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Programme
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World
Food
Programme

Programa
Mundial
de Alimentos

Executive Board
Third Regular Session

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FINANCIAL AND BUDGETARY MATTERS

Agenda item 4 a), c)
and d)

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7 October 1997

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COMMENTS OF THE FAO FINANCE COMMITTEE (September 1997)

The Executive Director is pleased to submit herewith the Report of the 88th Session of the FAO Finance Committee pertaining to WFP. The report covers different agenda items as follows:

Paragraphs 1-7: Item 4-A—Biennial Budget for 1998-99

Paragraphs 8-9: Item 4-D—Appointment of External Auditor

Paragraphs 10-12: Item 4-C—Proposal on use of interest income

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y la
Alimentación

FINANCE COMMITTEE

EIGHTY-EIGHTH SESSION

18 - 26 September 1997

WORLD FOOD PROGRAMME

WFP Biennial Budget for the Period 1998-99

1. The Committee considered the document (WFP/EB.3/97/4-A) submitted to it for discussion and recommendations to the Executive Board.
2. The Executive Director introducing the WFP budget for 1998-99 explained that the principles and priorities of the WFP Strategic and Financial Plan, 1998-2001, together with the comments provided by WFP's Executive Board, the ACABQ and the FAO Finance Committee during its review in May 1997, were the guiding factors behind the preparation of the budget.
3. The Committee expressed appreciation for the informative and easy to read format of the document. It expressed concern on the increasing trend of the PSA as a percentage of WFP activities: 9% in the biennium 98-99 while only 5.7% in 92-93. Members sought additional information and explanation on a number of the budget's planning assumptions, including: (i) resource availability and operational projections; (ii) proposed utilization of the general fund; (iii) PSA in relation to operational level trends; (iv) foreseen level of operations in 1997 and the high level of 1996 carry-over and the consequences for the PSA; (v) consequences of exchange rate fluctuations; and (vi) coordination and synergy sought with FAO.
4. The Committee expressed concern regarding (i) the increase of delivery cost estimates in relation to declining commodity volume and the evolution of commodity cost in view of declining world prices, as well as (ii) the increases in estimates of landside transport, storage and handling costs, while volumes were declining. Some members also expressed concern about the underlying reasons for the decline in resources for the development programme.
5. The Committee encouraged additional savings through streamlining of operations as well as through reduced budget for consultancy and document production. The Committee raised a number of queries and requested clarifications regarding the planned operational initiatives for 1998-99 including: (i) resource mobilization and

advocacy initiatives; (ii) decentralization and further delegation of authority to the field; (iii) training and staff development and the apparent imbalance of expenditures for staff development and management training, (iv) the Financial Management Improvement Programme (FMIP); (v) United Nations reform and the expected additional outlays of \$3 million; (vi) financing arrangements made with the host government in support of the move to a new Headquarters premises for which \$10 million would be advanced; (vii) reduction in WFP travel costs; (viii) field visits by members of the Executive Board; and (ix) post upgrades.

6. The Executive Director and her staff responded with further insight and clarification on a number of specific areas including: (i) savings to be achieved by adapting staff levels both at headquarters and in the field to the reduced level of operations; (ii) reduction in the technical support, consultancy, travel and communications budget lines; (iii) cost saving measures attained in systems development, further outsourcing of internal audits, and the cost recovery work of the Inspector General; (iv) costs of fittings and fixtures to be incurred for the move to a new headquarters premises; (v) background on the figure of \$3 million as WFP's possible share for common premises; (vi) WFP's indirect support cost rate trends over three consecutive biennia, and (vii) cost savings and benefits attained and to be attained through FMIP. The Committee also noted the information provided on gender staffing levels and emphasized the achievements of WFP in recruiting women.

7. The Committee expressed general satisfaction with the responses and clarifications given by the Executive Director and her staff. The Committee, on the understanding that WFP would seek further savings, decided to recommend to the Executive Board that it approve the proposals of the Executive Director contained in paragraph 240 of the WFP budget 1998-99. In reviewing the operational initiatives set out in paragraph 151, the Committee further recommended that:

- The transfer of up to \$10 million from the General Fund for FMIP could only be considered as an advance to bridge the continuation of FMIP until donor contributions are received;
- The advance of up to \$10 million from the Operational Reserve to cover costs associated with the move to the new Headquarters premises should only be for a limited duration and efforts should be made to recover expenditure in accordance with the lease agreement with the building owner and the Headquarters Agreement with the Host Government;
- The use of up to \$3 million from the General Fund to cover any costs incurred for common premises under United Nations reform should be carefully assessed in terms of savings and benefits before entering into contractual arrangements for shared premises;
- Post upgrades should be applied in a manner that adhered to a balanced and adequate staff structure.

Appointment of the WFP External Auditor

8. The Committee reviewed its Report of the Eighty-Seventh Session on the Revised WFP Financial Regulations and corrected it since it did not reflect the position of the Committee on the eligibility of those who could become External Auditors of WFP. The Committee recommended that only the Auditor-General (or official holding the equivalent title) of a State member of the United Nations or FAO be eligible and that the selection process should not be expanded to include private audit firms. The Committee requested that WFP make the appropriate amendment to the document submitted to the Executive Board in this regard.

9. The Committee considered the recommendations contained in page five of the document (WFP/EB.3/97/4-D) and agreed to:

- either of the alternatives relative to the next term of the WFP External Auditor providing that the term of the External Auditor was aligned to the financial periods subject to audit, and
- the Executive Director's recommended procedures for the future selection and appointment of the WFP External Auditor.

WFP Proposed Utilization of Interest Income

10. Under this agenda item, the Committee reviewed the document (WFP/EB.3/97/4-C) on the proposal on use of interest income. The Committee noted that this document was being presented to the Executive Board in response to its request for such proposal.

11. Members sought and received clarifications on: (i) the fixed nature of PSA costs; (ii) how structural imbalances are created; (iii) the means for reporting on interest income and (iv) the possibility of establishing higher indirect support cost rates to avoid or reduce recourse to interest income to meet PSA structural imbalances.

12. The Committee noted that the final adoption of the proposal made by the Executive Director to the Executive Board would require support of the membership which could not be prejudged at this time, since it raised questions of a political nature, such as the need to maintain programme and donor neutrality on the application of interest income.