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Programme  
Alimentaire  
Mondial

World  
Food  
Programme

Programa  
Mundial  
de Alimentos

**Executive Board  
Third Regular Session**

**Rome, 19 - 22 October 1998**

# **RESOURCE AND FINANCIAL MATTERS**

**Agenda item 4**



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## **AUDITED BIENNIAL ACCOUNTS (1996–97)**

### **Financial Report and Statements**

This document is produced in a limited number of copies. Delegates and observers are kindly requested to bring it to the meetings and to refrain from asking for additional copies.

## NOTE TO THE EXECUTIVE BOARD

**This document contains recommendations for review and approval  
by the Executive Board.**

Pursuant to the decisions taken on the methods of work by the Executive Board at its First Regular Session of 1996, the documentation prepared by the Secretariat for the Board has been kept brief and decision-oriented. The meetings of the Executive Board are to be conducted in a business-like manner, with increased dialogue and exchanges between delegations and the Secretariat. Efforts to promote these guiding principles will continue to be pursued by the Secretariat.

The Secretariat therefore invites members of the Board who may have questions of a technical nature with regard to this document, to contact the WFP staff member(s) listed below, preferably well in advance of the Board's meeting. This procedure is designed to facilitate the Board's consideration of the document in the plenary.

The WFP focal point for this document is:

Chief, FSFA

Ms. L. Elliott

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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact the Documentation and Meetings Clerk (tel.: 066513-2641).

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## **SUBMISSION BY THE EXECUTIVE DIRECTOR<sup>1</sup>**

The Executive Director submits herewith the financial statements in respect of the WFP Fund, including its funds and accounts for the biennium 1996–97 in accordance with General Regulation XIV. 6 (b) and Financial Regulation 13.1.

In line with General Regulation XIV.6 (b), the Executive Director transmits herewith the opinion and report of the External Auditor on the audit of the financial statements and relevant schedules relating to the accounts of the 1996–97 financial period as provided in Financial Regulation 14.8.

Pursuant to General Regulation XIV.6, the Executive Director concomitantly submits the financial statements and the opinion and report of the External Auditor to the FAO Finance Committee and the Advisory Committee on Administrative and Budgetary Questions (ACABQ) for their review and comments. The reports of these bodies are submitted to the Board as addenda to this document.

In addition, the Executive Director submits two progress reports on the implementation by the Secretariat of recommendations contained in the reports of the External Auditor for the prior biennium, 1994–95, and for the present biennium, 1996–97.

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<sup>1</sup> The provisions cited herein refer to the WFP General Regulations and Financial Regulations that took effect on 1 January 1998.

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## TABLE OF CONTENTS

	Page
Statement of the Executive Director	5
Opinion of the External Auditor	13
Certification of Financial Statements	14
Financial Statement 1996–97	15
Report of the External Auditor	43
Progress report on the implementation of recommendations in the 1996–97 audit report of the External Auditor	71
Progress report on the implementation of recommendations in the 1994–95 audit report of the External Auditor	91

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## STATEMENT OF THE EXECUTIVE DIRECTOR

### Introduction

1. Under the World Food Programme (WFP)'s General Regulation 29 (c) (replaced by General Regulation XIV.3 as of 1 January 1998) and Financial Regulation 10.1 (replaced by Financial Regulation 13.1 as of 1 January 1998), the Executive Director is accountable to the Executive Board and responsible for the operation and administration of the Programme, including the audited accounts.
2. The Executive Director has the honour to submit her statement on the financial position of WFP for the 1996-97 biennium, together with the financial statements and the opinion of the External Auditor.
3. For the first time, this biennium, a consolidated package of financial and accounting information is presented to the Executive Board. This Executive Director's statement, which highlights significant aspects of the financial statements and offers further details and explanations, makes up the first part of the Audited Financial Statements document. In the second part the biennial financial statements and the opinion of the External Auditor are presented. The External Auditor has again issued a clean opinion on WFP's financial statements for the biennium 1996-97. These statements are thus, in the opinion of the External Auditor, fairly presented. Thirdly, the External Auditor's Long-Form Report is presented verbatim. Here the External Auditor amplifies on observations and recommendations made during the course of his audit. The two final documents in the package present, in matrix form, an update of WFP's responses to and actions taken as a result of the External Auditor's Long-Form Reports, both for the prior biennium 1994-95 and for the biennium 1996-97.
4. The Executive Director attaches great importance to audit recommendations. Substantial work has gone into following up the 1994-95 recommendations and significant progress has been made.

### Resource and Long-term Financing policies

5. The financial statements are prepared in accordance with the Resource and Long-term Financing policies as approved by the Fortieth Session of the Committee on Food Aid Policies and Programmes (CFA) in November 1995. This is the first biennium of the new Resource and Long-term Financing policies and a number of new concepts implemented during the biennium are reflected in the statements, involving the classification of activities, contributions and costs. WFP's General and Financial Regulations have been revised with effect from 1 January 1998 to encompass the new financing policies.

### Activities

6. The activities of WFP are classified into four programme category funds, depending on the nature of the activity. These are: Development, Emergencies, Protracted Relief Operations and Special Operations.

## Contributions

7. Contributions are classified into one of three funding windows, depending on the conditions applied by the donor. The Multilateral funding window covers undirected contributions and contributions directed towards a specific programme category but not tied to a particular project, although they may be given in response to an appeal. In the 1996-97 biennium WFP received contributions totalling US\$796 million under the Multilateral funding window. Contributions directed towards a specific WFP activity are classified as Directed Multilateral; such contributions totalled US\$1,330.5 million for the biennium. Bilateral contributions are specifically directed to a project or operation which is not initiated by WFP, but is nevertheless consistent with WFP's Mission Statement. WFP received US\$26.5 million of Bilateral contributions in the 1996-97 biennium. The details of contributions for each funding window and programme category are given in Note 3 to the accounts.
8. The new Resource and Long-term Financing policies came into effect from 1 January 1996, but during the 1996-97 biennium WFP continued to call forward and receive funds and commodities from donors who had confirmed their contributions during the previous funding regime. Such amounts are accounted for under a fourth funding window, *Prior 96*. As activities funded by these older contributions come to an end, the *Prior 96* funding window will gradually be phased out. In the 1996-97 biennium WFP received US\$363.9 million under *Prior 96* contributions.
9. In addition to funds received under the three funding windows, WFP received US\$4.4 million earmarked for the Special Accounts in the General Fund. This is detailed in Note 3.5 to the accounts.

## Costs

10. At the Fortieth Session of the CFA, the governing body affirmed the principle of full-cost recovery. Donors pay for the full cost associated with their contributions, including direct operational costs, direct support costs and indirect support costs. Direct support costs include those costs directly linked to the operation which would not be incurred should that activity cease. Indirect support costs are those associated with supporting WFP in general but not directly linked to a specific operation. In the 1996-97 biennium, direct operational costs totalled US\$2,007.6 million, direct support costs US\$141.3 million and indirect support costs US\$228.9 million. These costs are detailed in Statement I and Note 3 to the accounts.

## Procurement

11. In the course of their audit of the biennial accounts the External Auditors performed an extensive review of WFP's procurement activities covering commodities, non-food items and ocean transport, with the positive result that the overwhelming majority of the transactions reviewed were in order. This vote of confidence is very reassuring considering that procurement activities make up a significant percentage (approximately 35%) of WFP's total expenditure.

## Donor reporting

12. The reporting needs of donors of multilateral contributions are satisfied by this biennial financial statement, following the CFA's endorsement, at its Fortieth Session, of the recommendations of the Formal Working Group on Options for WFP Resource Policies

and Long-Term Financing. Donors of directed multilateral contributions receive an annual standardized project report; all projects started since 1 January 1996 and all projects receiving directed multilateral resources are covered by the standardized report. Bilateral donors receive biannual financial reports on the status of their bilateral accounts. The standardized project reports and the bilateral reports reconcile to the audited financial statements.

### **Timing differences and accounting policy issues**

13. The effect of operational timing differences will be noted by the reader of the accounts in comparing income and expenditure, and differences between income and expenditure are further magnified by the accounting policies used by WFP for these items. These operational and accounting policy timing differences merit explanation.

### **Accounting policies**

14. The accounting policies used by WFP for income and expenditure serve to increase the timing difference between these items. For reasons of prudence, WFP recognizes donor contributions as income in the accounts only when the cash or commodity is received, but following widespread United Nations practice and United Nations accounting standards, WFP recognizes expenditure on an obligation basis. Expenditure is therefore recognized in the financial statements at an early stage, that of obligation, while income is not recognized at the early stage of the contribution confirmation, but only when the cash or commodity is received. These accounting policies are under review for possible improvement of transparency of the accounts within the framework of the United Nations accounting standards.

### **Obligation or disbursement before cash is received**

15. Once a donor has announced and confirmed a contribution, WFP may be required to obligate or disburse funds before the cash is received in the bank. The most apparent result of this timing difference can be seen in Note 3.5 to the financial statements, where indirect support cost contributions received were US\$178 million, whereas programme support and administrative expenditure (including obligations) amounted to US\$226.2 million. Of the US\$178 million cash received from donors during the biennium for indirect support costs, US\$22.2 million related to contributions confirmed in prior periods (the *Prior 96* funding window), and US\$155.8 million to contributions under the new Resource and Long-term Financing policies. WFP expects to receive a further US\$50.2 million of indirect support cost contributions related to the 1996-97 biennium; US\$21.3 million of this had already been received at the time of writing. This matter and the concept of full-cost recovery as it relates to the programme support and administrative budget of WFP are taken up in greater detail in the Budgetary Performance Report.

### **Cash in lieu of commodity received in one biennium, food purchased in the next biennium**

16. WFP may receive cash in lieu of commodity from a donor several weeks before the food needs to be purchased. This timing difference is apparent in Statement I, where commodity contributions do not equal commodity expenditure. Commodity contributed in kind is expended at the moment of receipt of the food, so for in-kind commodity the total contribution always equals the total expenditure. However, cash in lieu of commodity may be received in one accounting period while the food is purchased in the next period, and

this causes differences between the total commodity contributions (in kind and in cash combined) and the total commodity expenditure for any given biennium.

### ***Cash for other costs received in one biennium, costs obligated or disbursed in the next biennium***

17. As a general principle, donors are requested to remit their contributions before WFP incurs obligations and disbursements. In an unchanging environment income and expenditure would average out as approximately equal each biennium; however, in the 1996-97 biennium there was a marked excess of income over expenditure, resulting in a growth of cash holdings. Cash received in the last quarter of the biennium increased by US\$25 million compared with the equivalent period in the previous biennium. Overall, WFP received more cash than it disbursed. Cash holdings increased from US\$616.9 million to US\$781.6 million. However, as explained below, most of this cash is not at the free disposal of WFP.

### **Cash and Reserves - limitations on use**

#### ***Total cash and reserves***

18. WFP's reserves total US\$518.2 million. These reserves are backed up by cash of US\$781.6 million, as seen above, less various net payables and obligations. However, the reader of the accounts should bear in mind that most of WFP's reserves are tied to specific programme categories or projects through restrictions required by donors, and are not at WFP's free disposal. Note 7 gives a useful analysis of the reserves; the main points are described below.

#### ***Operational Reserve***

19. US\$57 million is held in the Operational Reserve, which was created in the 1994-95 biennium and increased to its limit of US\$57 million in the 1996-97 biennium. Movements on this reserve are detailed in Note 15.

#### ***General Fund and unearmarked funds***

20. After deducting the Operational Reserve, the General Fund has a balance of US\$37 million. This balance contains certain earmarked Special Accounts including the Self-Insurance Account and Financial Management Improvement Programme (FMIP). The breakdown of this fund balance, including details of the Programme Support and Administrative portion of the General Fund, is in Note 3.5. The truly unearmarked balance of the General Fund totals US\$21.4 million and can be considered to be at the free disposal of WFP, with the disposition to be decided by the Executive Board.

#### ***Restricted funds***

21. The remaining fund balances totalling US\$424.2 million are restricted funds. Multilateral and *Prior 96* fund balances are tied to specific programme categories, while Directed Multilateral and Bilateral fund balances are even more restrictively tied to specific projects and activities. These restricted funds are not available for use at the discretion of the Secretariat, in accordance with guidance provided by the Executive Board, but are limited by the conditions of the agreements with individual donors.



The following table quantifies the restricted fund balances (total US\$424.2 million) by level of restriction.

Programme category	Restricted to specific project activity within specific programme category (US\$ million)		Restricted to specific programme category (US\$ million)	
	Bilateral	Directed Multilateral	Multilateral	Prior 96
Development	0.0	14.5	45.7	(10.9)
Emergencies	0.0	11.0	19.0	125.0
Protracted Relief Operations	0.0	73.4	2.4	44.4
Special Operations	0.0	8.6	0.3	0.0
Bilaterals	90.8	0.0	0.0	0.0
<b>Total</b>	<b>90.8</b>	<b>107.5</b>	<b>67.4</b>	<b>158.5</b>

### ***Magnitude of cash holdings***

22. As described above, WFP's cash and reserves are, for the most part, limited as to their use by conditions set by donors. Cash holdings are invested prudently. However, the magnitude of WFP's cash holdings (US\$762 million) deserves a more detailed explanation for the reader of the accounts.
23. WFP's cash holdings at 31 December 1997 represent approximately 11.5 months' disbursement. In voluntarily-funded United Nations organizations it is not unusual to see a pattern of cash holdings for earmarked funds covering approximately one year's disbursement. This pattern arises because, in general, donors are encouraged to pay their earmarked contributions to United Nations agencies before obligations are incurred against those earmarked funds, in order to ensure that liquidity is maintained and to allow projects to enter into extended contracts with third parties as required for the operations.
24. Once a project begins implementation, funds are obligated for project activities and expenditure is recognized in the financial statements according to the accounting policy explained above. Disbursement on the obligations may occur some months later. At 31 December 1997 WFP had US\$272.1 million of unpaid obligations and provisions for which the majority of contributions had already been received in cash and were held at the bank.
25. The remaining US\$502.5 million of cash is unobligated. There are many reasons why earmarked cash may remain unobligated at the balance sheet date. Cash may be received before the associated commodity, and so must remain uncommitted until the commodity arrives. Cash may be received for commodity purchases (cash in lieu of commodity) and the purchases may be made several weeks later. At 31 December 1997 WFP was holding approximately US\$65 million of cash in lieu of commodity pending obligation. WFP is targeting resources towards least developed countries in order to reach the poorest people. The operational and logistical hurdles of delivering food in often difficult situations affect the speed at which funds are used.

### **Contributions receivable**

26. Contributions confirmed but not yet received are disclosed in Statement II. The value of contributions receivable decreased substantially during the 1996-97 biennium, from US\$1,145 million at the beginning of the biennium to US\$666 million at 31 December 1997. The decrease is due to a diligent review of outstanding balances of older contributions, which were cancelled if they were no longer valid. In many cases contributions with outstanding balances had been honoured in full when the substance of the contribution was investigated, but exchange rate fluctuations or amendments to the food basket composition and value had given rise to an apparent outstanding balance, now cancelled.

### **After-service medical coverage liability not provided for**

27. WFP's liability for after-service medical coverage is not provided for in the accounts (please refer to Note 17 for details of personnel-related liabilities). The after-service medical scheme is managed by FAO, which carried out an actuarial valuation of the liability of each agency (FAO, WFP, IFAD, the International Centre for the Study of the Preservation and the Restoration of Cultural Property (ICCROM) and UNIC) as at 31 December 1997. The draft results of the study showed that WFP's share of the liability was US\$44.8 million. WFP is currently arranging for a further actuarial review of the liability, taking into account WFP's particular demographic patterns, since WFP staff members tend to be more mobile than the average. WFP has received full cooperation from FAO in supplying specific historical data requested by the actuaries for this follow-up review, and at the time of writing the data are being tested in-house before being sent to the actuaries. Once the actuaries have concluded their valuation, the Secretariat will present the results to the Board for a decision as to how to fund the liability.

