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WFP/EB.A/2017/5-A/2

Resource, Financial and Budgetary Matters

Executive Board documents are available on WFP's Website (<http://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 (ACABQ) pertaining to WFP. The report covers the following agenda items:

- Audited Annual Accounts, 2016 (WFP/EB.A/2017/6-A/1)
- Policy for Disclosure of Oversight Reports (WFP/EB.A/2017/6-B/1 + Corr.1)
- Appointment of Two Members to the Audit Committee (WFP/EB.A/2017/6-C/1*)
- Revised Terms of Reference of the Audit Committee (WFP/EB.A/2017/6-D/1)
- Annual Report of the Audit Committee (WFP/EB.A/2017/6-E/1)
- Annual Report of the Inspector General (WFP/EB.A/2017/6-F/1) and Note by the Executive Director (WFP/EB.A/2017/6-F/1/Add.1)
- Report of the External Auditor on Decentralization (WFP/EB.A/2017/6-G/1) and WFP Management Response to the Recommendations (WFP/EB.A/2017/6-G/1/Add.1*)
- Report of the External Auditor on Changes in Human Resources (WFP/EB.A/2017/6-H/1) and WFP Management Response to the Recommendations (WFP/EB.A/2017/6-H/1/Add.1)
- Report on the Implementation of the External Auditor Recommendations (WFP/EB.A/2017/6-I/1)
- Report on the Utilization of WFP's Advance Financing Mechanisms (1 January – 31 December 2016) (WFP/EB.A/2017/6-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/2017/6-K/1)
- Update on the Integrated Road Map (WFP/EB.A/2017/5-A/1)

COPY OF LETTER RECEIVED FROM THE UNITED NATIONS — NEW YORK

Reference: AC/1992

Advisory Committee on
Administrative and Budgetary Questions

9 June 2017

Dear Mr Beasley,

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

- Update on the Integrated Road Map (WFP/EB.A/2017/5-A/1)
- Audited Annual Accounts, 2016 (WFP/EB.A/2017/6-A/1)
- Policy for Disclosure of Oversight Reports (WFP/EB.A/2017/6-B/1)
- Appointment of Two Members to the Audit Committee (WFP/EB.A/2017/6-C/1)
- Revised Terms of Reference of the Audit Committee (WFP/EB.A/2017/6-D/1)
- Report of the External Auditor on Decentralization (WFP/EB.A/2017/6-G/1)
- Management Response to the Recommendations of the Report of the External Auditor on Decentralization (WFP/EB.A/2017/6-G/1/Add.1)
- Report of the External Auditor on Changes in Human Resources (WFP/EB.A/2017/6-H/1)
- Management Response to the Recommendations of the Report of the External Auditor on Changes in Human Resources (WFP/EB.A/2017/6-H/1/Add.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. 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

Mr David Beasley
Executive Director
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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 a total of 15 reports of the World Food Programme (WFP) Secretariat, which are being submitted to the WFP Executive Board annual session, to take place in Rome, Italy, from 12–17 June 2017. Five of the documents are submitted to the Executive Board for approval, six for consideration, and one for information (see annex for a full list of reports). 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 19 May 2017.

