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Programa  
Mundial  
de Alimentos

Executive Board  
Second Regular Session

Rome, 10–13 November 2014

## RESOURCE, FINANCIAL AND BUDGETARY MATTERS

### Agenda item 5

## 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 Management Plan (2015–2017)  
(WFP/EB.2/2014/5-A/1)
- Increased Fee for the External Auditor  
(WFP/EB.2/2014/5-B/1)
- Process for the Selection and Appointment of the  
WFP External Auditor for the term from 1 July 2016 to  
30 June 2022 (WFP/EB.2/2014/5-C/1)
- Method for Determining the Indirect Support Cost Rate  
for WFP (WFP/EB.2/2014/5-D/1)
- Work Plan of the External Auditor for the Period  
July 2014 to June 2015 (WFP/EB.2/2014/5-E/1)



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Advisory Committee on Administrative  
and Budgetary Questions

31 October 2014

Dear Ms. Cousin,

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

- WFP Management Plan (2015–2017) (WFP/EB.2/2014/5-A/1)
- Increased Fee for the External Auditor (WFP/EB.2/2014/5-B/1)
- Process for the Selection and Appointment of the WFP External Auditor for the term from 1 July 2016 to 30 June 2022 (WFP/EB.2/2014/5-C/1)
- Method for Determining the Indirect Support Cost Rate for WFP (WFP/EB.2/2014/5-D/1)
- Work Plan of the External Auditor for the Period July 2014 to June 2015 (WFP/EB.2/2014/5-E/1)

I should be grateful if you could arrange for the Committee's report to be placed before the Executive Board at its forthcoming session, as a complete and separate document. I would appreciate it if a printed version of the document could be provided to the Advisory Committee at the earliest possible opportunity.

Yours sincerely,

Carlos G. Ruiz Massieu  
Chairman

Ms. Ertharin Cousin  
Executive Director  
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Encl.

## WORLD FOOD PROGRAMME

### Resource, Financial and Budgetary Matters

#### Report of the Advisory Committee on Administrative and Budgetary Questions

## I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the following reports of the World Food Programme (WFP) Secretariat, which are submitted to the Executive Board for approval:

- i) WFP Management Plan (2015–2017) (WFP/EB.2/2014/5-A/1);
- ii) Method for Determining the Indirect Support Cost Rate for WFP (WFP/EB.2/2014/5-D/1);
- iii) Increased Fee for the External Auditor (WFP/EB.2/2014/5-B/1); and
- iv) Process for the Selection and Appointment of the WFP External Auditor for the Term from 1 July 2016 to 30 June 2022 (WFP/EB.2/2014/5-C/1).

The Committee also had before it the Work Plan of the External Auditor (WFP/EB.2/2014/5-E/1), which is submitted for the information of the Executive Board.

2. During its consideration of the reports, the Advisory Committee met with the Assistant Executive Director, Resource Management and Accountability/Chief Financial Officer, and the Director of the Budgeting and Programme Division, who provided additional information and clarification, concluding with written responses received on 28 October 2014.

## II. Management Plan (2015–2017)

⇒ *2015 revenue forecast*

3. The Management Plan indicates that it reflects a transformation of WFP's budgetary processes to performance-informed budgeting and increased transparency and accountability (see WFP/EB.2/2014/5-A/1, para. 1). The new section II of the plan provides the financial context and assumptions underlying WFP's revenue forecast of \$4.4 billion in 2015. It is stated that the forecast is realistic and conservative given that in four of the last five years, funding received for operational needs and Programme Support and Administrative requirements reached or exceeded \$4 billion (see WFP/EB.2/2014/5-A/1, paras. 62 and 67).

4. The Advisory Committee recalls its previous recommendation on the need for a resource plan to be included in the WFP proposed Management Plan for 2015-2017, noting that WFP's budget was essentially a work plan based on identified needs, while implementation of projects depended on the availability of resources (see WFP/EB.2/2013/5(A,B)/2, paras. 6 and 7). **The Advisory Committee commends WFP on implementing this recommendation, which provides more detailed justification for forecasting anticipated funding levels.**

⇒ *Immediate Response Account*

5. The Management Plan indicates that the Immediate Response Account (IRA) was established to provide immediate food, non-food and logistics assistance in life-threatening emergencies pending appeals and donation forecasts, thereby serving as an unearmarked revolving fund for emergencies. The WFP Secretariat proposes a new IRA target level of \$200 million, from the current level of \$70 million, which was set in October 2004. The plan

states that WFP's income has doubled since 2004, and that the current Level 3 emergencies have reduced the available IRA balance to less than \$10 million, threatening availability for future responses (see WFP/EB.2/2014/5-A/1, paras. 78 and 80).

