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Alimentaire  
Mondial

World  
Food  
Programme

Programa  
Mundial  
de Alimentos

**Executive Board  
Annual Session**

**Rome, 24–26 May 2004**

# RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6



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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 different agenda items as follows:

- Consolidated Financial Report (WFP/EB.A/2004/6-A/1);
- Audited Biennial Accounts (2002–2003) (WFP/EB.A/2004/6-B/1/1–3);
- Report of the Inspector-General (WFP/EB.A/2004/6-C/1); and
- Update on the WFP Management Plan, 2004–2005 (WFP/EB.A/2004/6-E/1).

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May 2004



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para la  
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y la  
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## FINANCE COMMITTEE

### Hundred and Seventh Session

Rome, 10–18 May 2004

### Final Report – World Food Programme

#### I. Audited Biennial Accounts 2002-2003

1. The secretariat introduced the agenda item and explained that the audited Biennial Accounts for 2002–2003 consisted of three sections:

- report of the Executive Director on the financial administration of the Programme;
- opinion of the External Auditor and the audited Financial Statements for 2002–2003; and
- long-form report of the External Auditor.

2. The secretariat highlighted the contents of Section I, the Executive Director's report, as follows:

- Two accounting policy changes were implemented during the biennium: recognition of income through the accrual method and use of standard staff cost accounting.
- In line with the Executive Director's placing importance on effective governance, the audited financial statements were being presented to the Executive Board at its Annual Meeting in May, five months earlier than usual.
- Donor reports were also submitted earlier, where 96 percent of the 2003 Standard Project Reports were submitted to donors by 31 March 2004, nine months earlier than usual.
- The Human Resources/Payroll system was implemented during the biennium: WFP took over the processing of payroll from the Food and Agriculture Organization (FAO) effective January 2002.
- The Income Statement showed a 46 percent increase with total income up to US\$5.8 billion brought about mainly by an 87 percent increase in the Emergency programmes. Expenditures were up 59 percent to US\$5.1 billion.

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- The Programme had a healthy balance sheet as a result of the increased operating activity.
- Total cash balance was US\$907 million but operating cash was only US\$482 million, representing 14.3 percent of annual expenditures, which was approximately three months of operating cash.
- Major features of the strengthening of financial management initiatives included:
  - a 38 percent increase in the number of international and national finance staff as 42 new finance officers were being recruited and trained in 2004;
  - issue of a comprehensive Finance Manual within the next few months; and
  - training on financial management for country directors and other non-finance managers.

3. The secretariat thanked the External Auditor for responding to the Executive Director's call for an early audit and also thanked the WFP staff for a tremendous job of closing the accounts much earlier than usual.

4. The secretariat explained that the transparency provided by the WFP Information Network and Global System (WINGS) revealed certain shortcomings that were in the system before, among them the cross-charging of expenditures highlighted in the long-form report of the External Auditor. The secretariat would address these issues in detail in the Executive Board's meeting in October 2004.

5. The representative of the External Auditor presented the External Auditor's report for 2002-2003. He noted the secretariat's achievements in producing earlier financial reporting, which External Audit had assisted and supported. The External Auditor had undertaken to provide the WFP Executive Board with separate reports on several management topics in addition to the audit of the financial statements. He noted that this commitment had been met.

6. The overall audit report on the financial statements confirmed an unqualified audit opinion and brought to attention significant findings, including:

- the need to ensure the adequacy of controls and accountability under decentralization;
- the allocation of funds between programmes and projects;
- the consistency of the charging of support costs in the financial statements; and
- the scope for strengthening management oversight of country offices by regional bureaux.

7. The representative of the External Auditor also drew attention to the additional reports on management issues, which would be before the Executive Board as part of the External Auditor's work for the biennium. He mentioned the report on WFP's Human Resources Strategy, already presented to the Board in October 2003; and the report on Air Operations, where External Audit review had noted inconsistent and *ad hoc* application of controls, with audit recommendations to improve budgetary control, financial and operational management, and risk management. He concluded that WFP had substantial business risks with respect to air operations that needed management attention. On vulnerability analysis and mapping, the External Auditor's report referred to recommendations directed at improving the cost effectiveness and benefits of vulnerability analysis. Finally, on corporate governance, the External Auditor had identified three areas of immediate concern: the composition, independence and terms of reference of the Audit Committee; the roles and responsibilities of field offices; and the need to make better use of oversight mechanisms through improved accountability arrangements.

8. The comments and questions raised by the Committee on the report touched on the following:

- Prioritization by the External Auditor of its recommendations and inclusion of a timeline for implementation by the secretariat: The External Auditor said that he would reflect on the suggestion.
- Status of the Executive Director's commitment last year on the issue of a statement on internal control: The secretariat explained that this was not a straightforward process but an audit of the existing internal control measures was underway as the first building block.
- Feedback from the UN Advisory Committee on Administrative and Budgetary Questions (ACABQ) on the financial statements: The secretariat distributed copies of the ACABQ report and mentioned that ACABQ recommended the approval of the financial statements by



the Executive Board as well as the Executive Director's recommendation to approve the transfer of US\$20 million from the General Fund and US\$24.1 million from the Programme Support and Administration (PSA) Equalization Account to the Direct Support Cost (DSC) Advance Facility.

