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برنامج الأغذية العالمي

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For information

Executive Board documents are available on WFP's website (<https://executiveboard.wfp.org>).

Report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ)

The Executive Director is pleased to submit herewith the report of the Advisory Committee on Administrative and Budgetary Questions pertaining to WFP. The report covers the following agenda items:

- Audited annual accounts, 2018 (WFP/EB.A/2019/6-A/1)
- Annual report of the Audit Committee (WFP/EB.A/2019/6-C/1)
- Annual report of the Inspector General and Note by the Executive Director (WFP/EB.A/2019/6-D/1)
- Report of the External Auditor on country portfolio budgets and WFP management response (WFP/EB.A/2019/6-E/1)
- Report to the External Auditor on fraud prevention, detection and response and WFP management response (WFP/EB.A/2019/6-F/1)
- Report on the implementation of the External Auditor recommendations (WFP/EB.A/2019/6-G/1)
- Report on the utilization of WFP's advance financing mechanisms during the period 1 January–31 December 2018 (WFP/EB.A/2019/6-H/1)

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Advisory Committee on
Administrative and Budgetary Questions

6 June 2019

Dear Mr Beasley,

Please find attached a copy of the report of the Advisory Committee on your submissions which included the Audited Annual Accounts 2018 (WFP/EB.A/2019/6-A/1) and the Report on the utilization of WFP's advance financing mechanisms during the period 1 January–31 December 2018 (WFP/EB.A/2019/6-H/1). A full list of the documents before the Advisory Committee is contained in the annex to the report of the Committee.

I should be grateful if you could arrange for the Advisory Committee's report to be placed before the Executive Board at its forthcoming session, as a complete and separate document. I would appreciate it if a printed version of the document could be provided to the Advisory Committee at the earliest possible opportunity.

Yours sincerely,

Cihan Terzi
Chairman

Mr David Beasley
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I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered two reports of the World Food Programme (WFP), submitted to the Executive Board for approval: (i) Audited annual accounts, 2018 (WFP/EB.A/2019/6-A/1); and (ii) Report on the utilization of WFP's advance financing mechanisms during the period 1 January–31 December 2018 (WFP/EB.A/2019/6-H/1). The Advisory Committee also had before it eight documents submitted to the Executive Board for consideration and one document submitted for information (see annex). During its consideration of the reports, the Advisory Committee met with representatives of the WFP Secretariat, who provided additional information and clarification, concluding with written responses received on 23 May 2019.

II. Audited annual accounts, 2018

2. The audited annual accounts indicate that in 2018, total revenue amounted to USD 7,368.3 million, an increase of USD 937.4 million, or 14 percent, from 2017. Expenses amounted to USD 6,639.7 million, an increase of USD 420.5 million or 7 percent from 2017. The surplus of revenue over expenses was USD 728.6 million in 2018 compared to a surplus of USD 211.7 million in 2017, and the increase was due to an increase in revenue of 14 percent while expenses increased by 7 percent. Most of the surplus was attributed to the L3 emergency operations in Yemen, the Syrian Arab Republic and the Syrian Regional Refugee Response, as these large operations faced challenges in spending. Upon enquiry, the Advisory Committee was provided with the table below on the trends in revenue, expenses and surplus/(deficit) from 2009 to 2018.

TABLE 1: TRENDS IN REVENUE, EXPENSES AND SURPLUS/(DEFICIT) FROM 2009 TO 2018 (ROUNDED FIGURES)										
Years	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue*	4 373	4 266	3 736	4 211	4 536	5 450	4 765	5 909	6 431	7 368
Expenses	4 228	4 238	4 017	4 396	4 515	5 215	4 816	5 368	6 219	6 640
Surplus/ (Deficit)	145	29	(281)	(184)	21	236	(51)	541	212	729
Fund balances	3 792	3 835	3 550	3 351	3 400	3 591	3 492	3 997	4 054	4 898
Reserves	266	259	237	273	273	331	278	330	380	407
Net Assets	4 058	4 094	3 788	3 624	3 673	3 923	3 771	4 327	4 434	5 306