6. Paragraph 79 of the Management Plan states that contributions to the IRA and allocated to a project may be revolved and subsequently used to provide funding for other projects once the original project has repaid its advance, thereby using the same donation more than once. Table II.1 of the plan shows the amounts of new contributions, allocations and revolved funds from 2008 to 2013. Upon enquiry, the Advisory Committee was provided with updated information for 2014 to date, indicating \$52.19 million in new contributions, \$162.53 million in allocations and \$116.07 million in revolved funds. The Committee was also provided with the table below showing the monthly balances for the IRA from 2012 to September 2014.

| 2012 | Closing Balance (\$) | 2013 | Closing Balance (\$) | 2014 | Closing Balance (\$) |
|------|----------------------|------|----------------------|------|----------------------|
| Jan  | 31,329,084           | Jan  | 17,538,566           | Jan  | 15,653,962           |
| Feb  | 14,977,275           | Feb  | 20,279,001           | Feb  | 9,965,123            |
| Mar  | 22,530,680           | Mar  | 31,543,269           | Mar  | 21,418,803           |
| Apr  | 18,647,384           | Apr  | 37,157,150           | Apr  | 28,956,122           |
| May  | 15,020,340           | May  | 42,226,283           | May  | 18,853,159           |
| Jun  | 13,186,498           | Jun  | 31,763,729           | Jun  | 12,458,679           |
| Jul  | 11,702,621           | Jul  | 25,904,564           | Jul  | 10,352,122           |
| Aug  | 11,969,796           | Aug  | 28,260,497           | Aug  | 3,411,734            |
| Sep  | 32,936,345           | Sep  | 30,479,230           | Sep  | 11,088,029           |
| Oct  | 31,573,290           | Oct  | 31,040,062           | Oct  |                      |
| Nov  | 24,968,708           | Nov  | 24,594,378           | Nov  |                      |
| Dec  | 38,724,083           | Dec  | 14,122,911           | Dec  |                      |

7. Upon enquiry, the Advisory Committee was informed that the projected operational requirements for 2015 represent a three-fold increase from the annual requirements during the 2004-2005 biennium. The Committee was further informed that the average repayment period is about three to four months; and the proportion of allocations made from the IRA to projects which are subsequently revolved by donor contributions was 63.2 per cent for 2009, 74.4 per cent for 2010, 64.5 per cent for 2011, 65.3 per cent for 2012, 53.6 per cent for 2013, and 66.4 per cent for 2014 to date. The Committee was also provided with the table below showing the drawdown amounts from 2010 to 2014.

| Row Labels         | 2010      | 2011      | 2012      | 2013      | 2014      |
|--------------------|-----------|-----------|-----------|-----------|-----------|
| < US\$1 million    | 41        | 28        | 21        | 19        | 10        |
| US\$ 1-5 million   | 20        | 22        | 29        | 25        | 37        |
| US\$5-10 million   | 1         | 7         | 5         | 6         | 6         |
| US\$10-20 million  | 5         | 3         | 2         | 2         | 1         |
| > US\$20 million   | 1         |           |           | 1         |           |
| <b>Grand Total</b> | <b>68</b> | <b>60</b> | <b>57</b> | <b>53</b> | <b>54</b> |

The Committee was informed that the single largest allocation approved was \$24 million in response to the Syrian Crisis in January 2013 and \$20 million in response to the Haiti Earthquake in January 2010.

