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Programme
Alimentaire
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Programa
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**Executive Board
Second Regular Session**

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RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 5



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25 October 2005

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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:

- WFP Biennial Management Plan (2006–2007)
(WFP/EB.2/2005/5-A/1)
- International Accounting Standards
(WFP/EB.2/2005/5-C/1)
- Appointment of the External Auditor
(WFP/EB.2/2005/5-D/1/Rev.1)
- WFP Enterprise Risk Management Policy
(WFP/EB.2/2005/5-E/1)
- Follow-Up on the Recommendations of the External Auditor
(WFP/EB.2/2005/5-F/1+Corr.1)
- Review of the Dubai Support Office and Fast Information Technology and Telecommunications Emergency and Support Team (FITTEST) – Report by the External Auditor
(WFP/EB.2/2005/5-G/1)
- Annual Report of the WFP Audit Committee
(WFP/EB.2/2005/5-H/1)
- Report on the Business Process Review
(WFP/EB.2/2005/5-I/1)

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AC/1580

Advisory Committee on
Administrative and Budgetary
Questions

24 October 2005

Dear Mr. Morris,

Please find attached a copy of the report of the Advisory Committee on the reports entitled:

- “WFP Biennial Management Plan (2006-2007)” (WFP/EB.2/2005/5-A/1)
- “Appointment of the External Auditor” (WFP/EB.2/2005/5-D/1)
- “International Accounting Standards” (WFP/EB.2/2005/5-C/1)
- “WFP Enterprise Risk Management Policy” (WFP/EB.2/2005/5-E/1)
- “Review of the Dubai Support Office and Fast Information Technology and Telecommunications Emergency and Support Team (FITTEST)” (WFP/EB.2/2005/5-G/1)
- “Follow-up on the recommendations of the External Auditor” (WFP/EB.2/2005/5-F/1 and Corr.1)
- “Annual report of the WFP Audit Committee” (WFP/EB.2/2005/5-H/1)
- “Report on the Business Process Review”(WFP/EB.2/2005/5-I/1)

Mr. James T. Morris

Executive Director

World Food Programme

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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,

Rajat Saha
Acting 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 Biennial Management Plan for 2006-2007, as well as other resource, financial and budgetary matters. The documents used by the Advisory Committee are listed at the end of the present report. During its consideration of the WFP's management plan, the Advisory Committee met with the representatives of the Executive Director of the WFP who provided additional information and clarifications.

WFP Biennial Plan 2006-2007

2. The Advisory Committee welcomes the progress that has been made in the presentation of the management plan, which is more streamlined and concise, partly through the introduction of charts and graphs. The Committee notes with appreciation that efforts have been made to comply with its request concerning the follow-up actions to its recommendations (WFP/EB.3/2003/[4-A, 5(A,B,C,D)]/2, paragraph 9). Detailed information on the actions taken in response to recommendations made by the Committee is now included in the body of the document, rather than in the annex, which lists the recommendations with a short description of the actions undertaken and a cross reference to the paragraphs of the document where they are discussed.

3. With respect to the results-based framework, the Advisory Committee requests that, to the extent possible, WFP make an increased effort to harmonize the terminology used with that adopted by the United Nations and other funds and programmes such as UNDP, UNHCR and UNICEF. While the Committee recognizes that each entity has its own specific activity, management tools and culture, it is of the view that a common set of basic terms and methods should be used across the United Nations System. This would provide Member States greater transparency and facilitate comparisons between resources required and results expected across the different agencies, as well as the setting of priorities. In this connection, the Committee draws attention to the on-going work of the financial and budget network of the HLCM with respect to the development of a common framework for results-based budgeting, which can be adapted by each organization of the system to its specific needs.

4. The Committee requests WFP to include in its future biennial management plans an organigramme of its organizational structure, modeled on those provided by the other agencies such as UNFPA and UNHCR, or United Nations departments such as DPKO. The organigramme should show the main organizational entities and the hierarchical



relationship between them. For each organizational entity it should also provide the number of existing and new posts by category and grade and source of funding.