### **WFP's self-insurance scheme**

28. In September 1994 WFP decided to implement a new self-insurance policy for consignments of food. The self-insurance scheme covers all losses up to one million dollars per consignment with a maximum of two consignments per vessel; risks above this ceiling are reinsured with an external insurer. The self-insurance activity is self-sustaining and was established to achieve greater efficiency and savings for WFP. It was approved by the CFA when it approved the operational initiatives set out in the 1994-95 budget document (CFA 36/13, decision in paragraph 37 c), and CFA 36/5, paragraphs 50 and 51).
29. In the 1994-95 accounts the balance on the self-insurance account was disclosed in the balance sheet as a provision for future losses, but to improve transparency of WFP's financial statements, the self-insurance activity has been reclassified under Financial Regulation 7.3 (replaced as of 1 January 1998 by Financial Regulation 5.1) as a Special Account in the General Fund. The reader of the accounts can now clearly see in Note 3.5 to the financial statements the operating income to the self-insurance account (generated from premia charged to projects) and the result of the self-insurance activity. The surplus of US\$8.6 million represents savings accumulated over the years of self-insurance, held to cover future possible insured losses and administrative expenditures of the self-insurance activity.
30. The Executive Director has approved the setting up of the Self-Insurance Special Account. The External Auditor has certain reservations over the presentation of self-insurance activities as a Special Account (which are set out in detail in his Long-Form Report, and WFP's management response in the last part of the present document), and has

recommended that Executive Board endorsement of the treatment of self-insurance activities as a Special Account be sought.

### **Field accounting**

31. In order to improve the quality and timeliness of accounting data originating in the field, the Financial Management Improvement Programme (FMIP) is implementing a project of country office connectivity. The project provides equipment and telecommunications links to enable reliable, secure and cost-effective communication exchange among WFP's headquarters, regional and country offices. At the time of writing, more than 30 WFP country offices are connected to the WFP wide area network, and thus benefit from electronic mail communication and can access WFP's mainframe computer systems. Four cluster offices are using the connectivity capabilities to access WIS and directly enter accounting transactions.

### **Financial Management Improvement Programme (FMIP) funding**

32. In 1997 the Executive Director instructed the Office of Internal Audit to audit FMIP in order to provide an independent appraisal of the progress towards its objective, on the use of resources, compliance with applicable industry standards, and to identify risks and problems for appropriate corrective action. The External Auditor relied on this internal audit work, and highlighted risks the Programme is faced with, including compliance with legal procedures and accounting issues (addressed since the audit), funding shortage and apparently unrealistic deadlines.

33. As a result of the internal audit review, in 1997, the Secretariat has come to realize that the most appropriate procedure for accounting for funds contributed to FMIP and the related expenditures is to establish FMIP as a Special Account under Financial Regulation 7.3 (new Financial Regulation 5.1). The Executive Director thus authorized the establishment of FMIP as a special account and instructed a close monitoring of expenditures with due regard for early completion of the programme.

34. In his Long-Form Report the External Auditor draws the attention of the Executive Board to the current FMIP funding deficit.

35. Up to the Third Regular Session of 1997 the overall cost of FMIP was projected at just over US\$32 million. As reported periodically over the past two years, this was based upon estimates of varying degrees of certainty as WFP moved through the planning, design and execution cycle of the largest components. During the past quarter WFP reached perhaps the largest intermediate milestone. A fixed price contract for the integrated finance, HR and procurement system was signed and work is already under way with completion anticipated for early 2000. Based on the now firm contract for this largest of programme components, as well as refined estimates for remaining items, the overall cost to deliver FMIP has been increased to US\$37 million. From this point on it is believed that further changes to the ceiling will not be significant.

36. By the end of September 1997, US\$16.4 million had been resourced for FMIP. At its Third Regular Session of 1997 the Executive Board approved a US\$10 million advance from the General Fund to help finance the programme. This was with the understanding that the advance would be reduced as new contributions are received.

37. Since that Session, additional contributions of US\$3.1 million have been raised, bringing the total resourced to US\$19.5 million. However, the unfinanced portion stands at US\$17.5 million, or US\$7.5 million with the application of the advance.

38. In order to avoid interruption in the implementation of FMIP, particularly at this stage where some components are reaching the completion stage and all other major elements are well under way, assurance is needed that sufficient funds will be available when required.
39. Progress reports detailing the FMIP implementation and funding status are regularly provided to the members of the Board.

### **Recommendations in respect of the audited accounts for Executive Board action**

40. The Executive Director recommends to the Executive Board that it:
  - approve the 1996-97 biennial financial statements of WFP, together with the report of the External Auditor, pursuant to General Regulation XIV.6 (b).
  - formally approve the self-insurance scheme of WFP and endorse the Executive Director's approval of a special account for self-insurance.
  - allow new direct contributions to FMIP to be applied to the implementation of the programme and that repayment of the US\$10 million advance be deferred until such time as FMIP has been fully funded.

**WORLD FOOD PROGRAMME FINANCIAL STATEMENTS 1996–97**  
**OPINION OF THE EXTERNAL AUDITOR**

My staff audited the accompanying financial statements numbered I to III and the supporting notes numbered 1 to 17 of the World Food Programme for the financial period ended 31 December 1997. These financial statements are the responsibility of the Executive Director of the World Food Programme. My responsibility is to express an opinion on these financial statements based on the audit.

The audit was conducted in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. These standards require that the audit be planned and carried out to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and evaluating the overall financial statement presentation.

As a result of this audit, I am of the opinion that the financial statements present fairly the financial position at 31 December 1997 and the results of the operations for the period then ended; that they were prepared in accordance with the Organization's stated accounting policies which were applied on a basis consistent with that of the preceding period, except for the changes detailed in paragraphs 32, 33 and 92, with which I concur, and paragraph 69 of my attached Long-Form Report; and that the transactions were in accordance with the Financial Regulations and legislative authority.

Signed by:

**Pierre JOXE**  
Premier Président de la Cour des Comptes  
de la République Française  
External Auditor

**Biennial Accounts 1996–97**  
**Certification of Financial Statements**

**Statement I**

**Statement II**

**Statement III**

**Notes to the Accounts**

To the best of my knowledge and information, all material transactions have been properly entered in the accounting records of the World Food Programme and are properly reflected in the financial statements and supporting schedules.

**Catherine Bertini**  
**Executive Director**

**Rome, 26 June 1998**

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## TABLE OF CONTENTS

	Page
STATEMENT I      Statement of Income and Expenditure and Changes in Reserves and Fund Balances for the Period 1996–97	16
STATEMENT II     Statement of Assets, Liabilities and Reserves and Fund Balances as at 31 December 1997	17
STATEMENT III    Statement of Cash Flow for the Period 1996–97	18
NOTES TO THE ACCOUNTS	19

**STATEMENT I**  
**STATEMENT OF INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES**  
**FOR THE PERIOD 1996–97 (million dollars)**

	Note	Development, Rehabilitation and Disaster Preparedness	Emergencies	Protracted Relief Operations	Special Operations	General Fund	Trust Funds	Total WFP Fund	Prior Period 1994–95
<b>INCOME</b>	3								
Commodity contributions	4	516.0	593.4	329.5	0.0	0.0	0.0	1 438.9	1 390.4
Other contributions	4	197.8	540.2	252.4	48.3	17.2	26.5	1 082.4	1 394.8
Government cash contributions for local costs		0.0	0.0	0.0	0.0	3.5	0.0	3.5	3.5
Interest		0.0	0.0	0.0	0.0	65.6	8.2	73.8	54.3
Currency exchange adjustments		(1.4)	0.0	0.0	0.0	(5.8)	0.0	(7.2)	1.0
Miscellaneous income		0.0	0.1	0.0	0.0	9.3	0.0	9.4	10.3
Transfer of indirect support cost contributions to General Fund	6	(70.4)	(54.3)	(37.2)	(5.9)	178.0	(10.2)	0.0	0.0
<b>TOTAL INCOME INCLUDING TRANSFER</b>		<b>642.0</b>	<b>1 079.4</b>	<b>544.7</b>	<b>42.4</b>	<b>267.8</b>	<b>24.5</b>	<b>2 600.8</b>	<b>2 854.3</b>
<b>EXPENDITURE</b>	3								
Operational costs in commodities		503.3	576.3	294.6	0.0	0.0	0.0	1 374.2	1 388.4
Other operational costs:									
Ocean transport		65.3	90.9	57.6	0.0	0.0	7.0	220.8	266.4
Air, overland and ITSH		31.1	153.3	104.0	0.0	0.0	(4.3)	284.1	539.0
Other		8.6	25.4	2.1	38.6	14.2	39.6	128.5	303.0
Direct Support Costs		9.6	106.4	25.2	0.0	0.1	0.0	141.3	n/a
Indirect Support Costs	5	0.0	0.0	0.0	0.0	228.9	0.0	228.9	196.2
<b>TOTAL EXPENDITURE</b>		<b>617.9</b>	<b>952.3</b>	<b>483.5</b>	<b>38.6</b>	<b>243.2</b>	<b>42.3</b>	<b>2 377.8</b>	<b>2 693.0</b>
<b>Excess/(Shortfall) of income over expenditure</b>		<b>24.1</b>	<b>127.1</b>	<b>61.2</b>	<b>3.8</b>	<b>24.6</b>	<b>(17.8)</b>	<b>223.0</b>	<b>161.3</b>
Savings on cancellation of prior period obligations		0.0	0.0	0.0	0.0	1.0	0.0	1.0	4.7
Transfers between activities		6.6	(0.9)	0.4	0.0	(6.1)	0.0	0.0	0.0
Transfer to/(from) Reserves	15	(47.7)	0.0	0.0	0.0	47.7	0.0	0.0	0.0
Reserves and Fund Balances, beginning of period	7.1, 8	66.3	28.8	58.6	5.1	26.8	108.6	294.2	128.2
<b>RESERVES AND FUND BALANCES, END OF PERIOD</b>	<b>7</b>	<b>49.3</b>	<b>155.0</b>	<b>120.2</b>	<b>8.9</b>	<b>94.0</b>	<b>90.8</b>	<b>518.2</b>	<b>294.2</b>

The accompanying notes form an integral part of these financial statements.



**STATEMENT II**  
**STATEMENT OF ASSETS, LIABILITIES AND RESERVES AND FUND BALANCES**  
**AS AT 31 DECEMBER 1997**  
**(million dollars)**

	Note	Development, Rehabilitation and Disaster Preparedness	Emergencies	Protracted Relief Operations	Special Operations	General Fund	Trust Funds	Total WFP Fund	Prior Period 1994-95
<b>ASSETS</b>									
	16								
Cash and term deposits	9	101.5	288.6	174.5	13.0	94.6	109.4	781.6	616.9
Contributions receivable	4	136.9	351.0	168.2	8.1	1.5	0.0	665.7	1145.5
Other accounts receivable	10	0.0	0.0	0.0	0.0	44.8	0.0	44.8	27.5
<b>TOTAL ASSETS</b>		<b>238.4</b>	<b>639.6</b>	<b>342.7</b>	<b>21.1</b>	<b>140.9</b>	<b>109.4</b>	<b>1 492.1</b>	<b>1 789.9</b>
<b>LIABILITIES</b>									
Contributions not yet received	4	136.9	351.0	168.2	8.1	1.5	0.0	665.7	1145.5
Outstanding obligations	11	38.1	80.4	23.5	4.1	18.8	12.3	177.2	174.9
Accounts payable	12	0.0	0.0	0.0	0.0	26.6	0.0	26.6	24.8
Provisions	13	14.1	50.7	30.8	0.0	0.0	6.3	101.9	148.0
CERF loan	14	0.0	2.5	0.0	0.0	0.0	0.0	2.5	2.5
<b>TOTAL LIABILITIES</b>		<b>189.1</b>	<b>484.6</b>	<b>222.5</b>	<b>12.2</b>	<b>46.9</b>	<b>18.6</b>	<b>973.9</b>	<b>1 495.7</b>
<b>RESERVES AND FUND BALANCES</b>									
Operational Reserve	15	0.0	0.0	0.0	0.0	57.0	0.0	57.0	9.3
Fund balances		49.3	155.0	120.2	8.9	37.0	90.8	461.2	284.9
<b>TOTAL RESERVES AND FUND BALANCES</b>	<b>7</b>	<b>49.3</b>	<b>155.0</b>	<b>120.2</b>	<b>8.9</b>	<b>94.0</b>	<b>90.8</b>	<b>518.2</b>	<b>294.2</b>
<b>TOTAL LIABILITIES, RESERVES AND FUND BALANCES</b>		<b>238.4</b>	<b>639.6</b>	<b>342.7</b>	<b>21.1</b>	<b>140.9</b>	<b>109.4</b>	<b>1 492.1</b>	<b>1 789.9</b>

The accompanying notes form an integral part of these financial statements.

<b>STATEMENT III</b> <b>STATEMENT OF CASH FLOW</b> <b>FOR THE PERIOD 1996-97</b> <b>(million dollars)</b>
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	WFP Fund	Prior Period 1994-95
<b>Cash flows from operating activities:</b>		
Excess of income over expenditure (Statement I)	223.0	161.3
(Increase)/Decrease in other accounts receivable	(17.3)	11.8
Increase/(Decrease) in accounts payable	1.8	(1.7)
Increase in outstanding obligations	2.3	24.4
(Decrease) in provisions	(46.1)	(72.0)
Less: Interest income	(73.8)	(54.3)
<b>Net cash from operating activities</b>	<b>89.9</b>	<b>69.5</b>
<b>Cash flow from investing and financing activities:</b>		
(Decrease) in Loan - CERF	0.0	(11.0)
Add interest income	73.8	54.3
<b>Net cash from investing and financing activities</b>	<b>73.8</b>	<b>43.3</b>
<b>Cash from other sources:</b>		
Savings on cancellation of prior period obligations	1.0	4.7
<b>Net cash from other sources</b>	<b>1.0</b>	<b>4.7</b>
Net increase in cash and term deposits	164.7	117.5
Cash and term deposits at beginning of period	616.9	499.4
<b>Cash and term deposits at end of period</b>	<b>781.6</b>	<b>616.9</b>

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## **NOTE 1: OBJECTIVE AND ACTIVITIES OF THE WORLD FOOD PROGRAMME**

41. The World Food Programme (WFP) was established in 1963 as the food aid arm of the United Nations system. Its main purpose is to use food assistance to improve the lives of the neediest people in the most deprived areas of the world so that:
- lives are saved in refugee and other emergency situations
  - the nutritional status and quality of life of the most vulnerable people are improved at critical times of their lives
  - poor people and their communities become self-reliant through labour-intensive works and programmes of WFP
42. WFP provides food aid through development projects and relief operations; its policies and programmes are oriented towards eradicating hunger throughout the world. Within the framework of its Mission Statement, the Programme provides, on request, bilateral services to donors, United Nations agencies and non-governmental organizations. WFP's activities are financed by voluntary contributions from Member States, government agencies and other donors, and by miscellaneous income.
43. The Programme has its headquarters in Rome, Italy, and conducts activities through 92 offices around the world. Its policies and budget are determined and approved by the Executive Board, its governing body.

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## **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **I. Financial Period**

44. The financial period of the Programme is a biennium. These financial statements refer to the period ended 31 December 1997.

### **II. Accounting Convention**

45. These financial statements are prepared in accordance with the Financial Rules of the World Food Programme, and governing body decisions. Within this framework, the financial statements are prepared under the historical cost convention and in accordance with generally accepted accounting principles, United Nations Accounting Standards and relevant International Accounting Standards.

### **III. Fund Accounting**

46. Pursuant to WFP's Financial Regulations, the financial statements of the World Food Programme Fund ("WFP Fund") present a consolidated situation of all activities carried out by the Programme. All contributions and pledges have been credited to the WFP Fund, and all expenditures charged to it.
47. The financial statements have been prepared in accordance with the Resource and Long-term Financing (R&LTF) model implemented as of January 1996. This entailed a restatement of the reserves as at 1 January 1996 according to the R&LTF programme category funds, detailed in Note 7.1.