II. Documents submitted to the Executive Board for approval

A. Update on the Integrated Road Map

2. Updated information and proposals with regard to WFP's Integrated Road Map are contained in document WFP/EB.A/2017/5-A/1. WFP's Secretariat indicates that as of May 2017, more than 96 per cent of critical milestones are on track towards a full transition to the Integrated Road Map programmatic and budgetary system on 1 January 2018. The updated document indicates that, to address Member State concerns on the pace of implementation of the Integrated Road Map, the WFP Secretariat is proposing to introduce a flexible approach, with full implementation by 1 January 2019 (WFP/EB.A/2017/5-A/1, Executive Summary).
3. In addition, as part of its transitional governance arrangements for 2017 and 2018 to accommodate the phased implementation of the Integrated Road Map, WFP Secretariat is seeking approval of a temporary measure to allow approval by correspondence for any project budget revisions until 1 January 2019 and time extensions for transitional interim country strategic plans (T-ICSPs) from January 2018 until June 2019. The update document states that this proposal has been discussed with the Board and partners and reflects feedback received to date (*ibid*).
4. According to the update, the process for implementing this transitional arrangement includes the possibility to address comments on revisions bilaterally. In this connection, the Advisory Committee was informed, upon enquiry, of the existing procedure for approving budget revisions in the case of such revisions exceeding the delegation of authority of the Executive Director. The Committee was informed that in such cases, budget revisions and extensions in time must be formally tabled for approval at one of the three Executive Board sessions. The Committee was also informed that in 2005, WFP's Executive Board considered the "Mechanism for Approval by Correspondence of Protracted Relief and Recovery Operations (PPROs) and PRRO Budget Revisions", which set out a formal process for approval by correspondence, and which has been utilized since that time.
5. The Committee was also informed that the Board's workload for the remainder of 2017 and 2018 is foreseen to be substantial, with numerous draft country strategic plans (CSPs) and integrated country strategic plans (ICSPs) to be submitted for approval, consideration of the changes to the WFP General Rules and Financial Regulations, as well as the usual policy, evaluation and administrative documents regarding performance and resource, financial and budgetary matters.
6. **The Advisory Committee does not object to the proposed temporary measure for approval by correspondence of budget revisions until January 2019 and time extensions for T-ICSPs from January 2018 through June 2019. The Committee trusts that all necessary measures will be taken to ensure that the decision-making functions of the Board are not affected by this temporary measure. The Committee stresses that questions from Executive Board members to the Secretariat on budget revisions and related**

bilateral discussions should be shared with other Executive Board members prior to approval of the budget revisions.

7. **The Committee also expects that WFP will in its next report on the implementation of the Integrated Road Map provide an update on the experience with this new temporary measure. The Committee also looks forward to receiving an indication of whether Member States are satisfied with the temporary measure in its next report on the implementation of the Integrated Road Map.**

B. Audited Annual Accounts, 2016

8. The report on the audited annual accounts for 2016 contains: (a) the Executive Director's statement, statement on internal control, financial statements I-V and notes to the financial statements in section I; and (b) the opinion of the External Auditor on the financial statements and the long-form report of the External Auditor in section II.
9. The External Auditor has issued an unqualified audit opinion on WFP's Financial Statements for the financial period ended 31 December 2016 with an emphasis-of-matter to draw attention to the fact that an accounting policy change took place in 2016, impacting the recognition of revenues relating to future year contributions. In this regard, the External Auditor notes that the presentation of the expenses does not make it possible to determine precisely the portion of the expenses directly attributable to beneficiaries of food assistance provided by WFP. The Auditor also notes that the Statement of Financial Performance does not enable the portion of staff costs and logistics costs directly related to food distribution to be distinguished from overheads.
10. The Advisory Committee notes that the External Auditor has issued nine recommendations, grouped under the fields of cash-based transfers; contributions, revenue and receivables; and IT review, and that the report fully takes into account WFP's comments and answers on the External Auditor's proposed recommendations. **The Advisory Committee trusts that the External Auditor's recommendations will be implemented in full and in a timely fashion.**

⇒ ***Financial performance and financial position***

11. The Executive Director has provided information on the financial performance for WFP in paragraphs 6–16 of her statement. The total revenue for 2016 was USD 5,908.9 million, an increase of USD 1,143.5 million or 24 percent compared with 2015, mainly from the increased monetary contributions received from two major donors for the programmatic response in the Syrian Arab Republic, Egypt, Iraq, Jordan, Lebanon, and Turkey.
12. Statement II on financial performance indicates a surplus of USD 541.7 million compared to a deficit of USD 50.9 million in 2015. The difference of USD 592.6 million reflects the reduced time lag in revenue and expense recognition, the significant growth in monetary contributions, and the increase in distribution of both cash-based transfers and commodities to WFP beneficiaries. The report of the External Auditor notes that the very high level of revenue in 2016 did not lead to an equivalent increase in expenses, which resulted in the substantial surplus of funds.
13. With regard to budget implementation, the Advisory Committee notes the 2016 final budget of USD 8,607.7 million and an actual expenditure of USD 5,222.8 million, representing a 61 percent budget implementation rate. The expenditure level exceeded the prioritized budget level of USD 4,651.3 million.
14. The Executive Director's statement indicates that as at 31 December 2016, WFP's total net assets (assets minus liabilities), comprising fund balances and reserves, were valued at USD 4,327.1 million, compared with a net asset value of USD 3,770.6 million in 2015. In this respect, the External Auditor notes that the reserves of WFP stood at USD 329.7 million as at 31 December 2016, reflecting an increase of USD 51.5 million. The Executive Director notes that the increase in reserves in 2016 was due to a USD 89.0 million increase in the Programme Support and Administrative (PSA) Equalization Account, partly offset by a USD 37.5 million decrease in the Immediate Response Account.

