

برنامج  
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World  
Food  
Programme

Programa  
Mundial  
de Alimentos

**Executive Board  
Annual Session**

**Rome, 12–16 June 2006**

# RESOURCE, FINANCIAL AND BUDGETARY MATTERS

## Agenda item 6



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9 June 2006

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## REPORT OF THE FAO FINANCE COMMITTEE

The Executive Director is pleased to submit herewith the report of the FAO Finance Committee pertaining to WFP. The report covers the following agenda items:

- Audited Biennial Accounts 2004–2005 (WFP/EB.A/2006/6-A/1,2,3)
- Review of Indirect Support Costs Rate (WFP/EB.A/2006/6-C/1)
- Review of the Results-Based Management Framework for Monitoring and Reporting Results: Report by the WFP External Auditor (WFP/EB.A/2006/6-D/1)
- Progress Report on the Recommendations of the External Auditor (WFP/EB.A/2006/6-E/1)
- Report of the Inspector General (WFP/EB.A/2006/6-F/1)
- Analysis of WFP Cost Components (WFP/EB.A/2006/6-G/1)
- Report on WFP's Cash Balances (WFP/EB.A/2006/6-H/1)
- Second Progress Report on the Implementation of International Accounting Standards (WFP/EB.A/2006/6-I/1)
- 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/2006/6-J/1)
- Update on the WFP Management Plan (2006–2007) (WFP/EB.A/2006/6-K/1)

FC 114/WFP Report

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June 2006



منظمة الأغذية  
والزراعة  
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Food  
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Agriculture  
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Organisation  
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Nations  
Unies  
pour  
l'alimentation  
et  
l'agriculture

Organización  
de las  
Naciones  
Unidas  
para la  
Agricultura  
y la  
Alimentación

## FINANCE COMMITTEE

**Hundred and Fourteenth Session**

**Rome, 1 – 2 June 2006**

**Report on WFP Matters**



## REPORT OF THE HUNDRED AND FOURTEENTH SESSION OF THE FINANCE COMMITTEE

1 – 2 June 2006

1. The Committee submitted to the Council the following report of its Hundred and Fourteenth Session, which had been convened at the request of the World Food Programme (WFP) to review financial issues that would be presented to the upcoming session of the WFP Executive Board.
2. The following representatives were present:  
Chairperson: Mr Aamir Khawaja (Pakistan)  
Vice-Chairperson: Mr Augusto Zodda (Italy)  
Members: Mr Aboubakar Bakayoko (Côte d'Ivoire)  
Mr Søren Skaftø (Denmark)  
Mr Eckhard W. Hein (Germany)  
Mr Seiichi Yokoi (Japan)  
Mr Roberto Seminario (Peru)  
Mr Ahmed I. Al-Abdulla (Qatar)  
Mr Lee Brudvig (United States of America)  
H. E. Mary M. Muchada (Zimbabwe)
3. The Committee noted that Mr Brudvig had been designated to complete the United States of America's term on the Finance Committee and that Her Excellency Mary Muchada had been designated to replace Mrs Mutiro as the representative of Zimbabwe at this 114<sup>th</sup> Session of the Finance Committee. The Committee also noted that Ms Baiardi (Paraguay) was unable to attend the session.

In adopting the agenda, the Committee expressed concern that the documentation had not been received in all languages in a timely manner.

### DATE AND PLACE OF THE HUNDRED AND FIFTEENTH SESSION

4. The Committee was informed that the 115<sup>th</sup> Session was tentatively scheduled to be held in Rome from 25 to 29 September 2006. Noting that the agenda for the September session was likely to be quite heavy, the Committee suggested that consideration be given to extending the duration of the session. The final dates of the session would be decided in consultation with the Chairperson.



## **Agenda item 2 – Audited Biennial Accounts (2004-2005)**

5. The Committee reviewed the three documents in the agenda item comprising of:
- Report of the Executive Director on the Financial Management of the World Food Programme for the Biennium 2004-2005;
  - Opinion of the External Auditor on the Audited Financial Statements (2004-2005); and
  - The Audit of the Financial Statements of the World Food Programme for 2004-2005.

