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Programme
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de Alimentos

**Executive Board
Annual Session**

Rome, 8–12 June 2009

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6



Distribution: GENERAL

WFP/EB.A/2009/6(A,B,C,D,E,F,G,H,I)/2

5 June 2009

ORIGINAL: ENGLISH

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:

- Audited Annual Accounts, 2008
(WFP/EB.A/2009/6-A/1)
- Appointment of Members to the Audit Committee
(WFP/EB.A/2009/6-B/1 and
WFP/EB.A/2009/6-B/1/Add.1)
- Financial Framework Review
(WFP/EB.A/2009/6-C/1)
- Progress Report on the Implementation of the
External Auditor Recommendations
(WFP/EB.A/2009/6-D/1)
- Report of the Inspector General
(WFP/EB.A/2009/6-E/1)
- Fifth Update on the WFP Management Plan
(2008–2009) (WFP/EB.A/2009/6-F/1)
- Annual Report of the WFP Audit Committee
(WFP/EB.A/2009/6-G/1)
- Update on the WINGS II Project
(WFP/EB.A/2009/6-I/1)

COPY OF LETTER RECEIVED FROM THE UNITED NATIONS — NEW YORK

Reference: AC/1683

Advisory Committee on
Administrative and Budgetary Questions

04 June 2009

Dear Ms. Sheeran,

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

- Audited Annual Accounts, 2008 (WFP/EB.A/2009/6-A/1)
- Appointment of Members to the Audit Committee (WFP/EB.A/2009/6-B/1 and WFP/EB.A/2009/6-B/1/Add.1)
- Financial Framework Review (WFP/EB.A/2009/6-C/1)
- Progress Report on the Implementation of the External Auditor Recommendations (WFP/EB.A/2009/6-D/1)
- Report of the Inspector General (WFP/EB.A/2009/6-E/1)
- Fifth Update on the WFP Management Plan (2008–2009) (WFP/EB.A/2009/6-F/1)
- Annual Report of the WFP Audit Committee (WFP/EB.A/2009/6-G/1)
- Update on the WINGS II Project (WFP/EB.A/2009/6-I/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,

Susan McLurg
Chairman

Ms. Josette Sheeran
Executive Director
World Food Programme
Via Cesare Giulio Viola, 68-70
00148 Rome, Italy
Encl.



WORLD FOOD PROGRAMME

Financial and Budgetary Matters

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee has considered the audited annual accounts of the World Food Programme (WFP) for 2008, reports of the WFP Audit Committee and of the Inspector General and other documents that are listed at the end of the present report. During its consideration of the reports, the Advisory Committee met with the Deputy Executive Director for Resource Management and Accountability and Chief Financial Officer, as well as other representatives of WFP, who provided additional information and clarification.

II. Audited Annual Accounts, 2008

2. The audited annual accounts, 2008 (WFP/EB.A/2009/6-A/1), which are submitted to the Executive Board for approval, are the first WFP annual financial statements prepared in accordance with the International Public Sector Accounting Standards (IPSAS). The document contains the Executive Director's statement, as well as Statements I to V on: the financial position of WFP as at 31 December 2008 and financial performance, changes in net assets, cash flow and comparison of budget and actual amounts for the year ended 31 December 2008.

3. The document also contains the report by the External Auditor on the audit of the 2008 financial statements. The Advisory Committee notes that the External Auditor has provided an unqualified audit opinion of the 2008 financial statements, which, in its view, is a commendable major achievement for WFP in the first year of the adoption of IPSAS. According to the External Auditor, WFP now needs to embed IPSAS in its financial management procedures and learn how to utilize the new financial information to better manage operations. In addition, the audited IPSAS-based financial statements offer an improved tool for WFP to analyse operational results and evaluate financial management (*ibid.*, sect II, executive summary).

4. With the introduction of IPSAS, the Executive Director proposes to amend WFP Financial Regulation 13.1, to "state that the financial statements shall be prepared in accordance with IPSAS". The full text of the amendment is provided in annex II to section I of the audited annual accounts (*ibid.*, para. 32). The Advisory Committee notes that, after discussion with WFP management and the External Auditor, the WFP Audit Committee has expressed support for the proposed amendment (WFP/EB.A/2009/6-G/1, paras.16 and 17). The Advisory Committee recommends that the Executive Board approve the proposed amendment.