5. The Advisory Committee requests that a clear linkage between the objectives, indicators of achievement, outcomes and the resource requirement be established in the results based framework. It notes that in addition to outputs and output indicators, the results-based framework includes expected outcomes and their indicators. The Advisory Committee encourages WFP to pursue this innovative approach and looks forward to reviewing the lessons learned and experience of WFP in this area. The Committee points out that the relatively short span of a budget cycle may not be well suited to the evaluation of certain types of outcomes which are more closely aligned to the strategic plan; however, the contribution of the activities in question towards the achievement of the outcome could be measured.

6. The Committee notes that a new ASG-level executive in the Fundraising and Communications department has been in place since 2004. It was informed that WFP will intensify and decentralize its fundraising and advocacy activities during the 2006-2007 biennium and continue its efforts to expand and diversify the donor base, targeting new member states that are not traditionally donors, as well as corporations and individuals from the private sector. In this regard, it is planned to open new fundraising offices in the Middle-East (Riyadh) and in Asia (Hong-Kong, Seoul). Furthermore, the China office will be converted from a regular country office to a fundraising office. The Committee encourages WFP to pursue its efforts to strengthen its financial position and to reduce its dependency on a small number of donors as well as the risks of a lack of funding. The Advisory Committee is of the opinion that with the increased effort to obtain funding from the private sector, it is important for WFP to establish that the receipt and utilization of funds will not in any way alter the priorities established by the Executive Board, that WFP financial and personnel regulations and rules will be adhered to, that documentation and standards will be established for accountability requirements and that any additional support costs entailed in managing the funds will be reimbursed on an agreed basis.

7. The total budget by cost category for 2006-2007 compared with the projected expenditure for 2004-2005 is shown in the table below. It should be noted that since the methodology followed by WFP for the preparation of the budget does not include a provision for unexpected emergencies, expenditure for these emergencies is included under the revised estimates for the current biennium but not in the budget proposals for 2006-2007.



<i>Cost category</i>	<i>2004-2005 revised estimate</i>	<i>% of total</i>	<i>2006-2007</i>	<i>% of total</i>	<i>% change</i>
1. Direct operational costs (DOC)	4,849,000	81.0	5,134,000	80.8	5.9%
2. Support Costs					
Direct support costs (DSC)	558,000	9.3	659,000	10.4	18.1%
Programme support and administration (PSA)	363,000	6.1	368,000	5.8	1.4%
Other Support Costs	49,000	0.8	25,000	0.4	-49.0%
Total Support Costs	970,000	16.2	1,052,000	16.6	8.5%
3. Special Account, General fund	169,000	2.8%	167,000	2.6%	-1.2%
Total	5,988,000	100	6,353,000	100	6.1%

Thousands of US dollars

8. A detailed comparison of the original 2004-2005 budget and the projected revised estimates is provided in Table 6 of the Biennial Management Plan (2006-2007), with a breakdown by programme category and cost component. The Advisory Committee notes that the projected expenditure for 2004-2005 represents an increase of \$1,194 million, or 25 percent over the original estimate of \$4,794 million, whereas the projected volume of delivery for the current biennium, which has been revised from 8,967 to 10,779 million metric tons, would increase by 18 percent. The actual PSA budget is projected to amount to \$297 million, \$8 million lower than the original estimate of \$305 million. The table also shows that the higher revised estimates are largely due to increased activity under emergency operations (57 percent) which is only partly offset by reduced activity under development programmes (12 percent) and protracted relief and recovery operations (29 percent).

