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FINANCIAL AND BUDGETARY MATTERS

Agenda item 5



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

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

- Item 5 a)—Second Progress Report on the Implementation of Recommendations in the 1998–1999 Report of the External Auditor
- Item 5 b)—Appointment of the External Auditor of WFP for 2002–2005: Final Report of the Evaluation Panel
- Item 5 c)—The WFP Biennial Budget for the Period 2002–2003
- Item 5 d)—WFP Information Network and Global System (WINGS) for Cost Analysis and Cost Containment

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COPY OF LETTER RECEIVED FROM THE UNITED NATIONS—NEW YORK

Reference: AC/1468

Advisory Committee on
Administrative and Budgetary Questions

3 October 2001

Dear Ms Bertini,

Please find attached a copy of the report of the Advisory Committee on Administrative and Budgetary Questions on the WFP biennial budget for the period 2002–2003 (WFP/EB.3/2001/5-C/1), as well as the reports entitled “Second progress report on the implementation of recommendations in the 1998–1999 audit report of the external auditor” (WFP/EB.3/2001/5-A/1), “WFP Information Network and Global System (WINGS) for cost analysis and cost containment” (WFP/EB.3/2001/5-D/1) and “Appointment of the external auditor of WFP for 2002–2005: final report of the Evaluation Panel” (WFP/EB.3/2001/5-B/1).

I should be grateful if you could arrange for the report to be reproduced *in verbatim* and placed before the Executive Board at its forthcoming session as a complete and separate document. A printed version (in all languages) of the document should be provided to the Advisory Committee at the earliest possible opportunity.

Yours sincerely,

(Signed) C.S.M. Mselle
Chairman

Ms Catherine Bertini
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WORLD FOOD PROGRAMME

Financial and Budgetary Matters

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the World Food Programme's budget proposal for the biennium 2002–2003 (WFP/EB.3/2001/5-C/1). The Committee also had before it the reports entitled "Second progress report on the implementation of recommendations in the 1998–1999 audit report of the external auditor" (WFP/EB.3/2001/5-A/1) and "WFP Information Network and Global System (WINGS) for cost analysis and cost containment" (WFP/EB.3/2001/5-D/1). During its consideration of the reports, the Committee met with the Executive Director and other representatives of WFP, who provided additional information and clarifications. In addition, the Committee had before it the report entitled "Appointment of the external auditor of WFP for 2002–2005: final report of the Evaluation Panel" (WFP/EB.3/2001/5-B). The comments of the Committee on the appointment of the WFP external auditor are contained in paragraphs 16 to 19 below.

➤ *The WFP Biennial Budget for the Period 2002–2003*

2. With regard to presentation of the budget document (WFP/EB.3/2001/5-C), the Advisory Committee requests that in future the information in annex II be incorporated in sections II and III of the document.
3. The Advisory Committee recalls paragraph 2 of its report on the WFP budget for the biennium 2000–2001 (WFP/EB.3/99/3(A,B,C)/2), in which it stated that "although the document incorporates a number of recommendations and suggestions made in previous reports of the Committee, the Committee recommends that future budget documents include concise information indicating treatment of all recommendations of the Committee, as is done by the United Nations and other funds and programmes". The Committee reiterates this recommendation and notes, in particular, the lack of information on the treatment of its recommendations concerning posts.
4. For the biennium 2000–2001, as indicated in paragraphs 22 to 30 of the budget document, the total estimated volume of delivery for the biennium has been revised from the original projection of 5.165 million tons to 7.181 million tons, an increase of 39 per cent, while expenditures are expected to increase by \$747 million, or 28 per cent. As indicated in paragraph 24 of the report, the main reason for the increases was a large donation of additional commodities by the Programme's largest donor. The Advisory Committee notes that, under the authority granted to her by the Executive Board to adjust the programme support and administrative (PSA) budget when the volume of operations varies by more than 10 per cent from the planned level, the Executive Director increased the PSA component for 2000–2001 by \$48 million (or 25 per cent) over the approved budget to a total of \$239.7 million. The purposes for which the additional funds were used are summarized in paragraph 82 of the report.
5. For the biennium 2002–2003, total resources, as indicated in paragraphs 31 to 46 of the report, are estimated at \$2.931 billion, a decrease of \$474 million, or 14 per cent, from the



revised budget for 2000–2001 of \$3.405 billion. The budget is expected to fund the delivery of 5.471 million tons of food and related support costs, reflecting a decrease of 24 per cent over the estimated deliveries of 7.181 million tons in the biennium 2000–2001. As shown in table 2, the resource projection for 2002–2003 includes the value of commodities estimated at \$1.281 billion, cash contributions of \$1.593 billion, government cash contributions towards local cost (GCCC) of \$2 million and interest income of \$55 million.