- The secretariat's approach to addressing the issues of cross-charging of expenditures and distinction between DSC and PSA raised by the External Auditor: The secretariat said that the goal was to have accurate classification of expenditures in the accounts and to this end, the following measures had been or were being implemented:
  - roll-out of WINGS in all field offices (completed in 2003);
  - having more qualified staff in the field through WINGS training;
  - issue of a comprehensive Finance Manual;
  - closing of projects on a timely basis; and
  - business process changes to facilitate utilization of resources.
- On the DSC/PSA issue, the secretariat explained that the restriction placed on the PSA by making it uniform across all field offices made it difficult to charge expenditures to either DSC or PSA in a uniform manner. Nevertheless, the secretariat would continue to review the matter.
- The secretariat's approach to holding support costs at about the same level as the previous biennium despite a large increase in volume of operations: The secretariat explained that emergencies had to be addressed immediately by prioritizing the use of fixed capacity of the organization, which could not be strengthened in the short term.
- Increase in finance staff: The secretariat explained that this was considered to be the minimum requirement.
- Reasons why the funding of expenditures by the General Fund in Table 5 of Section I was mostly for development projects: The secretariat explained that before 1996, the General Fund had been the main source of funding for development projects. This practice had continued even when the Resource and Long-Term Financing (RLTF) policies were implemented in 1996, under which multilateral contributions had been recorded as General Fund income. On the other hand, the expenditures were correctly reflected under the development programme category and therefore the income previously recorded under the General Fund had to be transferred accordingly.
- What the 13.4 percent contribution receivables that were more than two years old represented: The secretariat explained that the Programme's two largest donors settled their accounts in arrears, and while they paid advance funds in the interim, it took from two to four years to settle the final accounts. Because closure of projects was currently much faster, these arrears should be reduced in the future.

9. The External Auditor responded to questions from the Committee members. He confirmed:
- Other United Nations agencies did in fact produce their financial statements within 90 days of their period end, for example the World Health Organization (WHO) and the International Labour Organization (ILO); nevertheless, WFP was to be commended on its improvement in achieving earlier reporting.
  - The recommendations included in the External Auditor's long-form reports had not been prioritized, essentially because all could be treated as significant. Other, less significant, issues are raised with the secretariat in management letters. Further, responding to the Executive Board's request for phased audit reporting during the biennium resulted in shorter, more accessible subject reports, each with a smaller number of recommendations. Therefore, it might not always be appropriate for the External Auditor to prioritize one recommendation over another or to prioritize one report over another. Nevertheless, the External Auditor would be happy to reflect on the Committee's comments.
  - The External Auditor listed countries where fraud had been reported.
  - The cross-charging between programmes and projects identified during the course of the audit reflected the difficulty experienced by country directors in managing the funding of projects under their remit. To address this, the Business Process Review initiative intended to consider the need to advance funds without offending donors' requirements, which would lead to an improvement in record keeping, improved accuracy and transparency. Further improvements



in WINGS could be achieved through more extensive training for all staff members, more accurate record keeping and realistic analysis of data.

10. The Committee expressed satisfaction with the reports submitted. The Committee noted the accounting changes that had been implemented in 2002–2003, that the External Auditor had rendered an unqualified opinion, and that the long form report contained a detailed report by the External Auditor. The Committee discussed the substantive issues embodied in the recommendations of the External Auditor and recommended that the secretariat address the audit observations provided by the External Auditor, especially with respect to the accounting inconsistencies resulting from WINGS between programmes and projects and support cost accounts.

11. The Committee recommended that the External Auditor prioritize the audit observations and establish deadlines for completion of each.

12. The Committee recommended that the Executive Board approve the 2003–2003 Biennial Financial Statements of WFP together with the Report of the External Auditor, pursuant to General Regulation XIV.6 (b).

13. The Committee further recommended that the Executive Board approve the following recommendations of the Executive Director contained in paragraph 56 of the document:

- note the application of the staff cost variance account to both project funded and PSA funded staff costs;
- note the funding from the General Fund of US\$8.4 million during the biennium for the purpose set out in Table 5 of the document; and
- approve the transfer of US\$20 million from the General Fund and US\$24.1 million from the PSA Equalization Account to the DSC Advance Facility.

14. The Committee also congratulated the secretariat on completion of the biennial accounts and external audit within 90 days after the financial period through their combined efforts with the External Auditor, as well as the initiatives taken by the secretariat to strengthen the financial management of the Programme.

## **II. Consolidated Financial Report**

15. The secretariat introduced the document and explained that it contained information on three separate financial issues. The first section contained the report on the utilization of contributions for the purchase of commodities and on waivers of the Indirect Support Costs (ISC). The second section provided an analysis of WFP's cash balances and information on the management of cash and short-term balances; it included information on the performance of WFP's investments. The third section presented the Budgetary Performance Report for the 2002–2003 biennium showing the significant increase in actual operational income and expenditures, particularly in emergencies, compared to the original budget estimates.

