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**Executive Board
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Rome, 20–23 February 2006

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6



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

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

- Review of ISC Rate Modalities (WFP/EB.1/2006/6-A/1)
- Review of the Arrangements for Reporting Post Delivery Food Losses to the Executive Board: Report by the WFP External Auditor (WFP/EB.1/2006/6-B/1)
- Follow-up on the Recommendations of the External Auditor (WFP/EB.1/2006/6-C/1)
- Update on the Biennial Management Plan (WFP/EB.1/2006/6-D/1)
- Progress Report on the Implementation of International Accounting Standards (WFP/EB.1/2006/6-E/1)

COPY OF LETTER RECEIVED FROM THE UNITED NATIONS — NEW YORK

AC/1587

Advisory Committee on
Administrative and Budgetary Questions

17 February 2006

Dear Mr. Morris,

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

- “Review of ISC Modalities” (WFP/EB.1/2006/6-A/1)
- “Review of the arrangements for reporting post-delivery losses (WFP/EB.1/2006/6-B/1)
- Follow-up on the recommendations of the External Auditor (WFP/EB.1/2006/6-C/1)
- Update on the biennial management plan (WFP/EB.1/2006/6-D/1)
- Progress report on the implementation of international accounting standards (WFP/EB.1/2006/6-E/1)

Mr. James T. Morris
Executive Director
World Food Programme
Via Cesare Giulio Viola, 68-70
00148 Rome
Italy



I should be grateful if you could arrange for the report to be placed before the Executive Board at its forthcoming session, as a complete and separate document. A printed version (in all languages) of the document should be provided to the Advisory Committee at the earliest possible opportunity.

Yours sincerely,

Rajat Saha
Chairman



WORLD FOOD PROGRAMME

Financial and Budgetary Matters

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee has considered the reports of the World Food Programme on the Review of the ISC Rate Modalities (WFP/EB.1/2006/6-A/1), on the Review of the Arrangements for Reporting Post Delivery Food Losses to the Executive Board (WFP/EB.1/2006/6-B/1) and the report of the external auditor on the Follow-up on the Recommendations of the External Auditor (WFP/EB.1/2006/6-C/1). The Committee also had before it, for information, the Update of the Biennial Management Plan (WFP/EB.1/2006/6-D/1) and the Progress Report on the Implementation of International Accounting Standards (WFP/EB.1/2006/6-E/1). During its consideration of these reports, the Advisory Committee had a videoconference with the representatives of the Executive Director of the WFP who provided additional information and clarifications.

Indirect Support Cost (ISC) rate modalities

2. The Advisory Committee notes that a comprehensive and final review of the ISC rate will be presented to the Executive Board at its Annual Session in June 2006. The present paper provides preliminary input for that review, including the background of the current ISC rate modalities, the role of the Programme Support and Administrative Equalization (PSA) Account and the potential benefits and consequences of applying a fixed ISC rate as opposed to a rate based on actual costs. It also presents the outline of a proposal for analyzing the structural composition of support costs with a view to identifying costs that vary with the level of operations and their possible re-categorisation under direct costs.
3. The Advisory Committee commends the Executive Director for this preliminary report, which presents a clear analysis of the issues under consideration. In light of the volatility of the gap between PSA expenditure and ISC income, which was reduced from \$230 million in 2002-2003 to \$1 million in 2004-2005 (Table 1), the Committee suggests that, rather than adopting a final decision during the current biennium, it may be desirable to maintain the status quo with the application of a fixed ISC rate of 7 percent during 2006-2007 in order to gather further data on the evolution of support costs. Upon enquiry, the Committee was informed that under the current procedures, the Executive Board approves expenditure incurred from the PSA equalization



account. Therefore, the continuation of the existing procedure during 2006-2007 for further analysis of ISC income and PSA expenditure patterns would not impact in any way on the governance mechanisms or financial policy of WFP.