6. As shown in table 3, the projected volume of operations of 5.471 million tons consists of estimated levels of contribution of 1.462 million tons for development, 2.408 million tons for emergency operations (EMOP) and 1.601 million tons for protracted relief and recovery operations (PRRO). The estimated value of those contributions, as indicated in table 4, is \$600 million for development, \$1,297 million for EMOP and \$864 million for PRRO.
7. Table 5 of the proposed budget provides a breakdown of the total budget by cost category and appropriation line. Estimates for 2002–2003 under direct operational costs amount to \$2,416,304,000, while support costs amount to \$457,601,000—\$247,801,000 for direct support costs and \$209,800,000 for indirect support costs (or PSA). The Advisory Committee notes from table 5 that the projected PSA budget for the biennium 2002–2003 has decreased in comparison with the estimates for 2000–2001 from \$239.7 million to \$209.8 million. The Committee also notes, as indicated in table 15 and section IV, table B, that estimates under direct support costs show a decrease in staff costs from \$181,941,000 in 2000–2001 to \$149,482,000 in 2002–2003, as well as a decrease in the number of staff from 4,478.3 person-years in 2000–2001 to 4,018.5 person-years in 2002–2003. There is no corresponding reduction under PSA, where, in fact, as shown in section IV, tables B and C, staff costs have risen from an estimated \$148,540,000 in 2000–2001 to \$149,010,000 in 2002–2003, and the number of staff has risen from 1,175.5 to 1,206.5 person-years. Upon enquiry as to why staff costs under PSA had not decreased, the Committee was informed that indirect support costs (or PSA) represented fixed costs within a range of activities. However, the Committee notes from section IV, table C, that WFP was able to affect reductions in non-staff costs—from \$91,206,000 in 2000–2001 to \$60,790,000 in 2002–2003.
8. With regard to staff costs, the Advisory Committee is of the view that, in adjusting such costs under the PSA budget in response to increased volume of operations, it is advisable to make use of short-term contracts wherever possible. Furthermore, while the Committee supports the flexibility that has been granted to the Executive Director to raise the PSA budget when the volume of operations increases, care should also be taken to ensure that the financing of fixed costs from these temporary adjustments is managed in such a way as to enable the Executive Director to adjust the PSA component if delivery is less than has been forecast. Moreover, the Executive Director should justify continuation of additional staff hired as the result of any upward adjustment of the PSA component of the budget and should present that information clearly in future budget submissions.



9. The Advisory Committee takes note of the approximately 16 support budget initiatives to be undertaken in 2002–2003, which are outlined in paragraphs 106 to 162 of the budget document. In this connection, the Committee recalls that the previous WFP budget submission (WFP/EB.3/99/3-A) contained some 11 such initiatives, many of them in the same areas as in the 2002–2003 budget document. There is, however, no mention in the present budget submission of progress made or results achieved in relation to the initiatives undertaken in 2000–2001. The Committee requests that in future some information be provided in the budget document concerning the impact of the initiatives undertaken in the previous financial period.

✦ *WFP Information Network and Global System (WINGS) for Cost Analysis and Cost Containment*