48. The resource model classifies contributions received by programme category funds and funding windows. The three funding windows are Multilateral, Directed Multilateral or Bilateral, depending on the specific conditions and degree of flexibility allowed. Contributions received through multilateral and directed multilateral funding windows go towards funding any of the four WFP programme category funds: Development, including rehabilitation and disaster-preparedness, Emergencies (International Emergency Food Reserve (IEFR) and Immediate Response Account (IRA)), Protracted Relief Operations (PRO) and Special Operations (SO). Bilateral contributions are applied towards funding Trust Fund operations bilaterally agreed between donors and WFP. Trust Funds include the Junior Professional Officers Scheme, Bilateral Operations, Quality Improvement, Disaster Mitigation and Trust Fund Special Operations; they are detailed in Note 3.6.
49. The General Fund includes contributions not tied to any programme category fund, miscellaneous income, interest income, Programme Support and Administration (PSA) costs and special accounts established by the Executive Director under Financial Regulation 7.3. General Fund income and expenditure are detailed in Note 3.5.
50. WFP continues to receive commodities and cash against contributions confirmed before implementation of the R&LTF policies. Expenditures are incurred against these contributions as well as against contribution balances carried forward from the previous biennium. These contributions and expenditures are shown separately under a fourth funding window, *Prior 96*.
51. Notes 3.1 to 3.6 provide an analysis of income and expenditure under each of the programme category funds.

#### **IV. Foreign Currencies**

52. The financial statements are expressed in United States dollars. Transactions in other currencies are translated into United States dollars at the United Nations operational rates of exchange prevailing at the time of the transaction. Assets and liabilities in currencies other than United States dollars have been translated at the applicable United Nations rate of exchange at 31 December 1997 which approximates to the market rate.
53. However, IEFR, IRA, PRO and SO contributions receivable and contributions not yet received are recorded in United States dollars at the time of the contribution.
54. Exchange differences are credited or charged to the statement of income and expenditure. The Programme enters into forward exchange contracts for hedging purposes.

#### **V. Basis of Accounting**

55. Income, expenditure, assets and liabilities are recognized on the accrual basis of accounting, except for contributions in cash or commodities and miscellaneous income which are recognized as income when received.

##### **V. (i) Contributions and Income**

56. Specific treatment of the major categories of income is described below.

### **A. Commodity contributions**

a) Commodity contributions in kind

The value of commodity contributions in kind for Development, IEFR, IRA and PRO is registered at the price received from the donor - if available - or the most recent donor price available. The donor value of Development contributions is adjusted according to information provided by donors.

Commodities pledged under the Food Aid Convention (FAC) are normally valued at FAC prices for each crop year or, when requested by the donor, at the donor price.

b) Cash in lieu of commodities

Cash in lieu of commodities is recorded at the cash value of contributions pledged and received.

### **B. Contributions for Indirect Support Costs**

57. Contributions for indirect support costs are disclosed as transfers to the General Fund in Statement I and the accompanying notes.

### **C. Income other than contributions**

58. Miscellaneous income is recognized on a cash basis. Interest income is accrued as income in the biennium to which it relates.

## **V. (ii) Expenditure**

59. Expenditure includes:

- a) all disbursements with regard to the activity of the current biennium;
- b) outstanding obligations backed up by legal commitments, such as contracts or purchase orders; and
- c) provisions relating to internal transport, storage and handling (ITSH) costs which are established on the basis of the date of issue of the bill of lading, except for amounts under bilateral operations which are provided for at the time of issuing the request for issuance of shipping instructions.

## **V. (iii) Buildings and Equipment**

60. The cost of buildings and equipment is charged to expenditure in the year of purchase. It is included in the Statement of Assets, Liabilities and Reserves and Fund Balances at a nominal value of one dollar.

## **V. (iv) Commodity Losses**

61. Commodity losses are charged to the self-insurance account.

## **V. (v) Demurrage and Despatch**

62. Demurrage costs paid by WFP are receivable from recipient governments. Demurrage receivable is disclosed net of despatch and recoveries against ITSH costs payable to the same governments.

## **V. (vi) Direct Support Costs**

63. Direct support costs were introduced in the 1996–97 biennium under the policy of full-cost recovery in the R&LTF model. They are costs directly linked to the provision of support to an operation and which would not be incurred should that activity cease.

## **VI. Staff Costs**

64. Staff salaries and entitlements are set according to a predetermined scale of staff grades.
65. Separation payments to General Service staff are fully provided for. Other personnel-related liabilities, such as repatriation costs, accrued leave and after-service medical benefits, are charged when disbursed (see also Note 17).

## **VII. Self-Insurance Account**

66. WFP has been self-insuring its consignments since 1 May 1994. The self-insurance policy covers losses of up to one million dollars per consignment (maximum two million dollars per vessel) in all types of shipments except those related to bilateral operations. Risks over one million dollars are reinsured through an external company for the exceeding amount.
67. The self-insurance account is credited with premia charged to projects on a basis equivalent to commercial rates. Claims lodged offset with recoveries from carriers are charged to the self-insurance account.
68. Up to 30 April 1994, WFP shipments were insured through all-risk policies with external companies. The cover excluded individual claims of less than 10,000 dollars because these were covered by the existing self-insurance fund, the balance of which is reported under the self-insurance account.
69. In the prior biennium, the self-insurance account was accounted for as a provision. In the current biennium, it is accounted for as a special account under the General Fund. This change in accounting policy necessitated a restatement of the comparative figures and opening reserves, as detailed in Note 8.

**NOTE 3.1**  
**SPECIFICATION OF INCOME AND EXPENDITURE BY FUNDING WINDOW**  
**FOR THE PERIOD 1996–97**  
**(million dollars)**

	DEVELOPMENT, REHABILITATION AND DISASTER PREPAREDNESS			
	Multilateral	Directed Multilateral	Prior 96	Total
<b>INCOME</b>				
Commodity contributions	334.4	102.6	79.0	516.0
Other contributions	147.9	32.0	17.9	197.8
Government cash contributions for local costs	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0
Currency exchange adjustments	(1.4)	0.0	0.0	(1.4)
Miscellaneous income	0.0	0.0	0.0	0.0
Transfer of indirect support cost contributions to General fund	(57.2)	(13.2)	0.0	(70.4)
<b>TOTAL INCOME INCLUDING TRANSFER</b>	<b>423.7</b>	<b>121.4</b>	<b>96.9</b>	<b>642.0</b>
<b>EXPENDITURE</b>				
Operational costs in commodities	305.0	93.2	105.1	503.3
Other operational costs:				
Ocean transport	51.7	8.1	5.5	65.3
Air, overland and ITSH	17.6	5.2	8.3	31.1
Other	8.3	0.4	(0.1)	8.6
Direct Support Costs	1.5	0.0	8.1	9.6
Indirect Support Costs	0.0	0.0	0.0	0.0
<b>TOTAL EXPENDITURE</b>	<b>384.1</b>	<b>106.9</b>	<b>126.9</b>	<b>617.9</b>
<b>Excess/(Shortfall) of income over expenditure</b>	<b>39.6</b>	<b>14.5</b>	<b>(30.0)</b>	<b>24.1</b>
Savings on cancellation of prior period obligations	0.0	0.0	0.0	0.0
Transfers between activities	6.1	0.0	0.5	6.6
Transfer to/(from) Reserves	0.0	0.0	(47.7)	(47.7)
Reserves and Fund balances, beginning of period	0.0	0.0	66.3	66.3
<b>Reserves and Fund balances, end of period</b>	<b>45.7</b>	<b>14.5</b>	<b>(10.9)</b>	<b>49.3</b>

The negative balance under the *Prior 96* funding window is funded through confirmed contributions not yet received.

**NOTE 3.2**  
**SPECIFICATION OF INCOME AND EXPENDITURE BY FUNDING WINDOW**  
**FOR THE PERIOD 1996–97**  
**(million dollars)**

	<b>EMERGENCIES</b>			<b>Total</b>
	<b>Multilateral</b>	<b>Directed Multilateral</b>	<b>Prior 96</b>	
<b>INCOME</b>				
Commodity contributions	24.4	508.6	60.4	593.4
Other contributions	52.9	328.6	158.7	540.2
Government cash contributions for local costs	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0
Currency exchange adjustments	0.0	0.0	0.0	0.0
Miscellaneous income	0.0	0.0	0.1	0.1
Transfer of indirect support cost contributions to General Fund	(4.2)	(35.6)	(14.5)	(54.3)
<b>TOTAL INCOME INCLUDING TRANSFER</b>	<b>73.1</b>	<b>801.6</b>	<b>204.7</b>	<b>1 079.4</b>
<b>EXPENDITURE</b>				
Operational costs in commodities	20.5	481.6	74.2	576.3
Other operational costs:				
Ocean transport	2.2	82.8	5.9	90.9
Air, overland and ITSH	12.0	155.4	(14.1)	153.3
Other	11.0	5.9	8.5	25.4
Direct Support Costs	8.4	64.9	33.1	106.4
Indirect Support Costs	0.0	0.0	0.0	0.0
<b>TOTAL EXPENDITURE</b>	<b>54.1</b>	<b>790.6</b>	<b>107.6</b>	<b>952.3</b>
<b>Excess/(Shortfall) of income over expenditure</b>	<b>19.0</b>	<b>11.0</b>	<b>97.1</b>	<b>127.1</b>
Savings on cancellation of prior period obligations	0.0	0.0	0.0	0.0
Transfers between activities	0.0	0.0	(0.9)	(0.9)
Transfer to/(from) Reserves	0.0	0.0	0.0	0.0
Reserves and Fund balances, beginning of period	0.0	0.0	28.8	28.8
<b>Reserves and Fund balances, end of period</b>	<b>19.0</b>	<b>11.0</b>	<b>125.0</b>	<b>155.0</b>



**NOTE 3.2 (continued)**  
**DETAIL OF EMERGENCY INCOME AND EXPENDITURE**  
**FOR THE PERIOD 1996–97**  
**(million dollars)**

	<b>EMERGENCIES</b>		
	<b>IEFR</b>	<b>IRA</b>	<b>Total</b>
<b>INCOME</b>			
Commodity contributions	593.4	0.0	593.4
Other contributions	506.2	34.0	540.2
Government cash contributions for local costs	0.0	0.0	0.0
Interest	0.0	0.0	0.0
Currency exchange adjustments	0.0	0.0	0.0
Miscellaneous income	0.1	0.0	0.1
Transfer of Indirect Support Cost Contributions to General Fund	(52.3)	(2.0)	(54.3)
<b>TOTAL INCOME INCLUDING TRANSFER</b>	<b>1 047.4</b>	<b>32.0</b>	<b>1 079.4</b>
<b>EXPENDITURE</b>			
Operational costs in commodities	576.3	0.0	576.3
Other operational costs:			
Ocean transport	89.8	1.1	90.9
Air, overland and ITSH	150.0	3.3	153.3
Other	7.3	18.1	25.4
Direct Support Costs	104.8	1.6	106.4
Indirect Support Costs	0.0	0.0	0.0
<b>TOTAL EXPENDITURE</b>	<b>928.2</b>	<b>24.1</b>	<b>952.3</b>
<b>Excess/(Shortfall) of income over expenditure</b>	<b>119.2</b>	<b>7.9</b>	<b>127.1</b>
Savings on cancellation of prior period obligations	0.0	0.0	0.0
Transfers between activities	(1.5)	0.6	(0.9)
Transfer to/(from) Reserves	0.0	0.0	0.0
Reserves and Fund balances, beginning of period	15.9	12.9	28.8
<b>Reserves and Fund balances, end of period</b>	<b>133.6</b>	<b>21.4</b>	<b>155.0</b>

**NOTE 3.3**  
**SPECIFICATION OF INCOME AND EXPENDITURE BY FUNDING WINDOW**  
**FOR THE PERIOD 1996–97**  
**(million dollars)**

	<b>PROTRACTED RELIEF OPERATIONS</b>			
	<b>Multilateral</b>	<b>Directed Multilateral</b>	<b>Prior 96</b>	<b>Total</b>
<b>INCOME</b>				
Commodity contributions	132.2	154.3	43.0	329.5
Other contributions	91.1	158.4	2.9	252.4
Government cash contributions for local costs	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0
Currency exchange adjustments	0.0	0.0	0.0	0.0
Miscellaneous income	0.0	0.0	0.0	0.0
Transfer of Indirect Support Cost contributions to				
General Fund	(10.3)	(19.4)	(7.5)	(37.2)
<b>TOTAL INCOME INCLUDING TRANSFER</b>	<b>213.0</b>	<b>293.3</b>	<b>38.4</b>	<b>544.7</b>
<b>EXPENDITURE</b>				
Operational costs in commodities	123.0	132.9	38.7	294.6
Other operational costs:				
Ocean transport	31.7	21.4	4.5	57.6
Air, overland and ITSH	51.2	50.6	2.2	104.0
Other	1.0	0.9	0.2	2.1
Direct Support Costs	3.7	14.1	7.4	25.2
Indirect Support Costs	0.0	0.0	0.0	0.0
<b>TOTAL EXPENDITURE</b>	<b>210.6</b>	<b>219.9</b>	<b>53.0</b>	<b>483.5</b>
<b>Excess/(Shortfall) of income over expenditure</b>	<b>2.4</b>	<b>73.4</b>	<b>(14.6)</b>	<b>61.2</b>
Savings on cancellation of prior period obligations	0.0	0.0	0.0	0.0
Transfers between activities	0.0	0.0	0.4	0.4
Transfer to/(from) Reserves	0.0	0.0	0.0	0.0
Reserves and Fund balances, beginning of period	0.0	0.0	58.6	58.6
Reserves and Fund balances, end of period	2.4	73.4	44.4	120.2

**NOTE 3.4**  
**SPECIFICATION OF INCOME AND EXPENDITURE BY FUNDING WINDOW**  
**FOR THE PERIOD 1996–97**  
**(million dollars)**

	<b>SPECIAL OPERATIONS</b>			<b>Total</b>
	<b>Multilateral</b>	<b>Directed Multilateral</b>	<b>Prior 96</b>	
<b>INCOME</b>				
Commodity contributions	0.0	0.0	0.0	0.0
Other contributions	0.3	46.0	2.0	48.3
Government cash contributions for Local Costs	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0
Currency exchange adjustments	0.0	0.0	0.0	0.0
Miscellaneous income	0.0	0.0	0.0	0.0
Transfer of Indirect Support Cost contributions to				
General Fund	0.0	(5.7)	(0.2)	(5.9)
<b>TOTAL INCOME INCLUDING TRANSFER</b>	<b>0.3</b>	<b>40.3</b>	<b>1.8</b>	<b>42.4</b>
<b>EXPENDITURE</b>				
Operational costs in commodities	0.0	0.0	0.0	0.0
Other operational costs:				
Ocean transport	0.0	0.0	0.0	0.0
Air, overland and ITSH	0.0	0.0	0.0	0.0
Other	0.0	31.7	6.9	38.6
Direct Support Costs	0.0	0.0	0.0	0.0
Indirect Support Costs	0.0	0.0	0.0	0.0
<b>TOTAL EXPENDITURE</b>	<b>0.0</b>	<b>31.7</b>	<b>6.9</b>	<b>38.6</b>
<b>Excess/(Shortfall) of income over expenditure</b>	<b>0.3</b>	<b>8.6</b>	<b>(5.1)</b>	<b>3.8</b>
Savings on cancellation of prior period obligations	0.0	0.0	0.0	0.0
Transfers between activities	0.0	0.0	0.0	0.0
Transfer to/(from) Reserves	0.0	0.0	0.0	0.0
Reserves and Fund balances, beginning of period	0.0	0.0	5.1	5.1
<b>Reserves and Fund balances, end of period</b>	<b>0.3</b>	<b>8.6</b>	<b>0.0</b>	<b>8.9</b>

**NOTE 3.5**  
**SPECIFICATION OF INCOME AND EXPENDITURE**  
**FOR THE PERIOD 1996-97**  
**(million dollars)**

	GENERAL FUND					Total
	Programme Support and Administrative Costs	Other General Fund	Special Accounts			
			Financial Management Improvement Programme	Public Affairs Branch	Self- insurance account	
<b>INCOME</b>						
Commodity contributions	0.0	0.0	0.0	0.0	0.0	0.0
Other contributions	0.0	12.8	4.2	0.2	0.0	17.2
Government cash contributions for local costs	3.5	0.0	0.0	0.0	0.0	3.5
Interest	0.0	65.6	0.0	0.0	0.0	65.6
Currency exchange adjustments	0.0	(5.8)	0.0	0.0	0.0	(5.8)
Miscellaneous income	0.0	1.5	0.0	0.0	7.8	9.3
Transfer of Indirect Support Cost contributions to General Fund	178.0	0.0	0.0	0.0	0.0	178.0
<b>TOTAL INCOME INCLUDING TRANSFER</b>	<b>181.5</b>	<b>74.1</b>	<b>4.2</b>	<b>0.2</b>	<b>7.8</b>	<b>267.8</b>
<b>EXPENDITURE</b>						
Operational costs in commodities	0.0	0.0	0.0	0.0	0.0	0.0
Other operational costs:						
Ocean transport	0.0	0.0	0.0	0.0	0.0	0.0
Air, overland and ITSH	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.1	5.3	0.1	8.7	14.2
Direct Support Costs	0.0	0.1	0.0	0.0	0.0	0.1
Indirect Support Costs	226.2	2.7	0.0	0.0	0.0	228.9
<b>TOTAL EXPENDITURE</b>	<b>226.2</b>	<b>2.9</b>	<b>5.3</b>	<b>0.1</b>	<b>8.7</b>	<b>243.2</b>
<b>Excess/(Shortfall) of income over expenditure</b>	<b>(44.7)</b>	<b>71.2</b>	<b>(1.1)</b>	<b>0.1</b>	<b>(0.9)</b>	<b>24.6</b>
Savings on cancellation of prior period obligations	1.0	0.0	0.0	0.0	0.0	1.0
Transfers between activities	43.7	(49.8)	0.0	0.0	0.0	(6.1)
Transfer to/(from) Reserves	0.0	47.7	0.0	0.0	0.0	47.7
Reserves and Fund balances, beginning of period	0.0	9.3	7.9	0.1	9.5	26.8
<b>Reserves and Fund balances, end of period</b>	<b>0.0</b>	<b>78.4</b>	<b>6.8</b>	<b>0.2</b>	<b>8.6</b>	<b>94.0</b>

Miscellaneous income of US\$7.8 million under the Self-Insurance Account represents premia charged to projects.

