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Programme
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**Executive Board
Annual Session**

Rome, 4–8 June 2007

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6



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4 June 2007

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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:

- Fourth Progress Report on the Implementation of International Public Sector Accounting Standards (WFP/EB.A/2007/6-A/1)
- Funding of Employee Termination Payments (WFP/EB.A/2007/6-B/1)
- Update on the WFP Management Plan (2006–2007) (WFP/EB.A/2007/6-C/1)
- Costs and Benefits of New Initiatives in Profile Raising: Report by the External Auditor (WFP/EB.A/2007/6-D/1)
- Progress Report on the Implementation of the Recommendations of the External Auditor (WFP/EB.A/2007/6-E/1)
- Annual Accounts (2006) Part I: (WFP/EB.A/2007/6-F/1/1)
- Annual Accounts (2006) Part II: (WFP/EB.A/2007/6-F/1/2)
- 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/2007/6-G/1 + Corr.1)
- Update on Capacity Building (Strategic Objective 5) (WFP/EB.A/2007/6-H/1)
- Report on WFP's Investment Performance (WFP/EB.A/2007/6-I/1)
- Status Report on WINGS II (WFP/EB.A/2007/6-J/1)

COPY OF LETTER RECEIVED FROM THE UNITED NATIONS — NEW YORK

Reference: AC/1621

Advisory Committee on
Administrative and Budgetary Questions

1 June 2007

Dear Ms. Sheeran,

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

- Fourth Progress Report on the Implementation of International Public Sector Accounting Standards (WFP/EB.A/2007/6-A/1)
- Funding of Employee Termination Payments (WFP/EB.A/2007/6-B/1)
- Update on the WFP Management Plan (2006–2007) (WFP/EB.A/2007/6-C/1)
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- Update on Capacity Building (Strategic Objective 5) (WFP/EB.A/2007/6-H/1)
- Report on WFP's Investment Performance (WFP/EB.A/2007/6-I/1)
- Status Report on WINGS II (WFP/EB.A/2007/6-J/1)

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 of the document should be provided to the Advisory Committee at the earliest possible opportunity.

Yours Sincerely,

Rajat Saha
Chairman

Ms. Josette Sheeran
Executive Director
World Food Programme
Via Cesare Giulio Viola, 68-70
00148 Rome, Italy



WORLD FOOD PROGRAMME

Resource, Financial and Budgetary Matters

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee has considered the following reports submitted by the World Food Programme: (1) Fourth Progress Report on the Implementation of International Public Sector Accounting Standards (WFP/EB.A/2007/6-A/1); (2) Funding of Employee Termination Payments (WFP/EB.A/2007/6-B/1); (3) Update on the WFP management Plan (2006-2007) (WFP/EB.A/2007/6-C/1); (4) Costs and Benefits of New Initiatives in profile raising (WFP/EB.A/2007/6-D/1); (5) Progress Report on the Implementation of the External Auditor Recommendations (WFP/EB.A/2007/6-E/1); (6) Annual Accounts (2006): Part I (WFP/EB.A/2007/6-F/1/1); (7) Annual Accounts (2006): Part II (WFP/EB.A/2007/6-F/1/2); (8) 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/2007/6-G/1); (9) Update on Capacity-Building (Strategic Objective 5) (WFP/EB.A/2007/6-H/1); (10) Report on WFP's Investment Performance (WFP/EB.A/2007/6-I/1); and (11) Status Report on the Wings II Project (WFP/EB.A/2007/6-J/1). The Advisory Committee had a video conference with the Deputy Executive Director and other representatives of WFP.