8. The Committee was also informed upon enquiry during the hearing that the target level of \$200 million would allow greater use of the IRA like a grant facility. **The Advisory Committee has no objection to the proposed new IRA target level of \$200 million.**

⇒ *Provisional prioritized plan of work*

9. The Management Plan states that this section, previously entitled “Projected Operational Requirements” is now called “Provisional Prioritized Plan of Work”, and introduces two substantive changes in response to the Board’s feedback: i) ongoing refinement of the methods for measuring food assistance costs; and ii) a 2015 provisional prioritized plan of work matched with projected funding, which responds to the Board’s request for additional information as to how managers address anticipated funding gaps. As part of the refinement of the measurement of food assistance costs, the Management Plan presents a new method for measuring food assistance costs. It is stated that using beneficiary numbers has inherent limitations such as counting all beneficiaries equally regardless of intervention type or duration, whereas using rations as the unit makes it possible to set out the costs of providing assistance in the form of food, cash or voucher transfers more clearly by operation and by activity. The WFP Secretariat defines a ration as the amount of food, cash or voucher equivalent provided daily for a beneficiary in a target group and is expressed as the weight in grams of each food type and varies in size according to needs and available funding (see WFP/EB.2/2014/5-A/1, paras. 85, 86 and 94). Upon enquiry, the Committee was informed during the hearing that the use of rations reflects the unit cost of daily meals. **The Advisory Committee welcomes the introduction of the new method of using rations as a unit cost for measuring food assistance costs, which allows for a more accurate picture of food assistance costs.**
10. According to the Management Plan, operational requirements for 2015 are projected at \$7.45 billion to provide 17.12 billion daily rations for 78 million beneficiaries, representing an increase over the 2015 high projection of \$7.27 billion in the 2014–2016 Management Plan. It is stated that four ongoing system-wide Level 3 emergencies (the Central African Republic, Iraq, South Sudan and the Syrian Arab Republic) represent 40 per cent of the projected operational requirements (see WFP/EB.2/2014/5-A/1, para. 102).

⇒ *Programme Support and Administrative budget*

11. The Management Plan proposes a Programme Support and Administrative (PSA) budget for 2015 of \$281.8 million and non-recurring investments related to critical corporate initiatives of \$9.2 million for funding from the PSA Equalization Account. WFP would maintain zero nominal growth for 2015 (see WFP/EB.2/2014/5-A/1, paras. 143 and 144).

12. With respect to the Secretariat structure, the Executive Director proposes the following two measures, which do not lead to changes in the total number of PSA-funded posts, nor any additional cost for the PSA budget as the increase in staff costs would be absorbed from non-staff costs (see WFP/EB.2/2014/5-A/1, para. 179). Firstly, it is proposed to temporarily transfer an Assistant Secretary-General post (Deputy Executive Director) from Rome to New York for 2015 and 2016 to oversee the New York, Geneva and Addis Ababa offices, which will become a platform for full engagement in the post-2015 agenda and the World Humanitarian Summit and for WFP's representation in United Nations coherence initiatives and the Inter-Agency Standing Committee Transformative Agenda (see WFP/EB.2/2014/5-A/1, para. 182). **The Advisory Committee has no objection to the proposed transfer of the Assistant Secretary-General post (Deputy Executive Director) from Rome to New York for 2015 and 2016.**
13. Secondly, it is proposed to upgrade the D-2 Chief of Staff post to the Assistant Secretary-General (ASG) level to reflect increased responsibilities (see WFP/EB.2/2014/5-A/1, para. 179). Upon enquiry, the Advisory Committee was informed that the increased responsibilities would include providing additional support to the Executive Director as she takes on the direct oversight of the new Innovation and Change Management Division and the six Regional Bureaux (which through the country offices account for 90 percent of WFP's expenditure and staffing), thereby shortening the chain of command between the Executive Director and the field. The offices of Human Resources, Innovation and Change Management, Legal Counsel, Inspector General, Evaluation and Ethics would report directly to the Executive Director on strategic matters and to the Chief of Staff on less strategic, managerial and administrative matters, which constitute a new reporting responsibility for the Chief of Staff. In addition, the Chief of Staff would supervise the Regional Bureau Support Office and oversee the project review and approval process; chair the Strategic Resource Allocation Committee in its allocation of multilateral funds (about USD 400 million annually); and chair the Leadership Group in its allocation of WFP's central PSA budget. These budgetary responsibilities would provide increased separation of authority. The Committee was also informed that the upgrade would be of a temporary nature, as the organizational structure would be reviewed prior to 2017 with a commitment to reverting from five ASG positions in 2015-2016 to four ASG positions from 2017. **The Advisory Committee has no objection to the proposed upgrade.**
14. With respect to the indirect support cost recovery rate, the Secretariat proposes to maintain the current rate of seven per cent for 2015, pending the results of an ongoing review of the methodology relating to indirect support costs (see also para. 15 below). **The Advisory Committee recommends approval of this proposal.**

