US\$11.45 million to FAO. Compared with the still unaudited FAO accounts, there was a US\$0.1 million discrepancy that remained unreconciled at the time of writing this report. The review carried out by my staff showed that this unexplained difference was not material enough to qualify my opinion. However, I would like to stress that both organizations did not pay sufficient attention to the accounting and financial consequences of the two major changes that affected their relationship during the 1998-99 biennium.
130. As already detailed in paragraph 113, WFP took over the Treasury functions performed by FAO for headquarters bank accounts as of 1 January 1999. Due to the late submission of the relevant documents by FAO, it was only in the second half of 1999 that WFP was able to complete the corresponding postings in its books. In the meantime, some of the bank-related transactions remained unduly posted in the interorganization accounts, obscuring the records and rendering the reconciliation between the two organizations difficult. As a result, WFP paid all FAO invoices without questioning them and discovered only recently that they were charged with an amount of US\$244,000 as if FAO were still in charge of their cash management. They had not officially disputed this charge with FAO at the time of writing this report.
131. At the end of May 1999, FAO implemented its new Oracle financial information system. Payroll for both its staff and WFP's, however, was still processed through the former Finsys system and an interface was developed with Oracle to effect payments and record the corresponding accounting entries. FAO continued to make payments to WFP's staff using its own bank account, replenished in part by advances made by WFP. Invoices were issued by FAO to obtain complete reimbursement of the payments made and to charge WFP the agreed fees for the services performed. These invoices, based on Oracle accounting records, were duly paid by WFP. However, WFP continued to record the corresponding payroll expenses on the basis of Finsys data. It was only recently that the two organizations realized that the two sets of entries did not tally. The difference between the two records amounted to US\$120,000 for the period June to December 1999, Oracle records being greater than those of Finsys. At the time of writing this report, the discrepancy was not fully explained. The assumption that it originated in the two systems' different methods of converting foreign currencies into United States dollars was still being checked. As far as its impact on WFP's payroll expenditure was concerned, it was not material enough to justify a qualification. However, an adjustment would have to be made to bring them into line with the actual amount paid to the staff and reimbursed to WFP.
132. In view of the above-described situation, I recommend the following:
- The reconciliation exercise initiated between both organizations should be continued until the present discrepancy in the payable/receivable amount is fully explained. It should then become a routine exercise performed on a monthly basis.
 - Efforts should also be continued to explain the discrepancy between Finsys payroll data and Oracle records for 1999 and to compute the one for 2000. Then the necessary adjustment to WFP's payroll expenses would have to be made. From now on, WFP should also obtain from FAO payroll transactions from Oracle and no longer from Finsys in order to avoid discrepancies in the future.

📁 *Other United Nations Organizations: UNDP Current Account*

133. Part of WFP expenditure incurred in the field is paid by UNDP through the IOV system. The accounting records disclosing WFP's position with respect to UNDP are based on



several sources of information. The Current Account Statement (CAS) issued monthly by UNDP reports payments and receipts made by UNDP on WFP's behalf. When the CAS are processed at WFP headquarters the transactions recorded therein generate the offsetting entries against the various postings made in the financial system based on transactions directly reported by country offices (mainly IOV returns). Also UNDP periodically requests WFP headquarters for an advance payment equivalent to the estimated disbursements for the following period. As a consequence of this contiguous recording process the situation of WFP's account with UNDP at biennium end is the net balance of payments made by UNDP after reconciliation with actual expenditure reported by country offices and of replenishments made to UNDP.

134. In 1999, WFP did not receive any statements of expenditure at all, the CAS covering the 1999 period being issued in February 2000 only. Also, the requested replenishments were less than normal. As a result, the account reflecting WFP's net position with UNDP became a payable of US\$17.2 million compared to a receivable at the end of the previous biennium. This late submission of CAS by UNDP, the numerous discrepancies to be cleared and various outstanding items to be explained made the whole reconciliation exercise very difficult. In fact by the time of the final review of the accounts, my staff had reservations with respect to the adequacy of the reconciliation process presented to them by the Programme. Following a request from the Secretariat, they could obtain confirmation from UNDP that this organization had a receivable of US\$16.9 million from WFP as of 31 December 1999. At the time of the finalization of this report, UNDP's external auditor was not yet in a position to confirm this figure. However, after repeated requests and further explanations given by the Secretariat with respect to the discrepancies between the information provided by UNDP and the entries recorded in the general ledger, my staff was satisfied with these explanations. Also, they could establish that the remaining unexplained differences were not material enough to justify a qualified opinion on the financial statements.

📌 *Personal Advances*

135. Personal advance receivable from staff included mainly advances for transfers and separation. A total amount of US\$1.9 million was recorded under this account at the closure. However, this was a net figure after credits of US\$0.7 million were posted under the same account. A proper accounting procedure should have led to disclose US\$2.6 million under this account, and conversely US\$0.7 million should have been registered as payables to staff. The argument raised by the Secretariat that setting off the receivable and payable in the financial statements is consistent with the previous biennium is not valid, especially as these receivable and payable do not apply to the same staff. Furthermore, the clearing was not made in due time, as my staff noted that advances amounting to US\$1.2 million were more than three months old at the closure. I recommend that more attention be given to the treatment of these personal advances so that they do not exceed three months. I also recommend that staff receivables and payables no longer be set off in the financial statements.

📌 *Receivable from Host Government*

136. At biennium end, WFP's books recorded a receivable of US\$256,837 from the Italian Government with respect to wages paid for the transfer from former headquarters to the new location in Parco de Medici. The audit disclosed that this claim was still pending at the time of the review. I recommend that action be taken without further delay. I have noted that the Secretariat stated that they would do so.



✧ *Project Preparation Costs*

137. The preparation costs of a project to be submitted to the Executive Board are charged to a receivable account subject to clearance when the project has been approved or rejected. Preparation costs are then posted to expenditure. However, this account is not regularly cleared, as already stated in my report on the 1994-95 accounts. The balance at 31 December 1999 stood at US\$279,949. This resulted in an overstatement of assets and an understatement of expenditure. Moreover, the preparation costs are accounted as receivables when the corresponding donations have already been given by the donors, with the risk that the project be closed and the budget spent before the clearing of the receivable. I wish to reiterate the recommendation I made in 1996 that this account be monitored and cleared regularly.

✧ *Pisa Warehouse*

138. When WFP commodities are stocked in a warehouse in Pisa the corresponding amount is posted as receivable, pending their reallocation to projects in the field. In the accounts submitted for audit, the relevant accounts had a balance of receivable for an amount of US\$873,060.95 concerning commodities (biscuits and oil) related to pledges dating back as far as 1994 for some of them. The review revealed that these commodities could no longer be accounted for as receivable at the closure since they had been already reallocated and were no longer in the warehouse. Accounting entries were made to reflect the real situation and to clear the receivable. My staff was satisfied with these adjustments.