15. The External Auditor notes that the total assets of WFP were valued at USD 6,622.0 million in 2016, an increase of USD 1,391.2 million when compared with 2015. Upon enquiry, the Advisory Committee was provided with information concerning the financial ratios for 2015 and 2016. The Committee notes that all the ratios have increased since 2015. The External Auditor also notes increase in the current contributions receivable (USD 975.4 million) and cash, cash-equivalents and short-term investments (USD 364.7 million). Total liabilities were valued at USD 2,294.9 million in 2016, an increase of USD 834.7 million or 57 percent from USD 1,460.2 million in 2015. Upon request, the Advisory Committee was provided with the following financial ratio analysis, reflecting WFP's assets and liabilities as at 31 December 2016:

Ratio analysis

	<i>Current ratio</i>	<i>Total assets:</i>	<i>Cash ratio</i>	<i>Quick ratio</i>
	<i>Current assets:</i>	<i>Total</i>	<i>Cash + short-term investments:</i>	<i>Cash + short-term investments</i>
	<i>Current</i>	<i>liabilities</i>	<i>current liabilities</i>	<i>+accounts receivable: current</i>
	<i>liabilities</i>			<i>liabilities</i>
2015	8.6	4.3	3.0	7.3
2016	9.5	5.1	3.4	8.4

16. **The Advisory Committee notes the changes in WFP's financial situation. The Advisory Committee recommends approval of the audited annual accounts for 2016.**

⇒ *Food distribution and losses*

17. Regarding the distribution of food, the Executive Director notes that food commodities distributed in 2016 increased to 3.7 million metric tonne (mt), up from 3.1 million mt in 2015, with a corresponding value of USD 2,051.1 million, a 15 percent increase from the previous year. Sixty-three percent of the food commodities distributed in tonnage and 56 percent in value are attributable to WFP's large-scale operations in Syrian emergency-related projects, Ethiopia, Yemen, Malawi, South Sudan, the Sudan and Pakistan. Note 2.4 of the financial statements indicates that the stock of food items as at 31 December 2016 was valued at 630.2 million, or 4.5 million lower than in 2015. The note also indicates that an allowance for impairment has been made for possible loss or damage to inventories, which is based on past experience and has been set at 0.54 percent of total food and 1.23 percent for non-food items, just slightly higher than in 2015.
18. The Executive Director also indicates that the value of WFP's food commodity inventory at the end of 2016 decreased by USD 4.7 million or 0.7 percent from 2015 mainly due to a decrease in stocks held of 0.1 million mt or 10 percent from 2015 stocks. In note 9 of the financial statements, food commodity losses are reported as 21.1 million in 2016, compared to 11.6 million in 2015. Upon enquiry, the Advisory Committee was informed that food commodity losses in 2016 occurred mainly in Yemen, Syria and South Sudan, and resulted from a) theft, looting, and shrinkage and b) food that is damaged and unfit for human consumption. The Committee was also informed that WFP has taken measures to prevent and mitigate future losses in the planning, sourcing and receiving and delivering phases along the supply chain. **The Committee recognizes the efforts taken to date to mitigate future food losses and trusts that all necessary action to minimize such losses will be put in place as a matter of priority.**

⇒ *Other matters*

19. The report further indicates that WFP will also strengthen its risk management culture and practice, including through its pilot of proactive integrity reviews (PIRs). The Executive Director also explains that the Executive Board approved the Integrated Road Map at its 2016 Second Regular Session and that the country portfolio budget structure may be refined in 2017 based on lessons learned from those country programmes that have been approved to date. The Committee takes note of these initiatives and looks forward to receiving further information on their financial impact in future reports.

