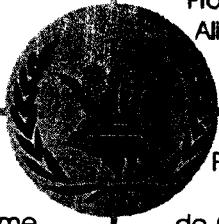


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de Alimentos

RESOURCE AND FINANCIAL MATTERS

E

AUDITED BIENNIAL ACCOUNTS (1994-95)

Financial Report and Statement

This document is prepared in Arabic, English, French, Russian and Spanish. The original text is in Arabic. Requests to change into the needed language should be made to the Arabic version.

NOTE TO THE EXECUTIVE BOARD

**This document contains recommendations for review by
the Executive Board.**

Pursuant to the decisions taken on the methods of work by the Executive Board at its First Regular Session, the documentation prepared by the Secretariat for the Board has been kept brief and decision-oriented. The meetings of the Executive Board are to be conducted in a business-like manner, with increased dialogue and exchanges between delegations and the Secretariat. Efforts to promote these guiding principles will continue to be pursued by the Secretariat.

The Secretariat therefore invites members of the Board who may have questions of a technical nature with regard to this document, to contact the WFP staff member(s) listed below, preferably well in advance of the Board's meeting. This procedure is designed to facilitate the Board's consideration of the document in the plenary.

The WFP focal points for this document are:

Deputy Director, FS: O. Tayar tel.: 5228-2701

Director, OEDA: J. Mabutas tel.: 5228-2469

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact the Documents Clerk (tel.: 5228-2641).



SUBMISSION BY THE EXECUTIVE DIRECTOR

1. In accordance with Regulation 10.1 of the WFP Financial Regulations, the Executive Director submits herewith the biennial accounts for 1994-95.
2. In line with WFP General Regulation 30 and Financial Regulation 11.9, the Executive Director is also transmitting the report of the External Auditor, which, concomitantly, is being submitted to the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the FAO Finance Committee for review. The comments of the two Committees will be transmitted as addenda to this document.
3. Under WFP's Financial Regulation 11.10, after the Executive Board's review, the reports of the External Auditor and the audited financial statements, together with comments thereon of the ACABQ, the FAO Finance Committee and the Board itself, will be forwarded to the United Nations General Assembly and the FAO Conference.



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STATEMENT OF THE EXECUTIVE DIRECTOR

Introduction

1. Under the World Food Programme's General Regulation 29 (c) and Financial Regulation 10.1, the Executive Director is responsible and accountable to the Executive Board for the operations and administration of the Programme, including the audited accounts.
2. The biennial accounts of the Programme for 1994-95, comprising financial statements and supporting schedules/notes, are accordingly presented to the Board.
3. They show a financial situation which is sound.
4. The efforts and devotion of the staff, which enabled once more to provide the Board with reliable biennial accounts under difficult conditions, are to be acknowledged.

Format

5. The biennial accounts have a new format that takes into account recommendations of the External Auditor and comments from users. They include explanations on the accounts and the relevant policies so far presented in the Executive Director's Statement; they no longer provide detailed information on Pledges Receivable, Bilateral Operations, Junior Professional Officer schemes, Project Expenditure, Special Emergency Operations, Non-Food Items, Special Operations and the Disaster Mitigation Programme; these are comprised in an annex.

Self-insurance

6. The Programme has implemented a new policy to self-insure its consignments since 1 May 1994. This policy is described in paragraph 8 of the Significant Accounting Policies.

Activities Underlying the Accounts

7. During 1994-95, WFP managed about 2.7 billion dollars of resources in food commodities and cash in support of 107 million of the poorest people in the world. Compared to the previous biennium, resources received in kind were worth some 0.3 billion dollars less; other resources went down by some 0.1 billion dollars.
8. In 1995, nearly half of the 50 million people assisted by WFP were victims of emergencies. Beneficiaries of WFP assistance included seven million refugees, 14 million internally displaced persons, and nearly four million victims of drought and other natural disasters. WFP helped these victims of emergencies with over 1.6 million tons of food through 89 relief operations. Victims of disasters also received assistance through WFP's bilateral service activities: some 250,000 tons of food aid were handled by WFP on behalf of bilateral donors.
9. In 1995, WFP development activities reached approximately 25 million poor and hungry people, with 950,000 tons of food aid through a variety of development projects.



At the end of 1995, WFP's portfolio of ongoing development activities consisted of 204 development projects in 83 countries, valued at 2.28 billion dollars.

10. The general trend showing a decline in resources for WFP's development portfolio continued alongside a simultaneous increase in WFP's portfolio of relief operations.
11. In 1995, WFP spent 250 million dollars on food purchases in nearly 70 different countries. Over half of these purchases were made in developing countries.
12. To carry out its activities, WFP relies on 4,000 staff members; of these 75 percent are in the field, working in close collaboration with other United Nations agencies, governments and more than 1,000 national and international NGOs.

Long-term Financing and Resourcing

13. The implementation of the decision taken by the Fortieth Session of the Committee on Food Aid Policies and Programmes (CFA) and reiterated by the First Regular Session of the Executive Board will have far-reaching consequences. The new format of the biennial accounts can be construed as a first step towards the relevant reporting. Since a large part of the activities of the current biennium will have been resourced before 1996, the next biennial accounts are likely to be only a second step towards a final format.

Implementation of Audit Recommendations and Financial Management Improvement

14. A number of facts reflect on the pace of improvement and some should be recalled. By virtue of the size of its expenditure, WFP is one of the largest, if not the largest, organizations of the United Nations system. Its activities grew rapidly due to the pressure of emergency operations which now account for some two thirds of the expenditure compared with less than one third five years before. The Programme has had to deliver food relief in catastrophic situations and has accomplished it - prior to organizing how it would report. Staffing, procedures and information systems were inadequate and the backlog increased without always being identified. Ad hoc procedures had to be developed to operate in unforeseen conditions and face unexpected difficulties. Changes and capacity-building have had to be carried out at all management levels in order to create teams and cope with the new challenges. These efforts are still in process. Administrative and financial staff cognizant of WFP operations are one of the more limited resources of the Programme. Their efforts have had to be divided between dealing with backlog and current operations, patching too thinly spread systems, and, with the remaining time, preparing future systems.
15. The procedural background necessary for improving the quality of financial administration and launching the new information systems should be in place by the end of the biennium. The architecture of the future systems should also be known by then. However, the current information systems will still be the main resource in preparing the next biennial accounts.

Excess of Income over Expenditure

16. Income exceeded expenditure by 153.3 million dollars in 1994-95, compared to a deficit of 46.1 million dollars for the last biennium. At 31 December 1995, Reserves and



Fund balances amounted to 284.7 million dollars. Those figures comprise all the operations of the Programme, but Fund balances are not fully at the disposal of the Programme as most resources are tied to specific operations by the donors.

Recommendation to clarify the implementation of the decision of the Thirty-eighth Session of the CFA as regards the Operational Reserve.

17. During its Thirty-eighth Session, the CFA "agreed to establish an operational reserve at the level of up to 57 million dollars" to be "created from the carry-over from 1992-93 of 6.9 million dollars, transfer of one million dollars from the Working Capital Fund, recoveries from the PRO sub-set and, until the authorized level was reached, any future surplus of income over expenditure."
18. The External Auditor recommends that a policy document be approved by the Executive Board, to detail the determination of the transferable surplus, the funding of the Reserve and the modalities of its replenishment.
19. The Executive Board might hence wish to state expressly that the surplus of funds tied by donors to specific operations should not be devoted to the Operational Reserve and the increase of the Operational Reserve should take place after the approval of the accounts. For such purpose the Board would decide that:
20. The surplus of income over expenditure to be devoted to the Operational Reserve is:
 - . limited to such surplus which is at the full disposal of the Programme
 - . reduced by transfers made pursuant to authorizations of the Executive Board
 - . transferred to the Operational Reserve after approval of the Accounts by the Board.

Recommendations in respect of the Audited Accounts, the Creation of a Special Provision and the Increase of the Operational Reserve

21. The surplus at the full disposal of the Programme amounts to 50.9 million dollars, as shown in Schedule/Note 9. The Programme has followed the example of FAO and not provided for some personnel-related liabilities, so far (see Schedule/Note 19). However, following recent United Nations standards, FAO has decided to account for the After-Service Medical Coverage Liability. At end-1993, WFP had a liability of 41.6 million dollars in that respect. The amount at end-1995 should be higher; it will be provided by an actuarial study by the end of August and a plan will be submitted to the session of the Executive Board following the approval of the accounts. Devoting 20 million dollars of the 1994-95 surplus to the creation of a provision for the After-Service Medical Coverage Liability would be a first and significant step towards its accounting.



22. We therefore recommend to the Executive Board that it:
- take note of the Report of the External Auditor;
 - approve the accounts of the Programme for the biennium 1994-95, pursuant to General Regulation 30;
 - create a special provision of 20 million dollars, towards after-service medical coverage;
 - raise the Operational Reserve to 40,203,000 dollars by using the balance of the surplus (30,935,000 dollars).



<p>REPORT OF THE EXTERNAL AUDITOR</p> <p>ON THE FINANCIAL STATEMENTS OF THE WORLD FOOD PROGRAMME</p> <p>FOR THE FINANCIAL PERIOD 1 JANUARY 1994 TO 31 DECEMBER 1995</p>
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**REPORT OF THE EXTERNAL AUDITOR
ON THE FINANCIAL STATEMENTS OF THE WORLD FOOD PROGRAMME
FOR THE FINANCIAL PERIOD 1 JANUARY 1994 TO 31 DECEMBER 1995**

INTRODUCTION

1. My staff have audited the financial statements of the World Food Programme (WFP) for the period 1 January 1994 to 31 December 1995 which were submitted to me by the Executive Director in accordance with Financial Regulations 9.4 and 10.3 of the WFP.

AUDIT SCOPE

2. The scope of the audit was determined in compliance with Article XI 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 obtain reasonable assurance that the financial statements are free of material mis-statement. 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.
5. The audit enabled me to issue the audit opinion on the financial statements which is reproduced on page 33.

REVIEW OF MANAGEMENT MATTERS

6. In addition to the audit of the accounts, my staff carried out reviews under financial Regulation 11.4 of the Programme. In 1994-95, this review of management matters primarily concerned the effectiveness and efficiency of financial information and accounting systems in operation in the WFP, including internal control procedures. The conclusions of this review are incorporated in the present report.



7. In 1995 and 1996, my staff visited nine countries in Latin America, Africa and Asia where they carried out management and financial audits of the WFP Country Offices and of a selection of projects being implemented. Their observations and recommendations were reported separately to the Executive Director following the conclusion of the visit. Also, they have been incorporated in the present report when and where appropriate.

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 Member Nations. 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 analyzed and assessed.

SUMMARY

FINANCIAL MATTERS

Format of Financial Statements

9. The WFP prepared its 1994-95 financial statements in accordance with the recently issued UN accounting standards. Under this new format, financial statements provide a consolidated presentation of all income and expenditure as well as all assets and liabilities of the WFP. However, this presentation could be further improved and I recommend that, in the future, it be based on the long term financing model adopted in 1995 [paras. 31 to 33].

Operational Reserve

10. The 1994-95 surplus transferable to the operational reserve amounted to US\$50.1 million. I recommend that a policy document detailing the determination of the transferable surplus, the funding of the reserve and the modalities of its replenishment be approved by the Executive Board [paras. 34 to 39].

Undisbursed Expenditure

11. Undisbursed expenditure (US\$323 million) is comprised of unliquidated obligations (US\$175 million) and a provision for internal transport, storage and handling (ITSH) costs to be met in respect of commodities shipped during the biennium (US\$148 million). I recommend that, in line with the policy outlined by the Executive Director, the provision for ITSH costs be replaced by regular unliquidated obligations defined and accounted for in compliance with the provisions of the UN accounting standards [paras. 40 to 44].