✧ *Suspense Account*

139. The audit of the submitted accounts disclosed a suspense account, with a closing balance of US\$1.06 million due to telecommunications expenses incurred during the biennium. The Secretariat explained that the appropriate postings could not be made because of the late receipt of the bills, which had to be analysed and charged to specific projects as part of DSC. My staff could agree with the accounts after the balance of the suspense account was adjusted and the corresponding expenditure was charged to the proper project accounts.

✧ *Despatch and Demurrage Accounts*

140. Despatch and demurrage accounts are reviewed on a quarterly basis by the Committee on Commodities, Transport and Insurance (CCTI). According to the transport and logistic manual of the Programme [OT Manual 1.2.2.6.a], despatch and demurrage with a balance over US\$25,000 should be paid or recovered. However, the audit disclosed a number of cases where the balances were superior to US\$25,000 and had not been cleared. Also, it revealed that demurrage and despatch records kept accumulating throughout time and represented an important amount (US\$3.4 million for demurrage and US\$1.2 million for despatch as at 31 December 1999). Transactions dating back more than five years were still recorded. I recommend that despatch be paid and demurrage recovered, or written off after a decision of the Executive Director, in accordance with the present rule, without further delay.

✧ *Insurance Accounts*

141. With respect to insurance accounts registered under “other payable” in the financial statements, the accounting treatment used until 1994, before the implementation of the self-insurance policy, led to a confused situation whereby the entries were no longer supported by adequate documentation. Claims, insurance recoveries, claim write-offs and



recoveries were posted to different accounts. Some accounts recorded only debits and others only credits. Though this accounting treatment may have had justification, most of the operations could never be cleared, as only regular reconciliation between transactions related to the same loss would have allowed for this. Though limited, the payable balance of US\$547,037.66 disclosed in the 1998-99 financial statements was the netted result of important debit and credit amounts recorded in the general ledger.

142. As the reconciliation exercise was not carried out for many years, all recent attempts, especially concerning the period 1989 to 1994, proved useless, due to the impossibility of retrieving relevant supporting documentation. Therefore, the global excess of US\$510,011.89, netting the balance of all those accounts, would have to be written off. For the period after 1994, the reconciliation exercise was, at the time of writing this report, still ongoing. All efforts should be made to complete it promptly in view of the upcoming data migration and to prepare the necessary write-off.

✧ *Insurance Recoveries Payable to Donors*

143. With respect to the insurance recoveries, my staff noted that a large amount of suspense account records have not been cleared (US\$1.6 million). Action should have been taken earlier either to post this amount to the relevant donors' accounts or to refer to the Executive Board as above. Also, the claims related to bilateral contributions (US\$8.9 million) were significant and sometimes dated back more than ten years. These funds should have been reported to donors long ago. The amount of the claims related to directed multilateral and Prior 1996 contributions was even more substantial (US\$12.9 million), and these funds could be reallocated to the Immediate Response Account after due information of the donors. The clearing of all these accounts and the reporting to donors or the Executive Board is a matter of urgency for which I recommend rapid and effective measures. I understand that the Secretariat intends to make a proposal to the Executive Board on the disposition of these funds at the October 2000 session.

✧ *Provisions to Cover Bilateral Expenditure Not Yet Refunded by the Host Government*

144. On my staff's request, WFP accounted US\$3.4 million, at the end of last biennium, as receivable from the Italian Government for the refurbishing of the former headquarters in Via Cristoforo Colombo. Nevertheless, as the Secretariat at that time doubted they could recover this amount, it decided to account for the same amount as payable, in case the Italian Government would not refund this amount. Since then, WFP has received consistent information from the Italian Government that the conditions were now met for its reimbursement. The difference of accounting treatment between this amount and the other WFP claims on the Italian Government (US\$10.3 million) was no longer justified at the closure of the biennium. However, the Secretariat considered that it was prudent to retain the amount as both a receivable and a payable. I recommend that the Secretariat continue to pursue its action to recover the amount from the Host Government.

Staff-related Schemes

145. WFP staff members are eligible for various entitlements according to their contractual status. Some of their entitlements are accrued during service years and paid either at the termination of their contracts or during their retirement. For FAO contracts, the main entitlements are:
- separation payments for General Service staff in Rome (SPS) and compensation payments for separation due to death, disability or sickness (CPRF);



- after-service medical liabilities (ASMC);
- other schemes satisfactorily described in the Note 18.

📌 *SPS and CPRF*

146. For historical reasons, FAO has been managing the SPS and the CPRF not only for their own staff but also on behalf of WFP. Under tacit arrangements FAO collected contributions, paid the benefits due and reported the liability and the investments held under the schemes for the two organizations. In 1996-97, when FAO began to disclose the SPS/CPRF-accrued liabilities computed on an actuarial basis, it appeared that the amount of investments backing the liabilities was greater than the liabilities themselves. FAO decided to transfer the excess of investments over liabilities to the Income Statement for its own share of the scheme. Whereas, in the case of FAO, this liability was shown at its actuarial value, in the case of WFP it was shown as the addition of the actuarial value plus the share of investment and investment income accruing to the WFP. In my report to the FAO Conference, I recommended that the WFP share of the actuarial liability be reported in conformity with the FAO stated policy and that an agreement be reached with WFP to implement such a policy.

147. This recommendation remains all the more relevant as WFP has decided to report the SPS/CPRF scheme in its own 1998-99 accounts. A new line in the Assets and Liabilities statement records as an asset the amount of investments held by FAO on behalf of the Programme, and its counterpart in the liabilities are accounted for within the staff-related schemes. However, my recommendation was not followed, and the figures reported in both Statement II and Note 18 include a liability that has no other justification than to back the cumulative amount of investments and interest earned on investments. To support the way these figures are accounted for, the Secretariat explained to my staff that they considered it prudent to leave the excess of investments as they were until they were provided with the result of a more recent actuarial study, the latest one dating from 1997. I still consider that, as soon as the findings of the actuarial study commissioned by FAO in the first half of 2000 are available, the Programme should adjust the amount of liabilities to the accrued actuarial amount. This being the case, the use of the excess of investment should be decided by the Executive Board.

📌 *After-service medical liabilities Plan (ASMCP)*

148. The financial statements for the biennium 1998-99 include henceforth the provision for After Service Medical Coverage Plan approved by the Board in October 1999. A transfer from the Programme's surplus in the General Fund financed this provision. The line of Statement I setting up the provision records the exact amount of liabilities evaluated by an actuarial study carried out in the first quarter of 1998 as WFP's share of the overall FAO and other participating agencies' liabilities. The accrued liabilities for the 1998-99 biennium have been charged to Statement I in accordance with the Executive Board decision.