9. The Advisory Committee notes that the 2006-2007 proposed budget represents an increase of 6.1 percent over the forecast expenditures for the current biennium. The programme support and administration (PSA) budget has been prepared on the assumption of a minimum funding of 81 percent of the total requirement, in contrast to the current biennium, in which the PSA budget was prepared on a needs-driven, or 100 percent funding assumption. The PSA income for 2006-2007 is therefore estimated at 7 percent of 81 percent of the proposed budget, representing an increase of 1.4 percent when compared to 2004-2005. The Committee notes that the direct support costs (DSC), would increase from 9.3 percent of the total budget to 10.4 percent of the total budget, due to a variety of factors including the unfavorable exchange rates resulting from the weakened US dollar. The Committee notes that the requirement under Other Support Costs would decrease by almost 50 percent. This is mainly due to reduced requirements under capacity building for results based management which was implemented in all units during 2005-2006 and will be completed in 2006-2007.

10. The Advisory Committee notes that one of the main goals of the support budget for 2006-2007 is to strengthen country offices, and that to this end, it is proposed to establish 77 new posts in regional and country offices and to decrease the number of posts at



headquarters by 97. The Advisory Committee welcomes this progress and encourages WFP to pursue its efforts to shift resources from Headquarters to the field.

11. WFP proposes to continue the application of the indirect support cost (ISC) recovery rate of 7.0 percent that was applied during the current biennium for another two years. The expected PSA revenue and expenditure patterns for the current biennium described in paragraphs 41 – 42 of the biennial management plan 2006-2007 appear to indicate the appropriateness of this rate. The Advisory Committee recommends approval of the Executive Director's proposals.

Financial regulation 9.9

12. It is proposed to amend Financial Regulation 9.9 to extend the available period for appropriated funds for programme support and administrative activities for a twelve month period following the end of the biennium (see paras. 259-263 of the biennial management plan). At present, this regulation stipulates that "appropriations for programme support and administrative services shall remain available for twelve months following the end of the financial period to which they relate, to the extent that they are required to discharge any outstanding legal obligations...". The Advisory Committee discussed this matter extensively during its meeting with the representatives of the Executive Director. It was informed that the current restrictions of this regulation led to sharply increased expenditure levels at the end of the biennium, with funds being obligated before the expiration of the appropriation without proper consideration of the real requirements in all cases and that WFP considered that this amendment would encourage more prudent budgetary management and reduce distortions in expenditure patterns.

13. The Advisory Committee has considered the proposal of the Executive Director carefully in light of the highly operational and, in some cases, unpredictable nature of WFP's activities. It also noted that unspent appropriated funds for programme support and administrative activities are not lost to WFP but are returned to the general fund. The Advisory Committee has in the past called attention to the need for stricter control over obligations, both with respect to the United Nations itself as well as the various funds and programmes. The Committee has stated that laxity in the control of obligations and related subsequent high levels of unliquidated obligations are symptoms of poor budget practice. Measures should be in place to ensure that an obligation is raised only when a valid need exists. The Committee has come to the conclusion that the amendment of Financial Regulation 9.9 as proposed, instituting the carrying over of unspent appropriations as a standard practice, would not be conducive to sound budgetary management and the upholding of strict financial discipline.



14. The Committee points out that the problem of forecasting needs is not unique to the WFP. Rather than institute a system which blurs the lines between financial periods, thus making review, analysis and comparative data less transparent and compromising financial control, the Board could entertain approving allotment carry-overs upon proposal of the Executive Director in extra-ordinary circumstances.

Re-Appointment of the External Auditor

15. The Advisory Committee notes that WFPs Financial Regulations 14.1 and 14.2 stipulate that the External Auditor is appointed by the Executive Board for a four-year term and may be re-appointed for only one further four-year term and that the existing procedures for the selection and appointment of the WFP external Auditor, established in 1998 (WFP/EB.1/98/4-A), state that a competitive process should be followed for the appointment. The Committee also notes that the current External Auditor was appointed through the competitive process for a four-year period from 1 July 2002 to 30 June 2006. WFP proposes to re-appoint the current external auditor for a second four-year term. Following internal discussions on the interpretation of the financial regulations and internal procedures, there seems to be a prevailing view that it may not be necessary to submit to the competitive process in the case of a re-appointment of the external auditor.

