



**World Food
Programme**

**Executive Board
Annual Session**

Rome, 25–28 May 2015

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6



Distribution: GENERAL

WFP/EB.A/2015/6(A,B,C,D,E,F,G,H,I,J,K)/2

WFP/EB.A/2015/5-E/2

19 May 2015

ORIGINAL: ENGLISH

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

The Executive Director is pleased to submit herewith the report of the FAO Finance Committee pertaining to WFP. The report covers the following agenda items:

- Audited Annual Accounts, 2014 (WFP/EB.A/2015/6-A/1)
- Appointment of Three Members to the Audit Committee (WFP/EB.A/2015/6-B/1/Rev.1)
- Progress on the Financial Framework Review, including Indirect Support Costs (WFP/EB.A/2015/6-C/1)
- Strategic Utilization of WFP's PSA Equalization Account (WFP/EB.A/2015/6-D/1)
- Annual Report of the Audit Committee (WFP/EB.A/2015/6-E/1)
- Annual Report of the Inspector General and Note by the Executive Director (WFP/EB.A/2015/6-F/1) and (WFP/EB.A/2015/6-F/1/Add.1)
- Report of the External Auditor on the Management of Corporate Emergencies and WFP Management Response (WFP/EB.A/2015/6-G/1) and (WFP/EB.A/2015/6-G/1/Add.1)
- Report of the External Auditor on Warehouse Management and WFP Management Response (WFP/EB.A/2015/6-H/1) and (WFP/EB.A/2015/6-H/1/Add.1/Rev.1)
- Report on the Implementation of the External Auditor Recommendations (WFP/EB.A/2015/6-I/1)
- Report on the Utilization of WFP's Advance Financing Mechanisms (1 January–31 December 2014) (WFP/EB.A/2015/6-J/1)
- Report of the Executive Director on the Utilization of Contributions and Waivers of Costs (General Rules XII.4 and XIII.4 (h)) (WFP/EB.A/2015/6-K/1)
- Anti-Fraud and Anti-Corruption Policy (WFP/EB.A/2015/5-E/1)

COPY OF LETTER RECEIVED FROM THE UNITED NATIONS — NEW YORK

Reference: AC/1896

Advisory Committee on
Administrative and Budgetary Questions

18 May 2015

Dear Ms. Cousin,

Please find attached a copy of the report of the Advisory Committee on your submissions concerning:

- Audited Annual Accounts, 2014 (WFP/EB.A/2015/6-A/1);
- Appointment of Three Members to the Audit Committee (WFP/EB.A/2015/6-B/1/Rev.1);
- Progress on the Financial Framework Review, including Indirect Support Costs (WFP/EB.A/2015/6-C/1);
- Strategic Utilization of WFP's PSA Equalization Account (WFP/EB.A/2015/6-D/1);
- Anti-Fraud and Anti-Corruption Policy (WFP/EB.A/2015/5-E/1);
- Annual Report of the Audit Committee (WFP/EB.A/2015/6-E/1);
- Annual Report of the Inspector General (WFP/EB.A/2015/6-F/1);
- Note by the Executive Director on the Annual Report of the Inspector General (WFP/EB.A/2015/6-F/1/Add.1);
- Report of the External Auditor on the Management of Corporate Emergencies (WFP/EB.A/2015/6-G/1);
- WFP Management Response to the Report of the External Auditor on the Management of Corporate Emergencies (WFP/EB.A/2015/6-G/1/Add.1) ;
- Report of the External Auditor on Warehouse Management Response (WFP/EB.A/2015/6-H/1);
- WFP Management to the Report of the External Auditor on Warehouse Management Response (WFP/EB.A/2015/6-H/1/Add.1/Rev.1) ;
- Report on the Implementation of the External Auditor Recommendations (WFP/EB.A/2015/6-I/1);
- Report on the Utilization of WFP's Advance Financing Mechanisms (1 January–31 December 2014) (WFP/EB.A/2015/6-J/1); and
- Report of the Executive Director on the Utilization of Contributions and Waivers of Costs (General Rules XII.4 and XIII.4 (h)) (WFP/EB.A/2015/6-K/1).

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. In addition, 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,

Carlos G. Ruiz Massieu
Chairman

Ms. Ertharin Cousin
Executive Director
World Food Programme
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Enclosure.