* WFP has changed its contribution revenue recognition policy in 2016 and restated in 2015 comparative period balances. Revenue and surplus in financial periods prior to 2015 and not restated

3. As to donor contributions, the Advisory Committee was informed upon enquiry that in 2018, nearly 99 percent of total contributions were committed by government partners and international financial institutions, with the private sector accounting for the remaining 1 percent. The Committee was also informed that over 80 percent of contributions were tightly earmarked at the activity level. **The Advisory Committee reiterates its concern that the low percentage of unearmarked contributions results in less flexibility for WFP to redeploy resources to meet emergency humanitarian needs (WFP/EB.A/2018/6-(A,B,C,D,E,F,G,H,I,J,K)/2 WFP/EB.A/2018/5-D/2, para. 9).**

4. The audited annual accounts state that 75 percent of the increase in total expenses were due to cash-based transfers. The Advisory Committee notes from Figure 5 of the audited annual accounts that expenses for food commodities distributed reflected a slight decrease from USD 2,198 million in 2017 to USD 2,133 million in 2018, while expenses for cash and vouchers distributed reflected an increase from USD 1,446 million in 2017 to USD 1,761 million in 2018. Upon enquiry, the Advisory Committee was informed that from 2009 to 2018, cash-based transfers grew from USD 15.1 million, or 0.4 percent of total expenses, to USD 1.8 billion, or 27 percent of total expenses, representing an average annual growth rate of 70 percent. **Given the continued increase in the use of cash-based transfers, the Advisory Committee reiterates that effective monitoring and oversight mechanisms should be in place to ensure that funds are properly used and risks mitigated (WFP/EB.A/2018/6-(A,B,C,D,E,F,G,H,I,J,K)/2 WFP/EB.A/2018/5-D/2, para. 12).**
5. It is stated that total assets increased in 2018 by USD 195.5 million or 2 percent, from USD 7,979.5 million at the end of 2017 to USD 8,175.0 million at the end of 2018. The increase was mainly due to an increase in cash, cash equivalents, short-term investments and inventories, and is partially offset by a decrease in contributions receivables. Total liabilities decreased by USD 676.3 million or 19 percent from USD 3,545.6 million in 2017 to USD 2,869.3 million in 2018, primarily due to the decrease in deferred revenue of USD 649.0 million and employee benefits liabilities of USD 99.9 million. At 31 December 2018, WFP's net assets totalled USD 5,305.7 million, confirming a healthy overall financial position. Upon enquiry, the Advisory Committee was provided with the table below showing the financial ratio analysis from 2015 to 2018.

TABLE 2: FINANCIAL RATIO ANALYSIS FROM 2015 TO 2018				
	Current ratio (current assets: current liabilities)	Total assets: total liabilities	Cash ratio (cash + STI/current liabilities)	Quick ratio (cash + STI + accounts receivables: current liabilities)
2015	8.6	4.3	3.0	7.3
2016	9.5	4.9	3.4	8.4
2017	9.8	4.9	3.5	8.7
2018	8.7	5.1	3.5	7.6

6. **The Advisory Committee notes the healthy financial position of WFP and recommends the approval of the audited annual accounts for 2018.**
7. The document includes the Executive Director's Statement on Internal Control, which indicates that WFP operated satisfactory systems of internal control for the year ended 31 December 2018. The document also includes the report of the External Auditor on WFP's Financial Statements for the year ended 31 December 2018. The External Auditor expressed an unqualified audit opinion on the Financial Statements, and made five recommendations in four areas: cash-based transfers, enterprise resource planning software, financial reporting and employee benefits. **The Advisory Committee trusts that WFP will ensure the full and timely implementation of the External Auditor's recommendations.**

