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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:

- Fourth Update on the WFP Management Plan (2010–2011) (WFP/EB.1/2011/5-A/1)
- Report of the External Auditor on WFP Operations in Somalia (WFP/EB.1/2011/5-B/1)
- WFP Management Response to the Report of the External Auditor on WFP Operations in Somalia (WFP/EB.1/2011/5-B/1/Add.1)
- Information Note on Funding of Security Management Arrangements (WFP/EB.1/2011/12-B)
- Work Plan of the External Auditor for the Period July 2010 to June 2011 (WFP/EB.1/2011/5-C/1)

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Advisory Committee on Administrative
and Budgetary Questions

4 February 2011

Dear Ms. Sheeran,

Please find attached a copy of the report of the Advisory Committee on Administrative and Budgetary Questions on your submissions concerning:

- Fourth update on the WFP management plan (2010–2011) (WFP/EB.1/2011/5-A/1)
- Report of the external auditor on WFP operations in Somalia (WFP/EB.1/2011/5-B/1)
- WFP management response to the report of the external auditor on WFP operations in Somalia (WFP/EB.1/2011/5-B/1/Add.1)
- Information note on funding of security management arrangements (WFP/EB.1/2011/12-B)
- Work plan of the external auditor for the period July 2010 to June 2011 (WFP/EB.1/2011/5-C/1)

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

Yours sincerely,

Collen V. Kelapile
Chairman

Ms. Josette Sheeran
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World Food Programme

Resource, financial and budgetary matters

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the World Food Programme (WFP) on the fourth update on the WFP management plan (2010–2011) (WFP/EB.1/2011/5-A/1), which is submitted to the Executive Board of WFP for approval. The Committee also had before it the following reports, the first two for consideration by the Executive Board and the remainder for information:

- Report of the external auditor on WFP operations in Somalia (WFP/EB.1/2011/5-B/1);
- WFP management response to the report of the external auditor on WFP operations in Somalia (WFP/EB.1/2011/5-B/1/Add.1);
- Information note on funding of security management arrangements (WFP/EB.1/2011/12-B);
- Work plan of the external auditor for the period July 2010 to June 2011 (WFP/EB.1/2011/5-C/1).

During its consideration of the reports, the Advisory Committee met with the Deputy Executive Director of Resources Management and Accountability/Chief Financial Officer, as well as other representatives of WFP, who provided additional information and clarification.

Fourth update on the WFP management plan (2010–2011)

2. The fourth update on the WFP biennial management plan (2010–2011) (WFP/EB.1/2011/5-A/1), which covers the period up to December 2010, is submitted to the Executive Board for approval. It gives a complete overview of changes to the programme of work since the approval of the biennial budget, along with a more in-depth account of the changes since the last (third) update. The document also includes a request for approval of supplementary expenditures in the amount of US\$11.2 million for field security upgrades (US\$10.2 million) and a treasury management system (US\$1.0 million) (see paras. 9 to 14 below).

3. In paragraph 3 of the report, WFP indicates that its programme of work consists of projects designed on the basis of assessment findings in collaboration with governments and other partners. It represents an appeal for resources based primarily on needs; the level of actual activity depends on the contributions received. In this connection, the Advisory Committee notes that the periodic adjustments to the programme of work described in the updates to the management plan are designed to reflect operational realities (see para. 4 below).

4. As indicated in paragraphs 10 and 12 of the report, total resources required for the revised programme of work for 2010–2011, which excludes unforeseen requirements,¹ are now estimated at US\$11.86 billion, US\$6.85 billion for 2010 and US\$5.01 billion for 2011. Since the third update, in November 2010, the resources required for the programme of work for 2010–2011 have decreased by a total of US\$119.1 million, US\$63.5 million for 2010 and US\$55.6 million for 2011. In paragraph 6 of the report, WFP states that the decrease is attributable to realignments of country requirements based on updated assessments; the agency's lack of access to some populations in need; and the ongoing review of direct operational cost requirements. More detailed information on major increases and decreases since the last update can be found in paragraphs 13 to 19 and table 1 of the report. The Advisory Committee notes, in particular, that the programme of work for 2011 includes an estimated decrease in requirements of US\$33.0 million for Haiti, reflecting the increasing shift from broad-based emergency relief towards a more targeted safety net approach that focuses on food and cash assistance and nutrition support (WFP/EB.1/2011/5-A/1, para. 15).