5. In its annual report (WFP/EB.A/2009/6-G/1), the WFP Audit Committee notes that the introduction of IPSAS has been a multifaceted, time-bound, complex project, and that, thanks to effective leadership and careful risk management, it has been successfully delivered as originally envisaged. The Audit Committee further notes the factors that were key to the successful preparation of the annual financial statements of 2008 in full compliance with IPSAS, namely, the considerable effort made by WFP management, the extensive planning and training of field-based financial staff, as well as effective communications between WFP Headquarters and the field (*ibid.*, paras. 20).

6. WFP is the first United Nations programme to implement IPSAS, in line with the proposal of the High-Level Committee on Management of the Chief Executives Board for Coordination, as approved by the General Assembly in its resolution 60/283, that IPSAS be adopted by the United Nations (*ibid.*, paras. 3 and 12). The Advisory Committee reiterates that it is important for WFP to continue sharing information and lessons learned with the relevant organizations of the United Nations system, as the pioneer in IPSAS adoption (WFP/EB.1/2009/6/(A,B,C,D)/2, para. 22; also see para. 4 above).

7. The Advisory Committee notes from the report of the External Auditor (WFP/EB.A/2009/6-A/1, sect. II) that interest income in the amount of US\$ 48.1 million earned on investments was offset by realized and unrealized losses of US\$ 57.7 million in capital value, for a total negative return on investments of US\$ 9.6 million for 2008. The analysis by the External Auditor showed total losses on the investment portfolio of US\$ 64.7 million since acquisition, most of which were incurred on the short-term investment portfolio. The total value of short-term investments was US\$ 458 million at 31 December 2008 (*ibid.*, paras. 13 to 15).

8. Upon enquiry, the Advisory Committee was informed that, as of 31 December 2008, the return on investment for the short-term investment portfolio is 3.2 percent per annum since its inception from 1 February 2000. The positive medium-term performance contributed to US\$ 300 million of interest and income generated in the period from 2000 to 2007. In view of the developments in the financial markets since 2008, WFP has implemented more conservative investment guidelines. The main changes include: (a) exclusion of asset classes such as housing-related asset-backed securities and mortgage-backed securities, unless such securities are issued or guaranteed by government agencies; (b) reduced sector limits for credit exposure, in particular for corporate bonds, and increased sector limits for government agencies, and (c) minimum credit rating requirements raised for both short- and long-term investments. The Advisory Committee notes the adoption of more conservative guidelines by WFP in response to volatility in the financial markets. The Committee appreciates the gains accrued on both medium- and long-term investments. The Committee stresses the importance of continuous monitoring of the impact of WFP investment policies and its reporting to the Executive Board in its future sessions.



III. Appointment of Members to the Audit Committee and Annual Report of the Audit Committee

9. According to WFP, its Audit Committee was an internal management committee until 2004, when the Executive Director introduced new terms of reference and appointed members who were in the majority external to WFP (WFP/EB.A/2009/6-G/1, paras.1 and 4). Among other things, the terms of reference required the Audit Committee to submit an annual report to the Executive Director, and the report was available to the Executive Board for information purposes.

10. The Advisory Committee notes that, at its first regular session in 2009, the Executive Board endorsed the creation of the WFP Audit Committee as an independent advisory body reporting both to the Board and the Executive Director and approved the principles set forth in the terms of reference of the Audit Committee proposed by the WFP External Auditor (WFP/EB.A/2009/6-B/1, para. 1). In this regard, the Advisory Committee recalls its recommendation with respect to appointment of members of the Audit Committee as contained in paragraph 5 of document WFP/EB.1/2009/6/(A,B,C,D)/2. Under the revised terms of reference, the Executive Board would approve the appointment of members of the Audit Committee upon recommendation of the Executive Director in accordance with the following criteria: (a) members shall possess recent and relevant financial experience; (b) one or more members shall have some senior-level audit experience and (c) all members are independent of the WFP Secretariat and the Executive Board (ibid. para. 5). The Executive Board has also agreed that appointments under the revised terms of reference would be phased in as members of the existing Audit Committee complete their terms (ibid., para. 1). The current members and expiry dates of their terms are reflected in paragraph 2 of the document.

11. In document WFP/EB.A/2009/6-B/1, the Executive Director recommends to the Executive Board that it approve the appointment of two members to the Audit Committee. Their curricula vitae are provided in document WFP/EB.A/2009/6-B/1/Add.1. The Advisory Committee has no objection to the proposed candidates.