📌 *Entitlements for Staff Ruled by UNDP Contracts*

149. As UNDP's actuarial report does not differentiate the participating staff, the Secretariat could not provide my staff with any figures pertaining to the accrued liabilities towards local staff hired under UNDP rules. Therefore Note 18 to the financial statements may not disclose the total amount of personnel-related liabilities. I recommend that these liabilities be evaluated and reported in future financial statements.



MANAGEMENT MATTERS

Decentralization Policy

150. In May 1997, in approving document WFP/EB.A/97/5-B, “Reform and Revitalization Measures in the World Food Programme”, the Executive Board commended in particular the decision of the Executive Director to implement an internal reform aiming at shifting power to the field (organizational change). The main objectives of this decentralization process were to “*decentralize decision-making, moving it as close as possible to the field operations, and to simplify, rationalize and speed up decisions relating to emergency operations*”. My staff carried out a review of the decentralization policy, whose scope covered evaluating the implementation of the reform, and visited all regional offices or clusters, except one visited by Internal Audit.

Creation and Modification of “Clusters”

151. The decentralization of WFP management to the regional level was articulated by the Executive Director in a directive entitled “Organizational Change Initiative”. In particular this directive provided for the creation of nine “cluster” offices coordinating the activity of the various country offices placed within their purview. Since then, no defined and uniform procedures have been followed for the creation of the new “clusters” or the modification of their initial perimeters. My staff noted that the documents submitted to the Executive Board were not always updated regarding the actual situation of the clusters. Some clusters existed de facto before the decentralization process brought a formalized pattern for this new structure, and most of the time the size and the organization of the clusters have been adequately framed. However, in one case an audit mission carried out by my staff revealed that the strategy implemented to create the cluster was too hasty and non cost-effective. Apart from informal consultations, there has been no formal decision-making process based on preliminary studies. I recommend that in future the decision to create a cluster or modify its perimeter be prepared against a clearly defined procedure including the elaboration of solid supporting justifications and formalized through a circular issued by the Executive Director.

Missions of the Regional Offices

152. The missions of the regional offices are stated mainly in the circular “Implementing Organizational Change” at a general level and are only detailed for some areas (human resources) in a specific instruction. But for some other functions (programme planning), no instructions have been issued so far to define the missions and the role of the regional offices. Concerning transport, many responsibilities have been directly transferred to the country offices without the intervention of the regional offices, and as headquarters have still retained some competence, my staff’s reviews disclosed that regional offices have had difficulties in finding their place between country offices and headquarters. However, I noted the Secretariat’s comment that the regional office will certainly have a role to play in activities such as overland transport and contracting, which has now been the subject of approval for delegation.

153. Furthermore, the audit field missions carried out in 1999 revealed that, at the time, the functions dedicated to some regional officers and the tasks they actually performed were not always in concordance. Examples of this were found in several clusters. Regarding the organization of each regional office, many factors have to be taken into account, including the local situation. However, the structures and the missions of the clusters vary from one cluster to another, more as a result of individual action and of immediate necessity than as



a consequence of a well thought out and duly prepared decision. All too often, the field audit missions disclosed situations where regional offices acted with no precise definition of their missions and no proper control and guidance from headquarters. Also, when there are defined responsibilities, any modification or adaptation should be organized and confirmed by clear written instructions. With respect to programme planning and management, my staff observed that for the two main regional bureaux based in headquarters (OAE and OSA), the programme coordinators being in Rome, some country and regional offices still prefer to rely on headquarters for the elaboration of programming documents (Country Programme, Country Strategy Outlines and project documents).

154. I wish to recommend that a clear policy be set up by the Secretariat in order to establish the different responsibilities of country offices, regional offices and headquarters. I also recommend that all functions performed by the regional managers be clearly defined and described in detailed instructions, and that whenever adaptations of the basic pattern are needed, headquarters issue written statements.

Shortcomings in the Implementation of Some Specific Tasks

155. The field visits disclosed that the decentralization of some functions encountered problems and was not efficiently and effectively managed, as detailed below:

- With respect to staff training, the regional offices are in charge of allocating and monitoring the funds for the region. The reviews revealed that they had difficulties setting up training programmes and using the budget they had been allocated. When some training courses took place, no evaluation was organized.
- Concerning LTSH, country offices had to carry out reviews with the help of regional offices. Often this task has been delayed, due to the necessity to create new structures to perform this work. This is all the more a source of concern since the LTSH reviews are fundamental for setting up a more accurate system for accounting actual expenditures. On several occasions my staff reminded the Secretariat that the accuracy and the appropriateness of a substantial part of the cash contribution required from donors depended on the quality of these reviews.

Therefore, I recommend that particular attention be given by the Secretariat to the follow-up of these matters and, more specifically, that the responsible headquarters unit produce a global assessment of the situation regarding LTSH reviews.

Funding of the Regional Offices

156. During the biennium, regional offices were funded through four different budgetary channels, resulting in complex situations where the rationale is never easy to understand: the regional office PSA allotment; the regional projects DSCs; the country office PSA allotment; the country projects DSC. As already stated above, the funding of PSA costs incurred by WFP has remained an intricate issue (see paragraph 104). Furthermore, the confusion between regional offices' and country offices' budgets, especially with respect to the funding of staff, underlines the difficulty of separating their activities. Most of the regional staff also carries out some work for the country office, and some of them are paid through the country office budget (PSA or even DSC). Such a situation, though understandable in specific cases, does not facilitate the implementation of a clear distribution of responsibilities between the two structures. The implementation of the decision of the Executive Board to approve the recommendation of the formal Working Group on the review of WFP's resource and long-term financing policies should offer the opportunity to clarify the situation in the 2000-01 biennium in that "the *ISC be those*



incurred in staffing and operating the WFP headquarters and regional offices". As a result, I recommend that every effort be made to match as closely as possible the posts and their funding source in the regional offices. If some functions were to be shared between country and regional offices, this should be done through an established and formal procedure.

Decentralization of Regional Bureaux

157. The decision to relocate two regional bureaux in Cairo and Managua in 1998 was also taken to shift the decision-making process closer to the field. Difficulties regarding the relationship between the bureau, the regional office and the country office were noted in September 1998, following the move of these two bureaux. The decision to transfer the other two (OSA and OAE) still in Rome has been postponed so far. However, the Secretariat stated in response to my staff's audit observations that "the relocation of OSA and OAE Regional Bureaux will be considered as a possibility in light of developments at the time of preparation of the 2002-03 budget". I am of the opinion that two years after the decision to decentralize two bureaux, the time has come to assess the present situation. I recommend that a proper evaluation of the advantages and inconveniences of the transfers already made and their financial and staff consequences be implemented.

