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Programme  
Alimentaire  
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World  
Food  
Programme

Programa  
Mundial  
de Alimentos

**Executive Board  
Third Regular Session**

**Rome, 19 - 22 October 1998**

# FINANCIAL AND BUDGETARY MATTERS

Agenda item 4 a) and c)

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

The Executive Director is pleased to submit herewith the report of the ACABQ on WFP resource and financial matters.

The report covers the following:

- Agenda item 4 a) - Audited Biennial Accounts (1996-97), Financial Report and Statements; and
- Agenda item 4 c) - Report on Budgetary Performance, 1996-97.

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**WORLD FOOD PROGRAMME**

Financial and Budgetary Matters

Resource and Financial Matters

**Report of the Advisory Committee on Administrative  
and Budgetary Questions**

1. The Advisory Committee on Administrative and Budgetary Questions has considered the World Food Programme's Report on Budgetary Performance, 1996-1997 (WFP/EB.3/98/4-C) and the Audited Biennial Accounts for 1996-1997, Financial Report and Statements (WFP/EB.3/98/4-A). During its consideration of these reports, the Committee met with the Deputy Executive Director and other representatives who provided additional information and clarification.



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***Report on Budgetary Performance, 1996-1997.***

2. The Advisory Committee welcomes the presentation of the performance report in its new format, which takes into account the comments and recommendations of the Advisory Committee, WFP's Executive Board and FAO's Finance Committee. The restructured format includes more specific and detailed information on the Programme performance for the 1996-1997 biennium, thus allowing a better analysis in terms of resource availability, level of operations and expenditure, and programme support and administration (PSA) budget of WFP.
  
3. As indicated in tables 1 and 2 (WFP/EB.3/98/4-C), the projected level of resources available in the 1996-1997 budget of 5,600 tons was revised downwards to 5,013 tons and actual availability in terms of confirmed contributions for the biennium was 5,003 tons. In terms of value, this meant a revision from \$3,065.5 million in the initial budget, to \$2,740.2 million, while actual availability amounted to \$2,527 million in contributions to the various programme categories.
  
4. With regard to the level of operations of WFP, the Committee notes, as indicated in paragraph 12 and table 3 of the same document, that the total volume of resources available for calling forward from donors during the biennium 1996-1997 was 5,127 tons. In addition, as indicated in paragraph 14, the total volume of commodities delivered was 4,916 tons.



5. In addition, as indicated in paragraph 18 of the report, total expenditure during the biennium amounted to \$2,377.8 million, while total income totalled \$2,600.8 million. As further indicated to the Committee, 90.5% of total expenditure was for commodities and related direct costs, while 9.5% of total expenditure covered the programme support and administration (PSA) budget. The latter initially approved at a level of \$228.9 million for the 1996-1997 biennium, based on a delivery scenario of 5,600 tons, was recosted to \$223.9 million taking into account the exchange rate set by FAO, and was later reduced to \$226.4 million based on the revised estimated level of operations in terms of delivery tonnage of 5,013 thousand tons --as indicated in paragraph 38 of the performance report. Actual availability was \$226.2 million.
6. The Committee notes the usefulness of the concise information provided in the different graphs and tables included but recommends that further attempts be made to show comparative corresponding figures with previous bienniums where appropriate. Moreover, the Committee is of the opinion that the document could be further improved by refining the comparative statistical material included to indicate more accurately the performance of the programme in terms of tonnage delivery and expenditure incurred during the period under review. An attempt should be made to clarify the summary of operational activities by programmatic activity, contained in pages 26-27 of the document, differentiating between commodities delivered in tonnage and related value, and expenditure in cash, including cash in lieu of commodities.



7. As indicated in paragraphs 9 and 10 of the performance report, cash resources showed that reserves and fund balance increased from \$294 million to \$518 million as at 31 December 1997. After deducting "the balance in trust funds and the General Fund, the amount related to projects and operations amounts to \$334.4 million at the end of 1997, compared to \$158.8 million at the end of 1995". The Committee notes that among the factors mentioned as contributing to the build-up in the Fund balances is the fact that commodities contributed are not necessarily in line with operational needs, insufficient capacity to warehouse large amounts of commodity contributions and the strategic focus on LDCs versus other recipients that could more readily absorb larger volumes of resources, which resulted in delays in expenditures and slower than expected call-forward of commodities. The Committee is of the opinion that this issue should be addressed by WFP in order to increase the efficiency of the operation of the programme.



***Audited biennial accounts (1996-1997). Financial reports and statements***

8. The Advisory Committee commends the Executive-Director for the consolidated document (WFB/EB.3/98/4-A) which not only contains the financial statements, the report and opinion of the External Auditor, but also her own statement offering details and explanations, as well as the responses and actions taken as a result of the comments and recommendations of the External Auditor for both the 1994-1995 and 1996-1997 biennia. The Committee notes that the new format of the financial statements provides a more complete presentation of the accounting and financial reporting for each programme category fund.
  
9. The Committee notes that the Executive Director agrees with most of the recommendations of the External Auditor made in the context of the 1996-1997 audit, and that action has been taken with a specific time frame for completion as indicated in the fifth section of the document. The Committee recommends that the Executive Director pay special attention to those recommendations made in the context of the 1994-1995 audit, which have not yet fully been implemented as reiterated by the External Auditor.
  