12. In its annual report, the Audit Committee (WFP/EB.A/2009/6-G/1) provides an overview of the work of the Committee from 1 April 2008 to 31 March 2009 and highlights issues that require the attention of the Executive Director and the Executive Board. Major issues discussed include: (a) International Public Sector Accounting Standards (IPSAS) and financial statements; (b) effectiveness of internal controls; (c) Office of the Inspector General; (d) external audit; (e) implementation of audit recommendations; (f) enterprise risk management, and (g) the WINGS II project. The comments and recommendations of the Audit Committee with respect to the issues are reflected, where appropriate, in the relevant sections of the present report. The Advisory Committee notes the recommendations of the Audit Committee with respect to internal controls policy and enterprise risk management (ibid., paras. 25 to 28 and 44 to 50) and recommends that WFP follow up on these recommendations in a timely manner.



IV. Progress Report on the Implementation of the External Auditor Recommendations

13. A progress report on the implementation of the recommendations of the External Auditor (WFP/EB.A/2009/6-D/1) is submitted to the Executive Board for consideration. The Advisory Committee notes that this is the first annual progress report, as recommended by the Advisory Committee (WFP/EB.2/2007/5(A,B,C,D,E,F,G)/2*, para. 14), to replace the previous cycle of submitting three progress reports annually. The Advisory Committee welcomes this change.

14. The progress report covers actions by WFP in relation to the audit reports issued by the External Auditor from June 2008 to April 2009, as well as comments by the External Auditor on implementation of the previous recommendations. A summary of the implementation status with respect to seven audit reports issued from May 2005 to April 2009 is provided in a table under paragraph 5 of the progress report.

15. The WFP Audit Committee has noted with concern in its annual report (WFP/EB.A/2009/6-G/1) that, while the management has succeeded in reducing the number of outstanding recommendations during the reporting period, a large number of recommendations remain to be implemented. The Advisory Committee notes that the Audit Committee has, however, welcomed the recent initiatives by WFP to speed up the process, including the effort to group together similar recommendations and to make the Chief Operating Officer responsible for the overall follow-up and implementation of audit recommendations (*ibid.*, paras. 41 to 43). The Advisory Committee stresses the importance of continuous improvement in the expeditious implementation of the recommendations of the External Auditor.

Results-based management

16. The External Auditor issued a report in September 2008 entitled “Managing for results: a second review of progress in implementing results-based management”. The External Auditor has recommended (recommendation 11) that WFP senior management demonstrate continued commitment to results-based management (RBM) and WFP has agreed to the recommendation. The Advisory Committee notes the response by WFP that RBM has been mainstreamed within the organization and that a RBM Coordination Unit has been created in the Office of the Executive Director as the focal point for RBM in WFP to, *inter alia*, guide and build the capacity of staff, update RBM policies and guidelines, review performance and provide feedback for internal and external users (*ibid.*). In this connection, WFP intends to (a) issue an Executive Director’s circular; (b) reconstitute the RBM task managers and focal points network; (c) update the RBM orientation guide and (d) update the work planning and performance review guidelines and tools. The Advisory Committee welcomes these initiatives by WFP and expects that WFP will share its experience and lessons-learned. In addition, the Advisory Committee takes note of recommendation 8 on the WFP performance and competency enhancement (PACE) system and encourages WFP to continue to monitor progress in the implementation of the specific measures identified in this regard.



V. Report of the Inspector General

17. The report of the Inspector General (WFP/EB.A/2009/6-E/1), the first annual report after amendments to the WFP General Regulations, provides an overview of the oversight activities of the Oversight Services Division (OSD) for the period from January to December 2008, with a summary of audits, inspections, investigations and other advisory services, as well as the most significant findings (*ibid.*, paras. 2 and 4). The audit and investigation activities undertaken are listed in Annexes I and II to the report. Tables 1 to 5 of the report provide information with respect to the trend of activities, resources, processes covered in 2008 audits, audit observations by levels of risk severity and investigations.

18. The Advisory Committee notes from the report of the Inspector General that the number of complaints dropped by 4 percent, from 180 in 2007 to 174 in 2008, which included categories of harassment/sexual harassment/abuse of power, sexual exploitation, conflict of interest/bribery, food diversion, fraud and others. Of the 174 complaints recorded, 49 were converted into cases for investigation, a 25 percent decrease from 2007 (*ibid.*, para. 35). The Committee also notes that the total financial loss from cases investigated in 2008 amounted to US\$ 853,098 and the total recovery in the year was only US\$ 41,196 (*ibid.*, para. 39).