20. Regarding the Programme's liabilities for employee benefits, the Executive Director's statement notes that they stood at USD 660.1 million as at 31 December 2016 and that the level of assets set aside for funding of the gross long-term employee benefits liabilities stood at USD 456.4 million. **The Committee notes that the WFP Secretariat will conduct an asset-liability study in 2017 to determine whether revisions are required to the funding policy approved by the Executive Board in 2010 and looks forward to receiving updates on this matter.**

C. Policy for Disclosure of Oversight Reports

21. Proposed revisions to the Policy for Disclosure of Oversight reports are contained in document WFP/EB.A/2017/6-B/1. WFP's Secretariat indicates that the Executive Board approved the "Policy for Disclosure of Oversight Reports" in November 2012, which consolidated the policies in respect of the Programme's audit, inspection and investigation reports. The document also indicates that the Office of the Inspector General (OIG) has since introduced the practice of undertake proactive integrity reviews (PIRs) on specific operational issues, a measure authorized by the Executive Board, in order to identify risks of fraud, corruption, collusion and other wrongdoings.
22. Since the PIR reports are not covered by the disclosure policy approved in November 2012, the Board requested the Inspector General and management to update the disclosure policy in order to include PIR reports (WFP/EB.A/2017/6-B/1, paras 1-2). The proposed amendments to the Policy for Disclosure of Oversight Reports (as contained in paras 6-8 of the report) would treat any such PIR report as confidential and would not be released to external parties.
23. Upon enquiry, the Advisory Committee was informed that the WFP disclosure policy for oversight documents results from a benchmarking of similar policies from other United Nations organizations. **The Advisory Committee recommends approval of the revised Policy for Disclosure of Oversight Reports, which extends the procedures for the disclosure of investigations reports to PIRs, and outlines the associated administrative procedures concerning receipt of disclosure requests and confidentiality obligations of report recipients.**

D. Appointment of Two Members to the Audit Committee

24. In the report WFP/EB.A/2017/6-C/1, the Executive Director recommends the appointment of the following two members to the Audit Committee for three-year terms beginning 30 July 2017 and expiring 29 July 2020: Mr. Pedro Guazo (Mexico), and Ms. Agnieszka Słomka-Golebiowska (Poland). The report notes that the under the Audit Committee's Terms of Reference, the Board approves the appointment of new members on the recommendation of the Executive Director. **The Advisory Committee does not object to the appointments of the two candidates for members of the Audit Committee.**

E. Revised Terms of Reference of the Audit Committee

25. Proposals for the "Revised Terms of Reference of the Audit Committee" are contained in document WFP/EB.A/2017/6-D/1, which include adjustments resulting from efforts to strengthen the Programme's oversight activities along with changes to its organizational structure and corporate travel policy. Upon enquiry, the Advisory Committee was informed that language related to DSA and reimbursement of travel in the existing terms of reference, 'at the level equivalent to United Nations Assistant Secretary Generals' in paragraph 35, is proposed to be removed to ensure alignment with WFP's latest internal travel policies. **The Advisory Committee does not object to the approval of the Revised Terms of Reference as contained in document WFP/EB.A/2017/6-D/1.**

III. Documents submitted to the Executive Board for consideration

A. Report of the External Auditor on Decentralization/Management Response to the Recommendations of the External Auditor on Decentralization

26. Information and proposals to address the report of the Report of the External Auditor on Decentralization (WFP/EB.A/2017/6-G/1) are contained in the Management Response to the Recommendations of the Report of the External Auditor on Decentralization (WFP/EB.A/2017/6-G/1/Add.1). The External Auditors state in their report that oversight functions are ill-defined in the regional offices and that internal control is limited. Upon enquiry, the Advisory Committee was informed that WFP will carry out a comprehensive scoping review to better understand operating models, organizational structure, support capacities and decision-making processes between Headquarters and regional bureaux. The Committee was also informed that a meeting would be held in June 2017 to agree on next steps. **The Advisory Committee trusts that WFP will ensure prompt and full implementation of the External Auditor's recommendations.**
27. The Advisory Committee notes that the External Auditor has also recommended that any organizational reform be accompanied by inter alia an independent evaluation mechanism to measure the success of the reform concerning its strategic objectives. In response, the WFP Secretariat agreed with its recommendations and referred to evaluations carried out by its internal Office of Evaluation that are subject to coverage norms set out in the WFP Evaluation Policy. **The Advisory Committee considers that it would be prudent to seek the External Auditor's views on the approach proposed by the WFP Secretariat.**