WORLD FOOD PROGRAMME

Resource, Financial and Budgetary Matters

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the following five reports of the World Food Programme (WFP), which are submitted to the Executive Board for approval:
 - a) Audited Annual Accounts 2014 (WFP/EB.A/2015/6-A/1);
 - b) Appointment of three members to the Audit Committee (WFP/EB.A/2015/6-B/1/Rev.1)
 - c) Progress on the Financial Framework Review, including Indirect Support Costs (WFP/EB.A/2015/6-C/1);
 - d) Strategic Utilization of WFP's PSA Equalization Account (WFP/EB.A/2015/6-D/1); and
 - e) Anti-Fraud and Anti-Corruption Policy (WFP/EB.A/2015/5-E/1).
2. The Advisory Committee also had before it nine 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 the Assistant Executive Director, Resource Management Department and Chief Financial Officer; Director of the Finance and Treasury Division; Inspector General; and External Auditor, who provided additional information and clarification, concluding with written responses received on 6 May 2015. **The Advisory Committee notes the important work undertaken by WFP, often in difficult conditions, and encourages its continued efforts in the implementation of its mandate.**
3. Having considered the 15 documents before it, the Advisory Committee notes that there is some overlap between the documents, including between those submitted for approval and those submitted for consideration by the Executive Board, which results in a fragmented presentation of resource, financial and budgetary matters. **The Advisory Committee recommends that the WFP Secretariat review its presentation of documents submitted to the Executive Board, in order to streamline the presentation and to ensure a more coherent picture is presented of WFP's resource, financial and budgetary matters.**

II. Audited Annual Accounts 2014

4. The Advisory Committee notes that the External Auditor has placed an unqualified audit opinion on WFP's Financial Statements for the financial period ended 31 December 2014, stating that the audit revealed no weakness or errors considered material to the accuracy, completeness and validity of the statements as a whole (WFP/EB.A/2015/6-A/1, section II, para. 8).
5. In his report, the External Auditor makes two recommendations: (a) that the monitoring system to record capitalization of assets above the threshold limit of USD 5,000 and for asset classification may be strengthened; and (b) WFP may continue to strengthen its mechanism for timely recording of data in the system to reduce post-closure adjustment and delayed entries. In the Report on the Implementation of the External Auditor Recommendations, the

WFP Secretariat states that it agrees with the recommendations and the timeline for implementation is December 2015 (WFP/EB.A/2015/6-I/1). With respect to the first recommendation, the WFP Secretariat will further strengthen the monitoring system over the capitalization of assets where cost-feasible. Regarding the second recommendation, the WFP Secretariat will review its processes of data recording and undertake necessary action to improve timely recording of data in the system. **The Advisory Committee recommends that WFP implement the External Auditor's recommendations as soon as possible.**

6. On the 2014 financial performance of WFP, the Executive Director indicates that total revenue was USD 5,450.4 million, representing an increase of USD 914.6 million, or 20 percent, from the revenue in 2013. It is stated that the increase is mainly due to the increase in monetary contributions of USD 1,009.4 million, 26 percent more than in 2013. Expenses in 2014 amounted to USD 5,214.6 million, an increase of USD 699.8 million, or 16 percent, from 2013. Therefore, the surplus in 2014 was USD 235.8 million, compared to USD 21.0 million in 2013. It is further stated that as at 31 December 2014, WFP's net assets totalled USD 3,922.7 million, confirming a healthy overall financial position (WFP/EB.A/2015/6-A/1, section I, paras. 7, 8, 10, 15 and 16). The Advisory Committee recalls that WFP had registered high levels of deficits in 2011 and 2012, with a restoration of balance between expenses and revenue achieved in 2013 (see WFP/EB.A/2015/6(A,B,C,D,E,F,G,H,I,J,K)/2, para. 8). **The Advisory Committee notes the continued improvement in WFP's financial performance in 2014 and trusts that WFP will continue to closely monitor its financial performance and financial position. The Advisory Committee recommends approval of the audited annual accounts for 2014.**

III. Appointment of Three Members to the Audit Committee

7. In the report WFP/EB.A/2015/6-B/1/Rev.1, the Executive Director recommends the appointment of the following three members to the Audit Committee for three-year terms beginning 15 November 2015 and expiring 14 November 2018: Mr. Suresh Kana; Ms. Elaine June Cheung; and Mr. Omkar Goswami.
8. According to the report, the terms of reference stipulate that due regard shall be paid to equitable geographic representation in the selection of Audit Committee members, and particular attention was given to nationals of countries in Lists A, B and C given the nationalities of the two remaining members of the committee (WFP/EB.A/2015/6-B/1/Rev.1, paras. 5 and 7). Upon enquiry, the Advisory Committee was informed that the terms of reference also indicate that membership of the Audit Committee should be balanced in gender and in providing the relevant knowledge, skills and senior-level experience. **The Advisory Committee stresses the importance of paying due regard to equitable geographic representation in the selection of Audit Committee members. The Committee recommends approval of the appointments of the three candidates for membership of the Audit Committee.**