Follow-up of the Decentralization Policy

158. When the decentralization process was launched, the responsibility was given to every division and to regional offices to implement its own part of the reform. An external consultant, recruited in early 1998 for the follow-up of the whole process, carried out this task for a year and a half. An executive staff committee was created at the end of 1998 to monitor the decentralization process, but it met only once in 1999. I think that more meetings would have proved useful as many questions were still pending. The instructions issued in 1997 were rather general in an attempt to let the structure find the suitable balance after an initial implementation at the field level. Such an approach should have required a better follow-up process. I wish to recommend a greater involvement of the managerial structure set up at headquarters to control, monitor and follow up the reform. In April 2000, the Secretariat mentioned to my staff in response to their observations that WFP had hired a consultant in early October 1999 to identify the major impediments to effective implementation of WFP's decentralization focusing, particularly in the Operations department. The objectives of this review were to be achieved by the end of July 2000. I recommend that the results of this review, when they are known, be brought to the attention of the Executive Board.

Evaluation of the Results of the Decentralization Policy

159. As disclosed by my staff's field visits, there is a real temptation for regional officers not to limit their action to an advisory role. Some of them succumbed to it. Such a situation inevitably leads country offices to consider that the regional offices represent a new level of decision and creates a bureaucratic obstacle between them and headquarters, with a relation of hierarchy between country offices and regional offices. I am of the opinion that two and a half years after its inception, the impact of this reform should have been evaluated. Therefore, I recommend that such an evaluation be carried out. It should include a precise assessment of the evolution of the financial costs and savings, with data such as the number of posts created in the field and suppressed at headquarters, the administrative cost of the regional offices and the global cost of decentralization.



HUMAN RESOURCES MANAGEMENT

Legal Background and Personnel Policy Constraints

160. When the Programme was created, its activities were supposed to be stable. At the time of its inception, the FAO staff rules and regulations seemed to be on an ad hoc basis to manage the WFP personnel matters for headquarters' staff and International Professional staff. Locally recruited staff was subject to UNDP staff rules and regulations. As time went by, the very nature of WFP tasks changed, as well as the way it got its resources. Thus the nature of the contracts awarded to staff began to be a liability as staff were entitled to a continuing status for performing jobs that were financed by resources granted on a short-term basis.
161. Also, the Human Resources policy followed in the recent years has had to deal with the increased rate of new Emergency Operations. Management had to recruit or send to the field scores of staff almost overnight in order to cope with these operations. The main difficulty encountered in carrying out this task was that the basic staff rules of the Programme were designed for FAO, whose field staff was not subject to the same constraints. The absence of legal autonomy of the Programme towards the FAO staff rules is therefore a continuing challenge. The Executive Director, who is empowered to administer WFP staff, has also the authority to create new manual sections as well as special staff rules, as long as these are not in conflict with the FAO staff regulations. So far, only one section of the FAO manual has been devised exclusively for WFP. In the course of the past 15 years, WFP has tried several new ways of contracting staff that should culminate with the introduction of the "indefinite" contract in the second half of 2000, following its approval by FAO Council in November 1999. In the long run, such a contract could alleviate the administrative burden of managing the large array of contractual instruments that are currently enforced. Nevertheless, all General Service staff and a large share of the Professional staff are entitled to a continuing appointment after several years of service. The last Professional staff belonging to the Unified service category and enjoying a continuing appointment should retire in 2028, provided that no new continuing appointment is granted to staff belonging to that category.
162. In the country offices, where local staff was recruited on the basis of UNDP contracts, UNDP also redesigned these contracts in 1998. The management of these new contracts has become an issue, as my staff's field visits disclosed slow progress in the initial stage of implementation. However, as disclosed in the table in paragraph 166, by the end of 1999 there were 87 appointments for Activities of Limited Duration (ALD) contracts and 1,893 Service contracts. With the introduction of radical changes in the management of the Programme, it was also necessary to resort to outside help. The use of consultants has developed into an important element of the staff policy.
163. The present staff structure and management are quite different from what they were ten years ago. Decentralization led to the delegation of several key functions to regional officers. The combination of the delegation of authority to managers and of the decision to recruit external Professional staff only on the basis of "Non-Core" contracts leads to a partially decentralized process of appointment for staff recruited outside the Programme, even if headquarters does an *ex ante* screening of potential candidates. Therefore, various staff members performing the same duties work under different legal arrangements with their employer. At the same time, the information necessary to manage the posts and the people who occupy them can still be improved, as the multiple databases used to manage staff, posts and payroll include redundant information that is posted separately in each database, multiplying the risks of errors and discrepancies.



Budget and Post Control

164. The overall staff expenditure of the Programme results from the addition of three funding categories. Depending on the situation, staff expenses can be incurred in the PSA budget, funded by DSC and even paid as operational costs (mostly for casual labour and some consultants) or through various sources such as special grants and interests from bilateral contributions. The PSA actual staff expenditures for the biennium 1998-99 amounted to US\$147.7 million or 64 percent of the PSA. The global staff expenditures that could be identified, (casual labour excluded) reached US\$267.7 million.
165. As the 2000-01 budget shows, there is no clear-cut separation between PSA and DSC staff expenses, as large transfers between categories have been approved by the Executive Board as part of the recategorization exercise. With these transfers, the necessity to monitor staff expenses will increase. The Programme's budget has set the objective of an important reduction in support expenses that will necessitate a reduction in the level of employment and/or of staff unit cost. This cannot be achieved without a detailed knowledge of each staff legal status and entitlements. The headquarters and numerous field reviews carried out by my staff disclosed that the Programme did not have an accurate and updated view of how posts and staff were matched. They also noted that several tools designed to monitor the achievement of geographical and gender recruitment goals could be more broadly used.
166. As per the figures provided by the Human Resources division, the Programme employed approximately 6,600 employees as at 31 December 1999, including 1,358 casual workers as indicated in the table below. Since figures for 1997 were not available, the 1999 situation can only be compared with the 31 December 1998 one, with a workforce of 6,300. Because of large emergency operations that had to be dealt with, it should be noted that the average manpower for 1999 was higher than the December 1999 situation.

| Category | Total | FAO/WFP contracts | UNDP contracts | UN volunteers |
|-----------------------------------|--------------|-------------------|----------------|---------------|
| Professional (*) | 1 099 | 858 | 166 | 75 |
| General services | 1 256 | 319 | 937 | |
| Appointments for limited duration | 87 | | 87 | |
| Service contracts | 1 893 | | 1 893 | |
| Other short-term | 913 | 204 | 709 | |
| Staff under contracts | 5 248 | 1 381 | 3 792 | 75 |
| Casual labour (**) | 1 358 | 1 358 | | |
| Grand Total | 6 606 | 2 739 | 3 792 | 75 |

(*) Including Junior Professional Officers (JPOs) in FAO figures.