Country Office Expenditure

12. Following my predecessor's recommendations, an improvement in financial control of field operations was noted. However, my staff found that there was scope for further improvement in accounting for country office expenditure, controlling bank balances and opening field bank accounts. In particular, I recommend that imprest account balances be more closely monitored and that vetting of imprest returns before reported transactions are entered into the central accounting system be strengthened [paras. 45 to 50].

Administrative Costs

13. Administrative costs amounted to US\$196.2 million during the biennium. This included US\$0.7 million in respect of the Financial Management Improvement Programme (FMIP). Other FMIP costs were charged to a specific FMIP Special Operation in an amount of US\$0.6 million. The balance carried forward under that special operation amounted to US\$7.9 million [paras. 51 and 58].
14. I recommend that the legal status of Government Cash Counterpart Contributions (GCCC) towards country office costs be clarified to determine under which conditions such contributions are a firm obligation of governments [paras. 52 to 55].
15. Actual costs of services rendered by the FAO during the biennium were about half the amount appropriated in the programme support and administrative budget (PSAB). I recommend that budgetary estimates be more closely adjusted to requirements and that the available documentation supporting costs incurred be more thorough [paras. 56 and 57].

Cash and Investments

16. Considering the amount of liquid assets held by the WFP, it appears desirable that it take on greater initiative and responsibility in the management of its cash and investments. With a view to furthering such objectives, I recommend that the Programme and the FAO enter into a formal agreement delineating their respective responsibilities and establishing decision making mechanisms [para. 59].

Accounts Receivable and Payable

17. The review of accounts receivable and payable disclosed that there was a need for stricter monitoring of such accounts on a regular basis throughout the biennium, with particular attention to transactions in suspense [paras. 60 to 64].

Insurance Policy

18. In September 1994 the Secretariat decided to implement a new self-insurance policy and to provide for the coverage of self-insured risks. The provision reported at 31 December 1995 appears satisfactory. However, I recommend that the Programme develop and implement guidelines for the regular posting of premiums and claims throughout the biennium [paras. 65 to 67].



Monetization of Commodities

19. For all practical purposes, it appears that the recommendations of my predecessor regarding the monetization of commodities were not implemented. Considering the importance of such operations and the fuzzy delineation of responsibilities between the Programme and the recipient governments, it has become urgent to determine the ways in which the Programme could exercise in general overseeing and reporting responsibilities. I recommend that the Programme issue comprehensive guidelines on the matter after due consideration of the variety of local situations and that individual project agreements detail the extent and limits of the responsibilities entrusted to the Programme for the monetization of commodities and the safeguarding and management of the funds generated [paras. 68 to 70].

Valuation of Transactions In-Kind

20. In 1994-95 contributions in commodities amounted to 55% of total contributions. The valuation of such contributions in the accounts of the WFP is complex and lacks consistency. I recommend that the valuation systems applied to transactions in-kind be reviewed with a view to documenting, simplifying and unifying the recording of such transactions [paras. 71 to 74].

Closure of Completed Projects

21. Numerous projects remain without being formally closed for years after they were completed. I recommend that the procedures for closing projects and surrendering the related budget balances be issued and implemented with a view to closing the gap between the completion of operations and the final closure of projects [para. 75].

Bilateral Operations

22. Expenditure against bilateral contributions should not exceed funds received by the Programme. Nonetheless, excess expenditure was incurred in an amount of US\$6.6 million as at 31 December 1995. Weaknesses in the financial management of bilateral operations result, at least in part, from a lack of established communication channels and clear delineation of responsibilities between the administrative units concerned which should be corrected [paras. 76 to 80].

End-of-Service Liabilities

23. In line with the UN accounting standards, a new Schedule/Note 19 was appended to the 1994-95 financial statements to disclose the Programme's policy regarding provisions for end-of-service benefits. However, this note does not include an estimate of the termination liability of the Programme with respect to Professional staff [paras. 81 and 82].

MANAGEMENT MATTERS

Financial Information and Accounting Systems

24. The present financial information and accounting systems were developed over time in a piecemeal fashion to respond to changing needs as and when they were identified and without a view to achieve global consistency [para. 87].



25. The electronic data processing systems have two main weaknesses: the functions of the sub-systems are not adequate to the tasks they were assigned and defects in the interfaces between the sub-systems and the central accounting system create a weak control environment [paras. 88 to 91].
26. In addition, the review disclosed an alarming lack of procedural discipline with respect to systems documentation and security and financial procedures [paras. 92 to 94].
27. In particular, it appears that the weak accounting data validation environment is not offset by a rigorous implementation of well defined financial and accounting procedures. The provisions of the Financial Regulations and Rules of the Programme are not supplemented, as they should, by comprehensive, written, organization-wide and operational instructions. This is true both at headquarters and in the field. Field visits have confirmed the poor situation of the financial and accounting function in country offices [paras. 95 and 96].
28. As a result of the piecemeal development of the systems in operation in WFP, financial reports to donors cannot be produced automatically but must be prepared manually at great cost and effort to retrieve pieces of information from the central accounting system and the various sub-systems [para. 97].
29. In view of the extensive weaknesses identified, the Programme decided, in 1995, to adopt a global approach detailed in the FMIP. I concur with such global approach but its implementation will take time. Therefore, I recommend that immediate improvements, consistent with the longer term strategy, be implemented without waiting for further finalization of decisions on the FMIP project [para. 98].
30. Such improvements should include the issuance of organization-wide written operational instructions defining internal control terminology and procedures and assigning responsibilities to carry them out, the issuance and implementation of operational accounting instructions (including a revised chart of accounts adapted to the new financing model adopted by the WFP) and the forwarding of country office accounting information to headquarters in an electronic form and under a format consistent with the central accounting system [para. 99].

LONG FORM REPORT

FINANCIAL MATTERS

Format of Financial Statements

31. The format of the 1994-95 financial statements differs substantially from that which had been adopted in 1992-93. This new presentation was adopted by WFP after common inter-organization United Nations accounting standards had been recognized, in 1993, by the General Assembly which had requested "the executive heads of the United Nations organizations and programmes to take those standards into account in the preparation of



their financial statements". Also, pursuant to the recommendation of the General Assembly to further develop such standards, the Administrative Committee on Coordination (ACC) recommended to present financial statements under a new format which the WFP decided to use as a reference for the presentation of its 1994-95 financial statements.

32. This new presentation which constitutes a change in accounting policies, as explained in the Schedule/Note 2 to the statements, represents a significant improvement in the reporting of the financial operations of the Programme.

In particular:

- for the first time, the Income and Expenditure Statement (Statement I) provides a consolidated view of all income and all expenditure of the Programme, including that which pertains to bilateral operations, the Junior Professional Officer (JPO) scheme and support costs, and discloses a consolidated excess (shortfall) of income over expenditure;
 - as a result, the Income and Expenditure Statement, on the one hand, and the Assets and Liabilities Statement (Statement II), on the other hand, are now consistent with one another;
 - the various categories of income (and, in particular, the distinction between income in kind and in cash) are now clearly identified on the face of Statement I;
 - finally, the reporting of liabilities for end-of-service benefits has been clarified as explained in the Schedule/Note 19 to the statements and in paragraphs 81 and 82 of the present report.
33. However, the format of financial statements adopted for the 1994-95 financial period could be further improved.

The activities of WFP are regrouped and presented under two columns, namely "Multilateral Operations" and "Bilateral Operations" with the consolidated situation being reported in a third column ("The Fund"). This grouping of activities was retained for practical reasons but it does not correspond to differences in the ownership of funds or in the legal status of activities. For example, "Multilateral Operations" include operations for which the funds contributed are the propriety of the Programme (Regular Programme and other "non directed" contributions) as well as operations for which the use of funds is directed by the donor and is not therefore at the disposal of the Programme ("directed" multilateral operations). Similarly, the activities reported include both activities specifically mandated by the General Regulations or decisions of the Committee on Food Aid Policies and Programmes (CFA) and operations which were not identified by the CFA to be separately reported (e.g. Disaster Mitigation Programme or Special Emergency Operations).

At its fortieth session in November 1995, the CFA adopted a financing model delineating the various categories of activities to be undertaken by the Programme and specifying their legal status. Under that model, the activities will consist of (i) development (including rehabilitation and disaster preparedness); (ii) protracted refugee operations; (iii) emergency operations, and (iv) special operations. Such



activities will be funded by "multilateral", "directed multilateral" or "bilateral" funding. This model would allow for determining the degree of "ownership" retained by the WFP on such funds.

Therefore, I recommend that, in the future, the grouping of activities on the face of the financial statements be based on the delineations recognized in the long term financing model.

Surplus and Operational Reserve

34. Statement I discloses a consolidated "excess of income over expenditure" which reflects the outcome of the operations of the Programme during the biennium. This excess amounts to US\$153.3 million in 1994-95 as compared to a shortfall of US\$46.1 million during the preceding biennium (restated to be comparable to the 1994-95 figure).

But the two-column presentation adopted does not allow for distinguishing what part of this excess accrues to the Programme and what remains at the disposal of donors.

This information is detailed in the Schedule/Note 3: the excess of Regular Programme income over expenditure (US\$62.3 million) belongs to the WFP, the excess resulting from multilateral operations other than the Regular Programme (US\$63.2 million) is earmarked for identified purposes and is in part at the disposal of the WFP and in part directed towards uses specified by the donors, and, finally, the excess resulting from bilateral operations (US\$27.8 million) is held in trust on behalf of donors.

35. Under the new presentation, the bottom of Statement I shows how the excess (or shortfall) of income over expenditure resulting from the operations of the biennium contributed to building up the reserves and fund balances while the bottom of the Statement II shows the distribution of these reserves and fund balances between the various uses prescribed.
36. One such prescription results from the decision of the CFA, at its thirty eighth session, in December 1994, to establish an operational reserve, in line with Financial Regulation 7.4. The CFA provided for the initial funding of the operational reserve in an amount of US\$9.3 million, including US\$1 million transferred from the working capital fund. Although this was not formally stated in the CFA decision, my staff received assurances from the Secretariat that the working capital fund would be abolished. This is necessary since, for all practical purposes, the operational reserve has been substituted to the working capital fund.
37. The level of the operational reserve was established at US\$57 million to be funded from "any future surplus of income over expenditure". This requires clarification. The concept of "surplus" does not refer to the "excess" of income over expenditure but to the accumulated surplus of the Programme which is disclosed at the bottom of Statement II after various financial transfers between programmes have been effected. Moreover, the



surplus available to fund the operational reserve cannot be "any surplus" since, as mentioned above, only the Regular Programme surplus is left at the disposal of the WFP. The latter is disclosed in Schedule/Note 9 to the financial statements and amounts to US\$50.1 million as at 31 December 1995.

38. However, the transfer of this surplus to the operational reserve is not reflected in the financial statements (where it still stands at US\$9.3 million as at 31 December 1995) because the Secretariat considered that such transfer could not be effected before the Executive Board had approved the financial statements, and therefore the available surplus, even though the resolution establishing the reserve did not require such prior approval.
39. In view of the above, I recommend that a policy document be submitted to the Executive Board detailing the funding and replenishment modalities of the operational reserve (determination of sources of funding, authorization to draw down, replenishment mechanism, responsibilities for monitoring operations).

Undisbursed Expenditure

40. As explained in the summary of significant accounting policies (Schedule/Note 2, paragraph 5.2), undisbursed expenditure include unliquidated obligations (ULO) and a provision representing the best estimate of costs remaining to be met in respect of internal transport, storage and handling of commodities shipped during the biennium. Total undisbursed expenditure amounted to US\$322.9 million as at 31 December 1995. This was US\$47.6 million under the level at the closure of the 1992-93 biennium, but represented the same proportion of expenditure in cash (18%).
41. My staff could agree on the undisbursed expenditure balances disclosed in the statement only after the Secretariat undertook a comprehensive review of such balances at the end of the biennium which concerned mainly provisions for ITSH and resulted in decreasing the overall amount of undisbursed expenditure by US\$193.7 million between November 1995 and the closure of the accounts. However, the amount of undisbursed expenditure reported in the financial statements highlights a need to monitor and control more closely the inflow of new balances on a day to day basis. It is highly desirable that further action be taken to prevent invalid outstanding balances from piling up in the future.
42. Out of the total balance of US\$322.9 million, US\$41.9 million (13%) had been outstanding for over two years. Although outstanding obligations do not lapse in WFP, it is but sound management that they should be cleared within a reasonable period of time which should not exceed two years. This is even more true of the amount of obligations (US\$3 million) accrued between 1986 and 1991 which, even though they are sometimes related to pending internal procedures making management reluctant to decide surrenders, should be cleared or cancelled as soon as possible.
43. Out of total undisbursed expenditure, ULOs amounted to US\$175 million as at 31 December 1995, i.e. an increase of US\$25 million over the 31 December 1993 level. This results, at least in part, from the increase in the volume of emergency operations.



