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RESOURCE, FINANCIAL AND BUDGETARY MATTERS

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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 (2008–2009) (WFP/EB.1/2009/6-A/1 + Corr.1)
- Information Note: Additional Information on the Third Update on the WFP Management Plan (2008–2009) (WFP/EB.1/2009/6-A/1/Add.1)
- WFP Audit Committee Terms of Reference (WFP/EB.1/2009/6-B/1)
- Appointment of the External Auditor (WFP/EB.1/2009/6-C/1)
- Report of the External Auditor on Preparedness for IPSAS and WINGS II (WFP/EB.1/2009/6-D/1)
- Response of the Secretariat to the Report of the External Auditor on Preparedness for IPSAS and WINGS II (WFP/EB.1/2009/6-D/1/Add.1)

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Reference: AC/1675

Advisory Committee on
Administrative and Budgetary Questions

05 February 2009

Dear Ms. Sheeran,

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

- Fourth Update on the WFP Management Plan (2008–2009) (WFP/EB.1/2009/6-A/1)
- Information Note: Additional Information on the Third Update on the WFP Management Plan (2008–2009) (WFP/EB.1/2009/6-A/1/Add.1)
- Report of the External Auditor on Preparedness for IPSAS and WINGS II (WFP/EB.1/2009/6-D/1)
- Response of the Secretariat to the Report of the External Auditor on Preparedness for IPSAS and WINGS II (WFP/EB.1/2009/6-D/1/Add.1)
- WFP Audit Committee Terms of Reference (WFP/EB.1/2009/6-B/1)
- Appointment of the External Auditor (WFP/EB.1/2009/6-C/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

1. The Advisory Committee has considered the World Food Programme's reports on the terms of reference of the Audit Committee; the appointment of the External Auditor; preparedness for IPSAS and WINGS II; and the fourth update on the Management Plan for 2008-2009. The complete list of documents before the Committee is annexed to the present report. During its consideration of these reports, the Advisory Committee met by videoconference with representatives of the World Food Programme, who provided additional information and clarifications.

I. WFP Audit Committee Terms of Reference

2. The Advisory Committee notes that the report was prepared by the External Auditor at the request of the President of the Executive Board and presents advice on the role, mandate and composition of an audit committee for WFP. The Committee notes the quality and clarity of the report.

3. The Committee was informed that the proposed terms of reference of the WFP Audit Committee would be finalized in light of the deliberations of the Executive Board during its first regular session in February 2009 and submitted to the Board for adoption at its June 2009 session. It understands that the existing Audit Committee, which was put into place by the Executive Director in July 2004, was intended as a temporary arrangement until such time as a definitive decision was taken by the Executive Board.

4. In the paragraphs below, the Committee makes a number of observations on issues which, in its view, merit further review and clarification. It has confined its comments mostly to observations of a general nature and has not undertaken a line by line review of the proposed terms of reference. The Committee trusts that the Executive Board will take these observations into account when it examines the proposed terms of reference of the WFP Audit Committee.

Members of the Audit Committee

5. The proposed terms of reference provide that the Audit Committee should be appointed by the Executive Board on the Executive Director's recommendation. In the Committee's view, the Executive Board may wish to consider whether nomination of the members of the Audit Committee by the Executive Director compromises the independence of the Audit Committee from management. The Committee draws the attention of the Executive Board to the arrangement in effect at the United Nations, under which members of the Independent Advisory Audit Committee (IAAC) are nominated by Member States for appointment by the



General Assembly. The Committee notes the External Auditor's observations concerning the independence of the Audit Committee in paragraph 38 of the report.

6. It is the view of the Committee that the effectiveness of the Audit Committee will depend on the expertise of its members, who should be suitably qualified with recent and relevant senior-level financial, audit and oversight related experience. The Committee also emphasizes the importance of clear and verifiable qualifications and recommends that the Executive Board develop procedures to verify the qualifications of prospective members.

Meetings and reporting

7. The terms of reference of the WFP Audit Committee specify that the Committee shall meet at least four times a year and also include provisions for the convocation of those meetings. The Committee believes that reporting requirements should be further specified, including the content and scope of annual reports and other outputs on the Audit Committee's findings. In addition, details could be included on the coordination of the timing of the meetings with the activities of the Executive Board, as well as the circumstances under which additional meetings of the Audit Committee could be called.

