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**Executive Board
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Rome, 9–12 June 2008

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6



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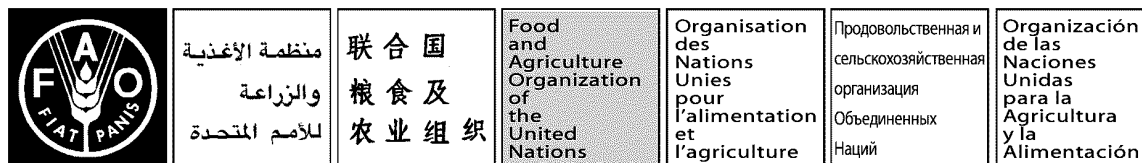
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REPORT OF THE FAO FINANCE COMMITTEE

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:

- WFP Strategic Plan (2008–2011)
(WFP/EB.A/2008/5-A/1)
- Audited Biennial Accounts 2006–2007
(WFP/EB.A/2008/6-A/1)
- WFP Pledging Target 2009–2010
(WFP/EB.A/2008/6-B/1)
- Update on the WFP Management Plan 2008–2009
(WFP/EB.A/2008/6-C/1)
- Progress Report on the Implementation of the External Auditor's Recommendations
(WFP/EB.A/2008/6-E/1)
- Report of the Inspector-General
(WFP/EB.A/2008/6-F/1)
- Sixth Progress Report on the Implementation of International Public Sector Accounting Standards
(WFP/EB.A/2008/6-G/1)
- Report of the Executive Director on the Utilization of Contributions and Waivers of Costs (General Rules XII.4 and XIII.4(G))
(WFP/EB.A/2008/6-H/1)
- Update on the WINGS II Project
(WFP/EB.A/2008/6-I/1)

May 2008



FINANCE COMMITTEE

Hundred and Twenty-second Session

Rome, 22 – 30 May 2008

Final Report on WFP matters

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**REPORT OF THE HUNDRED AND TWENTY-SECOND SESSION OF THE
FINANCE COMMITTEE
22 – 30 May 2008**

Introduction

1. The Committee submitted to the Council the following report of its Hundred and Twenty-second Session.
2. The following representatives were present:
Chairperson: Mr Yasser A.R. Sorour (Egypt)
Vice-Chairperson: Mr Lee Brudvig (United States of America)
Members: Mr MOUNGUI MÉDI (Cameroon)
Mr LI ZHENG DONG (China)
Mr SØREN SKAFTE (Denmark)
Mr JEAN-JACQUES SOULA (France)
Mr ECKHARD W. HEIN (Germany)
H.E. DON JORGE E. CHEN CHARPENTIER (Mexico)
Mr AAMIR A. KHAWAJA (Pakistan)
H.E. DON EUDORO JAÉN ESQUIVEL (Panama)
Mr ROBERT SABIITI (Uganda)
3. Once again the Committee expressed (ref. CL 135/06 para 3) their serious concern over the late submission of WFP documents which impacted on their ability to form opinions and recommendations. The Chairperson reiterated previous requirement by the Committee that the WFP Secretariat respect the statutory time limits for the submission of the documents. In the future documents not available in time may not be examined.
4. The Committee noted that Mr Horacio Maltez had been designated, in line with Rule XXVII.4(a) of the General Rules of the Organization, to replace H.E. Eudoro Jaén Esquivel as the representative of Panama during the last five days of this session.

WORLD FOOD PROGRAMME MATTERS

WFP STRATEGIC PLAN (2008–2011)

5. The Secretariat introduced the *WFP Strategic Plan (2008-2011)* highlighting that the Plan was developed following a number of informal consultations with the Executive Board. Revision 1 of the document came as a result of further consultation including with FAO. The Secretariat emphasised that one of the major focus of the Strategic Plan is on partnerships, both with host governments, NGOs, Rome-based and other UN agencies.
6. The Committee congratulated the Secretariat, expressing its appreciation in the transparency, clarity and conciseness of the Strategic Plan document. The Committee also expressed appreciation of the extent to which comments made by the Board members at the various informal consultation meetings had been considered by the Secretariat and incorporated in the present document. The clear reference to the importance of partnerships in the Strategic Plan was endorsed by the Committee.
7. The Committee requested clarifications on a number of issues relating to the Strategic Plan review process, possible changes foreseen in the programme category structure, the role of



WFP on fertilizer and seed purchases, and on food aid and food assistance definitions. The Committee also noted that the Strategic Plan did not contain management objectives, financial estimates, matrices or performance indicators.