Fourth Progress Report on the Implementation of International Public Sector Accounting Standards

2. The document proposes one amendment to WFP's General Rules, relating to the valuation of donations of goods and services, including food commodities, as set out in current and amended texts in the document. The amendment is proposed for approval by the Executive Board from 1 January 2008, concurrent with the adoption of IPSAS.
3. **The Advisory Committee recommends acceptance by the Executive Board of the amended text of General Rule XIII.6 (valuation of commodity contributions and services), as noted in page 11 of the document.**

Funding of Employee Termination Payments

4. The Advisory Committee notes that WFP employees under fixed-term and continuing/permanent contracts receive a termination benefit, in accordance with the applicable staff regulations and rules. It further notes from paragraph 8 of the document that WFP has made voluntary termination payments to special service agreement, service contract and assignment of limited duration contract holders since the introduction of SC and ALD contracts. The document also states that there is no legal basis for termination payments to such contract holders, but that this was considered a moral responsibility in recognition that some contractors have worked for the Programme for many years.



5. Upon enquiry, the Committee was informed that, in the current biennium, the following WFP offices had allocated termination payments to employees in: Bangkok (116), Cairo (26), Dakar (18), Johannesburg (101), Kampala (101), Panama (6), as well as to 49 employees in the Sudan.
6. The Committee was also informed that after a country office proposes termination payments through a decision memorandum, the WFP Executive Director then authorizes such payments, under WFP Financial Regulation 12.3 governing *ex-gratia* payments, which states that “The Executive Director may make such *ex gratia* payments as the Executive Director deems necessary in the interest of WFP. The Executive Director shall report all such payments to the Board with the financial statements.”
7. The Advisory Committee further notes the position of the FAO Finance Committee, contained in its latest report to the Executive Board (document WFP/EB.A/2007/6 (A,B,C,D,E,F,G,H,I,J/3), para. 27): “The Committee recognized and supported the logic of establishing a reserve for termination payments for which there was clear authority to pay. It further advised that there should be clear and transparent criteria for approving termination payments for SSA, SC and ALD contract holders and that such criteria should be approved by the Executive Board.”
8. **The Advisory Committee disagrees with the FAO Finance Committee. The Committee believes that it is important to distinguish between those who are entitled to termination payments and those who are not. The Committee points out that at present, as acknowledged in paragraph 8 of the document (WFP/EB.A/2007/6-B/1), WFP is not legally bound to make termination payments for special service agreement, service contract, and assignment of limited duration contract holders. The Committee is concerned that such payments, made at the discretion of the Programme, are being inaccurately shown as *ex-gratia* payments under WFP Financial Regulation 12.3 when, in fact, they are not provided for in the staff regulations and rules. The Advisory Committee points out that such a practice has significant system-wide implications.**
9. **Standard hiring contracts for special service agreements, service contracts and assignment of limited duration contracts do not provide for the payment of termination or other benefits or entitlements. The Advisory Committee wishes to express its concern that WFP appears to utilize temporary and short-term contractual arrangements with repeated extensions for continuing staff functions. Inappropriate termination payments are then made to compensate long-term hired contractors for WFP’s inappropriate use of special service agreements, service contracts and appointment of limited duration contracts.**
10. **The Advisory Committee notes from the document that unfunded employee-termination payments are estimated in the range of \$90 million and that WFP proposes the establishment of a “termination reserve” with an initial funding of \$15 million. Upon enquiry, however, the Committee was informed that these estimates were calculated internally without the benefit of actuarial evaluation.**



Recommendations of the Advisory Committee

11. Paragraph 14 of the document requests approval by the Executive Board to: (a) approve the establishment of a reserve for employee termination benefits; (b) approve its initial funding by the distribution of \$15 million from the self-insurance fund; and (c) authorize the Executive Director to use this sum for employee-termination benefits. **The Advisory Committee recommends that the Executive Board not approve the proposed measures.**
12. **The Advisory Committee recommends to the Executive Board that termination payments not specifically provided for in the staff regulations and rules be discontinued. The Advisory Committee also recommends that the Executive Board take up this matter urgently. The Committee further recommends to the Board that it consider a review of WFP's staffing requirements, with a view to identifying those functions which are of a continuing nature.**

Update on the WFP Management Plan (2006-2007)