(**) Average per day

167. The PSA budget for 1998-99, with 1,591.5 posts, represents only one fourth of the total workforce of the Programme, and circa 45 percent of employment, casual labour being excluded. This figure will be further reduced in the future. The PSA budget for 2000-01 authorized 1,143 posts after the transfer of some of the DSCs.



Post Creation and Recruitment

168. The Programme does not have a uniform procedure to create posts. Procedures differ according to the type of funding. The PSA budget posts are approved by the Executive Board. Posts funded under DSC are created by the managers at headquarters and regional and country offices based on the approved project budgets. Staff expenses paid on operational costs are authorized through payment authorizations. Apart from a few cases, the overall employment possibilities of each entity within the Programme are summarized in staffing tables reflected in the Post Control System that indicates the various data pertaining to each post, its funding, the identity of the appointee, its classification and the nature and term of the contracts, if any. These tables are sent on a regular basis to the field in order to reconcile the data kept at headquarters and the actual situation in the field. On most of their field visits, my staff noted that there were some discrepancies between the actual situation in the field and the data stored in the headquarters database. I recommend that more attention be given to this reconciliation.
169. To speed up the recruitment procedures for outside staff, the Secretariat introduced several improvements such as Generic Job Profiles. There are 24 such profiles for Professional staff and seven for General Services. It also reinstated the rosters for the recruitment of International Professional Staff that enable managers to choose new staff among lists of candidates that are prepared once a year by headquarters. The rosters are reviewed every quarter. In 1999, 68 percent of new International Professional staff were recruited from rosters, 19 percent were recruited in categories for which the use of rosters was not applicable and 13 percent were recruited outside the framework of rosters or through authorized waivers. However, vacant posts have first to be offered to internal mobility before resorting to external recruitment. The filing of vacancies remained a slow process when it came to external recruitment, even if according to the Secretariat it compared favourably with other United Nations organizations.

Temporary Duty Assignments

170. My staff's review singled out that the Secretariat has had to use emergency procedures to reassign staff in new field operations such as East Timor, Kosovo or Latin American disaster areas as ordinary reassignment procedures were too slow to meet the operational requirements. Therefore, staff that have a statutory right to apply or not to apply for vacant jobs were sent away from headquarters or from their field posts for temporary assignments almost without delay. This was true for all staff categories, from top management down. Although the capacity of the Programme to mobilize their human resources on almost instantaneous notice is to be commended, I believe that there should be a minimum set of guidelines surrounding such operations.
171. To deal with these massive staff reassignments and with continuing operations in regions where there was a serious security risk, the Secretariat has also had to create ad hoc staff rules that matched the incentives provided by other "front-line agencies". These incentives were not part of FAO staff rules. This was particularly the case with the so-called "parallel posts" and "rest and recuperation" procedures. Parallel posts are posts created in a country A next to a country B where emergencies or protracted relief operations are conducted and where staff from all origins can be assigned. In fact, staff concerned are assigned to the EMOP or the PRO of country B. Therefore, they are entitled to the field salaries of country A and to a special daily subsistence allowance (DSA) as they actually work in country B. This procedure is supposed to match the "mission status allowance" that other United Nations agencies have devised for peacekeeping operations. There is no provision in the FAO staff rules for parallel posts or mission status.



172. Rest and recuperation allows staff to have some paid rest in another country or town than the one they are assigned to. It has been set up as a special DSA rate, pursuant to FAO staff rule 302.7421(i) whereby “The Organization may establish special and reduced rates of DSA during such time as staff members are assigned to conferences or for extended periods of duty away from their duty station”. I am of the opinion that the legal basis used to support this incentive can be questioned.
173. Parallel posts as well as rest and recuperation should be ruled by sections of the FAO staff rules that explicitly deal with the problem they are supposed to solve. I recommend that the notions of mission status and rest and recuperation for WFP staff be introduced in the FAO manual.

Casual Labour

174. The Programme does not, in normal circumstances, hire directly the workforce that handle the commodity in warehouses or delivery points. However, when it is not possible to award such kind of work by contract, casual labour has to be employed. For lack of a UNDP supporting rule, casual labour is managed in accordance with an FAO rule. However, this rule has been enacted to allow the employment of short-term personnel and does not grant them much entitlement. My staff field review showed that in some countries, the same staff had been working for very long periods for the Programme. To abide by the FAO rule, however, these staff members were made redundant for one month every three months. Moreover, in several cases when a casual labourer has been wounded or killed, the Secretariat has had to grant an ex-gratia payment, as there is no rule in the FAO manual pertaining to such cases. I recommend that the Programme prepare its own set of guidelines pertaining to such manpower, which had a daily average total of 1,279 in 1998 and 1,358 in 1999.

FINANCIAL MANAGEMENT IMPROVEMENT PROGRAMME

Background and Audit Scope

175. The Financial Management Improvement Programme (FMIP) is one of the major undertakings of WFP. Formally approved by the Executive Director in February 1996, the FMIP was conceived as a collection of integrated long-, medium- and short-term activities aimed at improving overall financial management at both headquarters and field level. The audit focused mainly on the strategic systems, which are the main deliverables of the FMIP, accounting for about two thirds of the total cost. Together they will form WFP’s new corporate information system.
176. Eight distinct projects regrouped into two different categories originally composed the strategic systems area: three support systems for Procurement (ProMIS), Finance (FMS) and Human Resources (HR), considered to be non specific to WFP, and the following five business systems to reflect the “true business” of the organization:
- Resource Mobilisation System (RMS), to follow up on all stages of donor contributions;
 - Project Planning and Management System (PPMS), to manage project from design to closure;
 - Programming and Allocating of Resources Information System (PARIS), to allocate and monitor project resources;
 - Logistics Management System (LMS), for freight costing and management of transport, shipping and insurance activities;



- Commodity Monitoring, Processing and Analysis System (COMPAS), to track commodities from arrival at port, through inland transportation to their final destination.