44. Half of total undisbursed expenditure (US\$161.1 million) represented ITSH costs. Out of that amount, only US\$13.1 million consisted in ULOs backed by contracts the Programme entered into. The difference (US\$148 million) is the product of tonnage by local ITSH rates and represented a provision set up to meet future costs. The Programme agreed to report this provision separately on the face of Statement II.

In July 1994, the statement of the Executive Director presenting the 1992-93 accounts to the CFA mentioned that the Secretariat was *“currently developing a new methodology for administering and recording ITSH obligations. Under the proposed new methodology an ITSH obligation would be recorded at the stage when the Programme enters into a contract for internal transport and at the rate laid down in the contract. This, together with close monitoring of food movements, would provide a more accurate value of outstanding obligations for ITSH at any given point in time”*. This change in methodology which would have brought the accounting for ITSH costs in line with the UN accounting standards had not been implemented at the closure of the 1994-95 biennium. Recognizing the practical difficulties in implementing such a change, I still recommend that, in the future, ITSH cost estimates be replaced by regular obligations defined and accounted for in compliance with the provisions of the UN accounting standards.

Country Office Expenditure

45. A substantial proportion of WFP cash expenditure is incurred in country offices. During the biennium, such expenditure amounted to US\$512.1 million. Local payments are made through imprest accounts managed by Country Directors (US\$297.5 million) and through the local representation of the United Nations Development Programme (UNDP) which charges such payments to the WFP via the inter office vouchers (IOV) system (US\$214.6 million). My predecessor had carried out an extensive review of the financial control of country office operations and recommended a number of improvements in this area. Following up on such recommendations, my staff reviewed accounting, funding and banking arrangements.

Accounting for Country Office Expenditure

46. Local expenditure is reported and substantiated to headquarters to be posted to accounts. Imprest and IOV returns are processed by a specialized unit which reviews and inputs manually the transactions into the accounting system. This is a time-consuming exercise. The Country Office Returns Unit processed approximately 1500 imprest returns and 2200 IOV returns during the biennium. My predecessor had noted the important backlog in the processing of country office returns at the closure of 1993.

The situation has improved in this respect: strengthening the Returns Unit from 14 persons in December 1993 to 17 at the end of 1995, implementing stricter controls of the timely forwarding of returns by the country offices and issuing revised processing procedures allowed for making up for this backlog. At the closure of 1995, all imprest account and IOV returns had been processed.

47. However, it must be noted that weaknesses remain in the quality of the checking of transactions.



First, the backlog in processing country office returns persisted during most of the biennium which means that recorded payments were significantly understated and that the Secretariat was not in a position to monitor accurately payments against commitments. On 30 September 1995, the backlog still amounted to two months. Therefore, during the last quarter of 1995 and the early weeks of 1996, the Returns Unit not only had to process the end of biennium inflow of returns but also to make up for the accumulated delays. As a consequence, the scrutiny of reported expenditure was carried out under pressure.

Second, the supporting documentation is not always adequate to allow for proper scrutiny. My staff identified three country offices that do not send the documentation supporting their imprest returns to headquarters without such exceptions being authorized.

Finally, the prescribed controls were somewhat relaxed towards the end of the biennium and substantial amounts of uncommitted expenditure incurred by country offices were posted to accounts. The total amount concerned could not be identified by the Secretariat. Based on a sample analysis carried out by the Internal Audit Office and reviewed by my staff, uncommitted expenditure amounted to 14% (US\$8 million out of a sample of US\$58 million) of country office expenditure before the final closure of the accounts. Efforts were undertaken early in 1996 to allocate such expenditure to relevant commitments. Nevertheless, at the closure, my staff identified five country offices where, overall, uncommitted expenditure still amounted to US\$3.2 million. Uncommitted expenditure reveals both a budgetary control weakness since such expenditure should not have occurred in the first place in the absence of the proper authorization and an accounting problem since this procedure creates a risk of double accounting of expenditure.

As a result of the reviews carried out at the closure, the remaining amounts are not considered to have a material impact on the accounts. However, the underlying expenditure control issue should be addressed.

48. I recommend that:

- imprest account transactions be transmitted to headquarters in an electronic form and under a format consistent with the central accounting system in order to avoid manual re-entry of data and eliminate risks of erroneous inputs; this should be a priority which could be implemented promptly in a way consistent with the longer term strategy developed under the FMIP [paras. 89, 91 and 99, below, refer];
- considering the large amount of transactions concerned, their regularity be thoroughly checked against supporting documentation on a statistical basis and the samples be selected after due consideration of risk areas;
- supporting documentation be available at headquarters for review;
- in any case, the importance of the checking of expenditure against commitments be reminded to Country Directors and strictly enforced.



Operation of Imprest Accounts

49. Overall, total cash holdings at country offices (including cash in transit) remained high throughout the biennium: US\$35 million as at 31 December 1993 and US\$33.8 million as at 31 December 1995. But reports from the field showed that the situation had improved at the end of the biennium and that this trend had continued in 1996. However, eight imprest account balances still exceeded US\$1 million (and two of them reached US\$6 million) at the end of 1995. Similarly our field visits disclosed that imprest cash balances frequently exceeded the monthly average level of expenditure. This situation results, at least in part, from the fact that no determined imprest level or replenishment agreement had been established by headquarters. As a consequence, the operation of such accounts was more in the nature of current accounts at the disposal of Country Directors than actual imprest accounts. At the end of 1995, the Programme introduced, on an experimental basis, new procedures for the replenishment of imprest accounts based on the cash requirements estimated by Country Directors. It is too early to assess the results of such changes, but since situations where expenditure levels vary considerably from one month to the next are the exception rather than the rule and since extremely quick bank transfer arrangements are now in place, I still consider that, in general, the management of imprest accounts should be based on determined imprest levels and that replenishment should be linked to the statement of expenditure already incurred and justified.

Opening of Bank Accounts and Authorization of Petty Cash

50. At the end of 1995, the Programme made use of 15 headquarters bank accounts and 117 official country office bank accounts. Headquarters bank accounts are opened and operated by the Treasurer of FAO. Country office bank accounts are opened by the Director of the Finance Division, the Chief of the Field Finance Branch or the Chief of the Accounts Unit. However, my staff came across unauthorized bank accounts in three out of the nine countries they visited during the biennium. Regarding petty cash, field visits disclosed numerous instances of petty cash advances not authorized by the Chief of the Field Finance Branch or the Chief of the Accounts Unit or exceeding the authorized level. I recommend that the established regulations governing the opening and management of petty cash and imprest bank accounts by country office staff be more strictly enforced.

Programme Support and Other Administrative Costs

Funding of Costs

51. Programme support and administrative (PSA) costs are funded through identified firm pledges and other firm sources of income. Such sources include:
- "contributions for administrative support" (support costs) levied on contributions to most non-Regular Programme activities,
 - government cash counterpart contributions (GCCC), and



- pledges explicitly directed towards covering administrative costs.

The balance of administrative costs is covered by the excess of Regular Programme income in cash over project expenditure in cash.

In the preceding financial period, support costs were not recognized as an income of the Programme in their entirety but partly accrued to a "support cost fund", without this difference in treatment being justified. This support cost fund was abolished during the 1994-95 biennium. I concur with such changes.

52. Overall, in 1994-95, administrative costs were funded as follows:

(thousands of \$)	Income US\$	Expenditure US\$	
Administrative expenditure		196,159	
Contributions for administrative support	62,155		31.7%
Government cash counterpart contributions	3,498		1.8%
Earmarked pledges	7,838		4.0%
Regular pledges	122,668		62.5%
TOTAL	196,159	196,159	100.0%

Government Cash Counterpart Contributions

53. Financial Regulation 4.9 requires the governments of recipient countries "to contribute a substantial portion of the costs of the Programme's country offices". The implementation of such requirement was detailed by decisions taken at the fourth and eighth sessions of the CFA and WFP Representatives were requested to negotiate agreements for such contributions with recipient governments. However, the review of GCCC disclosed that basic agreements with the governments of recipient countries did not include provisions relating to the payment of such contributions, either because older agreements were not revised or because more recent agreements omitted that reference. No additional information was available at headquarters regarding exchanges of letters between WFP Representatives and the recipient governments that could have been used as substitutes for basic agreements. Nevertheless, each year, WFP Representatives are reminded to request the payment of such contributions of which the amount (estimated at 50% of local operating costs) is specified.
54. At 31 December 1995, US\$24.3 million remained unpaid out of a total of US\$34.2 million requested from 1988 to 1995. No information is available with respect to the period prior to 1988. In 1994-95, US\$11.3 million was requested and payments amounted to US\$2.5 million. In addition, US\$1 million relating to prior periods was cashed during the biennium.



55. Even though it requests its payment annually, the Secretariat does not consider such contributions as receivable since basic agreements do not include provisions regarding GCCC and the very existence of letters exchanged to substitute for such provisions is in doubt. With a view to strengthening the funding of administrative costs, I recommend that the legal status of GCCC be clarified to determine the conditions under which recipient governments are required to pay such contributions. Subsequently, they should be accounted for as receivable when they are based on a legal obligation to pay.

Services rendered by other International Organizations

56. Chapters II and III of the PSA budget represent estimates of the costs of services provided by various UN and other international organizations. While Chapter III expenditure is supported by adequate documentation, this is not the case of the payment of services rendered by the FAO (Chapter II). The reason for this situation lies in the history of the relationship between WFP and FAO. The costing of services provided by FAO to WFP is based on "keys" allowing for the allocation of determined categories of expenditure between the two organizations. Such "keys" date back to 1972 and have not been reviewed since 1986. On that basis, an estimate of the cost of the services to be provided is agreed between the two organizations and included as the Chapter II of the budgetary proposal. The funds subsequently appropriated by the CFA under Chapter II of the PSA budget serve as the documentation supporting the payment of such costs. However, if the approval of the PSA budget does authorize payments to be made up to the amount appropriated, it does not create an obligation to disburse such amounts if the services are not rendered. This is all the more important that the actual provision of services is demand-driven (i.e. undertaken at the request of the WFP). The combination of payments based on budgetary estimates and services provided on demand is somewhat contradictory.
57. In fact, because of the profound organizational changes that have affected the relationship between the FAO and the WFP, it appears that budget estimates are at greater and greater variance from actual expenditure, as shown in the Schedule/Note 8.1 (approved Chapter II appropriation for 1994-95: US\$13.9 million; actual costs of services paid: US\$6.9 million).

In this context, I recommend that, for the future:

- the Programme revise its budgetary estimates of the costs of services to be requested from the FAO in order to adjust them as closely as possible to actual requests during the forthcoming biennium,
- the Programme request supporting documentation of the costs of services which can be individualized (e.g. technical support),
- the "keys" used to allocate costs that cannot be individualized be reviewed and adjusted in the light of experience (as was anticipated in the 1986 agreement referred to above).