4. However, should the Executive Board wish to adhere to the current plan and adopt a final decision at its Annual Session in June 2006, the Advisory Committee recommends that this review include a thorough analysis of all the risks, consequences and other factors associated with each alternative. Given the strategic nature of the choices to be made and their potential impact on the short-term and long-term operations of the WFP, the Committee is of the opinion that any of the decisions taken should be based on the best and most comprehensive information available, taking into account the views of those who contribute to the programme.
5. In this connection, the Committee is of the view that for each of the two alternatives under consideration, the additional underlying costs should be evaluated carefully and exhaustively, including costs for data collection, preparation and analysis, as well as for additional monitoring and quality control. The relationship between support costs and the types and levels of activity should also be fully analysed and developed, taking into account the fluctuating activity cycle of WFP, determined in large part by unforeseen emergencies. Furthermore, the review should also include an evaluation of the impact on the planning capacity of WFP, the advantages and disadvantages of a more or less stable and predictable environment, as well as all other foreseeable risks inherent to each alternative.
6. The Advisory Committee notes with interest the proposal to review the structure of support costs with a view to their possible re-categorisation under direct costs. This analysis is not linked to either alternative and is aimed at increasing transparency and clarifying cost structure, as a long-term solution. The Committee encourages WFP to pursue its efforts in this area.

Food Loss Reporting Arrangements

7. The Advisory Committee notes from the report of the External auditor on food loss reporting arrangements, that the overall level of reported food loss varied between 0.32 and 0.41 percent during the 2002-2004 period. The External Auditor notes this very low level of detected or reported loss and emphasizes the need for assurance on the completeness and accuracy of the food loss reporting. The report makes ten recommendations to strengthen controls.



8. The Advisory Committee was informed that the management of WFP has not yet had the opportunity to provide its comments to the report. The Committee therefore takes note of the report and will revert to it when the observations of the WFP management are available.

Follow-up on the recommendations of the External Auditor

9. The Advisory Committee has taken note of the report of the Executive Director on the follow-up on the recommendations of the External Auditor on 2004-2005 operations. For each recommendation, the report presents WFP's response, a summary of the actions proposed and their implementation status. The Committee notes that a total of 18 recommendations were made, of which 4 (22 percent) have been completed as at 31 December 2005. The Committee is of the view that it would be helpful if a summary of any subsequent observations of the external auditor or internal oversight division on the response of WFP would be provided, either in the follow-up report or elsewhere. Also, more complete information on the actions proposed by WFP and the status of their implementation would add transparency and allow a better understanding of the real situation.
10. The Committee requests that WFP verify that appropriate procedures and plans are in place on matters related to audit and oversight, for follow-up and implementation of audit recommendations.
11. With respect to the upgrade of the WFP information network and global system (WINGS), the Committee was informed that the outcome of the feasibility study for payroll option (recommendation 1) had been shared with other organizations of the UN family in the context of the High Level Committee on Management (HLCM) and the ICT network. In light of the high risk of cost escalation inherent to software development and upgrade projects, the Advisory Committee recommends that a full cost assessment and risk analysis be carried out of the SAP upgrade and evolution towards a single platform, including the outsourcing of payroll functions.
12. The Committee has taken note of the recommendations emanating from the review of the Dubai Support Office (FITTEST). Given the sensitive nature of matters related to procurement and in the interest of greater transparency, the Advisory Committee suggests that the Executive Board request the Executive Director to address this issue as a matter of priority.



Other Matters

13. The Committee has taken note of the reports on the update of the biennial management plan and the progress report on the implementation of international accounting standards. Concerning the update of the biennial management plan, the Committee welcomes the provision of an organigramme of the organizational structure of WFP, as requested in its previous report (WFP/EB.2/2005/5-H/1). The Committee was informed that a fully developed organigramme, including the number of existing and new posts by category and grade and source of funding would be presented with the next biennial management plan.