**NOTE 3.6**  
**SPECIFICATION OF INCOME AND EXPENDITURE**  
**FOR THE PERIOD 1996–97**  
**(million dollars)**

	TRUST FUNDS				Total
	Junior Professional Officer Scheme	Bilateral Operations	Quality Improvement and other Trust Funds	Disaster Mitigation	
<b>INCOME</b>					
Commodity contributions	0.0	0.0	0.0	0.0	0.0
Other contributions	7.4	18.1	3.0	(2.0)	26.5
Government cash contributions for local costs	0.0	0.0	0.0	0.0	0.0
Interest	0.1	7.4	0.0	0.7	8.2
Currency exchange adjustments	0.0	0.0	0.0	0.0	0.0
Miscellaneous income	0.0	0.0	0.0	0.0	0.0
Transfer of indirect support cost contributions to General Fund	(0.7)	(9.5)	0.0	0.0	(10.2)
<b>TOTAL INCOME INCLUDING TRANSFER</b>	<b>6.8</b>	<b>16.0</b>	<b>3.0</b>	<b>(1.3)</b>	<b>24.5</b>
<b>EXPENDITURE</b>					
Operational costs in commodities	0.0	0.0	0.0	0.0	0.0
Other operational costs:					
Ocean transport	0.0	7.0	0.0	0.0	7.0
Air, overland and ITSH	0.0	(4.3)	0.0	0.0	(4.3)
Other	6.4	27.3	2.7	3.2	39.6
Direct Support Costs	0.0	0.0	0.0	0.0	0.0
Indirect Support Costs	0.0	0.0	0.0	0.0	0.0
<b>TOTAL EXPENDITURE</b>	<b>6.4</b>	<b>30.0</b>	<b>2.7</b>	<b>3.2</b>	<b>42.3</b>
<b>Excess/(Shortfall) of income over expenditure</b>	<b>0.4</b>	<b>(14.0)</b>	<b>0.3</b>	<b>(4.5)</b>	<b>(17.8)</b>
Savings on cancellation of prior period obligations	0.0	0.0	0.0	0.0	0.0
Transfers between activities	0.0	0.0	0.0	0.0	0.0
Transfer to/(from) Reserves	0.0	0.0	0.0	0.0	0.0
Reserves and Fund balances, beginning of period	1.3	94.8	3.3	9.2	108.6
<b>Reserves and Fund balances, end of period</b>	<b>1.7</b>	<b>80.8</b>	<b>3.6</b>	<b>4.7</b>	<b>90.8</b>

**NOTE 4**  
**SUMMARY STATUS OF CONTRIBUTIONS AS AT 31 DECEMBER 1997 AND FOR THE PERIOD 1996-97 (million dollars)**

	Balance of contributions outstanding as at 1 January 1996			New contributions and contribution adjustments			Receipts			Balance of contributions outstanding as at 31 December 1997 1997/1997 1 December 1997		
	Commodities	Cash	Total	Commodities	Cash	Total	Commodities	Cash	Total	Commodities	Cash	Total
<b>DEVELOPMENT</b>												
Multilateral contributions	86.3	8.7	95.0	300.5	155.3	455.8	334.4	147.9	482.3	52.4	16.1	68.5
Directed Multilateral contributions	0.0	0.0	0.0	119.9	57.8	177.7	102.6	32.0	134.6	17.3	25.8	43.1
<i>Prior 96</i> contributions	195.1	74.6	269.7	(101.4)	(46.1)	(147.5)	79.0	17.9	96.9	14.7	10.6	25.3
<b>TOTAL DEVELOPMENT</b>	<b>281.4</b>	<b>83.3</b>	<b>364.7</b>	<b>319.0</b>	<b>167.0</b>	<b>486.0</b>	<b>516.0</b>	<b>197.8</b>	<b>713.8</b>	<b>84.4</b>	<b>52.5</b>	<b>136.9</b>
<b>EMERGENCIES</b>												
Multilateral contributions	68.3	56.8	125.1	(43.6)	2.5	(41.1)	24.4	52.9	77.3	0.3	6.4	6.7
Directed Multilateral contributions	0.0	0.0	0.0	605.2	543.1	1148.3	508.6	328.6	837.2	96.6	214.5	311.1
<i>Prior 96</i> contributions	123.5	259.4	382.9	(57.9)	(72.7)	(130.6)	60.4	158.7	219.1	5.2	28.0	33.2
<b>TOTAL EMERGENCIES</b>	<b>191.8</b>	<b>316.2</b>	<b>508.0</b>	<b>503.7</b>	<b>472.9</b>	<b>976.6</b>	<b>593.4</b>	<b>540.2</b>	<b>1133.6</b>	<b>102.1</b>	<b>248.9</b>	<b>351.0</b>
<b>PRO</b>												
Multilateral contributions	36.8	43.9	80.7	104.2	95.7	199.9	132.2	91.1	223.3	8.8	48.5	57.3
Directed Multilateral contributions	0.0	0.0	0.0	203.5	209.5	413.0	154.3	158.4	312.7	49.2	51.1	100.3
<i>Prior 96</i> contributions	78.9	80.2	159.1	(33.1)	(69.5)	(102.6)	43.0	2.9	45.9	2.8	7.8	10.6
<b>TOTAL PRO</b>	<b>115.7</b>	<b>124.1</b>	<b>239.8</b>	<b>274.6</b>	<b>235.7</b>	<b>510.3</b>	<b>329.5</b>	<b>252.4</b>	<b>581.9</b>	<b>60.8</b>	<b>107.4</b>	<b>168.2</b>
<b>SPECIAL OPERATIONS</b>												
Multilateral contributions	0.0	0.0	0.0	0.0	0.7	0.7	0.0	0.3	0.3	0.0	0.4	0.4
Directed Multilateral contributions	0.0	0.0	0.0	0.0	53.7	53.7	0.0	46.0	46.0	0.0	7.7	7.7
<i>Prior 96</i> contributions	0.0	0.0	0.0	0.0	2.0	2.0	0.0	2.0	2.0	0.0	0.0	0.0
<b>TOTAL SPECIAL OPERATIONS</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>56.4</b>	<b>56.4</b>	<b>0.0</b>	<b>48.3</b>	<b>48.3</b>	<b>0.0</b>	<b>8.1</b>	<b>8.1</b>
<b>GENERAL FUND</b>												
Special accounts	0.0	0.0	0.0	0.0	4.4	4.4	0.0	4.4	4.4	0.0	0.0	0.0
General Fund	0.0	33.0	33.0	0.0	(18.7)	(18.7)	0.0	12.8	12.8	0.0	1.5	1.5
<b>TOTAL GENERAL FUND</b>	<b>0.0</b>	<b>33.0</b>	<b>33.0</b>	<b>0.0</b>	<b>(14.3)</b>	<b>(14.3)</b>	<b>0.0</b>	<b>17.2</b>	<b>17.2</b>	<b>0.0</b>	<b>1.5</b>	<b>1.5</b>
<b>TRUST FUNDS</b>												
JPO Scheme	0.0	0.0	0.0	0.0	7.4	7.4	0.0	7.4	7.4	0.0	0.0	0.0
Bilateral Operations	0.0	0.0	0.0	0.0	18.1	18.1	0.0	18.1	18.1	0.0	0.0	0.0
Quality Improvement and other Trust Funds	0.0	0.0	0.0	0.0	3.0	3.0	0.0	3.0	3.0	0.0	0.0	0.0
Disaster Mitigation	0.0	0.0	0.0	0.0	(2.0)	(2.0)	0.0	(2.0)	(2.0)	0.0	0.0	0.0
<b>TOTAL TRUST FUNDS</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>26.5</b>	<b>26.5</b>	<b>0.0</b>	<b>26.5</b>	<b>26.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>GRAND TOTAL</b>	<b>588.9</b>	<b>556.6</b>	<b>1 145.5</b>	<b>1 097.3</b>	<b>944.2</b>	<b>2 041.5</b>	<b>1 438.9</b>	<b>1 082.4</b>	<b>2 521.3</b>	<b>247.3</b>	<b>418.4</b>	<b>665.7</b>

**NOTE 5**  
**INDIRECT SUPPORT COSTS**  
**FOR THE PERIOD 1996-97**  
**(million dollars)**

	Expenditure for the period 1996-97	Prior period 1994-95
Programme Support and Administrative costs	226.2	179.7
Administrative costs funded from other Trust Funds	2.8	14.4
Currency adjustment	(0.1)	2.1
<b>Total Indirect Support Costs</b>	<b>228.9</b>	<b>196.2</b>

**NOTE 5.1**  
**PROGRAMME SUPPORT AND ADMINISTRATIVE COSTS**  
**FOR THE PERIOD 1996-97**  
**(million dollars)**

	Expenditure for the period 1996-97	Prior period 1994-95
<b>Headquarters</b>		
Staff costs	84.8	58.7
Other costs	40.3	33.6
<b>Total</b>	<b>125.1</b>	<b>92.3</b>
<b>Statutory Requirements</b>		
External audit	0.5	0.5
Contributions to other UN organizations	1.5	0.5
<b>Total</b>	<b>2.0</b>	<b>1.0</b>
<b>Country Offices</b>		
Staff costs	76.4	67.2
Local operating costs	22.7	19.2
<b>Total</b>	<b>99.1</b>	<b>86.4</b>
<b>Total Programme Support and Administrative Costs</b>	<b>226.2</b>	<b>179.7</b>

**NOTE 6**  
**INDIRECT SUPPORT COST CONTRIBUTIONS**  
**FOR THE PERIOD 1996–97**  
**(million dollars)**

WFP recovers indirect support costs from contributions to the various activities under its management. These recoveries are recognized as transfers from the Programme Categories to the General Fund and the related expenditure under the General Fund. Indirect support costs support the execution of projects and activities but cannot be directly linked to their implementation.

	<b>Development, Rehabilitation and Disaster Preparedness</b>	<b>Emergencies</b>	<b>Protracted Relief Operations</b>	<b>Special Operations</b>	<b>Trust Funds</b>	<b>Total WFP Fund</b>	<b>Prior Period 1994-95</b>
Multilateral	57.2	4.2	10.3	0.0	0.0	71.7	n/a
Directed Multilateral	13.2	35.6	19.4	5.7	0.0	73.9	n/a
<i>Prior 1996</i>	0.0	14.5	7.5	0.2	0.0	22.2	52.0
Bilateral	0.0	0.0	0.0	0.0	10.2	10.2	10.2
<b>Total contributions for administrative support</b>	<b>70.4</b>	<b>54.3</b>	<b>37.2</b>	<b>5.9</b>	<b>10.2</b>	<b>178.0</b>	<b>62.2</b>



**NOTE 7**  
**RESERVES AND FUND BALANCES**  
**AS AT 31 DECEMBER 1997 (million dollars)**

	Reserves and Fund balances as at 1 January 1996	Excess/ (Shortfall) of income over expenditure	Savings on cancellation of prior period obligations	Transfers between activities	Transfer to/(from) Reserves	Reserves and Fund balances as at 31 December 1997
<b>Programme category</b>						
Development, Rehabilitation and Disaster Preparedness	66.3	24.1	0.0	6.6	(47.7)	49.3
Emergencies:						
International Emergency Food Reserve	15.9	119.2	0.0	(1.5)	0.0	133.6
Immediate Response Account	12.9	7.9	0.0	0.6	0.0	21.4
Protracted Relief Operations	58.6	61.2	0.0	0.4	0.0	120.2
Special Operations	5.1	3.8	0.0	0.0	0.0	8.9
General Fund:						
Operational Reserve	9.3	0.0	0.0	0.0	47.7	57.0
Other	17.5	24.6	1.0	(6.1)	0.0	37.0
Trust Funds	108.6	(17.8)	0.0	0.0	0.0	90.8
<b>Total Reserves and Fund balances</b>	<b>294.2</b>	<b>223.0</b>	<b>1.0</b>	<b>0.0</b>	<b>0.0</b>	<b>518.2</b>
<b>Funding Window</b>						
Multilateral:						
Operational Reserve	9.3	0.0	0.0	0.0	47.7	57.0
General Fund	17.5	24.6	1.0	(6.1)	0.0	37.0
Multilateral funds tied to programme categories	0.0	61.3	0.0	6.1	0.0	67.4
<b>Total Multilateral</b>	<b>26.8</b>	<b>85.9</b>	<b>1.0</b>	<b>0.0</b>	<b>47.7</b>	<b>161.4</b>
Directed Multilateral	0.0	107.5	0.0	0.0	0.0	107.5
<i>Prior 96</i>	158.8	47.4	0.0	0.0	(47.7)	158.5
Bilateral	108.6	(17.8)	0.0	0.0	0.0	90.8
<b>Total Reserves and Fund balances</b>	<b>294.2</b>	<b>223.0</b>	<b>1.0</b>	<b>0.0</b>	<b>0.0</b>	<b>518.2</b>

Transfers between activities represent the use of unrestricted funds for programme categories different from those for which the funds were originally contributed.