Role and Mandate

8. The Committee recommends that the terms of reference of the WFP Audit Committee clearly reflect the following:

- The purely advisory role of the Audit Committee, with no administrative or operational functions;
- The primary role of the Audit Committee, to serve in an expert advisory capacity to assist the Executive Board in discharging its oversight function. In this connection, the Advisory Committee emphasizes the need to make the reports of the Audit Committee available to members of the Executive Board;
- The responsibility of the Audit Committee to advise the Executive Board on the effectiveness of the audit and oversight entities, as well as on any issues it considers appropriate concerning the scope, content and outcome of the work of those entities; and
- The independence of the Audit Committee.

9. The rationale for an Audit Committee in terms of improved governance is well set out in the External Auditor's report. The resulting recommendations are contained in paragraph 7, which the Committee supports. It believes that the Audit Committee should fill gaps under current arrangements for internal and external oversight, thereby maximizing added value. The Committee emphasizes the need to avoid duplication, and to ensure that the functions of the Audit Committee do not overlap those of other oversight bodies, nor should it substitute for these bodies.



10. With respect to the Audit Committee's role in referring audit issues to the investigations unit (Annex 1, paragraph 2h), the Committee was informed that this provision was included as a failsafe mechanism of last resort - the Audit Committee is not intended to be the main body referring cases to the investigations unit. As regards the provision in paragraph 3b of the proposed terms of reference, the Committee is of the view that the Audit Committee should be given the authority to obtain the necessary information in fulfilling its mandate.

II. Appointment of the External Auditor

11. The report is submitted to the Executive Board for approval of the proposed change of financial regulation 14.2 specifying a modified procedure for the appointment of the External Auditor.¹ The proposed change is as follows:

“The External Auditor shall be appointed through a competitive selection process for a non-renewable six-year term. Another appointment may be possible after a break of at least one term.”

12. As indicated in the Executive Director's report, the appointment method seeks to maintain a balance between the benefits of continuity and the benefits of change and reasonable rotation. The Committee was informed that the proposal was a result of extensive deliberations within the Executive Board and its bureau. The Committee notes that the proposed tenure of members of the Audit Committee would be the same as that of the Board of Auditors, and that this approach is favoured by the United Nations and its funds and programmes in the context of the discussions on the harmonization of the Financial Regulations.

13. The Committee emphasizes the importance of assuring a technically sound, transparent and fair selection process. It invites the Executive Board, during its deliberations on this matter, to consider the United Nations model as regards the mode of selection of the External Auditor and financing of audit fees, which is based on an electoral process rather than competitive bidding, and a fixed fee for services rendered.

14. The Committee has no objection to the change of financial regulation 14.2 as proposed.

III. Preparedness for IPSAS and WINGS II

15. The Report of the External Auditor on preparedness for WINGS II and IPSAS and the accompanying response of the Secretariat are submitted to the Executive Board for its consideration.

¹ Under current procedures the External Auditor is appointed by the Executive Board for a four-year term and may be reappointed for one further four-year term. The current and previous external auditors were initially appointed through a competitive process, but reappointed without a tender procedure.



WINGS II implementation

16. The External Auditor has noted that since the project commenced, the Executive Board has been advised of changes to the scope of WINGS II, the projected implementation date and estimated costs. He also points out that the delays and changes in WINGS II present challenges for the implementation of IPSAS which need to be addressed.

17. During its discussions with the representatives of WFP, the Committee was informed that priority was given to ensuring that a robust, fully functional system was put into place, rather than focusing only on an early implementation date. The Committee was further informed that some of the delays were due to WFP's decision to limit customization and maintain the original functionality of the ERP software. This approach requires additional efforts during implementation related to the analysis and introduction of modified work processes to adapt to the functionality of the standard software and also has an impact on the complexity of processes for migrating data from the old to the new systems. As regards the impact of such delays on the costs of the project, the Committee was informed that WFP did not expect to exceed the overall budget and contingency provision set aside for the project.