13. The Advisory Committee notes that the cost of the WINGS II project is estimated at \$49 million. Upon enquiry, the Committee was informed that a donor contribution, earmarked for WINGS II, in the amount of A\$500,000 (approximately US\$416,600) had recently been pledged. WFP also notes that no further progress has been made in securing direct donor contributions to the WINGS II project as it does not fall within the scope of most donors' related budgets. The Advisory Committee recalls its previous report on WFP (WFP/EB.1/2007/6 (A,B,C)/2) and its recommendation that the Executive Board approve an advance of \$10 million from the general fund to the WINGS II special account. WFP is now requesting a conversion of the advance to a grant from the general fund. The Committee recalls that it had encouraged WFP to develop a fundraising strategy to avoid future advances from WFP's funds.
14. **The Advisory Committee recommends approval by the Executive Board of the funding of WINGS II from the general fund, as needed, as proposed in paragraph 17 of the document, less an amount equivalent to the A\$500,000 in recently pledged donor funds. The Committee trusts that WFP will nonetheless develop a fundraising strategy and redouble its efforts to attract donor funds for the WINGS II project in order to avoid drawing on the general fund.**

Costs and Benefits of New Initiatives in Profile-raising (Report by the external auditor)

15. The Advisory Committee commends the external auditor on the comprehensiveness and overall quality of the report. The Committee notes that a total of nine recommendations were issued to WFP with regard to new initiatives in profile-raising. **The Advisory Committee trusts that all nine recommendations will be implemented in a timely manner and recommends that the Executive Board take note of the document.**



Progress Report on the Implementation of the External Auditor's Recommendations

16. The Committee notes from the document that a total of 29 recommendations were under implementation as at December 2006 and 12 recommendations completed as at April 2007. **The Advisory Committee trusts that the outstanding recommendations will be implemented expeditiously and recommends that the Executive Board take note of the document.**

Annual Accounts (2006): Part I and part II

17. **The Committee commends WFP on the expeditious implementation of IPSAS which is scheduled to commence on 1 January 2008. The Committee trusts that lessons learned with respect to IPSAS will be shared with other organizations of the United Nations system.** The Committee notes that, with the introduction of IPSAS, the Programme will now present annual, instead of biannual, financial statements which will be audited by the external auditor in a two-year cycle.
18. **The Advisory Committee recommends that the Executive Board take note of both documents.**

Report of the Executive Director on the Utilization of Contributions and Waivers of Costs (General Rules XII.4 and XIII.4) and Update on Capacity-Building (Strategic Objective 5)

19. The Advisory Committee notes that both reports are submitted for information for the Executive Board.

Report on WFP's Investment Performance

20. The Advisory Committee notes that the report is submitted for information for the Executive Board. The Committee also notes the generally good performance of WFP's short-term, long-term and staff benefits funds portfolios.

Status Report on the Wings II Project

21. The Advisory Committee notes that the report is submitted for information for the Executive Board.
22. WFP confirmed to the Committee that the ERP platforms for the three Rome-based agencies are not compatible and that WFP had made the decision to adopt SAP in 1998 after consideration of its business needs for which SAP was considered the best solution. Following the High Level Panel on UN Reform (HLP) Report, the CEB High Level Committee on Management (HLCM) has recognized the existence of two major ERP systems in the UN (SAP and Peoplesoft/Oracle) and has advised on strengthening the cooperation among the users of each family of products. Additionally, it is encouraging the different organizations to use IPSAS to reach more coherence regarding reporting on a comparable basis. WFP also informed the Committee that it has worked closely with the other agencies, and in particular with UNICEF, in respect of SAP Payroll systems, which WFP intends to implement under WINGS II. **The Advisory Committee encourages WFP to continue working towards ERP platform compatibility with other funds, programmes and agencies located in Rome, possibly in the context of their recent launch of a coordination mechanism on support issues.**



Documentation

For approval by the Executive Board

- Fourth Progress Report on the Implementation of International Public Sector Accounting Standards (WFP/EB.A/2007/6-A/1).
- Funding of Employee Termination Payments (WFP/EB.A/2007/6-B/1).
- Update on the WFP Management Plan (2006-2007) (WFP/EB.A/2007/6-C/1).

For consideration by the Executive Board

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- Status Report on the Wings II Project (WFP/EB.A/2007/6-J/1).