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Second Regular Session**

Rome, 7–11 November 2005

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 5



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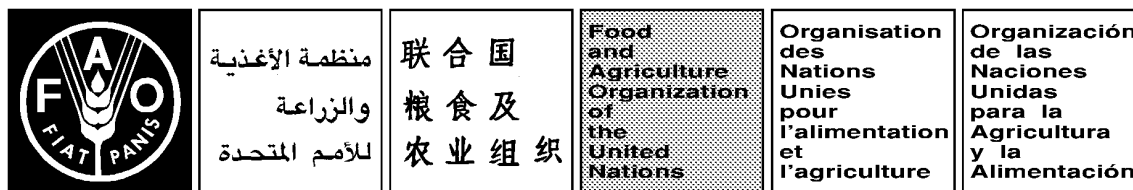
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REPORT OF THE FAO FINANCE COMMITTEE

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:

- 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)

October 2005



COUNCIL

Hundred and Twenty-ninth session

Rome, 16 – 18 November 2005

Report of the 111th Session of the Finance Committee
Rome, 20 – 21 October 2005

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REPORT OF THE HUNDRED AND ELEVENTH SESSION OF THE FINANCE COMMITTEE,
20 – 21 October 2005

Introduction

1. The Committee submitted to the Council the following report of its Hundred and eleventh 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 Roberto Seminario (Peru)

Members: Mr Aboubakar Bakayoko (Côte d'Ivoire)

Mr Augusto Zodda (Italy)

Mr Seiichi Yokoi (Japan)

Ms Lamyia Ahmed Al-Saqqaf (Kuwait)

Ms Adele Bryant (New Zealand)

Mr Aamir Khawaja (Pakistan)

Ms Ana María Baiardi Quesnel (Paraguay)

Mr Neil Briscoe (United Kingdom)

Mr Willem H. Brakel (United States of America)

Ms Verenica Mutiro Takaendesa (Zimbabwe)

3. The Committee noted that Mr Briscoe had been designated to replace Mr Beattie as the representative of the United Kingdom and that Mr Brakel had been designated to replace Mr Cleverley as the representative of the United States of America at this 111th session of the Finance Committee.

4. Mr Willem Brakel (United States of America) was elected unanimously Vice-Chairperson for this Session.

World Food Programme Matters

WFP BIENNIAL MANAGEMENT PLAN (2006-2007) (DOC. WFP/EB.2/2005/5-A/1)

5. The WFP Secretariat introduced the WFP Biennial Management Plan (WFP/EB.2/2005/5-A/1), highlighting the main drivers of the plan which were to provide the capacity for up to three sudden emergencies at the same time; to improve management and technical support to the field and to address the weaknesses and risks outlined in the Strategic Plan 2006-2009. The proposed 2006/2007 budget was reviewed by the Committee, as summarized below:



	Budget 2006/2007
	(US\$ million)
Direct Operational Costs	5 134
Direct Support Costs	659
Total Programme Costs	5 793
Programme support and administration (PSA) and indirect costs.	393
Trust funds, special accounts and general fund expenditures	167
Total Management Plan Costs	6 353
Indirect Support Costs (ISC) rate (%)	7.0
<i>Food Delivered (million MT)</i>	<i>9.521</i>

6. The projected programme costs of US\$5 793 million, which represented a 7% increase over the forecast for the current biennium, were based on approved projects and their logical extensions.

7. The indirect support cost component was composed of US\$368 million regular PSA, US\$5.5 million for completion of the capacity building initiatives (Results Based Management and Strengthening Financial Management) and US\$20 million in capital expenditures. The total indirect cost proposal (US\$393 million) was 6% lower than the forecast for 2004-2005. The Secretariat stressed the effort being made to increase operational capacity and transfer more indirect support cost resources to the field.

8. The Secretariat gave an account of the projected position of the PSA Equalization Account, stating that at the end of the 2006-2007 biennium there should be, at the minimum, US\$12 million remaining balance. This projection assumed a funding level of 81% of budgeted programmes and no new emergencies occurring during the biennium. The Secretariat believed that the ISC income from new emergencies and higher funding levels for existing programmes would increase the account balance.

9. The Secretariat outlined financial policy framework issues on Government Counterpart Cash Contributions (GCCC) and financial regulation 9.9. The GCCC change would involve 100% retention of these funds in country offices whereas the change in Financial Regulation 9.9 would allow the Secretariat to carry forward PSA into the following biennium.

10. The Committee then discussed the following points with the Secretariat:

11. One of the aims of the Management Plan was to provide capacity for up to three sudden major emergencies at the same time. The term "major emergencies" was not formally defined but was currently under review by WFP.