Financial Management Improvement Programme

58. The FMIP was initiated in 1995. This Programme is reported in the 1994-95 financial statement as a "special operation" (Schedule 7.4 annexed to the financial statements). The establishment of the FMIP as a special operation was retroactively authorized by the Executive Board at its May 1996 annual session. At this same session, the Executive Board regularized retroactively the transfer of US\$5.5 million from the 1994-95 Regular Programme resources to the FMIP Special Operation. Donors further contributed US\$3.044 million. In addition, recurrent FMIP costs in an amount of US\$672,355 were charged to the PSA Budget (Chapter 1). Overall, the financial situation of the FMIP at 31 December 1995 was as follows (in US\$ million):

- earmarked resources 9.2
- expenditure 1.3
- unobligated balance 7.9

The unobligated balance was carried forward as a financial reserve earmarked for funding future FMIP developments.

Cash and Investments

59. The liquidity position of WFP at the end of the biennium is extremely favourable.

(In US\$ million)	31 December 1995	31 December 1993
Cash and deposits	617	499
of which: funds held in trust on behalf of bilateral donors	146	128

Cash and deposits at the end of the biennium may also be compared to disbursements: in 1995, disbursements amounted to US\$777 million, liquid assets thus represent over nine months of current cash expenditure.

As detailed in Schedule/Note 10, for the most part (US\$566 million) such assets are held in bank accounts operated by the Treasurer of the FAO, in line with the General Regulations of the WFP. In view of the fact that WFP liquid assets represent close to three times the liquid assets of the FAO, it appears desirable that the WFP take on greater initiative and responsibility in the management of its cash and short term investments. My staff noted that WFP had established a quick transfer mechanism for the replenishment of imprest accounts, initiated a closer monitoring of banking conditions on headquarters bank accounts and hired a cash manager in March 1996 (the position had been created in the 1994-95 PSA Budget). Also, the range and rate of information supplied to the WFP by the FAO could be improved and the WFP could certainly seek to develop its own sources of financial information. With a view to furthering such objectives, my staff has recommended from the outset that the Programme and the FAO delineate their respective responsibilities and establish decision making mechanisms in a



written agreement between the two organizations. Extensive discussions have taken place on the matter and progress has been made, but no agreement was in force at the time of writing the present report. I recommend that the conclusion of an agreement between the FAO and the WFP be considered as a matter of priority and implemented as soon as possible.

Accounts Receivable and Payable

60. Accounts receivable and payable amounted to US\$27.5 million and US\$24.8 million, respectively, as at 31 December 1995. The review of such accounts disclosed that there was a need for stricter accounting procedures to be implemented on a regular basis throughout the biennium, as detailed in the following paragraphs.

Salary Advances

61. Salary advances receivable from staff amounted to US\$1 million at the closure. For the first time, the Secretariat carried out a thorough review of advances exceeding three months. This revealed that advances to separated or deceased staff as well as advances to non-WFP staff and other questionable items amounted to US\$0.2 million, i.e. 20% of the total balance. Consequently, I recommend that the Programme, in cooperation with FAO, monitor personnel-related receivables more closely.

Project Preparation Costs

62. 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 charged to expenditure. However, this account is not regularly cleared and the balance at 31 December 1995 stood at US\$228,916. This results in an overstatement of assets and an understatement of expenditure. I recommend that this account be monitored and cleared regularly.

Demurrage

63. The review of a sample of demurrage costs receivable from suppliers disclosed that US\$230,574 (i.e. 34% of the sample amount) had been booked incorrectly and resulted in overstating accounts receivable. Therefore, I recommend that the Secretariat clearly assign responsibilities for monitoring and accounting for demurrage charges and review outstanding balances.

Suspense Accounts

64. My predecessor had recommended that the Programme establish, as a matter of urgency, effective procedures to ensure that suspense account items are cleared on a timely basis. This recommendation was not implemented during the biennium. At the request of my staff, the Secretariat carried out an extensive clarification and reclassification of locally recoverable items which resulted in a substantial decrease of country office suspense accounts. As a result of this and other procedures which were implemented at the closure of the biennium, net amounts in suspense pertaining to both headquarters and country offices were decreased from US\$22.6 million as at



31 December 1994 to US\$3.3 million (liability) as at 31 December 1995. This latter amount includes a net amount of US\$1.1 million paid on the basis of provisional commitments and still accounted for as a receivable although about half of it should have been charged to expenditure. Another net receivable balance of US\$1.2 million is reported as owed to country offices whereas it appears to be no longer collectible and should be charged to expenditure. In view of the above, I consider that the recommendation of my predecessor is still relevant.

Insurance Policy

65. In September 1994, the Secretariat decided to implement a new self-insurance policy and to provide for risks covered under that new scheme through a provision mechanism. This decision was made effective retroactively as from 1 May 1994. Under the new policy, the Programme was to provide for quarterly instalments equivalent to the premiums it would have had to pay under a commercial insurance contract. Claims were to be debited from the insurance account and credited to projects or returned to donors. However, the accounting procedures that were to be defined to implement this policy were not established and the corresponding accounts necessary to record such transactions were eventually created at the closure of the biennium. As a result, premiums and claims could not be regularly accounted for during the biennium and the provision mechanism could not be implemented properly.
66. At the closure of the accounts, premiums which, in effect, constitute the biennial allowance for the self-insurance provision were regularized. Claims related to the period 1 May 1994 to 31 December 1995 were accounted for insofar as they were reported before 31 December 1995. Finally, recoveries from carriers in an amount of US\$167,000 were not reported in the insurance account statement. Overall however, the provision at 31 December 1995 reported in the balance sheet under the heading "Insurance Account" appears satisfactory.
67. I recommend that, in the future, precise guidelines allowing for regular posting of premiums and claims to the insurance account throughout the biennium be issued as soon as possible to implement the policy defined in September 1994.

Monetization of Commodities

68. My predecessor has noted the importance taken by the sale of commodities ("monetization"), either to generate funds as an inherent part of development activities or to meet transport and non-food costs. It is estimated that, out of the projects approved between 1989 and 1994, the proceeds of the sale of commodities amounted to US\$362 million. Substantial outstanding balances remain in the bank accounts opened for that purpose in the name of the recipient governments. For example, it is estimated that in the Latin America and Caribbean Region, outstanding balances on "monetization" bank accounts exceeded US\$35 million at the end of 1995.
69. In his report on the accounts of the 1990-91 financial period, my predecessor had recommended various improvements in the monitoring of and accounting for generated funds. Field visits undertaken by my staff, particularly in Latin America and Africa, disclosed that such recommendations had not been implemented, that country office staff were uncertain as to their responsibilities in the safe-guarding and management of funds,



and that no policy objectives nor procedural guidelines had been implemented on the matter.

Legally, title in commodities and generated funds belongs to the recipient government, and therefore the Programme does not report such assets in its financial statements and does not maintain comprehensive records of funds generated and utilized. However, under General Regulation 24-c, the Executive Director retains a general responsibility to observe that the proceeds of such sales "be used for the particular purposes and activities specified in the [project] agreement".

For all practical purposes, it appears that the Programme staff, and in particular the Country Directors, are deeply involved in monetization operations and in the management of the funds generated even though the situation does vary from project to project based on local circumstances. A survey revealed that WFP staff were joint signatories or co-signatories on at least 100 project bank accounts opened to deposit "monetization funds". It is also revealing to note that US\$4.7 million of "monetized funds" deposited in WFP bank accounts was recognized as payable to recipient governments in the financial statements of the Programme at 31 December 1995.

70. In 1995, the Secretariat initiated steps to have monetized income and expenditure audited by local auditors on an annual basis. But it has now become necessary to address the more substantial issues involved in monetization operations and, in particular, to determine the ways in which the Programme could exercise its general overseeing responsibility and report to the donors on the conformity of the utilization of "monetization funds" with the objectives of the projects. In this respect, in line with my predecessor, I recommend that:
- in view of the variety of local situations, individual project agreements detail the extent and limits of the responsibilities entrusted to the WFP for the monetization of commodities and the management of the funds generated;
 - project agreements also specify the ways and means at the disposal of WFP to gather information on the operations funded through monetization of commodities;
 - in order to reach these objectives, a "monetization policy" document be produced and comprehensive guidelines be issued spelling out the various scenarios under which WFP may get involved in the successive stages of monetization operations with the attending responsibilities.

Valuation of Transactions in Kind

71. The Programme receives both commodity and cash contributions. The objective set forth in Financial Regulation 4.2 is that the "cash-and-services" component amount "in the aggregate to at least one third of total contributions". In 1994-95, multilateral cash contributions amounted to 45% of total contributions (excluding support costs). When bilateral contributions (all in cash) are included this percentage increases to 49%. When contributions of "cash in lieu of commodities" (reported under "contributions in commodities" in Statement I in an amount of US\$465.6 million) are taken into account, the proportion reaches 66%.



72. The valuation of contributions in kind in the accounts of the WFP is complex and lacks consistency. This does not impact on the excess or shortfall of income over expenditure in the financial statements since commodity expenditure is accounted for at the same value as that of the corresponding commodity income. But the complex valuation methods used in practice (but not documented in formal procedural guidelines) result in making the figures shown on the face of the statements for pledges receivable, income and expenditure in-kind inconsistent.
73. Such inconsistency results from the following factors:

First, different valuation systems are in use. Commodities may be valued at the price indicated by the donor or at a price previously indicated by the donor for the same type of commodity or at a price estimated by WFP. In addition, the price indicated by the donor may change between the time of the pledge and the time of the shipment. Valuation thus depends on the available information and different valuation systems may be applied not only to the same commodity contributed by different donors but also to different consignments of a commodity included in the same pledge by a given donor.

Second, Regular Programme transactions are treated differently from IEFR and PRO transactions. Regular Programme commodity transactions are first accounted for as "estimated" and, subsequently, as "actual" upon reception of the final statement of the donor. Since final donor statements are received late or never, the Secretariat frequently decides to change the "estimated" value into "actual". This informal procedure clearly shows that the relevance of the distinction between "estimated" and "actual" values is quite limited. Moreover, it is not used for IEFR and PRO transactions where the value retained at the time of the pledge remains valid all along, including for accounting for the corresponding expenditure.

74. I recommend, that the valuation systems applied to transactions in-kind be reviewed with a view to documenting, simplifying and unifying the recording of such transactions.

Closure of Completed Projects

75. The latest progress report available in May 1996 disclosed that 1330 completed projects (of which 600 had been started prior to 1985) had not yet been closed. There are no instructions detailing the procedure for closing a project. In practice, because this requires the coordinated intervention of a number of units in the WFP and because responsibilities for monitoring the closing of projects are not clearly assigned, the delay between completion and closure may extend over several years. As a result, large balances, in kind and in cash, remain earmarked in the budgets of projects which have not been closed even though the operations have been completed. Where funds have been transferred to the country office concerned, it may happen that the resources allocated in excess of expenditure under a project completed but not closed be tapped at the country level for other operations. One of our field visits disclosed an example of such a situation. Where funds have not been transferred to the field in excess of expenditure which is normally the case, the absence of closure does not impact on the availability of resources. Nevertheless, I recommend that the procedures for closing projects and surrendering the related budget balances be issued and implemented with a view to closing the gap between the completion of operations and the final closure of projects.



Bilateral Operations

76. Bilateral contributions (excluding the JPO scheme) amounted to US\$220.5 million in 1994-95. Such contributions are directed towards projects under which WFP provides services to donors by way of commodity and non-food purchases and delivery to specified destinations. These operations are detailed in a schedule 5.1 attached to the financial statements. At the closure of the preceding biennium, 38 negative balances (US\$11 million) representing the excess of expenditure (including outstanding obligations) over funds available were reported.
77. The WFP acting as a service agency, should not be placed in a position where it has to advance regular resources to donors to cover shortfalls in their contributions. In order to avoid such situations my predecessor had recommended that *"the Programme review the expenditure and funding position of each bilateral operation on a monthly basis"*. However, at the end of September 1995, negative balances amounted to US\$21.5 million. As a result of the efforts undertaken at the end of the biennium to secure remittances from donors and redress this situation, negative bilateral balances were decreased to US\$6.6 million, pertaining to 20 operations, as at 31 December 1995.
78. At the end of 1993, my predecessor had singled out a bilateral operation where the negative balance amounted to US\$6.8 million and he had received assurances that the matter would be resolved in 1994. However, the balance of that same operation remained negative in an amount of US\$4.99 million as at 31 December 1995. If it were to be offset against funds available in the general account of that same donor, the resulting balance would still be negative in an amount of US\$1.6 million. But, in the circumstances, no agreement of the donor to such compensation could be produced. In reality, it appears that the present situation results, above all, from poor financial management of this operation.
79. My staff noted other instances where negative balances remained outstanding for the same amounts from the end of 1993 to the end of 1995 with little prospect of ever cashing in the amounts due.
80. More generally, weaknesses in the financial management of bilateral operations result from a lack of established communication channels as well as of clear delineation of responsibilities between the administrative units involved (Resources, Operations and Finance). The Internal Audit Department recommended in a recent report that *"clear responsibilities for the management of all aspects of bilateral funds be determined"*. I concur with this recommendation.