**NOTE 7.1**  
**RESTATEMENT OF RESERVES AND FUND BALANCES**  
**AS AT 1 JANUARY 1996 (million dollars)**

	Balance as at 1 January 1996	Development, Rehabilitation and Disaster Preparedness	Emergencies IEFR IRA		Protracted Relief Operations	Special Operations	General Fund	Trust Funds	WFP Fund
<b>Classification as per 1994–95 accounts</b>									
Operational Reserve	9.3						9.3		9.3
Regular Programme	50.9	50.9							50.9
International Emergency Food Reserve	(17.9)		(17.9)						(17.9)
Immediate Response Account	12.9			12.9					12.9
Protracted Relief Operations	56.3				56.3				56.3
Special Emergency Operations	41.2		33.8		2.3	5.1			41.2
Non-Food Items	15.4	15.4							15.4
Special Operations	11.3						8.0	3.3	11.3
Disaster Mitigation	9.2							9.2	9.2
Bilateral Operations	94.8							94.8	94.8
Junior Professional Officer Scheme	1.3							1.3	1.3
Self-Insurance Account	9.5						9.5		9.5
<b>Restated Fund Balance as at 1 January 1996</b>	<b>294.2</b>	<b>66.3</b>	<b>15.9</b>	<b>12.9</b>	<b>58.6</b>	<b>5.1</b>	<b>26.8</b>	<b>108.6</b>	<b>294.2</b>

**NOTE 8**  
**RESTATEMENT OF COMPARATIVE FIGURES AND OPENING RESERVES**  
**FOR THE PRIOR PERIOD 1994 - 95**  
**(million dollars)**

	As Previously reported	Change in accounting policy	As restated
<b>INCOME</b>			
Contributions for commodities	1 390.4	0.0	1 390.4
Other contributions	1 394.8	0.0	1 394.8
Government cash contributions for local costs	3.5	0.0	3.5
Interest	54.3	0.0	54.3
Currency exchange adjustments	1.0	0.0	1.0
Miscellaneous income	0.8	9.5	10.3
Transfer of Indirect Support Cost contributions to General Fund	0.0	0.0	0.0
<b>TOTAL INCOME INCLUDING TRANSFER</b>	<b>2 844.8</b>	<b>9.5</b>	<b>2 854.3</b>
<b>EXPENDITURE</b>			
Operational costs in commodities	1 388.4	0.0	1 388.4
Other operational costs:			
Ocean transport	266.4	0.0	266.4
Air, overland and ITSH	539.0	0.0	539.0
Other	301.5	1.5	303.0
Direct Support Costs	n/a	n/a	n/a
Indirect Support Costs	196.2	0.0	196.2
<b>TOTAL EXPENDITURE</b>	<b>2 691.5</b>	<b>1.5</b>	<b>2 693.0</b>
<b>Excess/(Shortfall) of income over expenditure</b>	<b>153.3</b>	<b>8.0</b>	<b>161.3</b>
Savings on cancellation of prior period obligations	4.7	0.0	4.7
Transfers between activities	0.0	0.0	0.0
Transfer to/(from) Reserves	0.0	0.0	0.0
Reserves and Fund balances, beginning of period	126.7	1.5	128.2
<b>Reserves and Fund balances, end of period</b>	<b>284.7</b>	<b>9.5</b>	<b>294.2</b>

The change in accounting policy is described in Note 2 VII - Self-Insurance Account. It results in an increase in miscellaneous income of US\$9.5 million, representing insurance premia charged to projects.

**NOTE 9**  
**CASH AND TERM DEPOSITS**  
**(million dollars)**

	Balance as at 31 December 1997	Balance as at 31 December 1995
<b>Bank and cash holdings at headquarters:</b>		
Through FAO	735.5	565.8
Direct	32.1	17.3
<b>Bank and cash holdings at country offices:</b>		
In convertible currencies	12.4	29.5
In non-convertible currencies	1.6	4.3
<b>Total</b>	<b>781.6</b>	<b>616.9</b>

WFP's total bank and cash holdings are managed centrally for reasons of economy of scale, and are distributed among the programme category funds in Statement II, resulting in a self-balancing set of accounts for each fund.

**NOTE 10**  
**OTHER ACCOUNTS RECEIVABLE**  
**(million dollars)**

	Balance as at 31 December 1997	Balance as at 31 December 1995
Personnel advances	6.6	5.1
Demurrage receivable from recipient governments and suppliers	1.9	2.9
Country office receivables	4.8	3.0
Rental and refurbishment of headquarters premises, receivable from the Italian Government	10.0	1.9
Accrued interest	12.6	10.2
Other receivable amounts	8.9	4.4
<b>Total</b>	<b>44.8</b>	<b>27.5</b>

**NOTE 11**  
**OUTSTANDING OBLIGATIONS AS AT 31 DECEMBER 1997**  
**(million dollars)**

Programme Category	Multilateral	Directed Multilateral	Prior 96	Bilateral	Total
Development, Rehabilitation, Disaster Preparedness	20.3	13.0	4.8	0.0	38.1
Emergencies	6.7	60.6	13.1	0.0	80.4
Protracted Relief Operations	5.6	17.1	0.8	0.0	23.5
Special Operations	0.0	3.5	0.6	0.0	4.1
General Fund	18.8	0.0	0.0	0.0	18.8
Trust Funds	0.0	0.0	0.0	12.3	12.3
<b>Total</b>	<b>51.4</b>	<b>94.2</b>	<b>19.3</b>	<b>12.3</b>	<b>177.2</b>

**NOTE 12**  
**ACCOUNTS PAYABLE**  
**(million dollars)**

	Balance as at 31 December 1997	Balance as at 31 December 1995
Other United Nations organizations	2.8	5.5
Despatch to be offset by demurrage	1.3	2.7
Insurance recoveries payable to donors and in suspense	12.6	7.8
Other payables	9.9	8.8
<b>Total</b>	<b>26.6</b>	<b>24.8</b>

Net despatch earned is payable to the recipient countries.

**NOTE 13**  
**PROVISIONS AS AT 31 DECEMBER 1997**  
**(million dollars)**

Programme Category	Multilateral	Directed Multilateral	Prior 96	Bilateral	Total
Development, Rehabilitation, Disaster Preparedness	5.6	2.5	6.0	0.0	14.1
Emergencies	7.3	37.9	5.5	0.0	50.7
Protracted Relief Operations	14.3	15.3	1.2	0.0	30.8
Special Operations	0.0	0.0	0.0	0.0	0.0
General Fund	0.0	0.0	0.0	0.0	0.0
Trust Funds	0.0	0.0	0.0	6.3	6.3
<b>Total</b>	<b>27.2</b>	<b>55.7</b>	<b>12.7</b>	<b>6.3</b>	<b>101.9</b>

#### NOTE 14: CENTRAL EMERGENCY REVOLVING FUND (CERF) LOAN

70. The Department of Humanitarian Affairs–Central Emergency Revolving Fund (DHA-CERF) was established by the Secretary-General of the United Nations under United Nations General Assembly resolution 46/182 of 19 December 1991. WFP availed itself of this facility in order to be responsive to the urgent need to accelerate the launching of emergency operations while suitable donors were being sought to underwrite them, including the repayment of the DHA loan. At 31 December 1997, a balance of US\$2.5 million remained to be repaid to DHA. This amount refers to the emergency operation in Tajikistan which no donors have come forward to fund. The Programme has requested that the outstanding amount be written off.

#### NOTE 15: OPERATIONAL RESERVE

71. At its 38th Session, the Committee on Food Aid Policies and Programmes (CFA) (document CFA 38/18, paragraphs 37 to 41) agreed to establish an operational reserve at the level of up to US\$57 million, in accordance with the Financial Regulations.
72. The Executive Board (document WFP/EB.3/96/14, decision 1996/EB.3/2 e) decided to increase the level of the Operational Reserve up to its limit of US\$57 million by devoting part of the 1994–95 surplus to the Reserve. Therefore, during the biennium 47.7 million dollars was transferred to the Reserve from the Development programme category where the 1994–95 surplus was reclassified.

	Period 1996–97	(million dollars)	Period 1994–95
Balance beginning of period	9.3		–
Transfers	47.7		9.3
Balance at end of period	57.0		9.3

#### NOTE 16: FIXED ASSETS—BUILDINGS AND EQUIPMENT, FURNITURE AND VEHICLES

73. The historical cost of WFP buildings as at 31 December 1997 is seven million dollars. The total historical cost of buildings, equipment, furniture and vehicles at 31 December 1997 is unavailable; as at 31 December 1996 it was US\$68.9 million. These items are charged to expenditure and shown in Statement II (Assets, Liabilities and Reserves and Fund Balances) at a nominal value of one dollar.
74. During 1996, a total of US\$12.8 million was written off the inventory records, mainly because the assets had been transferred to the recipient country or had become irreparable or obsolete. The value of inventory written off during 1997 is unavailable.

## NOTE 17: PERSONNEL-RELATED LIABILITIES

75. The Programme's eligible staff members are entitled to certain benefits on separation from service: repatriation grants, repatriation travel and removal costs, termination indemnities, death grants and commutation of accrued annual leave. These separation-related liabilities are not provided for. It is considered that, unless the Programme were to undertake a significant staff reduction programme, any legal liabilities will mature and be met as they fall due over an extended period of time.
76. The liability in respect of separation entitlements accrued on behalf of the Programme's General Service staff is fully covered by funds set aside and invested in the Separation Payments Scheme (SPS) operated by FAO. FAO carried out an actuarial study on 31 December 1997, the draft results of which concluded that WFP's share of the liability was estimated to be US\$10.8 million. As at 31 December 1997, the Programme's portion of the scheme had an historical asset value of US\$13.3 million. The final results of the actuarial study are not yet available.
77. Additional funds have been set aside and invested in the FAO Compensation Plan Reserve Fund (CPRF) to provide compensation for all staff members, employees and dependents in case of death, injury or illness attributable to the performance of official duties. The draft results of FAO's actuarial study concluded that WFP's share of the liability was estimated to be US\$0.2 million. As at 31 December 1997, the Programme's portion of the historical asset value is US\$0.3 million. The final results of the actuarial study are not yet available.
78. The liability in respect of after-service medical coverage (ASMC) is not provided for in the accounts. The draft results of the actuarial study carried out by FAO on 31 December 1997 concluded that the total accrued actuarial liability for ASMC amounted to US\$254.3 million, of which the Programme's share was estimated to be US\$44.8 million. The final results of the actuarial study are not yet available. WFP is undertaking a review of the methodology used to calculate its share of the liability, with a view to adjusting the share to reflect the Programme's specific circumstances.
79. The Programme's estimated liability to staff in respect of accrued annual leave amounted to US\$6.6 million at 31 December 1997. This liability is not provided for in the accounts.
80. Staff pension arrangements are provided for through participation in the United Nations Joint Staff Pension Fund (UNJSPF). The Fund is supervised by the United Nations Pension Board. The actuarial sufficiency of the fund was assessed at 31 December 1995. Based on this assessment, the Pension Board determined that there is an imbalance in perpetuity of 1.46% of pensionable remuneration. No measures were proposed by the actuary or the Pension Board to rectify the imbalance. The actuarial sufficiency of the fund will be reassessed at 31 December 1997. The results of this assessment are not yet available.
81. On 29 January 1998 the Administrative Tribunal of the International Labour Organization (ILO) decided that the 4% language factor should remain included in the salary scale of General Service staff proficient in any of the United Nations official languages. The Tribunal's decision covers the period 1 November 1995 to 31 December 1997. The restoration of the language factor required a retroactive adjustment to salary costs, pension fund contributions and termination emoluments. The additional costs are estimated to be US\$0.8 million and have been provided for in the Financial Statements.

Paris, 21 July 1998

Madam President,

I have the honour of enclosing herewith the financial statements of the World Food Programme for the biennium 1996-97, together with my opinion and my detailed report on the accounts and on the management of the organization throughout this biennium.

Accept, Madam President, the expression of my highest consideration.

Signed by:

**Pierre JOXE**  
Premier Président  
de la Cour des Comptes  
de la République Française  
External Auditor

**Ms. M. E. JIMENEZ**  
President of the Executive Board  
of the World Food Programme  
Rome  
Italy





**REPORT OF THE EXTERNAL AUDITOR  
ON THE FINANCIAL STATEMENTS OF THE WORLD FOOD PROGRAMME  
FOR THE FINANCIAL PERIOD 1 JANUARY 1996 TO 31 DECEMBER 1997**

**CONTENTS**

	<b><u>Paragraphs</u></b>
Introduction	1
Audit Scope	2 - 5
Review of Management Matters	6 - 7
Previous Recommendations	8
<b><u>SUMMARY</u></b>	
Financial Matters	9 - 21
Management Matters	22 - 29
Other Matters	30 - 31
<b><u>LONG-FORM REPORT</u></b>	
Financial Matters	
Format of Financial Statements	32 - 33
Overview of the Financial Situation of WFP	34
Surpluses, Reserves & Fund Balances	35 - 36
Contributions	37 - 42
Expenditure	43 - 52
Country Office Expenditure	53 - 58
Programme Support and Administrative Costs	59 - 62
Cash Management	63 - 66
Self-Insurance Policy	67 - 69
Bilateral Operations	70
Management Matters	
Procurement	71 - 88
Financial Management Improvement Programme	89 - 96
Other Matters	
The Year 2000 Problem	97
Upgrading of Financial Information, Accounting & Procedural Discipline	98 - 102
Acknowledgement	103



## **REPORT OF THE EXTERNAL AUDITOR ON THE FINANCIAL STATEMENTS OF THE WORLD FOOD PROGRAMME FOR THE FINANCIAL PERIOD 1 JANUARY 1996 TO 31 DECEMBER 1997**

### **Introduction**

1. My staff audited the financial statements of the World Food Programme (WFP) for the period 1 January 1996 to 31 December 1997 which were submitted by the Executive Director in accordance with Financial Regulations 9.4 and 10.3 of the WFP<sup>1</sup>.

### **Audit Scope**

2. The scope of the audit was determined in compliance with Article XI of the Financial Regulations of the WFP as well as with the Additional Terms of Reference Governing External Audit appended thereto.
3. The audit was carried out in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. These standards require that the audit be planned and carried out so as to issue an audit opinion on the fair presentation of the financial statements and on compliance with legislative authority. The Executive Director is responsible for preparing these financial statements and I am responsible for expressing an opinion on them.
4. The audit included an examination, on a test basis, of evidence supporting the disclosures in the financial statements. Also, it included assessing the accounting principles used and the compliance with legal authority as well as evaluating the overall presentation of financial statements.
5. The audit enabled me to issue the audit opinion on the financial statements which is reproduced on page 12.

### **Review of Management Matters**

6. In addition to the audit of the accounts, my staff carried out reviews under Financial Regulation 11.4 of the Programme. In 1996-97, this review of management matters focused on arrangements for procurement of commodities, non-food items and ocean transport services. Also, we reviewed the implementation of the Financial Management Improvement Programme (FMIP) adopted in 1995. The conclusions of these reviews are incorporated in the present report.
7. In 1996, 1997 and the first four months of 1998 my staff visited 13 countries in Latin America, Africa and Asia where they carried out management and financial audits of the WFP offices as well as a selection of projects. Their observations and recommendations were reported separately to the Executive Director following the conclusion of the visit. They have been incorporated in the present report when and where appropriate.

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<sup>1</sup> Unless otherwise specified, the Financial Regulations referred to hereinafter are the regulations which came into force on 1 January 1992 and remained applicable until 31 December 1997. The new Financial Regulations adopted in 1997 by the United Nations General Assembly and the FAO Conference did not come into force before 1 January 1998.

## Previous Recommendations

8. The present report also includes comments on action taken in response to recommendations contained in previous reports when such matters remain significant enough to be brought to the attention of Member Nations. Comments on such matters are either incorporated in the section where they belong or regrouped at the end of the report in a specific section where follow up action is analysed and assessed.