On the basis of the review and questions and issues raised by the Committee and clarifications provided by the External Auditor and WFP Secretariat, the Committee:

- a. Noted that 45 percent of the total expenditure of US\$6.2 billion was for food commodities; 55 percent was for transport and other direct and indirect costs. The Committee considered this matter at greater length under a subsequent agenda item – see paragraph 14 – and noted that the increase in transport costs during the biennium had been largely the result of a temporary shortage of ocean freight capacity and increased internal land transport costs that appeared to have been an aberration in long-term trends.
- b. expressed satisfaction that the External Auditor had rendered a clean opinion on the 2004-2005 Biennial Accounts;
- c. expressed concern on some weaknesses in internal controls identified by the External Auditor in the Tsunami emergency operations and expressed the hope that the initiatives being introduced by WFP will lead to improvements in control procedures;
- d. looked forward to the review to be undertaken by the WFP Secretariat on the three internal financing mechanisms, namely the Working-Capital Financing, the Immediate Response Account and the Direct Support Costs (DSC) Advance Facility with the objective of simplifying and/or unifying these mechanisms;
- e. highlighted the importance of recording services-in-kind contributions for WFP projects from donors and recipient governments;
- f. noted that the implications of recommendation 1 of the External Auditor's report raise complex governance issues on the role, mandate, composition and establishment of the Audit Committee and the relationship of WFP to the Economic and Social Council (ECOSOC) and the Council of the Food and Agriculture Organization of the United Nations (FAO), and in particular with the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the FAO Finance Committee;
- g. recommended that the Executive Board consider carefully the implications of Recommendation 1; before taking any action on this recommendation, WFP should consult the United Nations and FAO; and
- h. expressed concern over commodity borrowings as reported by the External Auditor and satisfaction that the WFP Secretariat confirmed their intention to implement the External Auditor's recommendation.



### **Agenda Item 3 – Review of Indirect Support Cost (ISC) Rate**

6. The Secretariat presented the Review of the ISC Rate, following up on a preliminary report presented in February. The alternatives for setting the ISC rate were considered, resulting in a proposal for adoption of a new methodology to be used when setting the future ISC rate. In addition, the Secretariat proposed a target level for the Programme Support and Administrative (PSA) Equalization Account, and suggested that the Board approve the current ISC rate of 7.0 percent for the 2006-2007 biennium, while continuing to refine the classification of indirect and direct support costs in its methodology.
7. The Committee commended the efforts of the Secretariat to design a methodology for setting the ISC rate using actual results and taking into account expenditure and funding forecasts. The Committee endorsed the three recommendations in the draft decision for the Board. In addition, the Committee recommended that the Secretariat closely follow the movements of the PSA Equalization Account and periodically inform the Board on the level of the account, particularly if the balance of the account were to fall below the target level.

### **Agenda Item 4 – Review of the Results-Based Management (RBM) Framework for Monitoring and Reporting Results: Report by the WFP External Auditor**

8. The Committee noted that introduction of the RBM framework was a work in progress for WFP. The Committee welcomed the report and desired submission of further periodic information by the Secretariat. It also looked forward to a further report by the External Auditor on the relevance, reliability and measurability of performance indicators.

### **Agenda item 5 – Progress Report on the Recommendations of the External Auditor**

9. The Secretariat introduced the Progress Report on the Recommendations of the External Auditor, which included the Secretariat's preliminary comments on two reports by the External Auditor that would be submitted to the Executive Board at its Annual Session in June 2006. The Committee took note of the document and appreciated the efforts of the Secretariat in preparing responses on the most recent reports; the Committee also appreciated the introduction of timelines in the implementation of the recommendations, in line with an earlier recommendation of the Committee.

### **Agenda Item 6 – Report of the Inspector General**

10. The Inspector General of WFP introduced the report presented in accordance with Article VI(2)(b)(viii) of the WFP General Regulations. He emphasized the oversight strategy used and the resources made available to implement the strategy, the outputs achieved and the management challenges highlighted as a result of the work.



11. The Committee appreciated the report and sought and received clarification on: (i) transport contracting, (ii) the client satisfaction survey, (iii) the reported recoveries, (iv) the relationship with the Audit Committee, (v) WFP's whistleblower policy, (vi) the financial fraud in the Southern Africa Regional Bureau (ODJ), (vii) monitoring and accountability of implementing partners, (viii) the increase in the number of cases investigated, (ix) the pro bono services of PricewaterhouseCoopers and (x) the degree of collaboration between the oversight functions of the Rome-based agencies.
12. The Finance Committee took note of this report and expressed the hope that WFP management would respond to the challenges highlighted by the Inspector General within a reasonable time frame.