The Three Strategic Support Systems Implementation

177. For the three strategic support systems, it was decided from the beginning to look for an integrated package with the services of an implementing partner to provide the software and the consultant support for its configuration and implementation. Following a request for proposal (RFP) sent on 6 October 1997, the four offers received were assessed in the first semester of 1998. The SAP R/3 software, to be implemented by IBM, was eventually chosen. The contract for the purchase of software license rights for 250 operational users and its implementation was signed with IBM on 4 September 1998 for US\$9.8 million.
178. The project implementation was divided into two phases. The outcome of Phase I, covering the planning, analysis and design stages, was the design “blueprint”, which would supply WFP with documented functional and system specifications to configure and customize SAP to its requirements. Phase II would then cover the prototype and the actual implementation stages. The contract included the following cost/risk-sharing arrangement. On the one hand, IBM had the option to submit a revision of the original price estimate or to confirm the contracted fixed price at the end of Phase I. On the other hand, WFP would pay only half the fees for Phase I should the estimate for Phase II be beyond the agreed estimate band. The formal launch of the project, named “Strategic Integrated Management Support System” (SIMSS), took place on 8 October 1998, with the plan to bring online the three components (ProMIS, FMS and HR) in January 2000. The project structure was composed of a WFP/IBM Steering Committee (SC), an internal Steering Group, a SIMSS project coordinator and three project managers (one for each component). The FMIP Management Team had overall WFP management responsibility for the contract.

➤ *Addition of Two Components for Payroll and Travel*

179. The RFP sent on 6 October 1997 excluded payroll on the basis that “the payroll requirements will be met by developing an interface to an existing UN payroll system, most likely the FAO system”. Since the decision was to continue to obtain payroll services from this organization, the SIMSS contract was based on an interface with the FAO system. However, during the last quarter of 1998, it was determined that this original intention was not viable and that other options had to be examined. On 11 February 1999, WFP formally requested IBM to provide a proposal for a payroll system in place of the FAO interface specified in the contract. An amendment to the initial SIMSS contract was eventually signed on 11 October 1999, to include the provision of a SAP payroll system. The additional cost amounted to US\$960,000, which was about US\$400,000 higher than the originally estimated cost of developing an interface with FAO. Furthermore, the targeted go-live date had to be changed. Because of the late addition of payroll, it was decided to implement only the FMS and ProMIS components in January 2000, and the HR/Payroll one in April 2000. This situation could have been avoided if only WFP had checked beforehand the feasibility of the hypothesis formulated in the RFP with FAO. It was only on 2 June 1998 (i.e. eight months after the issuance of the RFP) that a meeting was held to discuss the development of the planned interface and that WFP learned that such would not be possible.
180. Another amendment to the initial SIMSS contract was signed on 5 and 8 November 1999 to implement standard SAP travel functionality and integrate it with the other components at an additional cost of US\$300,000. The scope of FMIP had never



included the provision of a travel system. However, when offers for the FMIP-funded procurement system were requested in 1998, invitees were asked to make proposals for a comprehensive travel system. Owing to the high cost estimates, it was decided not to pursue the system for the time being. However, it was acknowledged that as a minimum, the limited travel-related functionality presently accommodated within WIS would need to be provided. The Executive Director approved the plan to do so in early 1999. The Atlas software used already by FAO was initially considered as an alternative. Considering the small size of the firm that had developed it on the one hand, and UNICEF's successful experience in implementing SAP travel module with minimum customization on the other, preference was given to the latter.

✦ **SIMSS Project Implementation**

181. On 21 April 1999, which was within the original contract schedule, IBM delivered the design blueprint for the FMS, ProMIS and the overall SIMSS Change Management Plan, but not for HR due to the late addition of Payroll. It was formally signed off by WFP on 18 May 1999. The IBM confirmation of the original price was formalized on 6 August 1999. The design blueprint for the combined HR/Payroll system was completed on 19 July 1999 as per the contract schedule and accepted by WFP on 19 October 1999. The price confirmation agreement was only signed on 30 March 2000. It was, however, understood from the beginning that IBM had no intention of increasing the contract price or reducing its scope. The FMS and ProMIS prototype was delivered on 25 June 1999, which was 12 days earlier than planned, and signed off by WFP on 2 August 1999. The HR/Payroll prototype was delivered on 19 October 1999, which was five days later than planned, and signed off by WFP on 21 December 1999. As indicated by the dates mentioned above, WFP usually exceeded the ten-day contractual period to sign off on the blueprints and prototypes. The delays were, however, due to revisions being requested to the original documents in order to reach an acceptable standard of quality and completeness.
182. For travel, IBM was supposed to submit both the business blueprint and prototype on 14 January 2000. In fact, the design blueprint was only delivered on 23 May 2000 and signed off on by WFP on 1 June 2000. At the time of writing this report, the prototype delivered in 19 June 2000 was still being reviewed for sign-off. Since the delay was attributed to IBM, WFP would be entitled to liquidated damages as per Article 8 of the contract signed on 5 and 8 November 1999.

The Five Strategic Business Systems Implementation

183. For the five strategic business systems, the original idea was to develop them on the basis that no off-the-shelf package could meet WFP specific requirements. The first two to be developed were the commodity tracking (COMPAS) and resource mobilization (RMS) systems.

✦ **COMPAS Implementation**

184. COMPAS, with initial design by an American firm, was further developed by a local team contracted through the United Nations International Computing Centre (ICC). The pilot was launched in early July 1998, in Kenya and Uganda. In December 1998, Ethiopia and Djibouti became the first implementation sites. Several other installations took place in 1999, surpassing the original target plan. The COMPAS project, as part of the FMIP plan, formally ended at the end of December 1999, the only remaining issue being the interface with SAP. From 1 January 2000 onwards, Transport and Logistics Division was given full



responsibility for further field roll-out and for providing support to installed sites. Twenty-six countries were covered by the end of the first quarter of 2000, meaning that nearly 50 percent of the total food moved by WFP was now managed and recorded through COMPAS.

✧ *RMS implementation*

185. The RMS, using Lotus Notes environment and relying on WIS for certain information, was developed by an Italian firm, which had been originally contracted for the development of two other systems. By virtue of an amendment signed on 2 December 1997, the contractor was required to provide additional services for the RMS and the internal audit tracking system. Although they were not requested anymore to develop one of the two other systems, the total contract cost was still more than tripled (ITL 199,319,950 compared to ITL 57,244,850). A second amendment was concluded on 7 April 1998 for 15 RMS enhancements at an additional cost of ITL 32,400,000. All applications were to be implemented before 30 June 1998. Three additional amendments then moved the deadline to 30 September, 30 November and 31 December 1998, respectively. Development of all the modules was in fact completed in early 1999, as well as the interface with WIS. The RMS has been in use at headquarters since February 1999. However, since it was conceived as a partial and interim solution until the remaining components of the new corporate system were put in place, a number of unresolved issues remained up to the present.