B. Report of the External Auditor on Changes in Human Resources/Management Response to the Recommendations of the External Auditor on Changes in Human Resources

28. Information related to the "Report of the External Auditor on Changes in Human Resources" are contained in document WFP/EB.A/2017/6-H/1, with the management response contained in document WFP/EB.A/2017/6-H/1/Add.1. The WFP Secretariat, in its draft decision, encourages taking further action on the recommendations contained in the reports.
29. The External Auditor explains the impact of the initiatives undertaken as part of WFP's People Strategy launched in July 2014. The Auditor acknowledges WFP's efforts to address individual underperformance and employee motivation through this Strategy. Upon enquiry, the Advisory Committee was informed that WFP introduced a new framework in May 2016 to "reinforce the performance mind-set" and that tangible results in the management can already be seen just seven months after its introduction.
30. Nevertheless, the External Auditor's report notes that offering more material incentives could accelerate the shift towards "a genuine performance mind-set". It also notes the lack of a workforce forward planning system to better predict skill and personnel needs, both at the local and international levels. Upon enquiry, the Advisory Committee was informed that WFP Secretariat intends to look into whether a system of remunerative recognition rewards is appropriate in addition to non-remunerative rewards and incentives. The Committee was also informed upon enquiry that the total budget allocated for staff remuneration would remain unchanged should the outcome of the exploratory initiative be considered appropriate.
- 31. The Advisory Committee trusts that any action related to salaries and conditions of service for staff will be in full compliance with the UN common system.**
32. The report also notes that key challenges lie in the area of recruitment for short-term contracts, as the growth in consultant numbers calls for an accurate redefinition of the criteria governing when this category of appointment should be used, and respective compensation levels. Upon enquiry, the Advisory Committee was informed that Service Contracts and Special Service Agreements consisted of 48 percent of the total WFP workforce. The WFP Secretariat also informed the Committee, upon enquiry, that it set its current rates for consultancy remuneration levels in 2009 and does not seek to be a market leader in terms of the compensation it offers to consultants. The Committee was also informed that any adjustments to the consultancy rate will be set with specific reference to other United Nations agencies. The Committee intends to revert

to the matter of the extent of WFP's reliance on consultancy services in its next review of WFP's reports.

33. The Advisory Committee also takes note of the information included on WFP's efforts to achieve gender balance in the recruitment of its staff and consultants. Upon enquiry, the Committee was informed that the percentage of female staff at WFP had increased from 42 percent in 2014 to 45 percent at the end of 2016, with women comprising 41 percent in the international staff category. The Committee was also informed of WFP's measures to make progress towards gender parity, which include processes and systems that incorporate gender statistics, career development support specifically designed for women and awareness-raising sessions with Country Directors and Human Resources focal points on Diversity and Inclusion.

ANNEX**Reports presented to the Advisory Committee for approval:**

- Update on the Integrated Road Map (WFP/EB.A/2017/5-A/1)
- Audited Annual Accounts, 2016 (WFP/EB.A/2017/6-A/1)
- Policy for Disclosure of Oversight Reports (WFP/EB.A/2017/6-B/1)
- Appointment of Two Members to the Audit Committee (WFP/EB.A/2017/6-C/1)
- Revised Terms of Reference of the Audit Committee (WFP/EB.A/2017/6-D/1)

Reports presented to the Advisory Committee for consideration:

- Annual Report of the Audit Committee (WFP/EB.A/2017/6-E/1)
- Annual Report of the Inspector General (WFP/EB.A/2017/6-F/1)
- Note by the Executive Director on the Annual Report of the Inspector General (WFP/EB.A/2017/6-F/1/Add.1)
- Report of the External Auditor on Decentralization (WFP/EB.A/2017/6-G/1)
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- Report on the Implementation of the External Auditor Recommendations (WFP/EB.A/2017/6-I/1)
- Report on the Utilization of WFP's Advance Financing Mechanisms (1 January-31 December 2016) (WFP/EB.A/2017/6-J/1)

Reports presented to the Advisory Committee for information:

- 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/2017/6-K/1)