16. With respect to the utilization of contributions to purchase commodities, the Committee noted the percentage spent in developed (59 percent) and developing (41 percent) countries and requested information on the percentage breakdown for the previous year. The secretariat explained that the amount spent in developing countries had increased, although the percentage of total purchases was lower. In deciding on the appropriate source of commodity purchase, the secretariat took account of price (including up to a 15-20% price advantage for developing countries) and availability and potential impacts on local markets.

17. Having regard to the overriding importance of programme delivery, WFP should pay continuous attention to the level of cash balances. The Committee noted the positive developments in operating cash balances having reduced in absolute terms and as a percentage of operating expenditures over the previous year.



18. In response to a question on the policy of including global equities in WFP's investment policy, the secretariat explained that these were related only to the long-term after-service staff benefits fund. An assets-liability study had been carried out to establish the appropriate asset mix of this fund to ensure diversification and lower plan contributions as a result of higher yield. The study recommended an allocation of 40 percent of the investment of US\$64m in global equities, which were subject to strict guidelines including investment in companies having a minimum capitalization of US\$1 billion and registered in recognized stock exchanges. Furthermore, the investment portfolio was closely monitored by the custodian and the secretariat.

19. Responding to a question on the investment performance benchmark, the secretariat explained that the target of 50 basis points above the benchmark took account of the priority for security and liquidity over return.

20. The Committee requested information on the risk to WFP of the electronic banking initiatives being undertaken. It was explained that risk was being managed carefully through gradual implementation of the system in country offices, ensuring sound controls including restricted access, segregation of duties and close monitoring by WFP Headquarters. The system had the advantage of eliminating cheque forgeries and facilitated the disbursement of cash in countries where there were no banks.

21. The Committee took note of the information provided and concluded that the document adequately presented important financial information.

### **III. Update on the Management Plan 2004-2005**

22. The secretariat introduced the document and explained that it provided an update of the implementation of the Management Plan as requested by the Executive Board in October 2003. The secretariat explained measures and procedures that WFP had introduced to monitor implementation of the Management Plan.

23. The Committee took note of the document, which indicated that the secretariat was currently operating at 90 percent of the updated 2004–2005 Budget, which was currently US\$1 billion higher than the original Management Plan level, which reflected estimated donation levels.

### **IV. Report of the Inspector-General**

24. The Director, Oversight Services and Inspector-General introduced his report, which was presented in accordance with Article VI (2) (b) (viii) of the WFP General Regulations. The first part of the report indicated the actions taken on the previous Board's decisions and recommendations. For the first time, the Inspector-General's report also included an outline of the work performed by the internal audit unit. This was in accordance with the Executive Director's initiative for greater transparency and to give the Committee and the Executive Board a flavour of this important work. The report also presented trends in oversight issues both for audit and investigations as requested by the Executive Board; however, the methodology for such presentation needed to be further refined. A preview of the initiatives for 2004–2005 was also outlined in the report.

25. The Committee welcomed the report and noted the improvement in its format, particularly the inclusion of a section on the internal audit function. It further drew attention to the several path-breaking initiatives in governance contained in the report. The Committee members sought further elaboration on: (i) the Executive Director's commitment to introduce a Statement on Internal Control, (ii) best practices against which the Division of Oversight Services (OEDO) was benchmarked, (iii) the progress in strengthening the Internal Audit Committee and its cost implications, (iv) presentation of trends, (v) seizure of personal assets, (vi) difficulties in hiring qualified national staff and gender balance, (vii) implementation plan for recommendations, (viii) resource requirements for implementing various initiatives, and (ix) the definition of high-risk countries.



26. Responding to the questions the Inspector General indicated that the Executive Director was committed to producing a Statement on Internal Control and that as a first step the Office of Internal Audit (OEDA) was carrying out an internal control audit to determine the present status of control in WFP. Upon completion of this audit, WFP would be in a better position to discuss a timeline and other related issues and would keep the Board informed. He indicated that the processes and procedures of OEDO were benchmarked against best practices in the public and private sectors as well as United Nations agencies and had resulted in recommendations for which OEDO had prepared an implementation plan. Regarding the Internal Audit Committee, he stated that it was envisaged to consist of five members, three external and two internal; the external members were expected to perform on a *pro bono* basis, with WFP bearing the actual cost of participation only for the non-Rome-based members, if any. He explained that trends were based on the nature of cases and findings over the previous biennia; in the Southern African region in particular the country offices faced problems in recruiting qualified local staff. The Inspector General indicated that most costs of implementation had been met by the substantial increase in OEDO budget in the Management Plan. Finally, he explained that the size of the operations, and last visit of the oversight function were the main constituents in calculating the level of risk of a country office.

27. The Finance Committee expressed satisfaction with the report and looked forward to future updates on governance initiatives and to the next biennial report of the Inspector-General in 2006.

## **V. Update on the Business Process Review**

28. The secretariat made an oral presentation of the status of the Business Process Review highlighting the original objective, current actions, including pilot implementation in five countries, and a plan either to make a final proposal for the consideration of the Executive Board in October 2004 or to continue the pilot programmes into 2005.

29. The Committee appreciated the update, and looked forward to the final proposals.

