

This file is for search purposes only. See PDF file for original copy of document.



Executive Board

Annual Session

Rome, 27-29 May 1997

RESOURCE AND FINANCIAL MATTERS

Agenda item 4 a), b), d), e) and f)



Distribution: GENERAL
WFP/EB.A/97/4-A/Add.1
WFP/EB.A/97/4-B/Add.1
WFP/EB.A/97/4-D/Add.1
WFP/EB.A/97/4-E/Add.1
WFP/EB.A/97/4-F/Add.1
15 May 1997
ORIGINAL: ENGLISH

COVERING NOTE TO THE REPORT OF THE FAO FINANCE COMMITTEE - EIGHTY-SEVENTH SESSION

- The Executive Director is pleased to submit herewith the report of the Eighty-seventh Session of the FAO Finance Committee, for consideration by the Executive Board.
- Resource and financial matters pertaining to WFP are covered in the report in the sections specified below.
- Paragraphs 1 and 2 relate to agenda item 4 b) - Budgetary Performance Report for 1996.
- Paragraph 3 covers agenda item 4 f) - Progress report on the implementation of the External Auditor's recommendations, 1992-93 and 1994-95.
- Paragraphs 4 to 6 pertain to agenda item 4 a) - Strategic and Financial Plan, 1998-2001.
- Paragraphs 7 to 14 discuss agenda item 4 e) - Funding of WFP's after-service medial liabilities.
- Paragraph 15 pertains to agenda item 4 d) - Funding and replenishment of the Operational Reserve.
- Paragraphs 16 to 24 relate to the proposed WFP Financial Regulations, which will be considered by the Board at its Third Regular Session, from 20 to 24 October 1997.

This document is produced in a limited number of copies. Delegates and observers are kindly requested to bring it to the meetings and to refrain from asking for additional copies.

This file is for search purposes only. See PDF file for original copy of document.



FINANCE COMMITTEE

EIGHTY-SEVENTH SESSION

21-29 April 1997

World Food Programme Report

CONTENTS

- Item 13 - WFP Budgetary Performance Report, 1996
- Item 14 - WFP Progress Report on Implementation of External Auditor's Recommendations
- Item 15 - WFP Strategic and Financial Plan, 1998-2001
- Item 16 - WFP Funding for After Service Medical Benefits Accrued Liabilities
- Item 17 - WFP Operational Reserve
- Item 18 - Revised WFP Financial Regulations

Item 13 - WFP Budgetary Performance Report, 1996

1. The Committee reviewed WFP's Report on Budgetary Performance for 1996, submitted to it for its review and comments to the Executive Board of WFP. The Committee appreciated the information and explanation provided in the report. It noted with satisfaction that WFP had reduced the PSA allotment in light of declining resources.
2. The Committee recommended that WFP should continue to pursue the principles of full cost recovery for the PSA, and up-front payment of indirect support costs.

Item 14 - WFP Progress Report on Implementation of External Auditor's Recommendations

3. The Committee noted with satisfaction the progress made on the implementation of External Auditor's recommendations.

Item 15 - WFP Strategic and Financial Plan, 1998-2001

4. The Committee welcomed the well structured and informative presentation of the Strategic and Financial Plan and appreciated the effort made by the Executive Director and her staff in producing the document.
5. Concern was expressed on several issues: declining resource availability for development, commodity price assumptions, outstanding balance of commitments, indirect support cost recovery and the funding of the PSA, monetisation, WFP's presence in recipient countries, co-ordination with other UN agencies in building local capacity, and linkage of the PSA to the level of operations. The Secretariat provided the supplementary information and clarification requested. Members stressed that these issues would need to be addressed in the preparation of the WFP Budget.
6. The Committee noted the general orientation of the Strategic and Financial Plan 1998-2001 and recommended that the Executive Board request the Executive Director to prepare a consolidated budget of operations and appropriate programme support and administrative costs for the period 1998-1999, after a careful review of the estimates of resource availability, especially for the development programme.