8. The Secretariat explained that the Mid-Term Review was a formal process through the Board resulting in a restated Strategic Plan every two years and confirmed that the Strategic Objectives did not indicate any change to the present programme categories in WFP.
9. The Committee sought clarification on the role of WFP in the purchase of fertilizers and seeds. The Secretariat pointed out that it has neither the mandate nor expertise in this field and, as explained in the Strategic Plan, would only play a supportive role in areas such as distribution and logistics when called upon by national governments or FAO.
10. The Secretariat agreed that further clarification of the definitions of “food aid” and “food assistance” may be necessary and that further discussion would need to be held to identify management objectives for possible inclusion as an annexure to the Strategic Plan or within the Management Plan. In respect of the inclusion of financial estimates, matrices and performance indicators in the Strategic Plan, the Secretariat explained that these were included in the Management Plan and Annual Performance Reports which reflected the reality that WFP’s resource requirements are based on individual needs-based projects and programmes.
11. In response to a query on the absence of a reference to the ‘Twin Track Approach’ agreed by WFP, FAO and IFAD, the Secretariat informed that it was still very much alive. The Secretariat also informed the Committee that this had been mainstreamed in the Millennium Development Goals process and subsequently embedded in the WFP Strategic Objectives.
12. The Committee expressed satisfaction on the WFP Strategic Plan (2008-2011) responses made by the Secretariat. The Committee recommended that any ambiguity in respect of WFP role in fertilizers and seeds be clarified when the Strategic Plan is discussed by the Board. The Committee further concluded that issues relating to management objectives and clarification on the clear meaning of the terms “food aid” and “food assistance” be further elaborated in order to avoid any duplication or overlapping of the mandates of FAO, WFP and IFAD.

AUDITED BIENNIAL ACCOUNTS 2006–2007

13. The Secretariat introduced the 2006-2007 Audited Biennial Accounts informing the Committee that there were four sections (I – IV) of the audited financial statements comprising (i) the Report of the Executive Director; (ii) the Financial Statements and Audit Opinion; (iii) the Long Form Audit Report of the External Auditor; and (iv) the Response of the Secretariat to the Report by the External Auditor.
14. The Secretariat pointed out that Section IV of the audited accounts was a new addition which was introduced by the Secretariat in line with comments made in the past by the Board and the FAO Finance Committee indicating that the Secretariat should provide a response at the same time that audit reports are presented to the Board. The Committee welcomed the Secretariat response document suggesting that it could be expanded in the future.
15. In response to questions from the Committee, the Secretariat provided clarifications on issues raised by the Committee on the level of reserves. The Secretariat also provided information on the reasons for the recommendation on the replenishment of the Operational Reserve from the General Fund to bring it to its established level of



USD 57 million. The Committee was informed by the Secretariat that during the early stages of implementing this project financing modality, one of the pilot projects was unable to repay the loan as forecasted contributions did not materialise.

16. The Committee expressed its concern over the falling level of the reserves and in particular the Programme Support and Administrative (PSA) Equalisation and emphasized that the Board should carefully consider the level of reserves when taking decisions on their utilization. The Committee further pointed out that reserves of the Programme at present were not sufficient to cover any future negative staff cost variance.
17. Further clarification was provided by the Secretariat regarding the funding and accounting for the negative staff cost variance explaining that the PSA Equalisation Account was charged for the variance related to staff funded by PSA. For staff charged against project direct support costs, the negative variance is charged against the General Fund.
18. The Secretariat highlighted the improvements in financial management using new oversight tools and noting the enhanced role of WFP managers in financial management for their areas of responsibility. The Committee welcomed the improvements in financial management in WFP but recommended that the areas of weakness noted by the External Auditor be addressed as soon as possible.
19. On the comments made by members on the volume of information presented in the audited biennial accounts, the Secretariat assured the Committee that with the move to IPSAS, the financial statements and notes would be more concise and easier to understand.
20. The Committee took note of the clarifications provided on short-term investments and the instances of fraud.
21. The Committee congratulated the Secretariat for the unqualified opinion rendered by the External Auditor on the 2006-2007 Financial Statements and complimented the External Auditor for their report.

WFP PLEDGING TARGET 2009–2010

22. The Committee sought clarification on the level of funding to WFP currently generated from the Pledging Conference and noted the trend of increasing resource requirements in WFP due to cost increases and new operational requirements.
23. In the light of the clarification that less than 1% of WFP resources result from the Pledging Conference, the Committee questioned the cost/benefit to WFP of being part of the Pledging Conference process.
24. The Committee took note of the Pledging Target of USD 7.8 billion for 2009–2010 as presented by the Secretariat and endorsed the proposed recommendation contained in the document.