Personnel Related Liabilities

End-of-Service Liabilities

81. The UN accounting standards require that "liabilities for end-of-service benefits (and post-retirement benefits) be provided for in the accounts to the extent required by the financial policies of the organization. Insofar as such liabilities are not fully provided for, appropriate disclosure should be made in the notes to the financial statements and the total estimated liabilities quantified where possible. Accordingly, a new Schedule/Note 19 was appended to the 1994-95 financial statements to disclose the Programme's policy in that regard.



In WFP,

- end-of-service benefits accrued to Professional staff are not provided for and their amount at 31 December 1995 is not disclosed in Schedule/Note 19;
- accrued annual leave in respect of all staff is not provided for but an estimate of the amount of the related liability is disclosed in Schedule/Note 19;
- end-of-service benefits accrued to General Service staff are provided for through participation in the Separation Payment Scheme (SPS) operated by the FAO and reported in the latter's financial statements;
- similarly, compensation for all staff in case of death, injury or illness attributable to the performance of official duties is provided for through participation in the Compensation Plan Reserve Fund (CPRF) operated by the FAO and reported in the latter's financial statements;
- finally, after service medical costs are not provided for by the Programme nor by the FAO, but the amount of the related liability is estimated on the basis of an actuarial review carried out by the FAO and covering WFP personnel as well, this amount, as communicated by the FAO, is disclosed in Schedule/Note 19.

At the time of writing the present report, the quantification of the liability in respect of CPRF, SPS and after service medical coverage at 1 January 1996 was being estimated by an actuary engaged by the FAO but actuarial estimates were not available.

United Nations Joint Staff Pension Fund

82. The WFP provides for the pension arrangements of its staff through participation in the United Nations Joint Staff Pension Fund (UNJSPF). The Fund is supervised by the United Nations Pension Board. The actuarial sufficiency of the Fund was assessed at 31 December 1993. Based on this assessment the Pension Board determined that there was no need to raise the rate of contribution required from the participating organizations to meet the costs of providing retirement benefits under this defined benefits plan. Accordingly, WFP did not consider that a provision for a contingent liability needed to be made in its financial statements.

Action Taken in Response to Previous Reports

83. Action taken in response to the recommendations of my predecessor has been reported where appropriate in the course of the present report. In addition, my staff reviewed the following matters which were also raised in the previous report.

Control of Country Office Physical Assets

84. As explained in Schedule/Note 18 to the financial statements total assets of the Programme were decreased from US\$95 million as at 31 December 1993 to US\$67.6 million as at 31 December 1995 essentially as a result of the closure of the WFP Transport Operation in Ethiopia (WTOE) and transfer of the corresponding assets to the government. However, field visits revealed that there was still room for improvement in the maintenance of country office inventories and their communication to headquarters. The new policies which were announced for March 1995 and which were



to include decentralizing and computerizing inventory management have not been issued yet and the software package which should be furnished in support of their implementation is not available. I recommend that such policies be issued as guidelines and implemented as soon as possible.

Financial Training for Country Office Staff

85. My predecessor recommended that WFP develop a comprehensive training programme on financial management for country office staff. A course was developed with the University of Maryland. Thirteen headquarters managers participated in a two-day pilot workshop in the summer of 1995. This course was subsequently discontinued since it was felt that it did not meet WFP requirements. Some finance and administration officers were also brought to headquarters for training. A Country Office Accounting Manual was distributed in a draft form in 1996, but it will require extensive revisions [see para. 96]. A chief of the Field Finance Unit was finally recruited in March 1996. As a matter of fact, it appears that the development of a much needed financial management training programme will be usefully undertaken only on the basis of the financial and accounting procedures that should be developed within the framework of the FMIP.

Procurement

86. Two consultants were hired in succession to put out a new procurement manual based on guidelines established by the Secretariat, but no procurement manual has yet been issued. Changes in that area have been limited to raising the authority extended to Country Directors for the procurement of non-food items to US\$100,000 and, circulating a document incorporating current local procurement procedures, the "WFP Office Procurement Guide".

MANAGEMENT MATTERS

Financial Information and Accounting Systems

Overview

87. The present financial information and accounting systems were developed over time in a piecemeal fashion to respond to changing needs as and when they were identified and without a view to achieve global consistency.

They consist of sub-systems feeding into the general ledger system. Movements of commodities are handled in the WFP Information System (WIS), while other expenditure is handled in the Non Operational Payment System (NOP). These two sub-systems were merged in April 1996. The Field Office Imprest Accounting System (FIS) records local bank and petty cash transactions of Country Offices. Two additional feeder systems are operated by the FAO: PERSYS for the WFP payroll and FINSYS for other operations (treasury, technical support services, etc.). All these sub-systems feed into the general ledger system (hereafter referred to as the Accounting System) which is a commercial package customized over time to suit WFP requirements and, in particular, to interface with WIS, NOP, PERSYS, FINSYS and FIS.



Control Environment

88. Overall, the system has two main weaknesses: the functions of the sub-systems are not adequate to the tasks they were assigned and defects in interfaces between the sub-systems and the Accounting System create a weak control environment.
89. WIS and NOP were designed to be information handling system. But the range of information they can handle does not cover all the requirements of the Programme. In addition, WIS and NOP data could not be routinely aggregated because commitments recorded in NOP were not automatically linked to a given project. This latter difficulty prompted the Secretariat, in 1994, to initiate the merging of the two sub-systems. The merged system became operational as of 1 April 1996.

With respect to FIS, its limited capabilities do not make it an accounting tool for the country offices. Besides, out of the 27 offices operating imprest accounts, only 16 are equipped with a version of FIS, most of them different from one another.

90. In addition to being information handling systems, WIS and NOP (now WIS) generate accounting entries via an accounting module. However the edits built in the sub-systems are not up to the Accounting System standards. This results in a lack of assurance on the quality of data produced by the sub-systems. Since the edits of the Accounting System are stricter and more complete than those in the feeder systems, the former is used to make up for weaknesses in the upstream systems (as a matter of fact, often it reveals such weaknesses). But this is achieved at the cost of accumulating transactions into suspense accounts. Much time and effort was spent at the closure of the biennium to try and clear such accounts.
91. Each feeding application has its own mode of interfacing with the Accounting System.

There is no automatic interface between FIS and the Accounting System and data must be recaptured and entered manually. FINSYS and PERSYS are not adapted to the WFP environment: coding and controls are not homogeneous in both systems and the necessary "translations" are not properly effected by the relevant interface. As a result of the lack of homogeneity between the Accounting System and the WIS and NOP sub-systems, extensive manual controls must be performed. The necessity to recapture data multiplies the risk of losing or altering original data and is time-consuming since further controls are necessary before processing transfers. Finally, a further consequence of inadequate interfaces is that a very large number of transactions (several thousands) are directly entered into the Accounting System instead of being processed through the sub-systems.

Procedural discipline

92. The review carried out by my staff disclosed an alarming lack of procedural discipline in WFP, particularly with respect to systems documentation and financial procedures.

Systems Documentation and Security

93. The documentation of the various electronic data processing (EDP) systems currently in operation in WFP has not been regularly updated. There is no users' manual of the Accounting System. Available documentation only includes the standard functionality but not the added routines for the interfacing with the feeder systems. This is all the more crucial, that only a few officers can operate the Accounting System at present. With



respect to WIS and NOP the original systems documentation was not kept updated even though users' manuals were prepared in 1994 and 1995. With respect to FIS, there are no users' manuals for most versions in circulation and the one existing manual, relating to the original version, is incomplete.

94. Sixty four persons are authorized to prepare transactions in the Accounting System. Such transactions must be approved by a limited group to ten supervisors. Although certain limitations exist, authorized officers have access to all accounts and to most functions and, in view of the large number of direct entries into the Accounting System, there is a risk that they are not all adequately checked before approval. This further weakens the accounting control environment. Moreover, very little training of users has taken place.

Financial and Accounting Procedures

95. The weak accounting data validation environment is not offset by a rigorous implementation of well defined financial and accounting procedures.

These procedures are governed by the Financial Regulations and Rules and the Finance Manual of the WFP. However, such provisions are limited to high level guidance and they are not supplemented by written, organization-wide operational instructions.

The first "interim" issue of the Finance Manual, dated 30 September 1994, is incomplete. Such sections as "project activities", "obligations and commitments" and "procurement" are still to be issued.

Where they detail internal controls, the provisions of the Manual are, in several respects, at variance with the procedures actually implemented. To mention only one example, there is, in practice, a confusion between the budgetary allocation of funds to projects and the commitment of expenditure, and commitments against project resources are not certified by certifying officers.

96. Whatever the weaknesses of the Manual, written operational instructions are lacking. A crucial case in point relates to the instructions that should detail to staff the operation of the commitment and expenditure cycle. In the absence of such instructions, the enforcement of strict discipline by all operational units proves uneasy.

Another case in point is the absence of written accounting procedures detailing in an operational fashion the operation of each account or group of accounts and the person or persons responsible for them. An updated chart of accounts was finally made available to my staff in September 1995. However, it proved confused and incomplete in several respects.



Field visits have confirmed the poor situation of the financial and accounting function in field offices. The draft Country Office Accounting Manual recently issued [see para. 85] is outdated in several respects and will require extensive revisions. Most country offices do not have a finance officer and financial discipline is not adequate yet with respect to the opening and managing of bank accounts.

Reporting Capabilities

97. Although the Programme is basically a collection of projects, financial information regarding any single project is dispersed in different systems with different coding structures. Such information cannot be automatically retrieved and compiled to produce project reports detailing the status of financial implementation. This is, in part, a result of the piecemeal development of the various systems in operation in WFP and of the absence of adequate linkage between data sources.

As mentioned above, all accounting information finally flows into the Accounting System where it is posted to accounts. Because of the stricter validation procedures applied, the financial information flowing out of the Accounting System is the more reliable available in WFP. However, the existing accounting coding structure in this System only allows for linking income to donors and expenditure to projects, but not for reconciling income and expenditure related to a given project.

As a result financial reports to donors must be prepared manually at great cost and effort to retrieve pieces of information from the Accounting System and the recently merged WIS/NOP system.

The Way Forward: The Financial Management Improvement Programme (FMIP)

98. In view of the extensive weaknesses identified by successive reviews of its accounting and financial information systems, WFP decided in 1995 to adopt a global approach and launch a comprehensive FMIP to respond to both operational and strategic requirements. This Programme is being developed along two main lines: redesigning operating processes and procedures and replacing the existing systems by a new EDP architecture enabling all units to work in a client-server environment. This global approach must be commended. But the implementation of the FMIP will take time as migrating to a client-server environment is a delicate process which must be carefully prepared and implemented to avoid failure. It is more than likely that the 1996-97 biennial accounts will be prepared using the systems that are now in place.

Recommendations

99. Therefore, I recommend that immediate improvements, consistent with the longer term strategy, be implemented, without waiting for further finalisation of decisions on the implementation of FMIP.

