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**Executive Board
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RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 5



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30 October 2006

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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:

- Third Progress Report on the Implementation of International Public Sector Accounting Standards (WFP/EB.2/2006/5-A/1)
- Procedures for the Re-Appointment of the External Auditor (consultation paper)
- Progress Report on Implementation of the External Auditor Recommendations on 2004–2005 Operations (WFP/EB.2/2006/5-D/1)
- Programme of Work of the External Auditor for the Biennium 2006-2007 (WFP/EB.2/2006/5-E/1)
- Progress Report on the WINGS II Project and Funding Approach (WFP/EB.2/2006/5-F/1)
- Update on the WFP Management Plan (2006–2007) (WFP/EB.2/2006/5-G/1)
- Status of Implementation of the Business Process Review Model (WFP/EB.2/2006/5-H/1)
- Report on Changes in WFP's Investment Policy (WFP/EB.2/2006/5-I/1)

COPY OF LETTER RECEIVED FROM THE UNITED NATIONS — NEW YORK

AC/1602

Advisory Committee on
Administrative and Budgetary Questions

20 October 2006

Dear Mr. Morris,

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

- Third Progress Report on the Implementation of International Public Sector Accounting Standards (WFP/EB.2/2006/5-A/1)
- Procedures for the Re-Appointment of the External Auditor (consultation paper)
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- Status of Implementation of the Business Process Review Model (WFP/EB.2/2006/5-H/1)
- Report on Changes in WFP's Investment Policy (WFP/EB.2/2006/5-I/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,

(signed)

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 World Food Programme's progress reports on the implementation of International Public Sector Accounting Standards (IPSAS) (WFP/EB/2/2006/5-A/1) and on the implementation of the external auditor's recommendations on 2004-2005 operations (WFP/EB/2/2006/5-D/1). It also had before it, for information, a number of documents on other resource, financial and budgetary matters which are listed at the end of the present report. During its consideration of these documents, the Advisory Committee met with the representatives of the Executive Director of the WFP by videoconference as well as the Inspector General of WFP in New York.
2. The Advisory Committee welcomes the continued efforts made by WFP to improve the structure of its reports and appreciates in this regard their quality as well as their clarity.

Progress report on IPSAS implementation

3. The Committee notes that this is the third progress report on the adoption of IPSAS at WFP. It recalls that the first progress report issued in February 2006 presented WFP's plans and actions and that the second progress report, submitted to the Executive Board at its annual session in June 2006 outlined the necessary funding for the IPSAS project. At that session the Executive Board approved adoption of IPSAS at WFP effective 1 January 2008. In this third progress report, the Executive Director proposes preliminary amendments to WFP's General Regulations and Rules and Financial regulations and indicates that further amendments may be proposed in the future as the project advances and the full impact of IPSAS implementation on WFP's rules and regulations is assessed.
4. At this stage of the process, the changes identified stem mainly from the IPSAS requirement for annual financial reporting and the necessity to distinguish clearly between the financial period, representing a calendar year, and the biennium. The Committee notes however that the current biennial budget cycle will be retained. The amendments proposed would change the length of the WFP financial period from a biennium to a calendar year. With respect to Financial Regulation 14.2 relating to the appointment of the External Auditor, it is proposed to replace the current text, "The External Auditor shall be appointed for a four-year period covering **two financial periods**" by "The External



Auditor shall be appointed for a four-year period covering **four financial periods**". The Committee is of the view that, in this context, the term "four calendar years" rather than "four financial periods" could add clarity. The Executive Board may wish to consider this adjustment and request the Executive Director to adapt the proposed amended text of financial regulation 14.2 accordingly. The Advisory Committee recommends that the Executive Board accept the changes to WFP's General Regulations, General Rules and Financial Regulations proposed in Annex I-III of the report.

5. The Committee was informed that since WFP is already using an Enterprise Resource Planning (ERP) system, which supports financial reporting under international accounting standards, the decision was made to adopt IPSAS early, in 2008. The timetable for the adoption of IPSAS is also closely linked to the upgrading of the ERP system, the WFP Information Network Global system (WINGS II). Furthermore, it is expected that significant gains could be made through the parallel implementation of the two projects in terms of business process changes, roll out of the system and training. A two-year budget of \$3.7 million for the implementation of IPSAS was approved by the Executive Board in June 2006, including \$800,000 for the training of field staff on new business processes which are expected to be introduced in line with new accounting policies on fixed assets, inventory valuations and staff benefits.