## SUMMARY

### FINANCIAL MATTERS

#### Format of Financial Statements

9. The WFP prepared their 1996-97 financial statements in accordance with the funding model adopted by the Committee on Food Aid Policies and Programmes (CFA) in November 1995. Major changes resulting from this model were the definition of programme categories and funding windows and the introduction of the "full-cost recovery" concept. The reporting of 1996-97 operations in Statements I and II is based on programme categories. [paras. 32 to 36]

#### Contributions

10. The valuation methods applied to contributions in kind were complex and lacked consistency across programme categories. This continued in 1996-97. I recommend that the new procedure issued at the end of 1997 with a view to simplifying these methods and making them consistent be effectively implemented in 1998. [paras. 37 and 38]
11. WFP's assets, and the corresponding liabilities, had to be adjusted downwards to provide a fair estimate of contributions receivable. As at 31 December 1997, such contributions which represent pledges in kind and in cash not received from donors amounted to US\$665.7 million. The overstatement of contributions receivable in the financial statements submitted for audit resulted from the insufficient monitoring of the value of pledges receivable throughout the biennium. I recommend that the pledge management process be thoroughly reviewed and upgraded. [paras. 39 and 40]
12. Government cash contributions for local costs actually paid in continued to be substantially below the amounts requested by the Secretariat. The amount outstanding at 31 December 1997 stood at US\$23.7 million. I reiterate my previous recommendation to implement revised agreements with recipient governments and record outstanding contributions as receivable in the books of the WFP. [paras. 41 and 42]

#### Expenditure

13. Undisbursed expenditure is comprised of outstanding obligations and a provision for land transport, storage and handling costs to be met in respect of commodities shipped during the biennium. My staff noted the improvements in the review of such obligations and provision at the closure of the biennium which resulted in better estimating expenditure. However, I recommend further improvements in these reviews and a modification of the accounting procedure for the posting of internal transport, storage and handling costs. [paras. 44 to 47]
14. Under current accounting methods, the cancellation of commitments set up in prior periods reduces the reported expenditure for the current period. In my opinion such netting

of savings on prior commitments and current project expenditure is not appropriate. I recommend that WFP consider the advantages and feasibility of a more transparent method of reporting cancelled commitments. [paras. 48 and 49]

15. The implementation of the direct support costs concept in 1996-97 resulted in reclassifying a substantial amount of project expenditure, from direct support costs to other operational costs, at the closure of the biennium. The basis for such reclassification was unclear. I recommend that the accounting procedures retained for such transactions be detailed in specific financial and accounting instructions to ensure that they are treated consistently across programme categories and across financial periods. [paras. 50 and 51]
16. I recommend that greater care be exercised in the recruitment of consultants. [para. 52]

### **Country Office Expenditure**

17. Cash expenditure incurred in country offices amounted to some US\$500 million in 1996-97. My staff's review of the processing of country office returns by the specialized unit at headquarters disclosed that the internal control weaknesses noted in my previous report had not been corrected. As an example of such weaknesses, the audit disclosed that the overall cash balance of WFP was overstated by some US\$2.2 million. I reiterate my previous recommendations to implement a stricter checking of field transactions before they are posted to the general ledger. [paras. 53 to 58]

### **Programme Support and Administrative Costs**

18. The assessment of the programme support and administrative costs incurred by WFP and the funding of such costs have become an intricate issue as a result of the increasing variety of cost categories funded from earmarked resources and the absence of a comprehensive policy directive addressing the matter. I understand that the definition of what constitute programme support and administrative costs and the resources to be applied to meet such costs are being considered by a formal working group of the Executive Board. In this context, I recommend that comprehensive budgetary arrangements, specifying recognized expenditure components and the resources applicable to meeting such expenditure, be worked out with a view to providing WFP with an administrative structure commensurate with their missions. [paras. 59 to 62]

### **Cash Management**

19. Cash and deposits held in the name of the WFP are substantial: as at 31 December 1997, they amounted to some US\$781 million, representing 12 months of current cash expenditure. However, the audit confirmed that the WFP was not organized to manage such cash in an optimal manner. I recommend that the Programme review their current arrangements and structure for cash management with a view to (i) bringing in line official investment policy and actual conduct of investment management, (ii) out-sourcing the management of investments to professional managers and (iii) reorganizing the structure to ensure adequate oversight of the external managers and control of bank accounts. [paras. 63 to 66]

### **Insurance Policy**

20. The policy for self-insurance of ocean shipments was started in 1994. The accounting policy for the related transactions was changed in 1996-97 and they are now reported in a special account under the General Fund of the WFP. In my opinion, this change raises a

number of legal, accounting and management issues. I recommend that, in the future, and in order to better reflect the nature of these operations, self-insurance transactions be reported as a provision on the liabilities side of the balance sheet, as was the case in the 1994-95 financial statements. If, nevertheless, the WFP wished to retain a special account for self-insurance operations, I recommend that the establishment of the special account and the principles governing its operation be formally endorsed by the Executive Board. [paras. 67 to 69]

### **Bilateral Operations**

21. The audit disclosed that negative balances of bilateral operations still amounted to US\$5.9 million at the end of 1997. Considering the nature of such operations, where the WFP acts in a service capacity to donors, bilateral operations expenditure should never result in negative balances. Although, my staff noted improvements in the monitoring of negative bilateral operations, the present situation shows that there is still room for further improvement. [para. 70]

## **MANAGEMENT MATTERS**

### **Procurement of Commodities and Non-Food Items**

22. The WFP has become a regular and significant buyer of foodstuffs on the international market. Purchases amount to some one million metric tons annually at a cost of US\$250 to 300 million. Annual purchases of non-food items and services amount to some US\$10 million. [para. 72]
23. Organizational and personnel arrangements for handling procurement activities have undergone successive and profound changes from 1995 to the end of 1997. This did not always allow for the necessary continuity of action. In addition, the committee reviewing commodity contracts ex-post facto did not meet for over one year during the biennium. My staff further noted that the various procurement rules needed to be revised, harmonized, and assembled in a comprehensive document to make them more easily accessible to staff. Delegations of authority, in particular, needed to be clarified. The correct implementation of procurement rules and procedures suffered from this situation, particularly at the field level. In addition, the headquarters procurement unit was not in a position to monitor effectively procurement undertaken in the field. [paras. 73 to 78]
24. My staff's review of a large sample of contracts did not disclose significant irregularities, but I have singled out in the body of my Long-Form Report a number of anomalies that should be corrected in the future. [paras. 79 to 84]

### **Procurement of Ocean Transport Services**

25. Ocean transport expenditure amounted to US\$221 million for 4 million metric tons transported in 1996-97. The conclusion of the audit of these operations was that the organization and procedures of the Ocean Transport Service (OTS) were adequate. However, internal controls of operations could be improved, particularly with respect to performance evaluation and effectiveness of the ex-post review of contracts. [paras. 85 to 88]

## **Financial Management Improvement Programme**

26. The FMIP was one of the major undertakings of WFP in 1996-97. It was formally approved by the Executive Director in February 1996. Major changes in the management of this programme and the implementation of the activities carried out took place in mid-1996. As a result, the deadline for the full implementation of the programme was postponed to end-1999 and the costs were revised upwards from US\$28.5 million, at the time when the programme was approved, to US\$32 million. [paras. 89 and 90]
27. The audit disclosed that the implementation of the FMIP displayed a number of weaknesses in the compliance with legal authority. Such weaknesses relate to the formal approval of the programme and the decision to account for its operations in a special account under the General Fund, to the charging of programme support and administrative costs to the FMIP budget, and to the inconsistent treatment of contributions to the programme with respect to the charging of indirect support costs. [paras. 92 to 94]
28. Total costs of the FMIP have been estimated at US\$32 million, but there are now firm indications that such estimates will be exceeded. With confirmed contributions amounting to US\$16.4 million, the FMIP is facing a shortage of funds which is only temporarily and partially compensated by the reimbursable advances authorized from the General Fund of WFP. [para. 95]
29. Major accomplishments were achieved through the implementation of the FMIP. They include improvements in information technology infrastructure, networking of the principal WFP units, including country offices through the "connectivity" project, a thorough review of business processes and the conception and creation of bespoke systems to carry them out, and the selection of a major integrated financial-human resources-procurement software package. However, the key FMIP systems are not operational yet and require additional work, testing and training of staff. Seen in this context, the present end-1999 deadline appears unrealistic. [para. 96]

## **OTHER MATTERS**

### **Year 2000 Problem**

30. Adapting computer-based systems to their moving over into the twenty-first century is a major management problem and senior management responsibility and oversight are essential to successfully deal with it. I recommend that this problem receive adequate attention in WFP. [para. 97]

### **Action Taken in Response to Previous Reports**

31. In my previous report, I had recommended that immediate improvements, consistent with the longer-term FMIP strategy, be implemented with a view to upgrading financial information and accounting systems and procedural discipline. The audit showed that there was still ample room for further improvements at the end of 1997. In particular, the documentation of financial procedures and the provision of operational guidelines to staff remained a major management problem. In this context, I reiterate my recommendation to further develop and disseminate clear and organization-wide operational and financial guidance and to reinforce finance staff, particularly at headquarters, both in quantity and quality. [paras. 98 to 102]



## LONG FORM REPORT

### FINANCIAL MATTERS

#### Format of Financial Statements

32. The format of the 1996-97 financial statements differs substantially from that which had been adopted in 1994-95. This new presentation, based on the funding model adopted by the CFA in November 1995, constitutes a change in accounting policies which is detailed in Note 2 to the statements.
33. The 1996-97 financial statements report operations both by programme categories and by funding windows: Statements I (Income and Expenditure Statement) and II (Assets and Liabilities Statement) report operations by programme categories while Notes 3.1 to 3.6 detail the funding of each programme category by funding window. A consequence of this representation of the Programme's operations is that the reserves and fund balances reported at the bottom of Statements I and II are "functional" in nature and do not reflect ownership. Such balances include funds at the disposal of WFP (i.e. "multilateral" contributions), funds of which the use is entirely determined by the donor and funds corresponding to a variety of in-between situations.

Similarly, the distribution of cash between the various programme categories disclosed in Statement II does not reflect any concept of ownership. Cash was apportioned as a balancing item for each programme category. The present accounting systems of WFP did not allow for a practical way of reconstructing cash balances project by project.

#### Overview of the Financial Situation of WFP

34. Total food aid deliveries in the world continued to decline in 1996 (7 million tons, -27% relative to 1995) and 1997 (6.6 million tons, -7% relative to 1996) as shown in the 1997 Food Aid Flows - Interfais Report. In this context, WFP deliveries declined only slightly during the biennium (1995: 2.58 million tons, 1996: 2.19 million tons; 1997: 2.57 million tons).

Total contributions to the Programme declined from US\$2.78 billion in 1994-95 to US\$2.52 billion in 1996-97, but while contributions in commodities (including "cash in lieu of commodities") increased slightly (+3.5%), contributions in cash declined steeply (-22.4%). The decline in cash contributions has been particularly pronounced for Trust Funds (-87%) and development (-27%) activities.

Multilateral contributions, as opposed to contributions directed to specific programmes and projects, represented less than one third of total contributions in 1996-97, as shown in the following table:

[in US\$ billion]	1996-97	%
Multilateral	0.8	31
Directed Multilateral	1.33	54
Bilateral	0.03	1
<i>Prior 1996</i>	0.36	14
<b>Total</b>	<b>2.52</b>	<b>100</b>

A major change introduced with the new financing model in 1996 was the “full cost recovery” concept. This concept was implemented through Indirect Support Costs (ISC) levied on contributions to fund Programme Support and Administrative Costs (PSACs). The continuing decline in the volume of development activities where contributions carry an ISC rate which is twice that of refugee or emergency operations could pose a major problem for the funding of indispensable PSACs.

### Surpluses, Reserves and Fund Balances

35. Statement I discloses a consolidated “excess of income over expenditure” which reflects the outcome of the operations of the biennium: in 1996-97 this excess amounted to US\$223 million compared to US\$161 million in 1994-95 (restated to be comparable to the 1996-97 figures). It contributed to building up the reserves and funds balances of the Programme. This is detailed at the bottom of Statement I which shows that, overall, reserves and fund balances increased from US\$294 million to US\$518 million as at 31 December 1997.

Statement II details the distribution of such reserves and fund balances between the various uses prescribed. The main prescription, in that respect, results from the decision of the CFA to establish an operational reserve, in line with Financial Regulation 7.4. As explained in Notes 7 and 15 to the statements, the Executive Board decided, in 1996, to bring the level of the operational reserve to its maximum of US\$57 million.

36. I noted that, in line with the recommendation made in my previous report, the funding, the purpose and the replenishment modalities of the operational reserve had been detailed in a decision taken by the Executive Board at its annual session in May 1997.

### Contributions

#### Commodity Contributions

37. The Programme receives both commodity and cash contributions. In my previous report, I noted that the valuation of contributions in kind was complex and not consistent across programme categories. The same valuation methods continued to be applied in 1996-97. However, a new procedure was issued at the end of 1997 to become effective in 1998. This procedure provides for (i) a uniform valuation methodology for all programme categories, (ii) a simplified pricing system and (iii) a simplified accounting system limiting the period when the donor may request an adjustment to the valuation of the donated commodity to one year.

In my view, this will represent an improvement and my staff will review the implementation of this procedure in the next biennium.

38. Expenditure in commodities is accounted for at the value of the corresponding income in commodities. As a result, commodity income and commodity expenditure should always be equal. However, commodity income includes “cash in lieu of commodities” (CLC). In line with the accounting policy of WFP, such cash is recorded as income when received. Until such cash is spent on procurement of commodities, it represents an excess of commodity income over expenditure in commodities. At the end of 1997, this excess amounted to US\$64.7 million.

### ***Contributions Receivable***

39. The audit disclosed that “Contributions Receivable” representing pledges in kind and in cash not yet received from donors were overstated. As at 31 December 1995, such contributions receivable were reported in an amount of US\$1,145.5 million. Upon my staff’s request, the Secretariat carried out a thorough review of contributions receivable corresponding to pre-1995 pledges. My staff’s final review resulted in further adjusting down the amount of contributions receivable in respect of pre-1996 pledges. As a result of such adjustments, contributions receivable were brought down to US\$665.7 million as at 31 December 1997, a decrease of US\$479.8 million from 31 December 1995.

It should be noted that the reduction in contributions receivable does not impact on the Programme’s reserves and fund balances since they are fully provided for on the liabilities side of the balance sheet.

However, this showed that WFP’s assets and the corresponding liabilities were significantly lower than had been assumed.

40. The overstatement resulted from insufficient monitoring of pledges receivable which, in turn, resulted, in part, from the unclear distribution of responsibilities between the various administrative units concerned and, in part, from the manual monitoring process which made the reconciliation of the WIS and GL:M systems extremely time-consuming and prone to error.

At the time of writing the present report, and in spite of the important reconciliation exercise carried out by the Secretariat for the closure of the 1996-97 accounts, neither distribution of responsibilities, nor pledge management processes had been changed. Failing that, the accumulation of invalid contributions receivable will build up again.

I recommend that a clear definition of responsibilities be established between the various units concerned with respect to registration of pledges, allocation of resources and monitoring of the outstanding value of pledges. Also, I recommend that the pledge management process be thoroughly reviewed and upgraded.

### ***Government Cash Contributions for Local Costs (GCCC)***

41. Financial Regulation 4.9 requires governments of recipient countries “to contribute substantial portions of the costs of the Programme’s country offices”. In my previous report, I had recommended that the legal status of GCCC be clarified to determine the conditions under which governments are required to pay such contributions which should be accounted for as receivable when based on a legal obligation.

In January 1997, the legal adviser of WFP explained that “in view of the clear lines of the policy enunciated by the CFA and reflected in Financial Regulation 4.9, action should be taken to review such country agreements with a view to their re-negotiation to include such

a provision, wherever possible". It should be further stated that only the Executive Board has the power to exempt specific countries from this Regulation.

The audit revealed that there had been no changes in the situation described two years ago: country agreements were not revised, calls for GCCC continued to be issued without carrying any legal force, very few requests for waivers were submitted to the Board, no reconciliation between budgetary and accounting data was carried out and calls for funds were not properly monitored.

42. The potential impact of GCCC on the funding of the Programme Support and Administrative Budget (PSAB) is far from negligible. In 1996-97, GCCC received amounted to US\$3.5 million. This was in respect of calls for funds relating to the years 1987 to 1997. As a result of the current policy, out of US\$35 million of GCCC requested from recipient countries by the Secretariat in respect of years 1988 to 1997, US\$23.7 million was still outstanding as at 31 December 1997 (10% of PSAB).

In view of the above, I wish to reiterate my previous recommendation to the effect that Financial Regulations be fully implemented through adequate agreements with recipient governments or explicit waivers granted by the Executive Board. Agreed GCCC should be considered as receivable by WFP, accounted for as such and the recovery of the corresponding amounts pursued.

### **Expenditure**

43. As explained in the summary of significant accounting policies (Note 2.V.ii), cash expenditure includes disbursement, unliquidated obligations to third parties and a provision for future disbursements representing an estimate of costs remaining to be met in respect of Internal Transport, Storage and Handling (ITSH) of commodities shipped during the biennium.