Item 16 - WFP Funding for After Service Medical Benefits Accrued Liabilities

7. The Committee received an oral presentation from the Consulting Actuary regarding his summary report on after service benefit plans of both FAO and WFP.
8. The Committee noted the following actuarial value of assets, accrued liabilities, surplus or deficit, and resulting ratio of assets to liabilities (i.e. funded ratio) for each of the four plans operated by FAO as follows:

| Item | After Service Medical Coverage Plan | Separation Payments Scheme | Termination of Service Payment Schemes | Staff Compensation Plan |
|----------------------------------|-------------------------------------|----------------------------|--|-------------------------|
| Actuarial Value of Assets | \$ 0.0 | \$ 87.8 | \$ 8.4 | \$ 32.4 |
| Accrued Liability | \$ 212.5 | \$ 80.3 | \$ 22.2 | \$ 18.5 |
| Surplus (Deficit) | \$ (212.5) | \$ 7.5 | \$ (13.8) | \$ 13.9 |
| Funded Ratio | 0.00 | 1.09 | 0.38 | 1.75 |

9. The Committee further noted the following details on the net liabilities by programme as follows:

| Programme | After Service Medical Coverage Plan | Separation Payments Scheme | Termination of Service Payment Schemes | Staff Compensation Plan |
|--------------------------|-------------------------------------|----------------------------|--|-------------------------|
| Regular Programme | \$ (108.4) | \$ 5.1 | \$ (13.9) | N/A |
| UNDP | (8.5) | N/A | (0.5) | N/A |
| Support Costs | (16.0) | 1.5 | 2.2 | N/A |

This file is for search purposes only. See PDF file for original copy of document.

| | | | | |
|-----------------------------|---------------|------------|------------|------------|
| World Food Programme | (37.7) | 0.7 | (3.5) | N/A |
| Trust Funds | (29.8) | 0.2 | 1.9 | N/A |
| All others | <u>(12.1)</u> | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> |
| Total | \$ (212.5) | \$ 7.5 | \$ (13.8) | \$ 13.9 |

10. The Committee noted that the FAO has a clear liability for the Regular Programme (except possibly for employees under the FAO/IBRD Cooperative Programme) and Support Cost accounts, but that its liability for the other account was more complex. In some cases, for example, UNDP, IBRD and Trust Funds, the employees are FAO employees, but costs, if the latest accounting standard has applied, should have been charged to UNDP, IBRD or Trust Fund donors. In other cases, for example WFP and all others (IFAD, ICCROM, etc.), the employees are not FAO employees, but FAO operates the benefits programme for the other organizations.

11. As regards the most significant annual service costs, the Committee noted that the breakdown of the Service costs by Programme was as follows:

| Programme | After Service Medical Coverage Plan | Separation Payments Scheme | Termination of Service Payment Schemes | Staff Compensation Plan |
|-----------------------------|--|-----------------------------------|---|--------------------------------|
| Regular Programme | \$ 4.3 | \$ 3.4 | \$ 1.1 | N/A |
| UNDP | 0.3 | 0.0 | 0.2 | N/A |
| Support Costs | 0.6 | 0.9 | 0.1 | N/A |
| World Food Programme | 1.5 | 0.7 | 0.5 | N/A |
| Trust Funds | 1.2 | 0.1 | 0.5 | N/A |
| All others | <u>0.5</u> | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> |
| Total | \$ 8.4 | \$ 5.1 | \$ 2.3 ³ | \$ 1.9 |

12. The Committee noted that urgent action should be taken with respect to the funding of the after service benefit plans and that this would have important related budget implications for 1998-99 and thereafter. Upon request of the Committee, the External Auditor confirmed that a 30 year amortization period would be acceptable for audit purposes.

13. The Committee welcomed WFP's indication that it would accept the liabilities for its posts, recognizing the need for further review and discussion between FAO and WFP to agree the amount of the actuarial deficit attributable to the WFP.

14. The Committee recommended the following courses of action in connection with the After Service Medical Coverage Plan:

- a) Given the difficulty inherent in establishing the liability of individual Trust Fund donors, the FAO should assume responsibility for the accumulated liabilities on Trust Fund programmes.
- b) The FAO should seek payment from UNDP and IBRD for the posts they had funded.
- c) The Committee recommended that FAO obtain payment from IFAD, ICCROM and others for their share of the actuarial deficit within the FAO-operated benefits programme.
- d) Provision for the service costs should henceforward be made for all programmes commencing from 1 January 1998.
- e) Amortization should commence from 1 January 1998 over a period of 30 years for the amount relating to their portion of the actuarial deficit after considering the merits of an equal instalments amortization basis versus fixed percentage of salary basis, and including the amount of the actuarial deficit relating to Support Costs and Trust Funds.