10. The Advisory Committee notes that the Executive Director took exception with two issues in the context of the 1996-1997 audit. The first one relates to the accounting for WFP's self insurance scheme. The observations of the External Auditor are contained in paragraphs 67-69 of his report, and those of the



Executive Director are contained in paragraphs 28-30 of her statement. The Committee recalls that the self-insurance scheme was set up as a self-sustaining activity in 1994, with the aim of achieving greater savings and efficiency for WFP, and that it was approved by the CFA in the context of the operational initiatives which were set out in the 1994-1995 budget. The balance on the self-insurance account was disclosed in the balance sheet as a provision for future losses in the 1994-1995 accounts.

11. As indicated by the Executive Director in paragraph 29 of her statement, in order to "improve transparency of WFP's financial statements, the self-insurance activity has been reclassified under Financial Regulation 7.3 (replaced as of 1 January 1998 by Financial Regulation 5.1) as a Special Account in the General Fund". The insurance premia charged to projects, is therefore credited to the Special Account, and the problem of double accounting is dealt with by way of a footnote in the financial statements. The External Auditor's reservations, with regard to the presentation of self-insurance activities as a Special Account, would therefore be addressed through his recommendation in paragraph 69 "that the creation of this account and the principles under which it would operate be formally endorsed by the Executive Board". The Committee notes that the Executive Director is requesting that the Executive Board endorse this method of accounting for self-insurance activities as a special account. The Advisory Committee recommends such endorsement.





12. The second issue which the Executive Director took exception with relates to the Financial Management Improvement Programme (FMIP). The observations of the External Auditor are indicated in paragraphs 89-96 of his report and those of the Executive Director are stated in paragraphs 32-39 of her statement. The External Auditor based his account on an internal review and audit carried out by the Office of Internal Audit during 1997. His observations address issues related to weaknesses in the compliance with legal and accounting procedures, funding shortages and unrealistic deadlines.

13. With regard to FMIP, the Advisory Committee recalls that its initial cost estimate was \$18 million, later revised to \$31.5 million, as indicated in ACABQ's report WFP/EB.3/97/4-A/Add.2 of 6 October 1997. The Committee further notes, from the information provided during the hearings, that the estimated overall cost now stands at \$37 million. Contributions to date include \$13.3 million from donors and \$6.2 million from WFP resources, resulting in a shortfall of \$17.5 million.

14. It was pointed out to the Committee, however, that the Executive Director has, since the completion of the audit, addressed most of the problems and related risks: a Special Account has been established for FMIP, close monitoring of expenditures has been ordered and the committees concerned restructured. Moreover, the Executive Director is presenting a proposal to the Executive Board to address the risk of funding shortage which recommends that new direct contributions to FMIP be applied to the implementation of the programme and that repayment



of the \$10 million advance from the General Fund, approved by the Executive Board in late 1997, be deferred until such time as FMIP has been fully funded. Within this background, \$7.5 million remain to be raised by WFP to implement FMIP as costed at present.

15. The Committee welcomes the actions taken and has no objection to the proposals of the Executive Director to address the risk of funding shortage of FMIP. However, the Committee recommends that, in the context of the next budget presentation, accurate and up-to-date cost and financing information be provided, along with an updated schedule for completion and progress of implementation of FMIP.
16. The External Auditor, in paragraphs 63-66 of his report, addresses the issue of the large amount of liquid assets of the Programme and its investment policy and management. The Executive Director addresses the limitations on its use in paragraphs 18-25 of her statement, and the responses and actions taken on the recommendations of the External Auditor in the 1996-1997 audit are contained in item 5 (pages 78-79) of the progress report. The Committee notes that according to the indication in paragraph 20 of the Executive Director's statement "the truly unearmarked balance of the General Fund totals \$21.4 million and can be considered to be at the free disposal of WFP, with the disposition to be decided by the Executive Board". The Committee understands that the bulk of this balance constitutes interest income, and the Executive Board may wish to consider using part of this amount to fund the additional \$7.5 million required for FMIP, mentioned in paragraph 14 above.



17. The Advisory Committee sought further information and clarification on the issue of cash management and was informed that the observations of the Auditor did not take into consideration steps taken by WFP during and after the biennium, as well as developments that have occurred since then. Among these, FAO's Advisory Committee on Investments, after review and comments on WFP's investment policy, has agreed to recommend that WFP take over direct management responsibility for investment management and its bank accounts; FAO's Advisory Committee on Investments will also serve as WFP's advisory committee using WFP's investment policy as the criteria; WFP is aiming at WFP taking over most of the Treasury functions at the beginning of 1999; it is in the process of hiring professional portfolio managers to manage its excess liquidity. The Advisory Committee welcomes these actions and recommends that information on the progress and implementation of these steps be presented in the context of the next budget submission.

18. While the Committee takes note of the response and actions taken in connection with the year 2000 problem, contained in item 11 of the progress report on implementation of recommendations of the audit report, it recommends that the Executive Director report to the next meeting of the Executive Board on the steps taken to address this issue. The Committee is of the opinion that a solution, in order to ensure testing, should be in place well in advance, preferably by the end of the second quarter of 1999.