### III. Method for Determining the Indirect Support Cost Rate for WFP

15. As part of the two-phase review of the indirect support cost rate and the Secretariat's consultation with the Board, the WFP Secretariat has concluded that the current single-rate model is the most appropriate for ensuring the principle of full-cost recovery, as it is simple and easy to administer; is based on a transparent and straightforward methodology; and focuses discussion on the structure, efficiency and effectiveness of the PSA budget (see WFP/EB.2/2014/5-D/1, para. 15).
16. Furthermore, the WFP Secretariat proposes the application of a single indirect support cost rate of 10 per cent for private-sector contributions. The document states that the current approach utilizes rates ranging from 10 to 20 per cent, depending on the type of donor and the scale and complexity of the contribution and its management. The document indicates that a single rate would facilitate more transparent and efficient administration, as current

and prospective private-sector donors find the current model difficult to understand and apply. The WFP Secretariat proposes the rate of 10 per cent which would be better aligned with the rates of other organizations and would be consistent with the principle of full-cost recovery (see WFP/EB.2/2014/5-D/1, paras. 30-36).

17. **The Advisory Committee welcomes the proposal to adopt a single rate for indirect support costs for private-sector contributions, which simplifies the recovery rate model and increases transparency for donors. The Committee also welcomes the proposed rate of 10 per cent and notes positively that this rate is close to that applied for Member State contributions and is the same as the lowest rate currently applied for private-sector donors (see WFP/EB.2/2014/5-D/1, Table 2), which would allow more contributions to be used towards the needs of beneficiaries and increase WFP's competitiveness in fundraising, while ensuring consistency with the principle of full-cost recovery. The Advisory Committee recommends approval of the proposed rate of 10 per cent for private-sector contributions.**

#### IV. Increased Fee for the External Auditor

18. The External Auditor proposes an increase in audit fee amounting to \$15,400 per annum from April 2014 onwards, due to the net increase of 27 per cent in the audit cost under components of DSA, staff costs and airfare at Rome over the last four years (see WFP/EB.2/2014/5-B/1, paras. 1 and 4).
19. The document states that the Comptroller and Auditor General of India has been appointed External Auditor of WFP for the term July 2010 to June 2016 at a total annual remuneration of \$385,000. Following an increase of four per cent amounting to \$15,400 from April 2012, the annual fee is currently \$400,400 per annum from April 2012. The proposed increase would amount to a total annual fee of \$415,800 from April 2014 onwards (see WFP/EB.2/2014/5-B/1, paras. 2, 3 and 5).
20. Upon enquiry, the Advisory Committee was informed that the staff cost component is calculated on the basis of salary and allowances of visiting audit team members and the Director of External Audit, Rome. The cost of staff provided in the financial bid of November 2009 was \$130,171.67. The salary and allowances of staff posted under the Comptroller & Auditor General of India follow the salary structure of the civil servants of the country, where there is normally an increase in salary once every six months. Therefore, on account of this periodical revision of the salary of the staff, the staff cost as at March 2014 was \$208,274.67, representing an increase of 60 per cent over the financial bid of November 2009.
21. With respect to the increase in travel costs, the Committee was informed that audit teams are required to travel between New Delhi and Rome and to other countries for field visits, in addition to the Director of External Audit who is stationed in Rome. The increase in the travel cost of 21.7 per cent has been computed on the basis of an increase in the airfare costs of standard economy class tickets from New Delhi to Rome between November 2009 and March 2014. As the selected field visits to regional bureaux and country offices differ from year to year, the cost component for air fare was calculated on the basis of travel from New Delhi to Rome and back, with European airlines being taken as the benchmark. **The Advisory Committee requested, but did not receive information, as to why European airlines were used as the benchmark, and recommends that this information be provided to the Executive Board. The Advisory Committee has no objection to the proposed increased fee for the External Auditor.**

## V. Conclusion

22. **Subject to its observations and recommendations in the paragraphs above, the Advisory Committee recommends approval of WFP’s Management Plan for 2015–2017; the method for determining the indirect support cost rate; and the increased fee for the External Auditor.**