6. The United Nations system would implement IPSAS effective 1 January 2010, as approved by the General Assembly in its resolution 60/283 Part IV, of 7 July 2006. The Committee enquired as to the level of cooperation and coordination within the United Nations system on this matter and whether the experiences and lessons learned by the early adopters of IPSAS such as WFP, the World Health Organisation (WHO) and the International Civil Aviation Organization (ICAO) were effectively being used by the United Nations, especially the Departments of Management and Peacekeeping Operations. It was informed that the implementation of IPSAS is indeed coordinated across the system through an IPSAS project steering committee established under the United Nations Task Force on Accounting Standards, which is part of the Finance and Budget Network of the Chief Executives Board (CEB). Regular exchanges take place through these inter-agency mechanisms which provide a forum for deliberating on policies, implementation activities and for sharing knowledge and lessons learned.

Implementation of the recommendations of the external auditor on 2004-2005 operations

7. From WFP's progress report on the implementation of the recommendations of the external auditor on 2004-2005 operations (WFP/EB.2/2006/5-D/1) the Committee notes that a total of 17 out of 45 recommendations, or 38 percent, were completed as of 31 August 2006. The Committee welcomes the explicit and transparent nature of the information provided by WFP in its response on the recommendations as well as on the actions taken. It notes also that most of the recommendations have been accepted by the Secretariat. In the cases where the Secretariat has expressed a difference of opinion from the external auditor, such as, for example, Recommendation 9 under the User System Ownership and Acceptance Testing Procedure group, the Advisory Committee requests that any feedback received from the external auditor on the Secretariat's position and



response be included in the next progress report. The Committee encourages WFP to expedite implementation of the remaining recommendations of the external auditor on 2004-2005 operations.

Other matters

8. The Advisory Committee has taken note with interest of the progress report on the WINGS II project and the funding approach (WFP/EB.2/2006/5-F/1), since the experiences of WFP in this area are of particular relevance to the United Nations and other entities throughout the system as they embark on similar ERP implementation projects. The Committee fully concurs with the recommendations of the External Auditor referred to in paragraph 5 of the report, emphasizing the importance of carrying out a “business-driven upgrade involving the re-engineering of business processes outside WINGS”, based on the external auditor’s assessment that the initial implementation of SAP had been excessively customized to accommodate WFP’s business practices, thereby rendering future upgrades and maintenance complex and expensive. During its discussions with the representatives of the Executive Director, the Committee was informed that these recommendations formed the basis of the WINGS II implementation plan and that all efforts were being made to limit customization of the standard software to the minimum.

9. The Advisory Committee has taken note with interest of the discussion paper submitted for information on the procedures for the re-appointment of the External Auditor, which presents the various practices in the United Nations system and proposes four possible options as well as a summary of the discussion within the Bureau. The Committee was informed that this paper would be discussed with the Executive Board and it will revert to this matter when these deliberations are completed.

10. Upon request the Advisory Committee was provided additional information on the estimation and funding of after service staff benefits. WFP indicated that liabilities accrued as of 31 December 2003 for after service medical coverage, the separation payments scheme and the compensation plan reserve fund amounted to \$61.5 million and were fully funded. However, taking into account a number of changes in actuarial assumptions movements in exchange rates, the revised estimates for staff benefits liabilities as at December 2005 rose to \$111.2 million, of which \$79.6 million were funded, leaving an unfunded liability of \$31.6 million. WFP indicated that it intends to fund the projected deficit over a period of 15 years.



Documentation

For approval

- Third Progress Report on the Implementation of International Public Sector Accounting Standards (WFP/EB.2/2006/5-A/1)

For consideration

- Progress Report on Implementation of the External Auditor Recommendations on 2004-2005 Operations (WFP/EB.2/2006/5-D/1)

For information

- Programme of Work of the External Auditor for the Biennium 2006-2007 (WFP/EB.2/2006/5-E/1)
- Progress Report on the WINGS II Project and Funding Approach (WFP/EB.2/2006/5-F/1)
- Update on the WFP Management Plan (2006-2007) (WFP/EB.2/2006/5-G/1)
- Status of Implementation of the Business Process Review Model (WFP/EB.2/2006/5-H/1)
- Report on Changes to WFP's Investment Policy (WFP/EB.2/2006/5-I/1)
- Appointment and re-appointment of external auditors (Discussion paper)