5. The Advisory Committee notes from paragraphs 20 to 22 of the report that, during 2011, WFP expects to further expand its cash- and voucher-based activities, which, as indicated in paragraph 21, can play an important role in meeting food requirements and achieving strategic objectives in situations where food is available in markets but populations lack the resources to obtain it. Accordingly, during 2011, WFP will adjust systems and procedures to facilitate the expanded use of cash and voucher transfers through cooperating partners in different contexts and reinforce technical support to its field offices. WFP will also roll out improved guidelines and continue to develop relevant staff and partner capacities. Perceived benefits of the cash- and voucher-based activities, such as cost efficiencies, increased self-reliance and sustainability, will be reviewed during implementation. The Advisory Committee welcomes this development, and trusts that, given the risks inherent in the expanded use of cash transfers, the external auditor will monitor this activity closely. A progress report should be provided in the next update to the management plan.

6. Information on cereal and fuel prices is presented in paragraph 23 and figure 1 of the report. Between June and November 2010, the WFP cereal index rose 43 points, reaching a level only 39 points short of the historic high recorded in June 2008. Footnote 6 to the report indicates that there have been further changes to food and fuel prices since the data in figure 1 was compiled and that, accordingly, the WFP secretariat has begun an exercise to review the possible impact of those changes on the programme of work. The Advisory Committee encourages WFP to continue monitoring trends and to report thereon in the next update to the management plan.

7. With regard to projected resource levels, WFP indicates that the current funding forecast for 2010–2011 stands at US\$7.45 billion. For 2010, WFP expects to receive US\$3.7 billion against assessed needs of US\$6.85 billion, while in 2011 expected income is projected at US\$3.75 billion against assessed needs of US\$5.01 billion (*ibid.*, paras. 25–27). Paragraphs 28 to 39 of the report give an overview of contributions in 2010. Of particular note are the increased contributions from governments of host nations and the twinning of cash and in-kind commodity contributions described in paragraphs 30 and 31, respectively. The Advisory Committee also notes that improved coordination between WFP and other United Nations system entities has allowed WFP to secure US\$187 million from thematic and multi-donor trust funds, including a first-time allocation of US\$10 million from the Haiti

¹ An analysis of unforeseen requirements over time, consisting of a comparison between original approved management plans and final programmes of work for past bienniums, is included as Annex I to the report.

Emergency Response Relief Fund and US\$500,000 from the United Nations Peacebuilding Fund for WFP operations in the Democratic Republic of the Congo and the Central African Republic. The latter contribution marks the first time that peacebuilding funds have been directly allocated to a WFP activity. The Advisory Committee encourages WFP to continue to expand its donor base, while ensuring that activities funded by donor contributions are consistent with the approved programme of work.

8. Section III of the report provides information on the status of WFP's advance financing mechanisms, which consist of the Immediate Response Account; the Working Capital Financing Facility (WCF); traditional advance financing in the form of loans; the Forward Purchase Special Account; and the Direct Support Cost Advance Facility (DSCAF). The Advisory Committee notes that, since the third update to the management plan, the Executive Board of WFP has approved, effective 1 January 2011, the merger of the WCF and the DSCAF (see WFP/EB.2/2010/5-B/1). As indicated in paragraph 41 of the report, the merger is intended to streamline the management of advance financing operations. The Advisory Committee trusts that, as indicated in paragraph 60, the WFP secretariat will continue to report to the Executive Board, through its management plan updates, on the utilization of WFP's advance financing mechanisms.