### **Outstanding Obligations**

44. Outstanding obligations as at 31 December 1997 amounted to US\$177.2 million. For the most part these outstanding obligations were in respect of commodity purchases (US\$80 million), overland and sea freight (US\$52 million) and travel (US\$7.8 million). My staff could agree to this balance after the Secretariat adjusted down the original amount submitted for audit by US\$5.9 million which did not represent legal obligations at the closure of the biennium.
45. In this connection, I wish to reiterate the comments included in my previous report to the effect that the inflow of new balances of unliquidated obligations should be more closely monitored, throughout the biennium. At the beginning of 1998, the Secretariat carried out an important exercise to determine the validity of outstanding obligations at the closure of the 1996-97 biennium. This effort should be commended. However, I recommend that, in the future, the instructions addressed to the various operational units detail precisely the type of supporting documentation needed to keep an obligation outstanding and require a justification of the continued validity of the obligations raised during the second year of the biennium.

### **Provision for Future Disbursements**

46. Provision for future disbursements in respect of ITSH amounted to US\$101.9 million as at 31 December 1997. Again, my staff could agree to this balance after the Secretariat adjusted down the original amount submitted for audit by US\$1.3 million. This represented

a significant decline from the previous closure when such provision stood at US\$148 million. This decrease was the result of a commendable effort carried out by the Secretariat to assess the continued validity of the commitments supporting the estimated amount of the provision.

47. However, I think the following comments are in order:

The recommendation made above with respect to supporting documentation and period covered also applies to the examination of the continued validity of provisions at the closure of the biennium.

The delineation between outstanding ITSH commitments reported as unliquidated obligations (US\$10 million as at 31 December 1997) and as provisions (US\$101.9 million) did not flow from the accounting records but was based on a general review of the status of such commitments at the closure of the biennium.

I recommended that the accounting procedure for posting ITSH expenditure be modified to clearly distinguish, in the general ledger, unliquidated obligations from provisions and therefore dispense with the need for manual adjustments which are less accurate.

The Secretariat explained that such changes could not be implemented for the closure of 1997, but I received assurances that they would be in the course of the 1998-99 biennium.

### ***Cancellation of Outstanding Commitments***

48. Under the accounting method implicitly retained by WFP, biennial expenditure is reported in the financial statements net of the amount of cancelled outstanding commitments, i.e. cancellation of commitments set up in prior periods reduces the reported expenditure for the current period. The impact of this accounting method on the 1996-97 expenditure was particularly important in the case of air freight, overland and ITSH expenditure (-US\$144 million). It explained, in a large part, the substantial decrease of such expenditure during the biennium as compared to the preceding one (US\$284 million against US\$539 million). This was a result of the severe clean-up exercise which resulted in the cancellation of a significant amount of ITSH commitments still outstanding at the end of 1997 (see para. 46, above).

Since the flow of outstanding commitments cancelled may vary substantially from one financial period to the next, it does affect the fair representation of expenditure in the financial statements of any given biennium.

49. The accounting procedures currently applied and their impact on the accounts could be explained to my staff in a satisfactory fashion. However, I recommend that WFP consider the advantages and feasibility of a more transparent method of reporting cancelled commitments. In the case of the PSAB, cancelled obligations are reported as "savings" (i.e. windfall income) in the Statement I. In the case of projects, commitments cancelled after a reasonable period of time (e.g. one year) could similarly be reported as a credit to donors, i.e. an unexpended part of their donation for given projects. Such amounts could then be re-allocated, with the agreement of the donor concerned, to the same or another project. Thus, expenditure and savings on prior commitments for projects would be reported separately instead of being netted against one another.

### ***Direct Support Costs and Other Costs***

50. The concept of Direct Support Costs (DSC) was introduced in the context of the full-cost recovery principle established by the CFA when they decided to implement the Resources

and Long Term Financing model (R&LTF) as from 1 January 1996. The CFA decided that “the principle of full-cost recovery apply to all programme categories undertaken by WFP with donors paying ... direct support costs of the project” (CFA 40/15, para. 22(b)). DSCs are normally identified in project budgets and form part of donors’ contributions. The corresponding expenditures are identified in the general ledger accounts.

51. My staff noted that US\$51 million of expenditure originally classified as DSC in the general ledger were re-classified as “other” costs in the Income and Expenditure Statement. In the absence of operational guidelines or instructions detailing how the Secretariat implements the principle established by the CFA, the basis for such reclassification was not clear. In view of the fact that the expenditure in question was well identified and the reclassification did not impact on the total expenditure shown under “Special Operations” and “Trust Funds” (the two programme categories concerned), I decided not to qualify my opinion on this basis.

However, for the future, considering that the Governing Body of WFP decided to identify a specific category of expenditure known as DSC (as opposed to “operational” or “other” costs) and that such expenditure is authorized through specific “allotments” issued to spending units, I recommend that the accounting for such costs be detailed in specific financial and accounting instructions in order to ensure that they are treated consistently throughout the programme and, more importantly, across financial periods.

### **Consultants**

52. My staff identified four consultants who were hired for long periods of time in 1996-97 (amounting, in some cases, to quasi-permanent employment) under contracts signed through the UN International Computer Centre. In one case, the consultant was hired immediately after he had resigned from the Programme at a cost exceeding that of the position he had left.

A contract for the implementation of the FMIP was awarded to a company registered in Jersey (Channel Islands) by a group of consultants who had been associated with a major consulting firm at a time when it was working for WFP. Total payments under this contract amounted to US\$1,090,000. The contract was awarded without competitive bidding although after the required consultation of the Contracts and Purchases Committee had taken place. In June 1996, another contract in an amount of US\$2 million, with the same consultants regrouped under another firm, also registered in the Channel Islands a few weeks before, was on the point of being signed without competition when this met with the determined opposition of a senior manager. The contract was withdrawn.

Further comments on the activity of consultants are provided under para. 77.

I recommend that greater care be exercised in the recruitment of consultants.

### **Country Office Expenditure**

53. A substantial proportion of WFP cash expenditure is incurred in field offices. During the biennium, such expenditure amounted to some US\$500 million of which some US\$305 million was processed through the Imprest accounts managed by Country Directors and US\$195 million through the local representation of the United Nations Development Programme (UNDP) which charges such payments to the WFP via the Inter Office Voucher (IOV) system.

54. My staff noted the substantial reduction in total cash holdings at country offices at the end of the biennium: US\$14 million, as compared to US\$34 million at the end of 1995. This resulted from the new procedure for replenishment of country office bank accounts adopted from the beginning of 1996.

Also, my staff noted some improvement in the timely processing of Imprest and IOV returns, although the situation was not yet completely under control in this respect.

55. The review of the processing of country office returns by the specialized unit at headquarters disclosed that the internal control weaknesses noted in my previous report had not been corrected. Detailed findings in this regard were communicated separately to the Secretariat of WFP. They are summarized below.

First, it appeared that the rapid rotation of both supervisors and processors of the Country Office Returns Service (CORS) at headquarters, most of whom were on temporary contracts, did not allow them to gain the experience necessary to check adequately the complex reports documenting the transactions carried out in the field.

Second, the format of the returns and the documentation supporting the transactions required extensive and time-consuming re-treatment of data received from the field.

Third, a substantial portion of such transactions continued to be reported as “uncommitted” (i.e. they could not be charged against an appropriate commitment of funds) or in suspense.

Fourth, operational guidelines to help processors at headquarters in their verifications were still missing. Procedures actually carried out largely depend on individual processors.

56. As an example of the above, it is worth mentioning the case of an important regional (cluster) office where the cash balance reported in the returns was US\$2.2 million less than what had been accounted for in the general ledger at headquarters. It appeared that an amount in the order of US\$1.2 million of expenditure incurred in 1996 might not have been recorded in the general ledger at headquarters. The full discrepancy was being investigated but could not be reconciled before the end of the audit. As a consequence of the erroneous processing of this office returns, total cash reported on the balance sheet of WFP as at 31 December 1997 (US\$781.6 million) was overstated by US\$2.2 million.

I consider that this raises a serious internal control issue, but that this error is not material enough to justify a qualification of my opinion on the financial statements.

57. In view of the above, I wish to reiterate the recommendations included in my previous report to the effect that:

- Imprest account transactions be transmitted to headquarters in an electronic form and under a format consistent with the central accounting system in order to avoid manual re-entry of data and eliminate risks of erroneous inputs;
- considering the large amount of transactions concerned, their regularity be thoroughly checked against supporting documentation on a statistical basis and the samples selected after due consideration of risk areas;
- bank statements, cash books and general ledger bank balances be systematically reconciled every month and all discrepancies duly investigated;
- operational instructions be issued to guide the work of processors at headquarters;
- the importance of the checking of expenditure against commitments be reminded to Country Directors and strictly enforced.

58. I understand that changes in the present procedure for accounting for field operations are being considered in the larger framework of the decentralization policy.

One such change would be to give finance officers in regional offices the authority to post the accounting transactions of the country offices they supervise directly into the headquarters financial systems (WIS and GL:M). As a matter of fact such a change has been implemented in one regional office. My staff's visit to this office disclosed that the same weaknesses identified in headquarters also existed at the regional level.

In this context, and if the outcome of the decentralization policy is to shift the responsibility of accounting for field operations to regional finance officers, I wish to recommend that such a move be carefully prepared with:

- a clear definition of responsibilities maintaining the final control of the Director, FS, responsible for preparing the accounts of the Programme, over the accounting entries posted to the general ledger;
- the issuance of organization-wide financial and accounting instructions to ensure standard treatment of transactions;
- training of field finance officers;
- definition of controls to be carried out on field transactions;
- and setting up a strong central unit to implement this reform and provide guidance to field personnel.

### **Programme Support and Administrative Costs**

59. The assessment of the full PSAC incurred by WFP as well as the funding of such costs have become a complicated issue as a result of the absence of a comprehensive policy addressing the matter. I understand that this matter is being reviewed by a formal working group of the Executive Board.

60. The PSAB finally authorized by the CFA for the 1996-97 biennium amounted to US\$226.4 million. PSAC incurred by the WFP amounted to US\$226.2 million, including the language factor costs accruing to this period as explained in Note 17.8 to the financial statements. However, this does not reflect the totality of the administrative costs incurred by the Programme during the biennium.

First, as indicated in Note 5, additional administrative costs were funded, in an amount of US\$2.8 million, out of support costs levied on various Trust Fund contributions for specific operations which are now progressively being closed.

Second, as disclosed in our visits to a number of large country offices, administrative costs are often charged to ITSH/LTSH allocations of funds when PSAC allotments do not allow for such expenditure. Unfortunately, my staff could not carry out a systematic analysis of administrative costs erroneously charged to ITSH/LTSH.

Third, as explained below in my comments on the implementation of the FMIP, recurrent administrative costs have also been charged to the FMIP.

As a result of the various cost categories (PSAC, DSC, ITSH/LTSH, FMIP) funded from specific, earmarked, sources of funds without each category being precisely delineated and without strict internal controls being implemented, costs may be, and in fact are, transferred between categories thus making it difficult to estimate total administrative costs of the WFP precisely.



However, my staff noted that steps were being taken to clarify this matter. Such steps included the issuance of the ITSH section of the Transport and Logistics Manual (but, regrettably, not the attending accounting instruction) as well as the establishment, in May 1997, of the Programme Review Committee who review project budgets.

61. Turning now to the funding of PSACs, there is also a need for clarification. The full-cost recovery principle calls for PSACs to be covered by GCCC and ISC levied on contributions to operational costs at pre-determined rates approved by the Executive Board. In the revised estimates submitted to the Executive Board in October 1997, ISC recoveries were expected to reach US\$209 million, but paid-in ISC amounted to US\$178 million only. Overall, the resources applied to covering PSACs amounted to US\$181.5 million, thus leaving a deficit of US\$44.7 million. This deficit was met from the balance of the General Fund as shown in Note 3.5 to the financial statements.

62. At the time of writing the present report, no policy on the use of interest income accruing to the General Fund had yet been determined, but such income had in effect been used, at least in part, to finance the shortfall of income necessary to cover PSACs.

As mentioned above (see para. 59), I understood that the definition of PSACs (as opposed to other cost categories) and the resources to be applied to meet such costs are being considered by a formal working group of the Executive Board. In this context, I would recommend that comprehensive budgetary arrangements, specifying recognized expenditure components and the categories of resources applicable to meeting such expenditure, be worked out with a view to providing the Programme with an administrative structure commensurate with their missions.

## Cash Management

63. Cash and deposits continued to increase during the biennium.

(in US\$ million)	31.12.1993	31.12.1995	31.12.1997
Cash and deposits	499	617	781.6
of which: held on behalf of bilateral donors	128	146	109.4

The liquidity position of the Programme may be estimated in terms of disbursements. Cash disbursements in 1996-97 amounted to US\$1,566 million: liquid assets thus represent some 12 months of current cash expenditure. As detailed in Note 9, for the most part (US\$735.5 million) such assets are held in bank accounts operated by the Treasurer of FAO. In view of the fact that WFP liquid assets represent three times those managed by FAO, it appears desirable that the programme take on greater initiative and responsibility in the management of their cash and short-term investments. In spite of the recruitment of a cash manager in March 1996 and the signature of a Memorandum of Understanding with FAO in October 1996, there is still considerable room for improvement in the operation of bank accounts and implementation of an investment policy.

## Bank Accounts

64. The number of WFP headquarters bank accounts was brought down to 26: eleven managed by the FAO Treasurer and 15 operated directly by WFP. In addition, WFP

operated 96 field bank accounts (excluding “monetization” accounts). This situation was arrived at after my staff had identified breaches in the control exercised over field bank accounts and the Secretariat had closed a large number of them and regularized others.

However, field visits disclosed that it was difficult for WFP headquarters to closely monitor the opening and closing of field bank accounts. Just as headquarters bank accounts, field bank accounts should be opened and closed by the FAO Treasurer, but this requirement is not strictly adhered to in practice and breaches of the rule are rarely sanctioned (for example by headquarters formally closing the irregular account).

I recommend that the rules governing the opening and closing of WFP bank accounts and the assignment of responsibilities for operating each individual bank account at headquarters and in the field be strictly adhered to as they constitute an essential element of the safeguarding of WFP assets.

### ***Investment Policy***

65. Investment management is at variance with the official investment policy of the WFP as set out in the relevant Executive Director Circular: while the latter prescribes a separation of the management of WFP investments from FAO Treasury, such investments continue to be managed by FAO. As a further consequence of this, the current job description of the cash manager does not reflect his actual responsibilities. Discussions are still under way between the two organizations and my staff noted that the FAO Advisory Committee on Investments had recommended to the Director-General, in June 1998, that WFP take responsibility for the management of their own portfolio and out-source it to professional managers.

### ***Investment Management***

66. WFP’s cash is invested short-term by the FAO Treasurer. However, on the one hand WFP cash forecasts are very short-term (covering only current and next month) and unreliable, particularly with respect to inflows. On the other hand, FAO’s investment management is extremely conservative, not even making use of all the possibilities currently authorized by their policy guidelines. One of the consequences of this situation is that cash balances on the main current accounts remain high throughout the year and well above the level necessary to protect the Programme against cash shortages. The reasons for not implementing a more active monitoring of the investment of bank balances appears to lie with the assumption that the spread between interest rates on current accounts and on-term deposits was insignificant. This assumption does not appear to be well-founded considering the considerable average amount of cash (over US\$600 million) on WFP current accounts. It may be estimated that the way in which investments are currently managed results in the Programme foregoing between one and two million dollars in interest income. Current arrangements are therefore not adapted to the cash management requirements of an organization such as WFP.

I recommend that WFP reconsider the present arrangements and structure for the management of their cash with a view to (i) bringing into line official investment policy and actual conduct of investment management, (ii) out-sourcing the management of investments to professional managers, and (iii) re-organizing the structure to ensure adequate oversight of the external managers and control of bank accounts.

## Self-Insurance Policy

67. In September 1994, the Secretariat decided to implement a new self-insurance policy and to provide for risks covered under the new scheme (limited to two consignments of US\$1 million each per shipment) through a provision mechanism. As at 31 December 1995, the provision for self-insurance risks was reported in an amount of US\$9.5 million. However, this policy had not been formally established in an authoritative policy document and I had recommended that formal decisions and guidelines be developed in this respect. The policy was changed again in 1996-97 and Note 2 to the financial statements explains that the “self-insurance account is accounted for as a special account under the General Fund”.