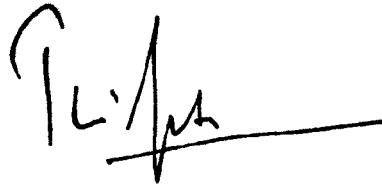


Such improvements should include:

- issuance of organization-wide written operational instructions defining internal control terminology and procedures and assigning responsibilities to carry them out,
- issuance and implementation of operational accounting instructions (including a revised chart of accounts adapted to the new financing model adopted by the WFP),
- creation and/or updating of systems documentation (users and development guides),
- revision of interfaces (particularly with PERSYS),
- transmission of country office accounting information to headquarters in an electronic form [para. 48, above, refers].

ACKNOWLEDGEMENT

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



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

24 July 1996

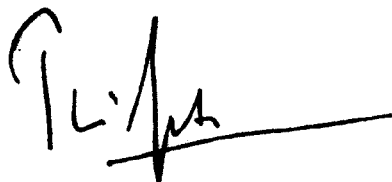


WORLD FOOD PROGRAMME FINANCIAL STATEMENTS 1994-95

OPINION OF THE EXTERNAL AUDITOR

My staff audited the following financial statements numbered I to III and the supporting schedules/notes numbered 1 to 19 of the World Food Programme for the financial period ended 31 December 1995 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. This examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances.

As a result of this examination I am of the opinion that the financial statements present fairly the financial position at 31 December 1995 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, with which I concur, detailed in paragraphs 31, 32 and 51 of my attached long form report; and that the transactions were in accordance with the Financial Regulations and legislative authority.



Pierre JOXE

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

24 July 1996



CERTIFICATION OF FINANCIAL STATEMENTS**STATEMENT I****STATEMENT II****STATEMENT III****AND****SUPPORTING SCHEDULES**

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 financial statements and supporting schedules.



Catherine Bertini
Executive Director

Rome 28 March 1996



STATEMENTS AND SUPPORTING SCHEDULES

STATEMENT I

STATEMENT II

STATEMENT III

AND

SUPPORTING SCHEDULES 1 - 19



**STATEMENT OF INCOME AND EXPENDITURE AND
CHANGES IN RESERVES AND FUND BALANCES - STATEMENT I
FOR THE PERIOD 1994-95
(million dollars)**

	Schedule/ note	Multilateral operations	Bilateral operations	The Fund	Prior period 1992 - 93
INCOME					
Pledges and contributions in commodities	3				
Pledges and contributions in cash	4	1 390.4		1 390.4	1 648.7
Contributions for administrative support	4, 5	1 126.8	205.8	1 332.6	1 470.4
Government cash counterpart contributions	6	52.1	10.1	62.2	41.1
Interest		3.5		3.5	2.5
Currency exchange adjustments		44.6	9.7	54.3	66.3
Miscellaneous income		1.0		1.0	(44.0)
		0.8		0.8	0.5
Total income		2 619.2	225.6	2 844.8	3 185.5
EXPENDITURE					
Project expenditure in commodities	3				
Project expenditure in cash	7	1 388.4		1 388.4	1 610.8
Total project expenditure	5, 7	919.2	187.7	1 106.9	1 430.4
Programme Support and Administrative costs		2 307.6	187.7	2 495.3	3 041.2
	8	186.1	10.1	196.2	190.4
Total expenditure		2 493.7	197.8	2 691.5	3 231.8
Excess (shortfall) of income over expenditure		125.5	27.8	153.3	(46.1)
Savings on or cancellation of obligations from prior periods		4.7		4.7	2.1
Reserves and fund balances, beginning of period	9	58.4	68.3	126.7	170.7
RESERVES AND FUND BALANCES, END OF PERIOD	9	188.6	96.1	284.7	126.7



**STATEMENT OF ASSETS, LIABILITIES AND RESERVES
AND FUND BALANCES - STATEMENT II
AS AT 31 DECEMBER 1995
(million dollars)**

	Schedule/ Note	Multilateral operations	Bilateral operations	The Fund	Prior period 1992 - 93
ASSETS					
Cash and term deposits	10	471.1	145.8	616.9	499.3
Pledges and contributions receivable	4	1 145.5		1 145.5	1 293.9
Other accounts receivable	11	27.5		27.5	39.3
Total assets		1 644.1	145.8	1 789.9	1 832.5
LIABILITIES					
Contributions pledged and not yet received		1 145.5		1 145.5	1 293.9
CERF	12	2.5		2.5	13.5
Outstanding obligations	13	155.1	19.8	174.9	150.5
Accounts payable	14	24.8		24.8	26.4
Provisions	15	118.1	29.9	148.0	220.0
Insurance account	16	9.5		9.5	1.5
Total liabilities		1 455.5	49.7	1 505.2	1 705.8
RESERVES AND FUND BALANCES					
Operational reserve	9, 17	9.3		9.3	
Surplus	9	179.3	96.1	275.4	126.7
Total reserves and fund balances	9	188.6	96.1	284.7	126.7
TOTAL LIABILITIES, RESERVES AND FUND BALANCES		1 644.1	145.8	1 789.9	1 832.5



STATEMENT OF CASH FLOW - STATEMENT III
FOR THE PERIOD 1994-95
(million dollars)

	Multilateral operations	Bilateral operations	The Fund	Prior period 1992 - 93
CASH FLOW FROM OPERATING ACTIVITIES:				
Excess (shortfall) of income over expenditure (Statement I)	125.5	27.8	153.3	(46.1)
(Increase) decrease in other accounts receivable	11.8		11.8	(11.7)
Increase (decrease) in accounts payable	(1.7)		(1.7)	8.0
Increase (decrease) in outstanding obligations	17.0	7.4	24.4	115.4 ¹
Increase (decrease) in provisions	(52.5)	(19.5)	(72.0)	¹
Less: income from interest	(44.6)	(9.7)	(54.3)	(66.3)
Net cash from operating activities	55.5	6.0	61.5	(0.7)
CASH FLOW FROM INVESTING AND FINANCING ACTIVITIES:				
Increase (decrease) in insurance account	8.1		8.1	0.1
Increase (decrease) in loan - CERF	(11.0)		(11.0)	13.5
Plus: income from interest	44.6	9.7	54.3	66.3
Net cash from investing and financing activities	41.7	9.7	51.4	79.9
CASH FROM OTHER SOURCES:				
Savings on or cancellation of obligations from prior periods	4.7		4.7	2.1
Net cash from other sources	4.7		4.7	2.1
Net increase (decrease) in cash and term deposits	101.9	15.7	117.6	81.3
Cash and term deposits at beginning of period	369.2	130.1	499.3	418.0
CASH AND TERM DEPOSITS AT END OF PERIOD	471.1	145.8	616.9	499.3

¹ Comparison with prior period includes both outstanding obligations and provisions.



SCHEDULE/NOTE 1
OBJECTIVE AND ACTIVITIES OF THE WORLD FOOD PROGRAMME (WFP)

1. The World Food Programme (WFP) was established in 1963 as the food aid arm of the United Nations system. Its main objective is using food aid to improve the lives of the neediest people in the most deprived areas of the world so that:
 - lives be saved in refugee and other emergency situations;
 - the nutritional status and quality of life of the most vulnerable people be enhanced at critical times of their lives;
 - poor people and their communities become self-reliant through labour-intensive works and programmes carried out by WFP.
2. WFP provides food aid through development projects and relief operations; its policies and programmes are oriented towards eradicating hunger in the world. Within the framework of its Mission Statement, the Programme provides, on request, bilateral services to donors, United Nations agencies and non-governmental organizations. WFP's activities are financed by voluntary contributions from member nations and government agencies, and by miscellaneous income.
3. The Programme has its headquarters in Rome, Italy, and conducts activities in 103 countries. Its policies and budget are determined and approved by the Committee on Food Aid policies and programmes (CFA), its governing body. The CFA has been replaced by the Executive Board, effective 1 January 1996.



SCHEDULE/NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Financial Period

The financial period of the Programme is a biennium. Financial Statements refer to the period that ended on 31 December 1995. They include pledges for the current pledging period ending 31 December 1996.

2. Accounting Convention

The accounts of the World Food Programme are maintained in accordance with its Financial Regulations. Within the framework of these Regulations, the Financial Statements and schedules also conform with the accounting standards of the United Nations system.

3. Accounting Format

Pursuant to Financial Regulation 7.1, the Financial Statements of the World Food Programme Fund ("The Fund") present a consolidated situation of all activities carried out by the Programme. All contributions and pledges have been credited to the Fund and all expenditures charged to it. They include the income and expenditure of Special Emergency Operations, Non-Food Items, Special Operations and Bilateral Trust Funds; only the balance of these was shown in the 1993 Financial Statements (Statement of Assets, Liabilities and Reserves; Statement II) under specific lines. They also include income for the International Emergency Food Reserve (IEFR) and the Immediate Response Account (IRA) for the period, while only an amount equal to incurred expenditures was shown in the 1993 Financial Statements (Statement of Income and Expenditure; Statement I).

The Statements are analysed into two groups; Multilateral Operations and Bilateral Operations. **Multilateral Operations** comprise the following activities and programmes: Regular Programme (including Food Aid Convention and Rapid Response Team), International Emergency Food Reserve, Immediate Response Account, Protracted Refugee Operations (including Relief and Rehabilitation Operations), Special Emergency Operations, Non-Food Items, Special Operations (including Quality Improvement and Financial Management Improvement Programme) and Disaster Mitigation Programme. **Bilateral Operations** comprise Bilateral Operations and Junior Professional Officer Scheme. Schedules provide the income and expenditure for each of these activities.

4. Translation Policy

The accounts of the World Food Programme are presented 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 year, assets and liabilities in currencies other than United States dollars are translated at the applicable United Nations rates of exchange. However, IEFR, IRA and PRO Pledge Receivables and Pledges not yet received are recorded in United States dollars at the time of the pledge. Exchange differences are credited or charged to currency exchange adjustments except in the case of:



- a) uncollected pledges and contributions, where they are credited or charged to Pledges and Contributions Receivable and Pledges and Contributions not yet Received;
- b) field transactions, where they are credited or charged to the related expenditures.

5. Cash and Accrual Bases of Accounting

The Financial Statements combine the accrual and cash bases of accounting.

Resources are recorded as receivable when pledged, and offset by an equivalent amount appearing under liabilities as "Pledges and Contributions not yet Received", pending their collection.

Pledges are recognized as income when the cash and commodity contributions are received.

As a consequence of the above, the IEFR fund balance (Schedule 3) shows a deficit resulting from outstanding obligations. This deficit is funded through confirmed contributions not yet received, including a Letter of Credit with a donor country from which the Programme can draw contributions (and then recognize the income) when the obligations are disbursed.

5.1 Pledges and Income

Specific treatment of the major categories of income are described below.

5.1.1 In kind Commodity pledges

The value of commodities for Regular Pledges, IEFR, IRA and PRO is registered at the price received from the donor—if available—or the most recent donor price available.

The donor value of regular pledges is adjusted according to information provided by donors.

Commodities pledged under the Food Aid Convention (FAC) are normally valued at FAC prices for each crop year or, when requested by the donor, at the donor price.

5.1.2 Cash in Lieu of Commodities (CLC) Pledges

CLC pledges are recorded at the cash value of contributions pledged and received.

5.1.3 Income other than Pledges and Contributions

Miscellaneous income is recognized on a cash basis, except for interest, which is accrued as income in the year to which it relates. Currency exchange differences are posted to Multilateral Operations.

5.2 Expenditure

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;
- 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 which are accrued at the time of issuing the Request for Issuance of Shipping Instructions (RISI).

5.3 Buildings and Equipment

The cost of buildings and equipment for the Programme and Trust Funds is charged to expenditure. It is included in the Statement of Assets and Liabilities at a nominal value of one dollar.

5.4 Demurrage and Despatch

Demurrage costs are treated as receivable. They are offset either against despatch earned or by payment (from suppliers or recipient countries) or, where appropriate, recovered from recipient countries from subsidies relating to ITSH costs. Net despatch earned is payable to the recipient countries.