12. The Secretariat clarified that the aim of strengthening country offices would not lead to an increase in the number of country offices but rather would enable these offices to improve operational support and build capacity in the 77 countries of operation. Human resources management would focus on strengthening country offices by shifting staff from Headquarters to the field to augment technical and management capacity. This followed a review of the needs of small country offices and the preliminary findings of the operations review, which concluded that the decentralization process should continue.



13. The Committee asked for further information on WFP's work in the area of mother-and-child nutrition programmes for children under five and pregnant and lactating women, which was identified as a weakness in the document. The Secretariat explained that this area was one of the key areas of the Child Hunger initiative that the WFP had worked with the World Bank and UNICEF to develop. A concept paper outlining this initiative would be presented in the following week at an informal session with the WFP Executive Board. The Committee looked forward to receiving this paper.

14. The Committee inquired about the unit cost of supplying food, the considerable differences in unit costs for different programme categories and the extent of the increase in support costs in the Management Plan 2006-2007, with the increase being the steepest in protracted relief and recovery operations (PRROs). The Secretariat explained that the average unit costs had increased because of the weakening US dollar, increased fuel costs and ocean transport and the higher value food basket required for PRROs. In addition, United Nations Joint Logistics Center (UNJLC)/United Nations Humanitarian Air Service (UNHAS) activities had increased the cost base but had no associated food component. The Committee also inquired about a comparison of projected targets for the volume of operations by programme category as compared to last biennium. It also requested information on the per capita value of operations of WFP for approved projects for 2006-2007 separately for each region. Due to a lack of readily-available data, the Committee encouraged the Executive Board to take these issues into consideration.

15. The Committee asked whether the Management Plan had been reviewed by the ACABQ and whether the report of this Committee was available. The Secretariat informed the Committee that the ACABQ had reviewed the document and the report would be expected the following week. The Committee took note of this.

16. The WFP Executive Director, in his role as the Secretary General's Special Envoy for Humanitarian Needs in the Southern African region continued his efforts in improving the United Nations coordination. The Secretariat gave an overview of the efforts to streamline the overall United Nations structure in the six-country Southern African region. The Committee welcomed this effort and the Secretariat undertook to circulate the results.

17. The Strategic Objective 5 on strengthening the capacities of countries and regions to establish and manage food-assistance and hunger-reduction programmes was highlighted by the Committee as requiring greater government involvement than traditional WFP projects. The Secretariat looked forward to working with host governments to build capacity in areas such as assessment, school feeding and logistics, and indicated that funding of SO5 projects would require more recipient country support than traditional donor support.

18. With the trend towards more decentralization of donor decision making, the full involvement of national governments was seen as essential from the onset of any WFP supported project activity.

19. The Committee noted the increase in the PRRO programme category which had nearly doubled compared with estimates for 2004-2005. Most of the reason for this increase was to be found in large scale emergency operations in the Sudan and the tsunami affected countries moving into a PRRO phase. Furthermore the large scale PRROs in Southern and Eastern Africa were also highlighted as reasons for the increase.

20. A National Staff Project aiming at reviewing the conditions of long-term locally recruited staff had been initiated by the Secretariat. About 1 800 locally recruited staff would have their contract types converted into fixed-term making them full United Nations Staff with related rights and privileges. The costs estimated at between US\$14 and US\$18 million a year would be absorbed by the programme budgets. This cost increase was not factored into certain programmes and individual project budgets would have to be revised to absorb this increase. The cost was put into the perspective of an overall operational biennial budget of US\$5.8 billion.



21. As mentioned in the Management Plan, paragraph 270, the Secretariat was drafting an internal management document to link PSA resources to results. The draft document would be available prior to the WFP Executive Board session in November and would be forwarded to the Committee. The Committee took note of this.

INTERNATIONAL ACCOUNTING STANDARDS (DOC. WFP/EB.2/2005/5-C/1)

22. The Secretariat introduced the document informing the Committee that in January of 2005 the External Auditor recommended that WFP consider adopting international accounting standards. The Executive Board asked the Secretariat to prepare a plan for adoption of the new standard and report the progress to the Board.

23. There was a general agreement of UN agencies on the need to adopt the international accounting standards; WFP was one of the early adopters of this initiative. WFP had formed a steering committee and a task force to develop and implement the standards, with the full support of the Audit Committee.

24. As for 2006 there were three immediate changes in WFP accounting and reporting, related to adoption of international accounting standards: submitting annual audited financial statements to the Executive Board; changing the expenditure accrual policy to account for expenditure on the basis of goods and services ordered and showing investment value at mark to market.

25. Major issues arising from implementation of international accounting standards were: capitalization and depreciation of fixed assets; valuation of commodity inventories; full accounting of staff benefits; full revenue accrual, including in-kind contributions and adjustments of prior period reports for comparison purposes. These issues were being considered in conjunction with the on-going upgrade of the WINGS system, in order to ensure consistency and usability of the internal information system with the new reporting standards.