IV. Progress on the Financial Framework Review, including Indirect Support Costs

9. The report on the Progress on the Financial Framework Review, including Indirect Support Costs, indicates that the financial framework review will aim to increase the predictability of funding; increase flexibility while maintaining fiscal discipline; enhance accountability; and simplify the resource management framework. It is stated that three underlying principles will remain in place: the voluntarily funded nature of WFP; the principle of full cost recovery; and contribution-specific expenditure tracking (WFP/EB.A/2015/6-C/1, paras. 19 and 21).
10. With respect to the indirect support cost review, the report states that the 2014–2016 Management Plan proposed a review of the indirect support cost rate in response to the Quadrennial Comprehensive Policy Review and to ensure alignment with the Strategic Objectives and the Management Results Framework. The conclusion indicates that the Secretariat will review the target level of the Programme Support and Administration (PSA) Equalization Account – currently four months of PSA expenditure – with a view to ensuring optimal financial resilience, which may result in consideration being given to changing the target level of the Account (WFP/EB.A/2015/6-C/1, paras. 29 and 72).
11. Paragraph 65 of the report states that the main source of income for the General Fund is interest income from WFP’s investment portfolios and bank and money market accounts net of investment management costs. Upon enquiry, the Advisory Committee was informed of the interest income accruing to the General Fund for 2012–2014:
 - 2012: USD 11.3 million
 - 2013: USD 5.6 million
 - 2014: USD 6.9 million
12. The Advisory Committee recommends approval of the report on the Progress on the Financial Framework Review, including Indirect Support Costs.

V. Strategic Utilization of WFP’s PSA Equalization Account

13. In the report on the strategic utilization of WFP’s PSA Equalization Account, it is stated that the Account records the difference between WFP’s indirect support cost revenue and its PSA expenses for the financial period, and that the balance at 31 December 2014 was USD 189.8 million, USD 95.9 million above the target level of four months of PSA expenditure. As utilization of the balance requires the Board’s approval, WFP Secretariat proposes for the Board’s approval that the surplus be used for the Immediate Response Account (IRA), Wellness Programme Fund and critical corporate initiatives (WFP/EB.A/2015/6-D/1, paras. 1 to 7).

⇒ Immediate Response Account

14. In respect of the IRA, it is proposed to allocate USD 50 million in 2015 to the IRA from the PSA Equalization Account surplus, with the aim of creating conditions for establishing permanent minimal internal capacity to provide loans for emergencies without needing to rely on the availability of specific donor contributions to the IRA. The report states that the IRA is a multi-year, multilateral lending and grant facility for emergency situations and for preventing critical shortfalls in life-threatening situations (WFP/EB.A/2015/6-D/1, paras. 6 and 8). Upon enquiry as to the amount of loans which were converted to grants, the Committee was informed that in 2014, WFP converted loans of USD 30.46 million to grants.

15. The report indicates that the target level of the IRA was USD 70 million from 2004 to November 2014, when it was increased to USD 200 million. It is further stated that the actual balance available for deployment to projects has recently been considerably below target, with donor contributions amounting to approximately USD 50 million annually and monthly closing balances averaging just over USD 15 million in 2014 (WFP/EB.A/2015/6-D/1, para. 10).
16. The Advisory Committee was provided upon enquiry with the monthly balances for the IRA in 2014 and 2015, reflecting an increase in contributions to the IRA in early 2015 as the contributions for January 2015 include the latest tranche of two multi-year contributions.

Opening Balance (in USD)				14 122 910
2014	Allocation	Repayment	Contributions	Closing Balance
Jan	34 212 149	(32 984 580)	3 445 200	16 340 541
Feb	29 510 912	(14 653 384)	9 168 689	10 651 702
Mar	5 470 052	(10 102 899)	6 821 109	22 105 658
Apr	16 728 509	(19 510 699)	5 489 981	30 377 829
May	29 263 385	(6 238 765)	12 921 657	20 274 866
Jun	13 746 573	(6 617 241)	10	13 145 544
Jul	9 829 125	(7 722 568)	-	11 038 988
Aug	19 676 922	(12 736 534)	-	4 098 599
Sep	2 962 106	(5 164 962)	5 473 439	11 774 895
Oct	14 698 939	(4 183 548)	9 142 497	10 402 001
Nov	-	(4 279 821)	-	14 681 822
Dec	5 934 576	(8 392 288)	668 449	17 807 983
Grand Total	182 033 248	(132 587 290)	53 131 031	
Opening Balance (in USD)				17 807 983
2015	Allocation	Repayment	Contributions	Closing Balance
Jan	5 515 043.00	(6 569 999.98)	24 223 931.92	43 086 872.37
Feb	6 955 053.00	(4 909 478.74)	6 316 753.61	47 358 051.72
Mar	11 520 339.00	1 394 931.40	5 424 011.60	39 866 792.92
Apr	12 426 478.47	(19 127 178.85)	5 417 118.10	51 984 611.40
TOTAL	36 416 913.47	(29 211 726.17)	41 381 815.23	