5.5 Commodity Losses

Commodity losses recoverable from insurers or carriers are recorded as receivable—as applicable. Commodity losses not recoverable are charged to the Insurance Account.

6. Staff Costs

Staff costs are charged according to a predetermined scale of staff grades.

Separation payments to General Service staff are fully provided for. Other personnel-related liabilities, such as repatriation grant, accrued leave, and after-service medical benefits, are charged when disbursed. (See also Schedule/Note 19)

7. Currency Variances for Staff and Non-Staff Costs

The element of staff costs, which is based on the currency of the headquarter country, is charged at the budget rate of exchange. The relevant gains or losses arising from the difference between the budget rate and the one at the time of payment, together with gains or losses arising from non-staff costs incurred in currencies other than United States dollars—where identified—are disclosed separately in one line of the Schedule for Programme Support and Administrative Costs.

8. Insurance Account

As of 1 May 1994, WFP implemented a new policy to self-insure its consignments. This policy covers losses of up to one million dollars per consignment (maximum two per vessel) in all types of shipments except those related to bilateral operations. Losses that exceed one million dollars are reinsured through an external company for the amount over one million dollars.

The relevant provision is calculated by charging different premia, equivalent to commercial rates, to the projects and by adding recoveries from carriers. The provision is reduced by claims lodged.

Up to and until 30 April 1994, WFP shipments were insured through all-risk policies with external companies. The cover excluded individual claims of less than 10,000 dollars because these were covered by the existing self-insurance fund, the balance of which is reported under the insurance account together with the provision.



SCHEDULE/NOTE 3
SPECIFICATION OF INCOME AND EXPENDITURE BY ACTIVITY FOR THE PERIOD 1994-95
(thousand dollars)

WFP/EB.3/96/4-B

			Multilateral Operations								
	Schedule/ Note	Regular Programme ¹	International Emergency Food Reserve	Immediate Response Account	Protracted Refugee Operations	Special Emergency Operations	Non-Food Items	Special Operations	Disaster Mitigation Programme	Eliminations	Total Multilateral Operations
INCOME											
Pledges and contributions in commodities	4	543 939	563 645		282 818						1 390 402
Pledges and contributions in cash	4	257 661	464 561	39 205	232 809	159 969	14 350	10 255		(52 026)	1 126 784
Contributions for administrative support	6	52 026									52 026
Government cash counterpart contributions		3 498									3 498
Interest		42 643			1 033	139	90		719		44 624
Currency exchange adjustments		966									966
Other/miscellaneous income		837									837
Total income		901 570	1 028 206	39 205	516 660	160 108	14 440	10 255	719	(52 026)	2 619 132
EXPENDITURE											
Project expenditure in commodities	7	526 510	568 074		293 840						1 388 424
Project expenditure in cash:	7										
Transport - sea		89 925	101 219	1 693	57 569	239		50			250 695
Transport - air, overland and ITSH		29 143	321 371	11 264	95 321	23 673	28				480 800
Other cash expenditure		7 557	12 132	18 277	4 102	118 693	17 091	8 644	1 232		187 728
Contributions for administrative support	6	140	19 833	1 186	20 874	9 924		69		(52 026)	
Total project expenditure		653 275	1 022 629	32 420	471 706	152 529	17 119	8 763	1 232	(52 026)	2 307 647
Programme Support and Administrative costs	8	186 029									186 029
Total expenditure		839 304	1 022 629	32 420	471 706	152 529	17 119	8 763	1 232	(52 026)	2 493 676
Excess/(shortfall) of income over expenditure		62 266	5 577	6 785	44 954	7 579	(2 679)	1 492	(513)		125 461
Transfers between funds	9	(23 625)	(1 837)		11 335	(1 263)		5 700	9 690		
Savings on or cancellation of obligations from prior periods		4 687									4 687
Reserves and Fund balances, beginning of period	9	16 675	(21 569)	6 170		34 797	18 050	4 154			56 447
RESERVES AND FUND BALANCES, END OF PERIOD		60 203	(17 958)	12 955	56 289	41 113	15 371	11 346	8 177		188 695


¹ Regular Programme includes Regular Pledges, Food Aid Convention and Rapid Response Team.

SCHEDULE/NOTE 3 (continued)
SPECIFICATION OF INCOME AND EXPENDITURE BY ACTIVITY FOR THE PERIOD 1994-95
(thousand dollars)

	Schedule/ Note	Bilateral Operations	Bilateral Operations Junior Professional Officer scheme	Eliminations	Total Bilateral Operations
INCOME					
Pledges and contributions in cash	5	201 387	4 374		205 761
Contributions for administrative support	6	9 532	597		10 129
Interest		9 633	64		9 697
Total income		220 552	5 035		225 587
EXPENDITURE					
Project expenditure in cash:	5				
Transport - sea		15 744			15 744
Transport - air, overland and ITSH		58 160			58 160
Other cash expenditures		108 633	5 088		113 721
Total project expenditure		182 537	5 088		187 625
Programme Support and Administrative costs	8	9 532	597		10 129
Total expenditure		192 069	5 686		197 754
Excess/(shortfall) of income over expenditure		28 483	(650)		27 833
Reserves and Fund balances, beginning of period	9	66 329	1 934		68 263
RESERVES AND FUND BALANCES, END OF PERIOD		94 812	1 284		96 096

SCHEDULE/NOTE 4
SUMMARY STATUS OF PLEDGES AND CONTRIBUTIONS AS AT 31 DECEMBER 1995 FOR THE PERIOD 1994-95
(thousands dollars)

WFP/EB.3/96/4-B

	Pledging Period	Balance of Pledges Outstanding as at 1 January 1994			New Pledges and Pledge Adjustments			Receipts			Balance of Pledges Outstanding as at 31 December 1995		
		Commodities	Cash	Total	Commodities	Cash	Total	Commodities	Cash	Total	Commodities	Cash	Total
REGULAR PLEDGES													
PLEDGING PERIOD:													
Twelfth	1987-88		15	15		1	1		16	16			
Thirteenth	1989-90	9 217	3 656	12 873	(8 178)	(3 523)	(11 702)	1 039	1	1 040		131	131
Fourteenth	1991-92	27 533	11 824	39 357	(15 650)	(2 943)	(18 593)	8 992	7 039	16 031	2 891	1 841	4 732
Fifteenth	1993-94	290 859	120 952	411 811	81 031	40 995	122 025	344 621	146 763	491 384	27 269	15 183	42 452
Sixteenth	1995-96				432 088	197 467	629 555	181 183	98 484	279 667	250 905	98 983	349 888
TOTAL REGULAR PLEDGES		327 609	136 447	464 056	489 291	231 997	721 286	535 835	252 303	788 138	281 065	116 138	397 204
 Food Aid Convention		2 842	1 046	3 888	5 599	2 875	8 474	8 104	3 797	11 901	337	124	461
Rapid Response Team						1 561	1 561		1 561	1 561			
International Emergency Food Reserve		126 969	331 908	458 877	628 469	443 863	1072 332	563 645	464 561	1028 206	191 793	311 210	503 003
Immediate Response Account			900	900		43 244	43 244		39 205	39 205		4 939	4 939
Protracted Refugee Operations		128 876	237 325	366 201	269 645	120 750	390 395	282 818	233 842	516 660	115 703	124 233	239 936
Special Emergency Operations									160 108	160 108			
Non-food items									14 440	14 440			
Special operations									10 255	10 255			
Disaster Mitigation Programme									719	719			
TOTAL		586 296	707 626	1 293 922	1 393 684	844 296	2 237 980	1 380 402	1 180 791	2 561 193	588 898	586 644	1 145 642
Less: Interest									(1 981)	(1 981)			
Less: Contributions for administrative support									(52 026)	(52 026)			
GRAND TOTAL (as per Statement I)								1 380 402	1 126 784	2 517 186			

SCHEDULE/NOTE 5
SUMMARY BILATERAL OPERATIONS FOR THE PERIOD 1994-95
(thousand dollars)

	Unobligated Balance as at 1 January 1994	Cash Received/ Transferred	Expenditure	Unobligated Balance as at 31 December 1995	Outstanding Obligations and Provisions	Cash Balance
Bilateral Operations	66 329	220 552	192 069	94 812	49 482	144 294
Junior Professional Officer scheme	1 934	5 035	5 685	1 284	211	1 495
TOTAL	68 263	225 587	197 754	96 096	49 693	145 789
Less: Interest		(9 697)				
Less: Contributions for administrative support		(10 129)	(10 129)			
GRAND TOTAL (as per Statement I)		205 761	187 625			



SCHEDULE/NOTE 6
CONTRIBUTIONS FOR ADMINISTRATIVE SUPPORT
FOR THE PERIOD 1994-95
(thousand dollars)

WFP receives contributions towards administrative support from the various activities under its management. The charges are recognized as income under the Fund and as expenditure under each activity.

Activity	Contribution
Multilateral Operations	
Food Aid Convention	140
International Emergency Food Reserve	19 833
Immediate Response Account	1 186
Protracted Refugee Operations	20 874
Special Emergency Operations	9 924
Special Operations	69
Subtotal	52 026
Bilateral Operations	
Bilateral Operations	9 532
Junior Professional Officer scheme	597
Subtotal	10 129
TOTAL CONTRIBUTIONS FOR ADMINISTRATIVE SUPPORT	62 155



SCHEDULE/NOTE 7
SUMMARY STATUS OF PROJECT EXPENDITURE INCLUDING OUTSTANDING
OBLIGATIONS AND PROVISIONS FOR THE PERIOD 1994-95
(thousand dollars)

Programme	Expenditure		
	In commodities ¹	In Cash	Total Expenditure
Development activities	526 510	126 497	653 007
International Emergency Food Reserve	568 074	434 722	1 002 796
Immediate Response Account		31 234	31 234
Protracted Refugee Operations	293 840	156 992	450 832
Special Emergency Operations		142 605	142 605
Non food items		17 119	17 119
Special Operations		8 694	8 694
Disaster Mitigation Programme		1 232	1 232
Subtotal	1 388 424	919 095	2 307 519
Preparation costs for projects not approved		75	75
Ex-Gratia Payments ²		53	53
GRAND TOTAL	1 388 424	919 223	2 307 647

¹ Commodity income exceeded commodity expenditure by two million dollars. This resulted from the recovery of 2.7 million dollars from insurers and suppliers minus 0.7 million dollars expended during the biennium but received in the previous biennium as "cash in lieu of commodities" contributions.

² During the biennium, a total of 52 954 dollars was disbursed as ex-gratia payments based on claims submitted by staff members to the Standing Committee on Field Emergency Claims. These claims arose from emergencies such as looting and civil strife at various duty stations.