✧ *Change of Strategy for PARIS, LMS and PPMS*

186. For the three remaining strategic systems (PPMS, PARIS & LMS), the selection of SAP for finance, procurement and HR gave WFP cause to rethink their development. The evaluation of SAP functionality versus the requirements concluded that the software was appropriate to WFP's needs, and that a custom development was no longer needed. The decision was also taken in late 1998 to bring the three projects under a common initiative termed "Operations and Strategic Integrated Systems" (OASIS), which would also include certain elements of the RMS.
187. Since SAP was appropriate, and IBM was already WFP's implementing partner for the SIMSS project, no competitive process took place for the OASIS one. Only IBM were requested to submit an offer on 29 June 1999, which they did on 9 August 1999, with a US\$6 million first-cut estimate. Since this would exceed the FMIP ceiling by about US\$2 million, an alternate approach was taken in order to reduce the cost. It involved splitting analysis and design from implementation, and separating OASIS 1 (needed to make SIMSS fully effective and to shut down WIS) and OASIS 2 (composed of the remaining functionality). Requested to submit a revised proposal covering only analysis and design, IBM did so on 1 September 1999 for OASIS 1. A letter of intent was issued on 3 September 1999 to confirm acceptance of the proposal for a lump sum of US\$668,000 and to allow for an immediate project start and hence synchronization with the SIMSS project. The letter also stated that the formal agreement containing the detailed work schedule and requirements would be signed by 18 October 1999 at the latest. For OASIS 2 analysis and design, IBM final proposal, dated 11 October 1999, amounted to US\$720,000. Altogether approval was given to finalize OASIS 1 & 2 analysis and design contract with IBM at a total cost not exceeding US\$1,388,000.
188. In fact, the contract was not signed on these terms. By mid-November 1999, the OASIS 1 project had suffered a two-week delay due to WFP's inability to complete in time the work steps that had to be handed over to IBM for final analysis and design. Furthermore,



the OASIS team could not commence work on OASIS 2 as planned, and the project, which should have started on 2 November 1999, was deferred *sine die*. The contractual and financial consequences for WFP were as follows: a contract covering only OASIS 1 analysis and design was signed on 21 December 1999 for the agreed amount of US\$668,000. However, on 20 December 1999 an amendment to it had already been signed to include a US\$215,000 surcharge. This was due to additional consultant days required to resynchronize the OASIS project with the SIMSS timeline because of WFP's delay, and termination notice to be paid to consultants hired for OASIS 2.

SIMSS and OASIS 1 Combined Implementation

189. The merge of the SIMSS and OASIS project had an impact on the SAP go-live date, which was moved from January to 17 April 2000. It also required the provision of SAP R/3 licence rights for 200 additional operational users. An amendment to the initial SIMSS contract was signed to that effect on 23 December 1999, at an additional cost of US\$598,000. On the same day, a purchase order was also issued to SAP Italia S.p.A. on the basis of a waiver of competition for the acquisition of the software licence and related services for the Business Information Warehouse (BIW) product. The BIW, which is a data warehouse solution tailored to and closely integrated with SAP R/3, was considered viable to WFP's reporting needs.
190. In order to meet the April 2000 go-live date, it was initially agreed that the OASIS 1 analysis and design blueprint would be delivered on 16 December 1999. This target date was then moved to 10 January 2000 but delivery could still not be achieved. The blueprint was only delivered by IBM on 13 March 2000, and signed off by WFP on 20 March 2000. While offering acceptable solutions for the project planning (PPMS) and logistics (LMS) processes, IBM concluded that very extensive and costly developments would be needed for the SAP software to satisfy the requirements of resource mobilization (RMS) and programming (PARIS). Owing to this, WFP elected to proceed with OASIS 1 "1st release", which excluded the problematic functionality but would enable the new system to be introduced and the old ones to be taken out of service.
191. Following this decision, an amendment to the SIMSS and OASIS contracts was signed on 31 May/1 June 2000 for the implementation phase of OASIS 1 "1st release" for a total cost of US\$5,462,000. It also moved the go-live date to August 2000, for two reasons: the SAP solutions for some OASIS processes were proven to be more complex than initially anticipated, and finding acceptable solutions for some of the FMS and ProMIS processes previously defined was also taking longer. Then additional difficulties encountered in completing the configuration of HR entitlements and portions of the LMS compromised the August go-live date, which was tentatively moved to 2 October 2000, as per the mid-June revised plan.

System Introduction Activities Status

192. Apart from the SAP system configuration/customization and testing, the following activities were identified as essential for its successful implementation:
- preparing data to be transferred from the old systems to the new one;
 - securing an adequate physical environment;
 - rolling out the system for use in regional and country offices;
 - preparing the organization for the change, which includes end-user training.



193. At the time of writing this report, work was not at the same stage of completion in all areas. Activities that related to the physical environment were the most advanced ones. The SAP system servers, to be maintained by ICC, were installed in the first quarter of 2000. Under the “Enhanced Telecommunications Network” (ETNet) project set up outside of the FMIP, field offices that would be given access to SAP at the same time as headquarters were provided with satellite links. On the contrary, activities related to the data migration were not progressing as fast as they should have done. This area, which requires reconciling old and new data structures and operating procedures often incompatible, fell under the sole contractual responsibility of WFP. Being one of the most complex aspects of any integrated system implementation, it requires a detailed strategy and cleaning-up of the existing data prior to the conversion. At the time of writing this report, the complete strategy was still not finalized and several balance sheet items (travel advances, field suspense accounts, despatch, demurrage, and insurance payable and receivable) had not been “cleaned”. Regarding payroll, the fact that it is at present being processed by FAO renders the issue of data cleaning and migration even more complicated. Two meetings were organized with FAO to organize the cut-over from their payroll system (Finsys) to SAP. However, the data transfer was still to be finalized at the time of writing this report. Furthermore, the changes needed in Finsys to accommodate retroactive payroll actions had not been done. In this context, a go-live on 2 October 2000 appears unrealistic.

FMIP Cost and Funding

📌 *Background Information on the FMIP Cost and Funding*

194. In February 1996, when the Executive Director approved the three-stage implementation plan, the total cost of FMIP was estimated at US\$28.5 million. It was then officially increased to US\$32 million in December 1997, the main reason being a longer implementation period (four years rather than three, as first planned), and consequently higher costs for the maintenance of the legacy systems. At the end of the 1996-97 biennium, the FMIP was facing a shortfall of funds of US\$15.6 million, partly and temporarily financed by a US\$10 million advance from the General Fund, approved by the Executive Board during its October 1997 regular session.

📌 *Changes Occurred During the 1998–99 Biennium*

195. In my previous report, I had observed the absence of a regular decision establishing the FMIP as a Special Account. The Executive Director formally approved it (with retroactive effect from 1 January 1996) on 20 July 1998. On the same date, she also approved the increase of the budget ceiling from US\$32 million to US\$37 million, requesting, however, at the same time the establishment of an Oversight Committee (OC) to FMIP operations and budget. During its May 1999 annual session, the Executive Board decided on the conversion of the US\$10 million advance from the General Fund into a grant, and a further grant from the General Fund to cover the non-funded balance up to the agreed FMIP ceiling of US\$37 million. With US\$21.7 million received in contributions and US\$1.0 million earned in interest income, the shortfall at the end of the 1998/99 biennium was US\$16.3 million, and the full amount was transferred from the General Fund. Since the transfer exceeds the present cash needs, interest income will be generated to the benefit of the FMIP rather than of the General Fund.