This file is for search purposes only. See PDF file for original copy of document.

- f) Effective 1 January 1998 combine all separation plans into one fund for management and reporting purposes and maintain separate accounts for the After Service Medical Coverage Plan and the three remaining plans.
- g) Examine the implications for the utilization of budget surpluses to accelerate the amortization period.

Item 17 - WFP Operational Reserve

15. The Committee noted that the document was a consolidation of prior decisions as requested by the Executive Board and noted its contents.

Item 18 - Revised WFP Financial Regulations

16. The Committee reviewed the proposed WFP Financial Regulations as prepared by the Open-Ended Working Group established by the Executive Board for the revision of WFP General and Financial Regulations and the establishment of General Rules.

17. The Committee made recommendations concerning certain Financial Regulations. In Financial Regulation 2.1, the Committee recommended that the phrase "the WFP Fund" should replace "WFP" to be consistent with the General Regulations. One member dissented believing that the WFP Fund is narrower than the entirety of WFP.

18. The Committee noted that Financial Regulation 4.5 was inconsistent with Article XII.3 of the proposed General Regulations which indicated that the recipient country was responsible for some costs, while Financial Regulation 4.5 seemed to indicate that the donor is responsible for those same costs. For clarification, the Committee recommended the following text:

Financial Regulation 4.5 Each donor contributing commodities or non-food items shall be responsible for related external transportation costs as well as all associated operational and support costs. The donor shall also be responsible for the costs of unloading and internal transport and any necessary technical and administrative supervision, and all associated operational and support costs, where the responsibility of the government of the recipient country for these costs is waived by the Executive Director in accordance with General Regulation XII.3.

19. The Committee discussed Financial Regulations 14.1 and 14.2. The Committee advised that the external auditor role should not be limited to the Auditor General (or official holding the equivalent title) of a State Member of the United Nations or FAO in order to promote maximum competition among qualified auditors. Therefore, the Committee recommends that the second sentence of Financial Regulation 14.1 be deleted. Some member states expressed reservations on enlarging competition to private audit firms since it would be contrary to the objective of associating developing countries and countries in transition in the conduct of the audit. The Committee also recommended that national audit offices be encouraged to submit proposals that would associate national audit offices from developing countries and countries in transition in the conduct of the audit.

20. The Committee noted that the commencement date of the term of the External Auditor of WFP occurred mid-year while that of FAO is at the beginning of the year. It felt that the term of the external auditor should commence at the beginning so that responsibility for each financial period is clearly established. It also noted that this would allow for cost savings for FAO and WFP if the same External Auditor is appointed for both. The Committee recommended changing the first sentence of Financial Regulation 14.2 as follows: The External Auditor shall be appointed for a four-year period covering two financial periods.

21. The Committee also discussed the limitation to the term of the External Auditor to two terms. This limitation also prevents competition and creates the possibility that FAO and WFP could not have the same External Auditor. The Committee, therefore, recommends deletion of the second sentence to Financial Regulation 14.2.

22. One member of the Committee expressed the wish to have a provision in the Financial Regulations on donor reporting and the necessity for reports within a reasonable time. The other members felt, however, that this type of provision did not belong in the Financial Regulations. The Secretariat indicated that donors could

This file is for search purposes only. See PDF file for original copy of document.

specify the reporting required in their agreements with WFP. The Committee wished the Secretariat to note the concerns of the member with respect to donor reporting.

23. One member had identified editorial changes such as capitalization and references to gender (especially in the Annex) which needed to be made. The Committee requested that the member make these suggestions available to the Secretariat and that the editorial changes be included if these will not change the meaning of the text of any of the Financial Regulations.

24. In addition, the Committee noted the need for several technical changes in the proposed Financial Regulations:

- a. In the definition of General Fund, the term "Operational Reserve" should be added;
- b. In the definition of General Rules, "Rules" should be replaced with "General Rules";
- c. The definition of "PRO" should be omitted since it does not occur in the text;
- d. The title of Section VIII should be revised to read "Country Programmes and Projects" to be consistent with the terms used in the title of Section VI.
- e. In Financial Regulation 9.4, the word "budget" should be replaced by "WFP Budget" to be consistent with other references to the WFP Budget in the text.
- f. In Financial Regulation 14.8, the word "Financial" should precede "Regulation".