16. The Advisory Committee notes that financial regulation 14.2 determines only the number of times an external auditor may be appointed to a four-year term. The procedures established in 1998 for the appointment of the external auditor have not been altered and continue to be in effect. The Committee is therefore of the opinion that the established procedures must be complied with and that they require a competitive process in all situations, including both the appointment and the re-appointment of the external auditor. If the intention is to circumvent the competitive process for the re-appointment of the current external auditor, it would seem to the Advisory Committee that either financial regulation 14.2 and/or the procedures in question should be amended accordingly beforehand.

Audit Committee

17. The Advisory Committee has taken cognizance of the Terms of Reference of the WFP Audit Committee (WFP/EB.2/2005/5-H/1, Annex II), which was submitted to it for information. The terms of reference indicate that the primary function of the Audit Committee is to advise and assist the Executive Director of WFP in fulfilling his responsibilities in audit related matters. The five members of the Committee, of which three are external members, are appointed by the Executive Director.

18. The Advisory Committee questions the statement in paragraph 13 of the terms of reference pertaining to the responsibility and liability of the members that "Members shall act in an independent, non-executive capacity while performing their advisory role on the



Audit Committee”. As senior officials of the WFP, it may be difficult for the two internal members to act in an independent capacity. Furthermore, given that the external members are also appointed by the Executive Director rather than the Executive Board, their independence could also be in question.

19. With regard to the mandate of the Committee, the Advisory Committee has doubts about the appropriateness of Audit Committee providing comments on the work plans of the internal and external audit functions (see paragraph 4-e of the terms of reference), since this might appear to impinge on the independence of the external and internal oversight bodies.

Other Matters

20. During its discussions with the representatives of the Executive Director, the Advisory Committee was informed of the approaches under consideration by WFP for the implementation of an early retirement and buy-out plan. The Advisory Committee requests WFP to share its experience and lessons learned by WFP in this area with other entities in the United Nations System who may be considering similar plans. It requests WFP to report on this matter in the next biennial management plan, including information on the objectives set, methodology applied, the extent to which the desired outcomes were achieved, the impact on staff morale, the difficulties encountered and the benefits realized, as well as statistical information on the costs, the number and profile of staff members having opted to participate in the plan.

21. The Advisory Committee notes with interest that WFP is developing a new tool for currency risk management in cooperation with the World Bank. It requests WFP to report on results obtained in this matter in the next biennial management plan.

22. The Advisory Committee welcomes the progress made by the WFP in planning its transition to international accounting standards (WFP/EB.2/2005/5-C/1). The Committee notes that according to the timetable proposed, WFP would adopt the new standards in January 2008. A number of new policies and procedures have to be introduced in order to achieve compliance with the international standards before the transition can take place. The Advisory Committee is pleased to note that WFP will continue to work closely with other United Nations System Organizations in the context of the finance and budget network of the HLCM.



Documentation

For Approval

- WFP Biennial Management Plan (2006-2007) (WFP/EB.2/2005/5-A/1)
- Appointment of the External Auditor (WFP/EB.2/2005/5-D/1/Rev.1)

For Consideration

- International Accounting Standards (WFP/EB.2/2005/5-C/1)
- WFP Enterprise Risk Management Policy (WFP/EB.2/2005/5-E/1)
- Review of the Dubai Support Office and Fast Information Technology and Telecommunications Emergency and Support Team (FITTEST) (WFP/EB.2/2005/5-G/1)

For Information

- Follow-up on the recommendations of the External Auditor (WFP/EB.2/2005/5-E/1 and Corr.1)
- Annual report of the WFP Audit Committee (WFP/EB.2/2005/5-H/1)
- Report on the Business Process Review (WFP/EB.2/2005/5-I/1)