19. According to the Inspector General, WFP made improvements in oversight at the organizational level in 2008. Controls and systems in the organization have been improved by: (a) better tracking and monitoring of audit recommendations; (b) development of a governance framework for ICT; (c) establishment of the Ethics Office; (d) implementation of a financial and conflict-of-interest disclosure programme, and (e) the revision of the whistleblower protection policy to separate the roles of the Ethics Office and OSD (*ibid.*, para. 41). The main weaknesses identified are summarized in paragraphs 43 to 61 of the report of the Inspector General. It is indicated that recommendations for improvement have been accepted by the management and are being implemented. The Advisory Committee encourages WFP to implement the internal audit recommendations in an expeditious manner and to provide clear and timely guidelines to field offices to improve implementation.

20. The comments and recommendations by the WFP Audit Committee on the work of the Office of the Inspector General are contained in paragraphs 29 to 37 of the annual report of the Audit Committee (WFP/EB.A/2009/6-G/1; see also para. 11 above). The Audit Committee has recommended that the Office of Internal Audit come up with more meaningful metrics to show not only achievement of its audit plan, but also the impact of its work on WFP. The Advisory Committee considers this an important recommendation and encourages WFP to develop such metrics as recommended by the Audit Committee. With respect to the Office of Inspections and Investigations, it is anticipated by the Audit Committee that the work will likely increase as the whistleblower policy becomes better known and the Ethics Office becomes effective, which will need careful management and resources.



VI. Financial Framework Review

21. The Advisory Committee notes that WFP has initiated a financial framework review process that aims at ensuring that its financial framework is responsive to the challenges of the external environment and is aligned with its strategic processes (WFP/EB.A/2009/6-C/1, paras. 8 to 9). The three essential areas identified for the review include:

- (a) Ensuring the predictability and stability of the funding of WFP;
- (b) Achieving a higher level of flexibility and effectiveness in resource usage;
- (c) Reinforcing transparency in the allocation of resources.

Details with respect to the context and scope of the review are provided in paragraphs 4 to 10 of the document, which is being submitted to the Executive Board for consideration.

22. The Advisory Committee also notes that a Strategic Resource Allocation Committee, chaired by the Deputy Executive Director for Resource Management and Accountability and Chief Financial Officer, was being formed in May 2009, in tandem with the creation of a new Resource Management and Accountability Department within WFP. The Committee is to oversee the review process and the financial management and resource allocation activities in WFP, and to make recommendations to the Executive Director (*ibid.*, paras. 11 to 15).

23. WFP acknowledges that a critical feature of the review process will be regular dialogue with the WFP membership and therefore three meetings are currently planned between May and October 2009 to discuss (a) the background and context of the financial framework review; (b) benchmarking with comparable United Nations agencies and non-governmental organizations; and (c) mitigating volatility and improving predictability (*ibid.*, para. 16). The Advisory Committee encourages WFP to engage the Executive Board fully in the review process.

24. It is expected by WFP that two documents from the financial framework review will be presented to the Executive Board, the first on the results of the review at the 2009 second regular session and the second on changes requiring the approval of the Board at the 2010 first regular session (*ibid.*, paras. 16 and 17).

VII. Fifth Update on the WFP management Plan (2008–2009)

Revised requirements for 2008–2009

25. The fifth update on the WFP management plan 2008–2009 (WFP/EB.A/2009/6-F/1, paras. 1 to 9) provides the latest revised requirements for the biennium, as at 31 March 2009, which amount to US\$ 11,779 million, compared with US\$ 10,851 million as reflected in the fourth update of the management plan. WFP indicates that this is the final update of the management plan for 2008–2009. The Advisory Committee notes from the update that food prices, which went through unprecedented volatility and were one of the major contributors to the upward revision of the requirements during 2008, have stabilized in 2009 (*ibid.*, para. 11).



26. The revised estimates for 2009 have increased by US\$ 749 million, reflecting additional requirements in new and existing operations in Uganda, Kenya, the Occupied Palestinian Territory, Somalia, Pakistan, Iraq, the Democratic Republic of the Congo, Haiti and others (ibid., paras. 10, 12, Table 2 and Annex II). WFP indicates that, in line with the requirements of IPSAS, the revised requirements of US\$ 5,805 million for 2008 will be the final approved budget, against which expenditures will be compared (ibid., para. 8).