26. Another issue being considered was which form of standards WFP should adopt: International Accounting Standards/ International Financial Reporting Standards (IAS/ IFRS), which were mandatory for European corporations and the main advantage of which was that they were updated often or International Public Sector Accounting Standards (IPSAS), which were used by most international organizations and were more geared towards public sector issues. Other advantages of IPSAS was that they had flexible transition periods and that the UN was an observer in the Committee.

27. In 2006, WFP planned to finalize the transition plan and recommend the form of the standards that it would adopt (IAS/IFRS or IPSAS). It also planned to develop new policies and procedures in conformance with the plan and to propose the rules and regulations changes necessary to the Board.

28. In 2007, WFP would complete the development and testing of the new system and train staff in the new procedures and processes. During this year, the final report would be presented to the Executive Board and the amendments to rules and regulations would be presented to FAO and the UN.

29. In January 2008, the international accounting standards would be fully adopted. The Executive Board was asked to endorse the move to international accounting standards and to take note of the immediate accounting policy changes. The Secretariat would report progress back to the Board in 2006. The Committee:

1. Advised that WFP, in determining which external standards to adopt, work with the UN System.
2. Asked about the cost of implementing the system and suggested a costing analysis be done comparing the cost of adopting the two different standards. Queries were also made about the system costs and the human resource costs of implementation. It was also suggested to seek extra budgetary resources to cover the costs of moving to international accounting standards.



30. The Secretariat answered that recommendations on the appropriate standards for the UN would be forthcoming and that the High Level Committee on Management had been urging the UN to move faster in adopting international accounting standards. The Secretariat would ask for extra budgetary resources to the donors when costing was done. As to which standard to adopt, there were long standing discussions which had not been yet reached a decision.

31. WFP was now going through a process to upgrade WINGS which included international accounting standards – no new system costs would be required. In 2006 a project manager would be appointed and the remainder of staff requirements would be identified internally.

APPOINTMENT OF THE EXTERNAL AUDITOR (DOC. WFP/EB.2/2005/5-D/1)

32. The Secretariat clarified that the document on the appointment of the External Auditor was prepared by the Bureau of the Executive Board after consultation with the WFP Legal Service. The Bureau recommended the re-appointment of the present External Auditor and recognised the need for guidelines to be developed for future re-appointments.

33. The Committee noted that the report of the ACABQ on the document would be made available once it had been received by the Secretariat.

34. The Committee endorsed a best practices use in the appointment of the External Auditor and noted the need to develop guidelines on appointment/re-appointment of the External Auditor to be in line with them. Before developing specific guidelines the practice of re-appointment should be assessed together with other aspects such as tenure of appointment.

RISK MANAGEMENT POLICY/STRATEGY (DOC. WFP/EB.2/2005/5-E/1)

35. The Secretariat introduced the document which followed up on earlier documents on best practices in oversight and focused on the WFP policy on the specific subject of Risk Management. The document highlighted the commitment of WFP management to address risk, set out its philosophy and explained certain key roles and responsibilities in implementing and overseeing the policy.

36. In response to a question on costs, the Secretariat advised that start-up costs were partially provided by the private company T&T and the Department for International Development of the United Kingdom as extra budgetary funds. Recurring costs for implementation of the policy would be met from budgetary resources.

37. The distinct roles of the Executive Board in setting broad guidelines and of the External Auditor in providing assurance to the Executive Board on the functioning of the risk management system were clarified. The responsibility of the Executive Director for risk management was emphasised together with the responsibilities of WFP managers, including Country Directors, under their areas of authority.

REPORT OF THE EXTERNAL AUDITOR ON MANAGEMENT MATTERS REVIEW OF THE DUBAI SUPPORT OFFICE AND FAST INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS EMERGENCY AND SUPPORT TEAM (FITTEST) (DOC. WFP/EB.2/2005/5-G/1)

38. The representative of the External Auditor introduced the report informing the Committee that the Report on the Dubai Support Office and FITTEST was in the context of the WFP management priorities.

39. The Committee agreed that discussion on this document should be deferred until the WFP Secretariat had the opportunity to provide comments on the recommendations.



REPORT OF THE WFP AUDIT COMMITTEE (DOC. WFP/EB.2/2005/5-H/1)

40. The Committee welcomed the document provided for information and noted the distinct roles of the Audit Committee and of the ACABQ and FAO Finance Committee. As the document was for information only, it would not come up for discussion by the Executive Board unless specifically requested through the Bureau.

Other Matters

41. The Committee was also presented with two further documents for information comprising Follow-up on the Recommendations of the External Auditor and Report on Business Process Review.

DATE AND PLACE OF THE HUNDRED AND TWELFTH SESSION

42. The Committee was informed that the 112th Session was tentatively scheduled to be held in Rome from 8 – 12 May 2006. The final dates of the session would be decided in consultation with the Chairperson.