18. The Committee notes from the report of the External Auditor that, despite the restrictions to the scope of the project introduced in October 2007 and February 2008, all planned changes will be delivered, although some have been deferred beyond the 1 April 2009 implementation date (WFP/EB.1/2009/6-D/1, paras. 41-43; appendix 1). The External Auditor has recommended that WFP establish a clear and costed timetable for the implementation of the elements of WINGS II which are currently deferred, indicating that this action is necessary to support improved efficiency and a sound level of internal financial control for the future (recommendation 3). The Committee notes from paragraphs 11 and 12 of the response document that the secretariat plans to introduce a limited set of functionality improvements through annual editions of WINGS II and that, deferred improvements, especially those that improve internal financial controls and operational efficiency, would have priority for the 2010 and subsequent editions. The Committee was informed that details on these improvements will be included in the Management Plan for 2010-2011.

19. The Committee agrees with recommendation 2 of the External Auditor that "WFP should revisit its decision not to assess the savings arising from the introduction of WINGS II and capture information at a sufficient level of detail to demonstrate that the project expenditure represents money well spent". It notes from paragraphs 9 and 10 of the response document that the Secretariat will develop an approach for measuring the benefits realized from the upgrade, including qualitative and, where possible, quantitative measures, and that an assessment of the level of benefits delivered will be carried out after a suitable period of time has elapsed. WFP further indicates that these results will be used to help inform future investment decisions and a summary of the conclusions may be presented to the Executive Board around the end of 2010. In the Committee's view, the importance of making the results of such assessments available cannot be over-emphasized, particularly as regards the outcome of such large, complex, consequential and costly projects. This type of information is essential to support decision-making, not only at WFP, but also at other entities of the United Nations system. The Committee trusts that a sufficient level of data will be captured to allow a thorough analysis of the savings realized from the implementation of WINGS II. It encourages WFP to carry out such an assessment at the earliest opportunity and looks forward to reviewing WFP's report on this subject.



20. The Committee trusts that WFP will carry out an internal review of the implementation of WINGS II in order to identify the sources of the delays as well as the issues that continue to present challenges and risks of further lapses. The Committee also emphasizes the importance of adhering to the original purpose and design of the project in order to achieve its goals and realize the benefits anticipated. The Committee recommends that the Executive Board continue to monitor and maintain close oversight over this project.

IPSAS compliance

21. The External Auditor's observations and findings are based on a review of a set of "dry-run" accounts covering the first nine months of 2008 and are intended to assist WFP management in preparing the full-year accounts. The External Auditor concludes that, while much progress has been made, there remain a number of significant issues which need to be resolved, and work which urgently needs to be done, if a successful result is to be achieved. The Committee also notes that delays and changes in WINGS II present challenges for the implementation of IPSAS which need to be addressed.

22. The Committee was informed that WFP expects to produce IPSAS-compliant financial statements for 2008. The Committee stresses the need to continue efforts in this regard to comprehensively address the issues raised in the report of the External Auditor and to continue to provide a high level of quality assurance in the process. Furthermore, the Committee emphasizes the importance that WFP, as an early adopter of IPSAS, share lessons learned with other entities of the United Nations system as they embark on similar projects.

IV. Fourth Update on the Management Plan for 2008-2009

23. The report on the fourth update of the Management Plan 2008-2009 is submitted to the Executive Board for consideration. The Committee notes that the 2009 re-costed requirements amount to US\$4.8 billion, some 17 percent lower than the estimate of US\$5.72 billion established in the third update. The change is largely due to the net effect of reduced commodity and fuel prices and an increase in the value of the United States dollar. In addition, new requirements of US\$449 million have arisen since the third Management Plan update, bringing the new total up to US\$5.2 billion. The total programme of work for the biennium 2008-2009 is now estimated at US\$10.9 billion, down from the US\$11.4 billion estimate of the third update, in October 2008. The Committee notes that the projected programme support and administrative (PSA) expenditures are based on an estimated funding level of some US\$8 billion for the biennium. It was informed that this constitutes a conservative estimate used for budgeting purposes. In fact, WFP expects to raise a higher level of resources and plans to use any surplus PSA income to replenish its PSA reserves, which have somewhat eroded over the past two years. The Committee welcomes WFP's efforts in producing a thorough analysis of market fluctuations and trends. In view of the prevailing levels of volatility in food and fuel prices, the Committee encourages WFP to continue to develop and manage its programme of work on the basis of a prudent budgeting approach.