9. Issues related to the management of indirect support costs are addressed in section IV of the report. With regard to the funding of additional field security requirements, the Advisory Committee notes that in 2010 WFP spent US\$8.5 million of the US\$14.5 million carried forward for field security upgrades, leaving a balance of US\$6.0 million. For 2011, overall expenditure under that item is projected at US\$16.2 million, consisting of US\$8.6 million for office relocation and blast mitigation and US\$7.6 million for security management and minimum operating security standards (MOSS). Accordingly, in a draft decision contained in the document, the Executive Board is requested to approve supplementary expenditures of up to US\$10.2 million for field security upgrades, to be funded from the Programme Support and Administrative Equalization Account (PSA). Table 2 of the report provides information on the status of the PSA as at 1 January 2010 and a forecast of requirements for 2011, taking into account the funding for 2010 staff liabilities and approved expenditure. The Advisory Committee notes that, once the proposed supplementary expenditure for field security upgrades is factored in to the estimates, the projected balance of the PSA as at 31 December 2011 is US\$70.6 million.

10. A more detailed justification for the additional security requirements is provided in the document entitled "Information note on funding of security management arrangements" (WFP/EB.1/2011/12-B). The note states that, while WFP contributes to the budget of the United Nations Department of Safety and Security for jointly financed activities – its projected share for 2010–2011 amounts to US\$24.4 million – it also bears substantial internal costs for security operations. Upon enquiry, the Advisory Committee was informed that some of WFP's security requirements, particularly in remote locations, were unique and could not therefore be met through the jointly financed budget. As indicated in the note, those internal security costs are met from direct support cost budgets, as well as from the Security Emergency Fund that was established in 2008. However, by the end of 2010 most of the Security Emergency Fund assigned to security management and MOSS compliance was committed. Additional requirements are therefore required to fund projects to be implemented in 2011, which include the completion of major office relocation and blast mitigation in Afghanistan, Pakistan, Somalia, Uganda, Chad and Ethiopia (*ibid.*, paras. 38 and 40).

11. The Advisory Committee considers that appropriate security management arrangements are critical to the ability of WFP to carry out its activities on the ground. Accordingly, and on the understanding that the resources requested represent one-time costs, it has no objection to the approval of supplementary expenditures of up to US\$10.2 million for field security upgrades, to be funded from the PSA. Information on the implementation status of those upgrades should be included in the next update to the management plan.

12. Paragraphs 69 to 75 of the report (WFP/EB.1/2011/5-A/1) address the implementation of a strengthened treasury management system, for which a total investment of US\$1.5 million would be required, US\$1.0 million in 2011 and the remainder in 2012. Accordingly, the draft decision contained in the report also requests the Executive Board to approve supplementary expenditures of up to US\$1.0 million for such a system, to be funded from the unearmarked portion of the General Fund.

13. The Advisory Committee notes from paragraph 70 of the report that WFP's cash balances are managed primarily by the Treasury Unit at Headquarters. Annual cash flow of approximately US\$3.0 billion dollars flows through 370 bank accounts held at more than 90 banks. In 2010, the WFP secretariat conducted a review of opportunities for improving the current treasury management system, which, in its view, is rather limited. The review, which incorporated expert advice, revealed that there were strong arguments for investing in computerized systems for treasury management, which would integrate WFP's computer systems with banking systems. The main benefits of the improvements are outlined in paragraph 72 of the report, and include improved financial control processes in field offices and reduced bank fees. The additional resources requested would be used to meet the costs associated with licences, partner fees, short-term employees and training and capacity development. As indicated in Table 3 of the report, once the proposed supplementary expenditure for the treasury management system is factored in to the estimates, the projected balance of the unearmarked portion of the General Fund as at 31 December 2011 is US\$1.3 million.

14. In view of the foregoing, and given that the time required to recoup the investment will be less than one year from the date of implementation (*ibid.*, para. 74), the Advisory Committee has no objection to the course of action proposed by WFP.

15. An update on extrabudgetary resources is provided in section V of the report. The original management plan for 2010–2011 provided for projected extrabudgetary resources in the amount of US\$506 million. That amount has been revised upwards to US\$618.0 million, taking into account recently confirmed resources that had not been foreseen. Extrabudgetary resources received as at the date of the fourth update stand at US\$330.7 million, or 54 percent of the revised total requirements for 2010–2011.

16. The Advisory Committee recommends that the Executive Board take note of the projected programme of work for the biennium 2010–2011, which will require resources in the amount of US\$11.86 billion, excluding any provision for unforeseen requirements.