### **Agenda Item 7 – Analyses of WFP Cost Components**

13. The Secretariat presented the Analysis of WFP Cost Components, comparing the actual expenditures for the 2002-2003 and the 2004-2005 biennia, and outlining the planned expenditures for 2006-2007. All cost components were reviewed; the Secretariat explained expenditure trends and the cost differences arising between biennia.
14. The Committee noted that discussion of this agenda item would be constrained because of a Working Paper that had been circulated the same day. Nonetheless, the Committee took note of this paper and highlighted the concerns expressed regarding rising costs such as transport costs as referred to in paragraph 5 (a) above. The Committee recommended that this type of report become a regular feature, presented to the Board and the Committee at least once every biennium.
15. In considering the scope for regional and/or local purchases, and for clarity of analysis, the Committee emphasized the need to assess the impact of local purchasing on local markets and the need to separate the transport component of commodity purchases where it is included in the contracted price.

### **Agenda Item 8 – Report on WFP's Cash Balances**

16. The Secretariat presented the report on cash balances, outlining the present levels of cash balances and details of the sources, utilization and estimated amounts that represent the appropriate cash balance levels.
17. The Committee took note of the report and highlighted the fine balance between available cash and cash requirements. It further noted that this balance appeared to be working well in WFP at present and that the modest shortfall that had emerged could be financed without difficulty.
18. The Committee recommended that the Secretariat keep the Executive Board regularly informed on this important issue.



### **Agenda Item 9 – Second Progress report on the Implementation of International Accounting Standards**

19. The Secretariat presented the Second Progress Report on the Implementation of International Accounting Standards and responded to questions raised by the Committee on the information contained in the report.
20. The Committee endorsed the adoption by WFP of International Public Sector Accounting Standards (IPSAS) with a planned implementation date of 2008, and took note of the costs of US\$3.7 million, referring to the decision taken by the CEB's High Level Committee on Management (HLCM) on which member states comments would be forthcoming.

### **Agenda Item 10 – Report of the Executive Director on the Utilization of Contributions and Waivers of Costs (General Rules XII.4 and XIII.4 (g))**

21. The Committee considered a document for information on the utilization of contributions and waivers.

### **Agenda Item 11 – Update on the WFP Management Plan (2006-2007)**

22. The Secretariat presented the Update on the WFP Management Plan (2006-2007) and highlighted the expected increases in the Programme of Work, the forecast funding level and associated ISC income.
23. The Committee took note of the information contained in the document. A query was raised relating to paragraph 24 and the associated footnote requesting clarification as to whether the US\$5 million budgeted for capital expenditures was intended to cover the costs of the IPSAS project. The Secretariat explained that the US\$5 million approved by the Board in the Management Plan were not costs of the IPSAS project, but were costs reclassified from regular PSA to the Capital Asset Fund in the Biennial Management Plan (2006-2007) as a first step towards the implementation of the new accounting standards.
24. As a consequence, the Committee suggested that for clarity paragraph 24 be restated as follows: "As approved in the Biennial Management Plan, planned capital expenditures of US\$5 million funded from PSA for Headquarters and Regional Bureaux have been segregated into a separate fund", and that footnote 2 on page 8 be restated to read: "WFP is planning to implement International Public Sector Accounting Standards (IPSAS) by 2008 and consequently has segregated this expenditure from regular PSA."
25. The Committee endorsed the transfer of US\$20 million from the PSA equalization account to the IRA and the authorization of US\$3.7 million for implementation of IPSAS, as outlined in the draft decision of the document.



## **Agenda Item 12 – Amendments to WFP Financial Regulations**

26. The committee took note of the proposed amendments to WFP's Financial regulations.

## **Agenda Item 13 – Any Other Matters**

27. The committee discussed the need for enhanced cooperation between WFP, FAO and the International Fund for Agricultural Development (IFAD) and in this regard drew attention to Article III of the WFP General Regulations<sup>1</sup>. The WFP Secretariat indicated its intention to continue to seek opportunities for collaboration with other Rome-based agencies.

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<sup>1</sup> In all stages of its activities, WFP shall, as appropriate, consult with and seek advice and cooperation from the United Nations and FAO. It shall also coordinate and operate in close liaison with appropriate United Nations agencies and operating programmes, bilateral assistance programmes, and other relevant organizations, as required.