17. The Advisory Committee notes the overall increase in the level of the balance of the IRA in the early months of 2015 as compared to 2014. The Committee was also informed upon enquiry as to the meaning of the “target level for the IRA”, which could denote the amount of annual contributions to the IRA, or, the available balance to be maintained for the IRA, although the Committee was informed that in 2014, both annual contributions and the available balance have been considerably below both the old and new target levels. **The Advisory Committee notes that there is a lack of clarity as to the meaning of the “target level for the IRA” and encourages the WFP Secretariat to provide a clarification on the definition to the Executive Board during its consideration of the report.**

⇒ *Wellness Programme Fund*

18. The WFP Secretariat proposes to allocate USD 10 million in 2015 from the PSA Equalization Account surplus for the establishment of a Wellness Programme Fund to support activities for enhancing staff wellness at field locations where other sources of funding may not be assured. The report states that WFP’s duty of care to its employees includes providing secure premises and other facilities and services that fall under the umbrella of employee wellness. The transfer of USD 10 million would provide seed money for the fund; thereafter, the Secretariat would propose a system through the 2016–2018 Management Plan for sustainable funding for wellness services from the PSA and project budgets (WFP/EB.A/2015/6-D/1, paras. 6, 15, 17 and 18).
19. Upon enquiry, the Advisory Committee was informed of the following advantages of creating a separate wellness fund: a) funding needs tend to cross calendar years; b) wellness needs can arise suddenly, like in Nepal or Yemen, requiring immediate attention and investment; and c) a separate fund allows repayment where possible. The Committee was further informed that these needs were previously met through the project budgets and PSA, which have been ad hoc measures driven by available resources rather than the prioritization of staff wellness needs.

⇒ *Critical corporate initiatives*

20. Lastly, it is proposed to allocate USD 18 million in 2015 from the PSA Equalization Account surplus for four critical corporate initiatives to support Fit for Purpose, the organizational strengthening effort launched in 2012. The remaining estimated amount of USD 17 million for critical corporate initiatives in 2016 will be presented in the Management Plan (2016-2018) for approval at the Board’s Second Session in November 2015 (WFP/EB.A/2015/6-D/1, paras. 6, 7 and 20).
21. The four initiatives for which funding is requested in 2015 comprise: a) equipping WFP’s workforce with capabilities and skillsets to support emergency surge response and longer-term hunger approaches (USD 2.6 million); b) assisting country offices in improving their ability to support governments in enhancing national capacities to eradicate hunger (USD 1.0 million); c) advancing the development and scale-up of the corporate cash and voucher platform (USD 7.9 million); and d) enhancing WFP’s ability to collect and use evidence for improved decision-making (USD 6.5 million) (WFP/EB.A/2015/6-D/1, para. 27).
22. **The Advisory Committee recommends approval of the report on the Strategic Utilization of WFP’s PSA Equalization Account, including the proposed transfers from the PSA Equalization Account of USD 50 million to the IRA; USD 10 million to create a Wellness Programme Fund; and USD 18 million for critical corporate initiatives in 2015.**

VI. Anti-Fraud and Anti-Corruption Policy

23. In document WFP/EB.A/2015/5-E/1, a revised Anti-Fraud and Anti-Corruption Policy is submitted for the approval of the Executive Board. The revised policy sets out measures to prevent fraud and corruption, including measures related to internal control systems; obligations of contractors; due diligence in recruitment; prevention of conflict of interest; external audit; and the Office of the Inspector General. The revised policy also describes the roles and responsibilities of WFP staff members and non-staff employees, and outlines the reporting and investigation procedures. **The Advisory Committee recommends approval of the revised Anti-Fraud and Anti-Corruption Policy.**

ANNEX

Reports presented to the Advisory Committee for consideration:

- Annual Report of the Audit Committee (WFP/EB.A/2015/6-E/1)
- Annual Report of the Inspector General (WFP/EB.A/2015/6-F/1)
- Note by the Executive Director on the Annual Report of the WFP Inspector General (WFP/EB.A/2015/6-F/1/Add.1)
- Report of the External Auditor on the Management of Corporate Emergencies (WFP/EB.A/2015/6-G/1)
- WFP Management Response to the Recommendations of the Report of the External Auditor on the Management of Corporate Emergencies (WFP/EB.A/2015/6-G/1/Add.1)
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- Report on the Utilization of WFP's Advance Financing Mechanisms (1 January–31 December 2014) (WFP/EB.A/2015/6-J/1)

Report presented to the Advisory Committee for information:

- Report of the Executive Director on the Utilization of Contributions and Waivers of Costs (WFP/EB.A/2015/6-K/1)