PROGRESS REPORT ON THE IMPLEMENTATION OF THE EXTERNAL AUDITOR'S RECOMMENDATIONS

25. The Secretariat introduced the document for consideration by the Committee indicating that there was no decision yet on the frequency in which progress reports should be submitted to the Board. The Secretariat, however, had informed the Committee that it was planning to present simultaneously a management response to all reports of the External Auditor and to present to the Board at its annual session a report on implementation.
26. The Committee received clarifications from the Secretariat and the External Auditor on items contained in the report and offered suggestions how the current format and



referencing of the report could be improved. The Committee noted that the recommendation of the Secretariat on annual presentation of the progress reports stemmed from the past discussion by the Committee and the ACABQ.

27. The Committee concluded that the proposed presentation to the Board of a full management response accompanying each report of the External Auditor, combined with an annual report on implementation of recommendations should provide sufficient information to the Board on compliance by the Secretariat.

REPORT OF THE INSPECTOR-GENERAL

28. In presenting the report, the Inspector General highlighted that it was being presented in accordance with the requirements of Article VI (2) (b) (viii) of the WFP General Regulations. The synthesis report was based on the work done and reports issued during the past biennium. The report could be considered in three segments; the first dealing with the mandate and management of the oversight function as contained in paragraphs 1-15, the second relating to the results of the oversight work and management response thereto as contained in paragraphs 16-89, and the third segment dealing with related institutional matters as contained in paragraphs 90-103 of the report.
29. The Committee, while appreciating the comprehensive nature of the report and recognising it as a reflection of WFP's commitment to transparency, offered suggestions on further improvements in its presentation. In this regard, it welcomed the opportunity to participate in a feedback survey.
30. The Committee sought clarifications regarding: lack of mention of audit of operations in the DPRK in the report, adequacy of resources for oversight particularly with reference to the JIU report, the two recommendations made to management by the review of internal audit function conducted by the Institute of Internal Auditors (IIA), recurring audit issues regarding emergency response and financial management and impact of recommendations made in this regard, the high risk issues identified during the biennium, valuation of in-kind services, issues identified in the audit of the human resources function, policy on financial and conflict of interest disclosures, and criteria for launching an investigation.
31. The Inspector General explained that Internal Audit reviewed the operations in the DPRK in the 2004-2005 biennium and therefore, there was no reference of the same in the report for 2006-2007. He clarified that the External Auditor reviewed the DPRK operations in the past biennium and reported the results to the Executive Board. While the JIU report did find resources made available to WFP's oversight functions as "below the range", the issue of adequacy of resources was inextricably linked to the level of assurance sought by management and the governing bodies. The recommendations made to Management by the IIA pertained to enterprise risk management in WFP, and the audit committee and reporting lines. Work on both recommendations was in progress, with the latter one being in the domain of the Executive Board. Emergency response understandably posed unique risks for WFP and Internal Audit had found some recurring issues. Whilst Management had taken some initiatives to strengthen its response to emergencies, the impact of these would only be assessed as and when any new emergency response is audited. The Secretariat clarified that the emergency coordinator was not an additional post created, rather, an existing manager was designated as the emergency coordinator. The Inspector General informed that there were indications that compliance with measures initiated by Management to strengthen the electronic payment system, in the aftermath of the Johannesburg financial fraud had reflected improvement. The importance of the Human Resources function in WFP and of the recommendations made by Internal Audit for its



strengthening was reiterated. The Committee was informed that the policy on financial disclosure had already been issued and modalities for its implementation from 2008 were being finalised. Finally, referring to paragraph 6 of the report, the Inspector General highlighted that the key element in the criteria for prioritising investigation work was the risk posed to WFP by the reported event. Not all complaints were investigated by the head-quarter based investigators; complaints considered to be of low risk and complexity were investigated by appropriate country office staff under the guidance of the investigation unit while the professional investigators were deployed judiciously for high risk and complex investigations.

32. The Committee drew attention to the Global Accountability Report 2007 which rated WFP fairly high for its accountability mechanisms. The Committee noted the importance of applying appropriate sanctions and effecting recoveries. It also highlighted the need for appropriate projection of sanctions applied and recoveries made. Finally, the Committee looked forward to receiving the future reports of the Inspector General with enhancements made to its presentation on the basis of the Committee's suggestions.

**REPORT OF THE EXECUTIVE DIRECTOR ON THE UTILIZATION OF
CONTRIBUTIONS AND WAIVERS OF COSTS (GENERAL RULES XII.4 AND
XIII.4(G))**

33. The Secretariat introduced the document indicating that the report was prepared annually by the Secretariat in compliance with the General Rules to inform the Board on the utilization of contributions and waivers of ISC costs.
34. The Committee examined and took note of the Executive Director's report.