196. Apart from the above-mentioned transfer from the General Fund to the FMIP, another transfer of expenditures charged from FMIP for around US\$2.3 million occurred during the 1998–99 biennium, thereby increasing FMIP fund balance. As per the Eighteenth FMIP



SC meeting minutes, “*this reflected those expenditures that were determined by both the Internal and External Auditors as being of a PSA nature (i.e. Operational Improvements – the OPIM series of FMIP projects)*”. The US\$2.3-million transfer did not have any impact on the overall cost ceiling since it was decided to treat it as a contingency. Since then, the amount was reduced because of the US\$215,000 penalty paid to IBM for the OASIS delays, mentioned above. At the time of writing this report, it had not been necessary to draw from the agreed contingency allocation.

Overall Conclusion

197. Major progress was accomplished in the FMIP implementation. The observations I made in my previous report regarding compliance with legal authority and funding have been addressed: the FMIP has been duly established as a Special Account and funding up the revised ceiling of US\$37 million has been secured. However, as foreseen in my previous report, the initial deadline for the three support systems, implementation proved unrealistic. Many changes were in fact made to the initial plan regarding all the strategic systems during the 1998–99 biennium. Originally selected for the sole Procurement, Finance and HR systems, SAP R/3 should also be eventually used for Travel and Payroll and cover most of the requirements of the five core business systems. Since WFP already had IBM as an implementing partner, all other contractual arrangements that took place after the initial SAP/IBM selection were not based on a competitive process, and IBM was the sole source of proposals. These were evaluated by a technical and financial evaluation panel, with support from independent third-party expertise in the specific business area. This approach was deemed beneficial to WFP in terms of practicality, cost and timeliness. As a result of the expanded scope, the total contract value with IBM was almost doubled (US\$18 million compared to an initial amount of US\$9.8 million for the sole SIMSS project).
198. Changes, delays and additional costs are incumbent to the implementation of integrated software in any given organization because of the complexity of such a project and the dynamic nature of the information technology industry, and WFP was no exception. Nevertheless, some of the changes, delays and surcharges could have been avoided. It is particularly obvious for Payroll, for which WFP did not check the interface hypothesis with FAO beforehand. The other assumption whereby all business systems required specific development in the absence of adequate off-the-shelf packages was not backed up with substantial evidence. With more time spent on learning about integrated software in general and SAP R/3 in particular, WFP would have realised earlier that they could have provided nearly all the business automation required. Although WFP managed to adjust, its attitude in general could have been more proactive and less reactive.
199. At the time of writing this report, only one system (COMPAS) can be considered fully operational. The go-live date for the SAP implementation had been changed four times: from the initial January 2000 date to January (ProMIS and FMS)/April 2000 (HR/Payroll), then to April 2000 for all plus OASIS, then to August 2000, then to 2 October 2000. As argued above, I do not consider that this new date is realistic. I am well aware that any new delays in the go-live date would result in additional costs for maintaining the legacy systems and probably in penalties to be paid to IBM. However, short-time savings achieved in pushing for the go-live could be offset by much larger expenses generated by system failure due to corrupt data and lack of preparation. A lot has already been achieved. It would be regrettable to spoil all these efforts by undue precipitation at the end. I recommend that the go-live date be established in line with the completeness of all system introduction activities.



MANAGEMENT OF THE OFFICE OF THE EXECUTIVE DIRECTOR (OED)

200. My staff reviewed the various organizational, budgetary, financial and contractual aspects pertaining to the OED. The audit disclosed that on some occasions the duty travel expenses of the Executive Director are split for funding between the PSA budget and the DSCs of some projects. I am well aware that these expenses can be as difficult to forecast as the emergency situations the Programme has to deal with. However, I see no reasons why the Programme should not be able to find, within the PSA budget, the additional allotments to pay for unforeseen travel expenses due to a greater number of emergency situations as was the case in the 1998-99 biennium. My staff noted that the travel rules were fully complied with. I recommend that, for simplicity, transparency and logical reasons, all the activities of the Executive Director be financed only through the PSA budget.

OTHER MATTERS

Action Taken in Response to Previous Reports

📌 *Procurement*

201. In my last report, I mentioned that several invoices pertaining to food procurement contracts were paid to a large international trading firm. In each case, the identity and the address of the payee were not that of the vendor who had signed the contract, thus exposing WFP to a very significant risk of duplicate payment. Although the Secretariat had given my staff written assurances that this would not happen again, the review of operational expenses in commodity revealed that at least eight contracts, worth US\$13 million, were paid in similar circumstances to the same vendor. The Secretariat did not keep in its record the written proof that the seller was the commissioned agent of the payee. It was only when my staff requested this document that it was provided.

📌 *Upgrading of Financial Information, Accounting and Procedural Discipline*

202. In my last report, I reiterated my previous recommendations that WFP not rely excessively on technology and the implementation of FMIP to resolve all identified difficulties. On the contrary, it was my understanding that, to a large extent, WFP deficiencies in financial management lay on the one hand with the need to further develop and disseminate clear and organization-wide operational and finance guidance, and on the other hand with the urgent need to reinforce finance staff, particularly at Headquarters, both in quantity and quality. Consequently, I recommended that these problems be given priority. My staff noted that new useful manuals were issued during the biennium:

- the Country Office Accounting Guide in August 1998;
- the Transport and Logistics manual in October 1998;
- the Non-Food Procurement manual in October 1999.

203. However, the Finance Manual issued in September 1994, which had not been updated since that date, notwithstanding the revision of Financial Regulations and Rules, could not be effectively used during the 1998-99 biennium. At the time of writing the present report, the Secretariat gave my staff a draft of the revised Finance Manual, stating that its finalization was subject to the completion of SAP as this might have an impact on accounting and financial policies. I commend such work. However, in this matter, like in



several other areas, I think that all too often the Secretariat took exception to my previous recommendations regarding corrections of the weaknesses of the current issuance of written instructions and guidelines. They tended to justify the postponement of procedural upgrading and improvement on the basis of the imminent implementation of the new SAP information system. I noted that some upgrades were being addressed towards the end of the biennium. I recommend that efforts be intensified in view of the upcoming implementation of the new information system.

ACKNOWLEDGEMENTS

204. I wish to record my appreciation of the cooperation and assistance extended by the Executive Director and her staff during the audit.

Signed by:

Pierre JOXE
Premier Président de la Cour des Comptes
de la République Française
External Auditor