III. Report on the utilization of WFP's advance financing mechanisms during the period 1 January-31 December 2018

8. The report indicates that in 2018, WFP continued to use three mechanisms to provide programmes with advance financing or spending authority:
 - i) Internal project lending which provides spending authority for a programme before a contribution to that programme has been confirmed, with the forecasted contribution serving as collateral for the advance;
 - ii) Macro advance financing for which spending authority is based on an overall funding forecast rather than specific forecasted contributions which act as collateral; and
 - iii) the Immediate Response Account (IRA) which enables WFP to provide immediate assistance in life-threatening situations in the absence of forecasted contributions, and is a financial reserve established by the Executive Board.
9. With respect to the IRA, the report indicates that the target level for the IRA in each financial period was USD 200 million. The IRA received USD 96.7 million in income during 2018, including USD 44 million transferred from the Programme Support and Administration Equalization Account. IRA allocations made during 2018 totalled USD 144.2 million. At the end of 2018, the IRA balance was USD 59 million, compared with USD 24.6 million at the end of 2017.
10. The report includes a request for an increase of USD 60 million in the ceiling of the Global Commodity Management Facility (GCMF) from USD 500 million to USD 560 million. The GCMF enables food purchases to be made and commodities to be pre-positioned in advance of requests from specific projects. The report states that while there is no immediate need for an increase, for reasons of prudence and preparedness management, the increase is being requested to ensure that WFP has enough funding to expand its food assistance should new humanitarian crises occur. The report indicates that the Executive Board approved an increase in the GCMF ceiling from USD 350 million to USD 500 million in June 2018. In order to create additional safety nets, the Board approved the transfer of USD 6 million from the operational reserve to the GCMF reserve. This amount is considered to be a sufficient safety net for the proposed increase to USD 560 million of the GCMF ceiling.
11. Upon enquiry, the Advisory Committee was informed that to date, the GCMF capital of USD 460 million allocated to existing supply lines or corridors is fully utilized. The Committee was also informed that considering the level of concurrent humanitarian crises and the increasing reliance on the GCMF, it is anticipated that the remaining USD 40 million set aside for emergencies would not be sufficient to adequately support additional requirements if there were a large-scale sudden emergency, and therefore an increase of USD 60 million is deemed necessary.
12. **The Advisory Committee notes that the present request for an increase of USD 60 million in the ceiling of the GCMF is being made less than one year after the approval of the last increase of USD 150 million. The Advisory Committee recommends the approval of the requested increase in the GCMF ceiling, and trusts that the next report will include performance information on the use of GCMF, with detailed justifications for any future request for an increase.**

IV. Reports submitted to the Executive Board for consideration

13. Eight reports are submitted to the Executive Board for consideration. **With respect to the Report on the implementation of the External Auditor recommendations, the Advisory Committee notes that there are a number of outstanding recommendations of the External Auditor from previous sessions, and trusts that WFP will ensure their full implementation.**
14. **In relation to the Annual Report of the Inspector General, the Advisory Committee trusts that WFP will strengthen its efforts to address matters identified by the Inspector General, such as fraud, harassment and sexual exploitation and abuse.**

ANNEX**Reports submitted to the Executive Board for approval:**

- i) Audited annual accounts, 2018 (WFP/EB.A/2019/6-A/1)
- ii) Report on the utilization of WFP's advance financing mechanisms during the period 1 January–31 December 2018 (WFP/EB.A/2019/6-H/1)

Reports submitted to the Executive Board for consideration:

- i) Annual Report of the Audit Committee (WFP/EB.A/2019/6-C/1)
- ii) Annual Report of the Inspector General (WFP/EB.A/2019/6-D/1)
- iii) Note by the Executive Director on the annual report of the Inspector General (WFP/EB.A/2019/6-D/1/Add.1)
- iv) Report of the External Auditor on country portfolio budgets (WFP/EB.A/2019/6-E/1)
- v) WFP Management response to the recommendations in the report of the External Auditor on country portfolio budgets (WFP/EB.A/2019/6-E/1/Add.1)
- vi) Report of the External Auditor on fraud prevention, detection and response (WFP/EB.A/2019/6-F/1)
- vii) Management response to the recommendations in the report of the External Auditor on fraud prevention, detection and response (WFP/EB.A/2019/6-F/1/Add.1)
- viii) Report on the implementation of the External Auditor recommendations (WFP/EB.A/2019/6-G/1)

Report submitted to the Executive Board for information:

Report of the Executive Director on contributions in the form of commodities or services and on reductions or waivers of costs (General Rule XIII.4 (h)) in 2018 (WFP/EB.A/2019/6-I/1)