Hedging

27. The practice by WFP for hedging the euro component of the Programme Support and Administrative (PSA) expenses is described in paragraphs 20 to 24 of the report. WFP indicates that it entered into hedging arrangements for €4.8 million per month for 2009 and that it would report on the full impact of the implementation of this arrangement for the year 2009. The Advisory Committee expects that this evaluation will be duly reported to the Executive Board. WFP intends to continue to hedge euro expenditure for 2010 and 2011 by entering into hedging arrangements from mid-2009 for approximately €5 million per month. WFP will incorporate the average euro/US dollar rate of the hedging contracts in the management plan for 2010–2011, which, according to WFP, would result in certainty of the US dollar value of euro-dominated PSA expenditure and benefit the planning process for the management plan.

VIII. Update on the WINGS II Project

28. The update, contained in document WFP/EB.A/2009/6-I/1 for information, is the seventh progress report on the WFP Information Network and Global System II (WINGS II) project. Implementation of WINGS II is currently scheduled to start on 1 July 2009, when the current WINGS system will be switched off and WINGS II will be switched on (ibid., para. 3). The ongoing preparations, including configuration, testing, data migration and training, are discussed in paragraphs 6 to 13 of the document. The scope of WINGS II and its release approach are reflected in the annex to the document.

29. The Advisory Committee notes that, as of March 2009, expenditure of US\$ 41 million had been reported against the allocation of US\$ 56.5 million for the project. WFP indicates that the allocation for the project would be fully utilized (ibid., para. 22).

30. The Advisory Committee recalls that, following an internal survey to assess WFP's preparedness to implement changes to its information system and business processes by the WINGS II project, it was decided in 2007 that changes would be initiated, at the beginning, at a reduced and more manageable level (WFP/EB.2/2007/5(A,B,C,D,E,F,G)/2*, para. 15). As a result, some functionalities of the new system have been deferred from the WINGS II 2009 edition. Upon enquiry, the Advisory Committee was informed that those functionalities were not critical for the business continuity of WFP at the start of the WINGS II project. Based on their relative priority and availability of resources, WFP expects that the deferred functionalities would be delivered in the 2010 and 2011 editions. It is envisaged that a timetable for the delivery would be presented to the Executive Board at its second regular



session in November 2009 and that the budgetary implications would be included in the management plan for 2010–2011.

31. The Advisory Committee notes from the report of the WFP Audit Committee that the development of WINGS II has experienced extensive delays with cost overruns. It is not yet evident at this stage that the project will deliver everything that was initially promised to the Executive Board. The WFP Audit Committee has recommended that after implementation, the entire WINGS II project be evaluated to determine to what extent it delivered the expected benefits and at what cost to WFP (WFP/EB.A/2009/6-G/1, paras. 51 to 52).

32. Upon enquiry, the Advisory Committee was informed that the performance of the WINGS II project would only become evident after implementation of the project. In this connection, the Advisory Committee notes that an assessment of the benefits resulting from the implementation of the WINGS II project is to be conducted in 2010 after the stabilization of the system. The assessment will be made against a set of indicators, including expected changes and benefits for each business area and expected benefits for the technology stream. The result of the assessment will be reported to the Executive Board (WFP/EB.A/2009/6-I/1, para. 21).

IX. Other issues

33. Upon enquiry, the Advisory Committee was provided information with respect to WFP collaboration on air operations with the United Nations peacekeeping operations. The Committee was informed that cooperation had been active for years both at the Headquarters and field levels, including, inter alia, the common adoption of the United Nations Aviation Standards, sharing of information between respective aviation safety units, development of a joint inspection system, participation in each other's aviation meetings and technical assistance and services provided by the Department of Field Support to the United Nations Humanitarian Air Service (UNHAS). The Advisory Committee encourages continued collaboration and information sharing in this regard.



Documentation*For approval*

- Audited Annual Accounts, 2008 (WFP/EB.A/2009/6-A/1)
- Appointment of Members to the Audit Committee (WFP/EB.A/2009/6-B/1 and Add.1)

For consideration

- Financial Framework Review (WFP/EB.A/2009/6-C/1)
- Progress Report on the Implementation of the External Auditor Recommendations (WFP/EB.A/2009/6-D/1)
- Report of the Inspector General (WFP/EB.A/2009/6-E/1)
- Fifth Update on the WFP Management Plan (2008–2009) (WFP/EB.A/2009/6-F/1)
- Annual Report of the WFP Audit Committee (WFP/EB.A/2009/6-G/1)

For information

- Report of the Executive Director on the Utilization of Contributions and Waivers of Costs (General Rules XII.4 and XIII.4 (G)) (WFP/EB.A/2009/6-H/1)
- Update on the WINGS II Project (WFP/EB.A/2009/6-I/1)