10. Among the initiatives discussed (paras. 107–110) is the Financial Management Improvement Programme (FMIP), now renamed WFP Information Network and Global System, or WINGS. In connection with this initiative, the Advisory Committee also had before it a separate report on WINGS (WFP/EB.3/2001/5-D/1), which provides a description of how the new system will provide information for cost analysis. However, the report provides no details concerning the results expected from implementation of WINGS. Upon enquiry, the Committee was informed that expected results included increased productivity and savings in staff costs, but that it was too early to know precisely what those would be. The Committee assumes that before undertaking this initiative a careful analysis was made to determine potential areas of savings and increased efficiency. The Committee recommends that the next report on the subject include whatever such details are available. Furthermore, in the view of the Committee, the functionalities of WINGS are not clearly identified in the report. In particular, the role of WINGS in administrative and human resources management should be clearly indicated in the next report.
11. The Advisory Committee emphasizes the importance of providing training to the users of WINGS, as well as of providing for an effective maintenance and help desk capacity.
12. The Advisory Committee notes that a considerable amount of decentralization of operational authority has taken place in WFP since the initiative was begun in 1996. As indicated in paragraph 116 of the budget document, as of 1 September 2001, WFP had completed its decentralization, with the last two remaining regional bureaux in Rome having moved to the field. The Committee welcomes these developments. The Committee was informed that discussions had been held within WFP concerning the feasibility of decentralizing some services, such as human resources and finance, but that this would require further analysis. The Committee was also informed that the implementation of WINGS in the regional bureaux had made decentralization possible, and that it was planned to introduce WINGS in all field offices. In the view of the Committee, the implementation of WINGS in all WFP offices should increase the capacity of the Programme to monitor decentralization. The Committee therefore encourages WFP to continue to explore opportunities for decentralization of services.
13. Staff security and safety are discussed in paragraphs 133 to 138 of the budget document. The Advisory Committee notes, as indicated in paragraph 138, that WFP expenditures for security costs are estimated at \$12 million for 2002–2003, including the shared costs for UNSECOORD. The Committee understands that the shared costs would be adjusted in the light of the agreement to be finalized between the United Nations and its partners in the United Nations system on cost-sharing arrangements for interorganizational security measures, as decided upon by the General Assembly in its resolution 55/238 of



23 December 2000 (see also A/56/6, paras. 30.2–30.8). The Committee will revert to this issue in the context of its review of the report of the Secretary-General.

14. Upon enquiry concerning the impact of the introduction of the indefinite contract on personnel management, the Advisory Committee was informed that it was too soon to make a proper evaluation. The Committee requests that this issue be addressed in the next budget submission.

✧ ***Second Progress Report on the Implementation of Recommendations in the 1998–1999 Report of the External Auditor***

15. In connection with the second progress report on the implementation of the recommendations in the 1998–1999 audit report of the External Auditor (WFP/EB.3/2001/5-A/1), the Advisory Committee recommends that in future attention be paid to reporting on the impact of the implementation of the recommendations of the External Auditor.

✧ ***Appointment of the External Auditor of WFP for 2002–2005: Final Report of the Evaluation Panel***

16. During its consideration of the report on the appointment of the external auditor of WFP for 2002–2005, the Advisory Committee met with the Chairman of the Evaluation Panel and the Director of the WFP Office of Internal Audit. The Committee notes that this is the first time that WFP and FAO will appoint separate independent auditors. In this connection, the Committee recalls that there is no statutory requirement that the two organizations have one external auditor.
17. In the report, the Panel describes the tender process and the technical and financial evaluation of the candidates. On the basis of a rating system approved by the Board (Board decision 2000/EB.A/7), the Panel recommends that the Board appoint the Comptroller and Auditor General of the United Kingdom of Great Britain and Northern Ireland as the External Auditor of WFP for 2002–2005.
18. The report also discloses that the Comptroller and Auditor General of India came in second with a score of 880.5 out of 1,000 to the United Kingdom Comptroller and Auditor General's score of 881.4. Upon enquiry as to whether there was a procedure in place to deal with the situation of a virtual tie, the Advisory Committee was informed that the Panel had sought the advice of the FAO Legal Counsel, who ruled that the Panel must come out with the candidate with the highest rating. The Committee requested information concerning the comparative costs of the two candidates. According to the information received, the United Kingdom Comptroller and Auditor General had submitted a financial proposal for the biennium 2002–2003 of \$475,000; the corresponding proposal by the Comptroller and Auditor General of India was \$485,534.
19. The Advisory Committee notes the procedures that have been followed as described in the report and that while the Evaluation Panel has recommended the appointment of the United Kingdom Comptroller and Auditor General, the runner-up candidate is also being disclosed. Under the circumstances, the Committee finds no basis upon which to question the integrity of the evaluation and selection process.