24. The Committee welcomes the submission of the additional information on the Third Update on the WFP Management Plan for the biennium 2008–2009 (WFP/EB.1/2009/6-A/1/Add.1), which, as requested by the Advisory Committee in its previous report (WFP/EB.2/2008/5(A,B,C,D)/2, para. 9), provides further rationale for priorities and posts along with details on support costs and posts funded at Headquarters from the programme support account (PSA) and in country offices from direct support costs (DSC). In this connection, the Committee questioned the need for separate divisions for external and donor relations and enquired whether it would be possible to rationalize these functions by combining them under a single structure. The Committee was informed that both divisions are located in the same department: the Donor Relations Division deals with governments and fundraising, while the External Relations Division works at the inter-agency level with other entities of the system. The Committee recommends that efforts be made to maximize efficient utilization of resources and to ensure coordination between the two divisions.

25. From paragraph 32 of the report, the Committee notes the loss of US\$20 million incurred under the interest income of the General Fund during the first 11 months of 2008. The Committee recognizes the impact of the financial market crisis on the performance of short-term investments and notes the actions taken to limit risks (see paragraph 33). The Committee requests WFP to continue to monitor the financial situation closely and review its investment position with a view towards avoiding further losses.

26. The Committee notes WFP's intention, in response to the Committee's recommendation (see para. 9 of the report), to redirect US\$1 million of PSA in 2009 from within the current PSA appropriations to the Office of Evaluation for project-specific evaluations, instead of using direct support cost (DSC) funds. The Committee was informed that this arrangement would assure funding for the Office and allow it to establish its programme of work for 2009 independent of the availability of funding for country offices.

27. The Committee enquired as to the experiences gained and results obtained through the hedging policy put into place to protect WFP against exchange rate fluctuations. The Committee was informed that it was premature to draw conclusions at this stage and that a report containing WFP's experiences and analyses would be submitted to the Executive Board at its June 2009 session (see also para. 29 below).

28. On a related issue, the Committee encourages WFP to draw upon the lessons learned from the extreme volatility of food prices during the 2007–2009 period and to develop strategies for protecting its operations from such volatility, for example, by taking advantage of periods of low prices to build up food stocks, when feasible. The Committee was informed that WFP has initiated discussions internally and with the Executive Board for a complete review of its financial framework, including voluntary funding and hedging for commodities and intended to issue a preliminary paper on this subject in June 2009. The underlying studies are conducted in collaboration with the World Bank.

29. The Committee looks forward to reviewing the above-mentioned papers. The Committee considers that WFP's experiences and analysis with respect to hedging policies are relevant for other entities of the United Nations system and requests that WFP share its experiences and expertise in the context of the Chief Executives Board (CEB).



30. The Committee enquired as to the status of the establishment of the unit proposed for strengthening risk-management and results-based management (WFP/EB.2/2008/5-B/1/Add.1, para 15; WFP/EB.2/2008/5 (A,B,C,D)/2, para.17). It was informed that the unit had been created and the Director appointed, and that WFP intended to submit a progress report to the Executive Board at its June 2009 session. The Committee considers that initiatives related to risk-management and results-based management are of interest to all the entities of the United Nations and requests that this report be submitted to the Executive Board through the ACABQ.



Documentation

For approval

1. WFP/EB.1/2009/6-B/1 WFP Audit Committee Terms of Reference
2. WFP/EB.1/2009/6-C/1 Appointment of the External Auditor

For consideration

3. WFP/EB.1/2009/6-D/1 Report of the External Auditor on Preparedness for IPSAS and WINGS II
4. WFP/EB.1/2009/6-D/1/Add.1 Response of the Secretariat to the Report of the External Auditor on Preparedness for IPSAS and WINGS II
5. WFP/EB.1/2009/6-A/1 + Corr.1 Fourth Update on the WFP Management Plan (2008–2009)

For information

6. WFP/EB.1/2009/6-A/1/Add.1 Information Note: Additional Information on the Third Update on the WFP Management Plan (2008–2009)