SCHEDULE/NOTE 8
PROGRAMME SUPPORT AND ADMINISTRATIVE COSTS
FOR THE PERIOD 1994-95
(thousand dollars)

	Approved 1994-95 Budget as amended by CFA at its 36th Session	Expenditure Including Outstanding Obligations at 31 December 1995
CHAPTER I - WFP SECRETARIAT		
A. Secretariat		
Personnel services		
1. Staff costs		
Directing staff and Professional staff	40 303	35 407
General Service staff	27 053	23 332
Total Secretariat staff costs	67 356	58 739
2. Consultants (including travel)	1 148	1 367
Total personnel services	68 504	60 106
Travel	3 175	2 358
Meetings	3 112	2 981
Management Information System	4 251	4 753
Communications	3 729	3 049
Public Information	1 446	1 390
Training	3 000	2 207
Contributions to United Nations and other organizations	403	476
External Audit	550	460
Other operating expenses	3 874	6 089
Total Secretariat	92 044	83 869
B. Country offices		
Staff costs		
Professional	52 825	44 157
Local	27 896	23 038
Total country offices staff costs	80 721	67 195
Other operating costs	22 945	19 231
Total country offices	103 666	86 426
TOTAL CHAPTER I	195 710	170 295
CHAPTER II - SERVICES PROVIDED BY FAO (SCHEDULE 8.1)	13 929	6 890
CHAPTER III - SERVICES PROVIDED BY THE UNITED NATIONS AND OTHER INTERNATIONAL ORGANIZATIONS	3 893	2 540
CHAPTER IV - UNALLOCATED CONTINGENCIES	400	
TOTAL	213 932	179 725
Less: Phasing-in effect	(2 559)	
TOTAL PROGRAMME SUPPORT AND ADMINISTRATIVE COSTS	211 373	179 725
Adjustments arising from currency fluctuations		2 049
Administrative support funded outside of regular pledges		14 385
TOTAL		196 159



SCHEDULE/NOTE 8.1
PROGRAMME SUPPORT AND ADMINISTRATIVE SERVICES PROVIDED BY THE FOOD
AND AGRICULTURE ORGANIZATION FOR THE PERIOD 1994-95
(thousand dollars)

	Approved 1994-95 Budget as amended by the CFA at its 36th Session	Expenditure including Outstanding Obligations at 31 December 1995
Technical support	6 832	3 656
Legal advisory services	73	69
Budgetary services	82	78
Internal Audit	336	318
Documents	3 723	209
Personnel services	752	714
Financial services	1 213	1 142
Computer services	189	108
Maintenance and general operating services	729	684
Less: lapses from previous years		(88)
TOTAL PROGRAMME SUPPORT AND ADMINISTRATIVE SERVICES PROVIDED BY FAO	13 929	6 890



SCHEDULE/NOTE 9
RESERVES AND FUND BALANCES BY ACTIVITY AS AT 31 December 1995
(thousand dollars)

	Reserves and Fund Balances as at 1 January 1994	Excess (shortfall) of Income over Expenditure	Transfers between Funds	Savings/ Cancellation on Prior Obligations	Reserves and Fund Balances as at 31 December 1995
Operational Reserve¹			8 268		8 268
Regular Programme	16 875	62 266	(32 893)	4 687	50 935
International Emergency Food Reserve	(21 599)	5 577	(1 837)		(17 859)
Immediate Response Account	6 170	6 785			12 955
Protracted Refugee Operations		44 954	11 335		56 289
Special Emergency Operations	34 797	7 579	(1 263)		41 113
Non-food items	18 050	(2 679)			15 371
Special Operations	4 154	1 492	5 700		11 346
Disaster Mitigation		(513)	9 690		9 177
Total Multilateral Operations - Surplus	68 447	125 461	(9 268)	4 687	179 327
Bilateral Operations	66 329	28 483			94 812
Junior Professional Officer scheme	1 934	(650)			1 284
Total Bilateral Operations - Surplus	68 263	27 833	0		96 096
TOTAL RESERVES AND FUND BALANCES	126 710	153 294	0	4 687	284 691
Schedule/Note	9.1	3	9.2		

¹ The new Operational Reserve includes the excess of Assets over Liabilities as at 31 December 1993 (6.929 million dollars) and the working capital fund (one million dollars), both transferred from the Regular Programme, and the PRO subset recoveries (1.3 million dollars).



SCHEDULE/NOTE 9.1
RESERVES AND FUND BALANCES, BEGINNING OF THE PERIOD
SITUATION AS AT 1 JANUARY 1994
(thousand dollars)

This schedule restates - under the new format adopted for 1994-95 - the reserves and fund balances as at the closure of the 1992-93 biennium.

	Multilateral Operations	Bilateral Operations	The Fund
Excess of assets over liabilities as at 31 December 1993	6 929		6 929
Working Capital Fund	1 000		1 000
Fund Balances			
International Emergency Food Reserve	(21 599)		(21 599)
Immediate Response Account	6 170		6 170
Non-food items	18 050		18 050
Special Operations	4 154		4 154
Bilateral Operations		66 329	66 329
Special Emergency Operations	34 797		34 797
Junior Professional Officer scheme		1 934	1 934
Support cost fund	8 946		8 946
RESTATED FUND BALANCE AS AT 1 JANUARY 1994	58 447	68 263	126 710



SCHEDULE/NOTE 9.2
TRANSFERS BETWEEN ACTIVITIES FOR THE PERIOD 1994-95
(thousand dollars)

Transfers to	Multilateral Operations						Operational Reserve
	Regular Programme	International Emergency Food Reserve	Protracted Refugee Operations	Special Emergency Operations	Special Operations	Disaster Mitigation Programme	
Regular Programme - Recoveries from IEFR	1 837	(1 837)					
Regular Programme - Commodities from PRO	396		(396)				
Regular Programme - Repayment of funds advanced under the Emergency Logistic Authorization (Rwanda 1993)	1 395			(1 395)			
PRO - Expenditures covered by the Regular Programme	(10 941)		10 941				
PRO - Accumulated surplus of Relief and Rehabilitation Operations	(2 129)		2 129				
Special Emergency Operation - Support costs for Armenia and Georgia	(132)			132			
Special Operations - Financial Management Improvement Programme	(5 500)				5 500		
Special Operations - Public Affairs Branch Revolving account	(200)				200		
Disaster Mitigation Programme - Creation of a new account	(9 690)					9 690	
Operational Reserve - Working Capital Fund	(1 000)						1 000
Operational Reserve - Excess of Assets over Liabilities at 31.12.93	(6 929)						6 929
Operational Reserve - PRO recoveries			(1 339)				1 339
TOTAL TRANSFERS BETWEEN ACTIVITIES	(2 893)	(1 837)	11 335	(1 263)	5 700	9 690	9 929

No transfer between Bilateral Operations took place during the biennium.

SCHEDULE/NOTE 10
CASH AND TERM DEPOSITS FOR THE PERIOD 1994-95
(thousand dollars)

Balance as at
31 December 1995

Bank and cash holdings at headquarters	
- Through FAO	565 767
- Direct	17 291
Bank and cash holdings at country offices	
- In convertible currencies	29 457
- In non-convertible currencies	4 349
TOTAL	616 864



SCHEDULE/NOTE 11
OTHER ACCOUNTS RECEIVABLE FOR THE PERIOD 1994-95
(thousand dollars)

Details	Balance as at 31 December 1995
Country office receivables	1 766
Recoveries due from insurance underwriters	1 048
Personnel advances	5 092
Demurrage, receivable from recipient governments (not yet offset by despatch earned), and suppliers	2 941
Country office suspense account	1 223
Rental of headquarters premises, receivable from the Italian Government	1 939
Accrued interest	10 156
Other receivable accounts	3 368
TOTAL	27 633



SCHEDULE/NOTE 12
CENTRAL EMERGENCY REVOLVING FUND (CERF) LOAN FOR THE PERIOD 1994-95

1. 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. The Programme availed itself of this facility in order to be responsive to the urgent need to accelerate the launching of emergency operations while suitable donors are being sought to underwrite them, including the repayment of the DHA loan. At 31 December 1995 a balance of 2.5 million dollars remained to be repaid to DHA. This amount refers to the emergency operation in Tajikistan, on which no donors have come forward to fund. The Programme has requested that the outstanding amount be written off.



SCHEDULE/NOTE 13
OUTSTANDING OBLIGATIONS FOR THE PERIOD 1994-95
(thousand dollars)

Activity	Balance as at 31 December 1995
Multilateral Operation	
Development projects	19 391
International Emergency Food Reserve	70 584
Immediate Response Account	1 855
Protracted Refugee Operations	29 185
Special Emergency Operations	19 385
Non-food items	4 379
Special Operations	2 858
Disaster Mitigation Programme	246
Programme Support and Administrative costs	7 176
Other activities	68
Subtotal	155 127
Bilateral Operations	
Bilateral Operations	19 563
Junior Professional Officer scheme	212
Subtotal	19 775
TOTAL	174 902

Outstanding obligations represent undisbursed expenditure for which the Programme is legally committed. They are distributed among the various types of operations recorded in the schedule.



SCHEDULE/NOTE 14
ACCOUNTS PAYABLE FOR THE PERIOD 1994-95
(thousand dollars)

Details	Balance as at 31 December 1995
Other United Nations Organizations	5 504
Despatch to be offset by demurrage	2 646
Demurrage in suspense for IEFR and bilateral projects	1 258
Insurance recoveries payable to donors and in suspense	7 811
Monetized funds held in WFP bank account	4 727
Other payables	2 803
TOTAL	24 749



SCHEDULE/NOTE 15
PROVISIONS FOR THE PERIOD 1994-95
(thousand dollars)

Activity	Balance as at 31 december 1995
Multilateral Operations	
Development projects	13 076
International Emergency Food Reserve	65 990
Immediate Response Account	3 536
Protracted Refugee Operations	35 503
Special Emergency Operations	9
Subtotal	118 114
Bilateral Operations	
Bilateral Operations	29 919
TOTAL	148 033

Provisions represent the Programme's best estimate of ITSH costs remaining to be met at the end of the biennium for commodities already shipped. They are distributed among the various types of operations recorded in the schedule.



SCHEDULE/NOTE 16
INSURANCE ACCOUNT FOR THE PERIOD 1994-95
(thousand dollars)

	Provision as at 1 January 1994	Net premium received	Write-off and claims lodged	Recoveries	Provision as at 31 December 1995
Insurance Account					
Reserve	2 594			1 296	3 890
Period 1989 - 30 April 1994	(1 139)		(760)	143	(1 756)
Period 1 May 1994 onwards		9 613	(2 189)		7 424
TOTAL	1 455	9 613	(2 949)	1 439	9 558



SCHEDULE/NOTE 17
OPERATIONAL RESERVE FOR THE PERIOD 1994-95
(thousand dollars)

At its 38th Session, the CFA (document CFA 38/18 paragraphs 37 to 41) agreed to establish an operational reserve at a level of up to 57 million dollars, in accordance with Financial Regulation 7.4.

The Operational Reserve was created in the 1994-95 biennium from the following funds:

Details	Balance as at 31 December 1995
Excess of assets over liabilities at 31 December 1993	6 929
Transfer of the Working Capital Fund	1 000
Recoveries from the PRO subset	1 339
TOTAL	9 268

Additions to the Operational Reserve will be made from the fund balance of the Regular Programme.



SCHEDULE/NOTE 18
FIXED ASSETS - BUILDINGS AND EQUIPMENT, FURNITURE AND VEHICLES FOR
THE PERIOD 1994-95

1. The historical cost of WFP buildings, equipment, furniture and vehicles at 31 December 1995 was 67.6 million dollars of which 4.7 million related to buildings. These items are charged to expenditure and shown in Statement II (Assets, Liabilities and Reserves and Fund Balances) at a nominal value of one dollar.
2. During the biennium, a total of 52.0 million dollars was written off the inventory records, mainly because the assets had been transferred to the recipient country or had become irreparable or obsolete.



SCHEDULE/NOTE 19
PERSONNEL -RELATED LIABILITIES AT 31 DECEMBER 1995

1. The Programme's professional staff members are entitled to a repatriation grant and repatriation travel (with removal of household goods). These separation-related liabilities are not provided for. It is considered that, unless the Programme were to undertake a significant staff reduction programme, any legal liabilities would mature, and be met as they fell due, over an extended period of time.
2. 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 FAO Separation Payments Scheme (SPS). FAO has undertaken an actuarial study of these funds, the results of which are not yet available. As at 31 December 1995, the fund had a balance of 9.8 million dollars.
3. Additional funds have been set aside and invested in the FAO Compensation Plan Reserve Fund (CPRF) to provide compensation for all staff members, employees and their dependants in case of death, injury or illness attributable to the performance of official duties. The Programme was informed that as at 31 December 1995 the CPRF balance for FAO and WFP combined amounted to 31.6 million dollars.
4. The liability in respect of after-service medical coverage is not provided for in the accounts. As with SPS above, the actuarial study is not yet completed. As at 31 December 1993, the total liability related to after-service medical coverage amounted to 41.6 million dollars.
5. The Programme's estimated liability to staff in respect of accrued annual leave amounted to 6.1 million dollars at 31 December 1995. This liability is not provided for in the accounts.