UPDATE ON THE WFP MANAGEMENT PLAN 2008-2009

35. The Secretariat introduced the latest *Update on the WFP Management Plan for 2008-2009* highlighting seven points from the document:
- the changes to WFP's programme of work for 2008-09, which increased from USD 5.8 billion to USD 7.8 billion since the compilation of the 2008-09 Management Plan;
 - the revised projected resource level for the same period of USD 6.4 billion;
 - the proposal to always hedge the Euro component of PSA with effect from the 2009 budgetary period;
 - the updated forecasts for the PSA Equalisation account (USD 48.3 million by end 2009) and the unearmarked portion of the General Fund (USD 18.6 million by end 2009);
 - the proposal for increased funding of USD 7.5 million for the WINGS2 project as described in the Update on the WINGS II Project;
 - the proposal for increased funding of USD 5 million for security arrangements as outlined in the Information Note on the Implementation of Security Management Arrangements, and
 - proposed funding options for unfunded staff liabilities (including amortization in the management plan or revision of standard staff costs).
36. The Committee highlighted that the revisions to the programme of work and resource projections entailed a reduction in the overall expected percentage funding of WFP's biennial requirements from 90% in the original Management Plan to 82% in the current document.



37. In discussing the status of the PSA equalization account the Secretariat outlined its commitment to review the Management Plan and PSA budget for 2009 in the second regular session of 2008.
38. While highlighting that the proposed PSA hedging policy could result in opportunity losses during some budgetary periods (and gains during others), the Committee supported the proposed policy as it would eliminate one of the uncertainties in the PSA planning process.
39. The Committee welcomed the submission of the document *Information Note on the Implementation of Security Management Arrangements* as a supporting document to the Update on the WFP Management Plan. The Committee requested that in future such support documents be formally submitted to the Committee for their review and that a summary of the key points of such documents be included within the Management Plan as support for any proposed decision.
40. In considering the proposal on additional funding for security costs, the Committee stressed that the policy of cost sharing of UN Security Costs should be re-examined and that these costs should be funded from the assessed contributions of the UN. It recognised however that until such a change is made, WFP would have to continue funding these security costs. The Committee supported the proposed decision on security funding.
41. Following the discussion on the *Update on the WINGS II Project*, the Committee endorsed the proposed decision on additional funding for WINGS II.
42. The Committee welcomed the identification of funding options for the unfunded staff liabilities and recommended that the Secretariat review the actions taken by FAO for funding similar liabilities.

SIXTH PROGRESS REPORT ON THE IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

43. The Secretariat informed the Committee on actions taken by WFP since 2006 to adopt International Public Sector Accounting Standards (IPSAS). The Committee was informed of the effective adoption of IPSAS as of January 2008 and the actions taken since then.
44. The Secretariat provided clarifications to questions related to WFP readiness to adopt IPSAS in 2008. A status update of the budget utilization and the work plan deliverables was presented.
45. The Secretariat informed the Committee of the continued involvement of the IPSAS implementation team with WINGS II and support to the preparation of the first IPSAS compliant financial statements for 2008, to be produced in 2009. Highest impacted areas were being addressed within ongoing activities to achieve IPSAS compliance.
46. The Committee took note of the progress report and expressed satisfaction with the adoption and implementation of IPSAS at WFP and furthermore expressed satisfaction with IPSAS adoption and implementation efforts remaining within budgetary resources allocated by the Executive Board of USD 3.7 million.

UPDATE ON THE WINGS II PROJECT

47. The Secretariat introduced the document noting that this was the 5th progress report to the Board on the WINGS II project.
48. The Secretariat noted that the main issue in the paper was of a budgetary nature. The project was making best efforts to contain the first release of the WINGS II within the



USD 49 million budget allotment including through the deferral of some elements. However, the Secretariat noted that the exchange rate impact of over USD 9.4 million on the project negatively impacted on the Secretariat's ability to stay within the USD 49 million budget.

49. The Secretariat was requesting Board approval of an additional allocation of USD 7.5 million to the WINGS II, of which USD 5 million would be a project risk contingency allocation, and the remaining USD 2.5 million would be used to cover high benefit change requests. USD 1.5 million of the change request allocation was already earmarked to support the implementation of a standard payroll system for country offices (PASport).
50. The Committee sought clarifications on the USD 5 million contingency and on the USD 2.5 million for change request management. In response to questions from the Committee, the Secretariat informed the Committee that no further deferrals were possible and underlined the need to ensure that the systems are not undermined, that IPSAS was fully covered and that the go-live date was not compromised.
51. The Committee expressed their concerns about the guarantees provided earlier by the Secretariat that the budget of USD 49 million should not be exceeded. The Committee noted that in projects of this nature contingency provisions were to be expected.
52. The Committee took note of the document and the request for approval of a contingency (including the unallocated change request amount) of USD 6 million, and an allocation for PASport of USD 1.5 million.