Work plan of the external auditor for the period July 2010 to June 2011

17. The Advisory Committee has taken note of the work plan of the external auditor for the period July 2010 to June 2011 (WFP/EB.1.2011/5-C/1), which is submitted to the Executive Board for information. This is the first work plan submitted by the Comptroller and Auditor General of India, who has been appointed external auditor of WFP for the six-year period from July 2010 to June 2016.

18. The Advisory Committee notes that during the period in question the external auditor intends to conduct compliance audits of three regional bureaux (Southern, Eastern and Central Africa; Asia; and Sudan) and eight country offices (Ethiopia; Kenya; Uganda; Malawi; Afghanistan; Bangladesh; Myanmar; and Nepal). The audits will cover 27 percent of WFP's country office expenditure and 72 percent of its regional bureau expenditure. Two performance audits are also planned, focusing on the procurement of landside transport services and on the management of project budgets. In addition, the Executive Board has requested the external auditor to review WFP's Somalia operations and make recommendations for the strengthening of controls (see paras. 19 to 23 below).

Report of the external auditor on WFP operations in Somalia and WFP management response

19. In June 2009, several allegations against WFP operations in Somalia were made in the media. Subsequently, in March 2010, the United Nations Monitoring Group on Somalia also made a number of allegations. In June 2010, the Executive Board of WFP requested the external auditor to undertake a detailed review of WFP operations in Somalia with a view to making recommendations to enhance controls. The main objectives of the audit are outlined in paragraph 5 of the external auditor's report (WFP/EB.1/2011/5-B/1), and include verifying whether appropriate controls had been designed; assessing whether the controls were implemented as designed; making relevant recommendations; and recommending lessons from Somalia operations for similar critical operations elsewhere. The audit report also provides an independent opinion on the findings of the Inspector General, Oversight Office, on the above-mentioned allegations. It is worth noting that, as indicated in paragraph 16 of the auditor's report and highlighted in paragraph 10 of the management response (WFP/EB.1/2011/5-B/1/Add.1), the audit findings relate mainly to operations in south Somalia, where WFP has limited access. The challenges faced by WFP in south Somalia are particular to that region and differ from the relative calm in the north of the country. For that reason, it is stated that the findings relating specifically to south Somalia may not apply to operations in the country as a whole.

20. A summary of the external auditor's recommendations, which touch on both strategic and operational issues, is set out on pages 8 to 11 of the report. Upon enquiry, the Advisory Committee was informed that the main thrust of the recommendations was the need for greater investment in preventive, rather than detective, controls. The external auditor had also emphasized the need to quantify the agency's risk appetite separately for high-risk operations, to identify residual risks as well as inherent ones, and to lay down a minimum level of baseline controls that had to be followed even for emergency operations.

21. A matrix summarizing the response of WFP management to the audit recommendations can be found on pages 11 to 23 of the related report. The Advisory Committee notes from the matrix that the management of WFP fully agrees with the majority of the 26 recommendations, partially agrees with two and does not agree with the first part of one. Upon enquiry, it was explained to the Advisory Committee that, while WFP management had stated that it did not agree with recommendation 23 (a), which calls for the development of standardized report-generating tools pending the introduction of a new system that addresses the weaknesses in the Commodity Movement Processing and Analysis System (COMPAS), management did not in fact object to the substance of the recommendation but simply to the solution proposed by the external auditor.

22. The Advisory Committee further notes from the matrix that the management of WFP has identified the parties responsible for implementing the audit recommendations and specified implementation timeframes. In paragraph 4 of the management response document, WFP indicates that action is under way to address the recommendations and that some have already been fully implemented. The Committee stresses the importance of full and timely implementation of the recommendations, and looks forward to receiving further updates.

23. The Advisory Committee also emphasizes the importance of applying relevant lessons learned from the experience in Somalia to other WFP operations. The Committee therefore welcomes the fact that, as indicated in paragraph 5 of the management response to the audit recommendations, the WFP secretariat agrees that it should be proactive in discussing with the Executive Board the reputational risks and inherent control difficulties arising from operations in Somalia. The Committee encourages the WFP secretariat to engage in a transparent dialogue with all stakeholders in order to assess the risks faced by WFP in future operations in Somalia and in similar operating environments.