68. In my opinion, this change raises a number of legal, accounting and management issues.

From a legal point of view, the creation of a special account for self-insurance operations is, at best, debatable. Financial Regulation 7.3 authorizes the Executive Director to establish special accounts “in respect of each special contribution accepted under Regulation 7.2”. Premia charged to projects by WFP cannot qualify as “special contributions accepted under Regulation 7.2” and therefore cannot be credited to a dedicated special account. In addition, my staff could not be provided with the decision establishing such an account.

From an accounting point of view, no accounting procedures for self-insurance operations have been issued since 1994. The unclear definition of the accounting nature of self-insurance operations had the following consequences which impact on their adequate representation in the financial statements. First, the reporting of such operations in the 1996-97 financial statements resulted in double accounting of insurance premia (once as cash contributions and another time as miscellaneous income). The required elimination, similar to that which was effected for indirect support costs, was not made in the case of levies for insurance premia (US\$7.8 million). This is referred to under Note 3.5 to the financial statements but, in my opinion, this reference is not adequate. Second, the accounting policy retained resulted in reporting as a “reserve” (i.e. an element of WFP’s equity) what is in fact a “provision” for risks (i.e. a liability) and was reported as such at 31 December 1995.

From a management point of view, the reporting convention adopted disregards the fact that the balance of the special account is earmarked to cover potential claims estimated on an actuarial basis. Since there is no formally established insurance policy, the actuarial assumptions retained to determine the level of the insurance reserve under the WFP insurance scheme are not known. If the present reserve were too low, insurance premia should be increased; if it were too high the premia charged to donors’ contributions should be decreased. Premia are based on commercial rates and are currently under review.

In addition, I understood that, assuming that the balance of the special account includes a surplus over and above the insurance reserve, the costs of the WFP insurance service could be charged to the special account with a view to allowing for decreasing PSACs and, consequently, ISCs. I should caution against such a move which would not result in decreasing administrative costs of the Programme but only in transferring them, thus further obscuring the question of the determination of the real costs of administering the WFP.

69. For these reasons, I would recommend to discontinue the reporting of the insurance scheme under a special account and to revert to the reporting of a self-insurance provision which reflects more fairly the nature of the operations concerned. If, nevertheless, it were

decided to proceed with the establishment of a special account for self-insurance operations, in view of the unclear legal basis and change in concept from the preceding biennium, I recommend that the creation of this account and the principles under which it would operate be formally endorsed by the Executive Board.

## **Bilateral Operations**

70. Contributions to bilateral operations in 1996-97 (US\$18.1 million) were less than 10% of the amount contributed during the preceding biennium (US\$220.5 million). This reduction reflects principally the reclassification in 1996-97 of former bilateral operations to operations falling under the "directed multilateral" funding window. In 1996-97, bilateral contributions are directed towards projects for which WFP act as a service agency to donors. As such, the Programme should not be placed in a position where it has to finance shortfalls in the payment of donors' contributions. This is the rule set forth by Financial Regulation 7.2. My staff noted that negative balances against 17 bilateral contributions still amounted to US\$5.9 million as at 31 December 1997. I understand that a long-outstanding balance was paid in an amount of US\$2 million in 1998. My staff also noted improvements in the monitoring of negative bilateral balances. However, in view of the persistence of this problem, I wish to reiterate my previous recommendation to the effect that closer cooperation be ensured and clear responsibilities delineated between the administrative units involved (Resources, Operations and Finance).

## **MANAGEMENT MATTERS**

### **Procurement**

71. The management audit of procurement operations included a review of organizational arrangements, applicable rules and procedures and their implementation with respect to purchases of commodities, non-food items (NFI, including service contracts) and ocean transport services.

### ***Procurement of Commodities and Non-Food Items***

72. From 1990 onwards, WFP has become a regular and significant buyer of foodstuffs (mainly wheat, rice and maize). Purchases amounted to some one million metric tons (MT) annually at a cost of US\$250 to 300 million. In 1997, a record year, contracts were signed in an amount of US\$323 million for 1,366,000 MT. Of this total, between 50 and 60% were purchased from developing countries. Whatever the country of origin, however, most purchases are arranged through the five or six major traders that dominate this market.

This result was achieved while respecting the general principle of international competition governing WFP policy on the matter. In large part, this results from the fact that transportation costs make regional and local purchases more advantageous. However, given the many constraints weighing on purchase decisions (legal considerations, availability of cash, variety of donors, diversity of projects and local food patterns and seasonality of markets), food purchase planning is limited. This is probably an area where further progress could be achieved in the future.

Annual purchases of non-food items (NFI) and services amount to some US\$10 million (US\$11.9 million in 1997), all from developed countries.

### ***Organization of the Procurement Function***

73. Organizational and personnel arrangements for handling procurement activities have undergone successive and profound changes from 1995 to the end of 1997 which did not always allow for the necessary continuity of action. At present, the procurement unit is placed within the new Management Services Division (MS). However, some procurement responsibility is still carried out in the Programming Service of the Operations Department who release funds from earmarked donor contributions for purchases by country offices. Our review of the procurement activity of one country office showed that this situation could permit circumventing the purchase authorization process (see para. 82, below).

### ***Committee on Commodities, Transport and Insurance***

74. The overall responsibility for monitoring the implementation of procurement rules and procedures lies with the Committee on Commodities, Transport and Insurance (CCTI) established in November 1993. This Committee is an ex-post facto review panel with a transport section and a commodities section. During the biennium under review, the commodities section did not meet for over one year (May 1996 to June 1997). They recognized weaknesses in the area of accountability and I understood that a review of their terms of reference would be carried out in 1998.

### ***Procurement Management Systems***

75. Procurement activities are supported by limited electronic data processing capability in the form of the Purchasing Inventory and Contracts (PIC) system. A procurement management system is to be purchased as part of the integrated financial management package contemplated under the FMIP (see para. 90).

### ***Procurement Rules and Procedures***

76. Procurement activities are governed by Financial Regulation 9.5, which sets out the principle of competitive bidding. The implementation of this regulation is detailed in the Financial Rules and in circulars and directives taken by Management. As they now stand, these pronouncements need to be revised, harmonized and assembled in comprehensive documents as they appear outdated, uneasily accessible and inconsistent in a number of respects, particularly delegation of authority. A first step in this direction was taken in December 1996 with the issuance of a new Food Procurement User Guide consolidating applicable pronouncements.

77. The confusion surrounding procurement rules and procedures prompted several attempts at rewriting and consolidating the current provisions on the matter. Two successive consultants were hired for this purpose in 1994 and 1995 for a total cost of US\$26,000 (plus subsistence allowances), but the product they came up with proved unsuitable. A further US\$8,000 was paid in 1996 for the same purpose to a former WFP staff member and charged to the FMIP budget. A fourth consultant was hired in March 1997. Out of a total remuneration of US\$15,000 agreed in the contract, US\$10,000 was paid to this consultant but his work was eventually found unacceptable and the payment of the remaining US\$5,000 was withheld. At the time of writing the present report no procurement manual for NFI and contracts was available.

### ***Implementation of Applicable Rules and Procedures***

78. My staff's examination of selected contracts, as well as their review of field work carried out by the Internal Audit Office, showed that disregard of WFP procedures and improper management of procurement was widespread at the field level. This resulted, at least in part, from the way in which rules and procedures were conveyed to staff, from the lack of qualified staff and from the inadequacy of internal controls. The headquarters procurement unit is not in a position, at present, to monitor effectively procurement undertaken in the field. This results from the lack of the necessary software to collect and analyse data, as well as time and staff constraints and the inadequate organizational arrangements mentioned earlier.

### ***Review of Specific Contracts***

79. My staff's review of a large number of contracts did not reveal significant irregularities, however I wish to single out a number of anomalies pertaining to specific contracts which should be corrected in the future (see paras. 80 to 84, below).

### ***Commodity Purchase Contracts: Headquarters***

80. An amount of US\$20 million was paid in 1997 in respect of nine contracts, exceeding US\$1 million each, signed with a large international trading firm. In each case, the identity and the address of the payee were not that of the vendor who had signed the contract, thus exposing WFP to a very significant risk of double payment. However, no such risk materialized during the biennium. My staff was subsequently informed that this had been discontinued and that now "WFP paid the name of the contractor quoted in the contract".

### ***Commodity Purchase Contracts: Field***

81. As a result of a default of suppliers, a country office (without authorization from headquarters) borrowed 2,000 MT of millet from a local government agency. This was retroactively regularized through a contract with this agency signed in August 1996 but backdated to the date when the borrowing had taken place. As a result of the difference in price between the bids originally submitted by the suppliers and the contract concluded with the government agency, the loss to WFP amounted to US\$223,402.

### ***Non-Food Items Contracts: Field***

82. Our field visits disclosed a case of procurement of a Local Area Network (LAN) and LAN-related equipment where the country office circumvented the bidding procedure (without obtaining a formal waiver), exceeded the US\$100,000 delegated authority by splitting a US\$120,000 purchase into several orders and charging costs to distinct sources of funds and altogether managed to avoid supervision of the operation by technical and procurement units at headquarters.

### ***Service Contracts: Headquarters***

#### ***Telephone Services***

83. Current arrangements for the provision of international telephone services rest on an unsigned contract with the vendor. However, subsequent amendments to this contract were signed by both parties, but the officer signing for WFP did not have the authority to do so. The provision of telephone services was not put out to tender and the negotiation,

conclusion and implementation of the contract was entirely carried out, on their own “authority”, by the Administrative Services unit, then within the Human Resources Division.

### **Travel Services**

84. Travel services were provided to FAO and WFP under the same contract until 30 June 1996 when it was terminated by FAO. The WFP put out a tender for the provision of travel services and selected a travel agent on 29 November 1996. The conclusion and implementation of this contract raise a number of questions.

The Contracts and Purchases Committee was not consulted prior to signing the contract with the selected agent as it should have been. The contract provided that it would become effective subject to the acceptance of a performance bond arranged by the contractor, but the performance bond was not furnished before 21 July 1997.

On 13 February 1998, MS issued an unsigned “Information Note” explaining that official travel would no longer be handled by the agent’s office located in WFP premises but by their Business Travel Centre in town. The in-house office was, from then on, reserved to handle private travel of staff. This was a substantial change to the contract. The contract provided that “the contractor shall provide the services which are the subject matter of this contract during the normal office hours of the WFP Headquarters from the on-site office.” The nature of such services was detailed in the contract which also identified by name the staff assigned to the on-site office. In addition, if the WFP office no longer dealt with official travel, there was no basis for providing the contractor with in-house facilities, free of charge.

### **Procurement of Ocean Transport Services**

85. In 1996 and 1997, WFP ocean transport expenditure amounted to US\$221 million for 4 million metric tons (MT) transported. This was substantially below the preceding biennium (US\$266 million and 5 million MT). In addition to the reduction in tonnage transported, the lower expenditure resulted from the increased percentage of chartered shipments and a general decrease in freight costs, particularly in Asia.

86. The conclusion of my staff’s review was that the organization and procedures of the OTS were adequate. However, internal control of operations could be improved, particularly with respect to the evaluation of OTS performance and effectiveness of ex-post reviews of contracts.

### **Market Comparators**

87. The performance indicator used by OTS is the “FOB/C&F differential”<sup>1</sup>. When purchasing commodities, WFP request both a FOB and a C&F quotation from the trader. The difference between the two represents the ocean transport costs as estimated by the trader. WFP systematically compare this cost with the cost they obtained from ship owners. If the latter is lower than the former, the differential is considered as an opportunity gain which is an indicator of their performance vis-à-vis the market.

In our opinion this indicator should be supplemented by other market comparators. This conclusion is based on the fact that commodities purchased represents a small percentage

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<sup>1</sup> FOB: free on board; C&F: cost and freight included.

of goods transported and a detailed review of quotations offered by traders showed that, in some cases, they did not constitute adequate comparators. WFP needs additional indicators to compare their freight costs with current market costs. Such indicators should be developed into internal control mechanisms. With respect to charters in particular, WFP costs could be compared to the costs of similar voyages accessible through market reports and specialized publications as well as to current chartering costs (Equivalent Time Charter or ETC).

### ***Ex-post Oversight***

88. OTS operations are reviewed ex-post by the CCTI, transport section, referred to above. However, it appeared that the benefit of such reviews would be enhanced if they were more focused on the search for the most competitive offer and the economic results achieved. For example, we noted that the freight costs submitted to the CCTI reflected the base rates originally quoted in the offers received by WFP but not the final freight paid which depended on a number of additional factors. Therefore the CCTI is not in a position to review the actual conditions under which an operation was conducted.

## **FINANCE MANAGEMENT IMPROVEMENT PROGRAMME**

### ***Reliance on Internal Auditor's Work***

89. The Office of Internal Audit (OEDA) is directly responsible to the Executive Director for providing an independent review and appraisal of WFP's operations. In order to prevent duplication of effort, my staff reviewed their work on the implementation of the FMIP which took place in early 1997 and decided to rely on it.

### ***Background***

90. The FMIP was one of the major undertakings of WFP in 1996-97. It was formally approved by the Executive Director in February 1996. Its implementation got off to a slow start however and full-scale implementation did not really commence until the last quarter of 1996. This resulted, in particular, from the fact that major changes took place in mid-1996 with the re-direction of activities and re-organization of the management of FMIP. This included (i) replacing the original plan which essentially assumed a turn-key approach to implementation by a set of identified and inter-related projects managed by WFP staff (as opposed to consultants), (ii) positioning the financial and human resources systems at the centre of the FMIP implementation plan, (iii) postponing the implementation deadline to end-1999, (iv) replacing the programme manager, and (v) changing the composition of the Steering Committee. At present, FMIP consists of 44 projects (plus a number of "operational improvement"/OPIM projects).

The Financial Management System (FMS) is the centrepiece of the FMIP, it is the most complex of the individual systems, the most expensive and the most fundamental to the overall objectives of the programme. Work on FMS began in late 1996 but, in mid-1997, a revised approach was developed with a view to purchasing an *integrated* finance, human resources (HR) and procurement package together with the services of a system "implementation partner". The evaluation of offers received from the industry was still going on at the time of writing the present report.

91. My observations are presented below under three headings:



- the implementation of FMIP displayed a number of weaknesses in the compliance with legal authority;
- the funding of FMIP is meeting serious difficulties resulting from an increase in costs and a shortage of funding;
- the present deadline of end-1999 for the implementation of strategic systems no longer appears realistic.

### ***Compliance With Legal Authority***

92. The FMIP was not formally approved by the Governing Body of WFP (CFA or Executive Board) even though they were informed, in general terms, of the programme and authorized retroactively that it be partially financed from the General Fund. The FMIP was reported in the 1994-95 financial statements as a Special Operation, even though it did not display any of the characteristics of what was then a Special Operation. This was subsequently and retroactively endorsed by the Executive Board at its annual session in May 1996. In the 1996-97 financial statements, the legal nature of the FMIP changed as it was reported as a Special Account within the General Fund. However, I could not be furnished with the decision of the Executive Director establishing this special account.

### ***PSA Costs Charged to the FMIP Budget***

93. The scope of the FMIP is so broad as to encompass almost all areas of WFP activity<sup>1</sup>. As a result, costs which would normally have been incorporated into the PSA budgets submitted to the Executive Board for approval were transferred under the umbrella of the FMIP. Cases in point include, in particular, the costs of finance and information service (FSI) staff involved in recurrent activities such as maintaining the WIS system, reinforcing FS units or undertaking remedial activities (the OPIM projects mentioned earlier). Since the delineation between PSAB and FMIP costs was blurred, it is extremely difficult, not to say impossible without entering into endless borderline disputes, to take a clear view of what should have been in any case charged to the PSAB (had the FMIP not been created) and what belonged to the implementation of FMIP. As an example of such difficulties it is worth mentioning that, at the closure of the 1996-97 biennium, US\$2.4 million of costs charged to the FMIP budget were charged back to the PSA Budget. There was no apparent rationale for selecting the categories of costs charged back: for example, the costs of the core FMIP team were charged back in an amount of US\$0.7 million. Inversely, FSI staff costs to be charged to the FMIP budget in 1998-99 were sharply increased in mid-1997 (+US\$3.7 million for WIS maintenance and OPIM projects).

Therefore, the funding of the FMIP from dedicated contributions resulted in underestimating the PSACs reported to the Executive Board since, in effect, part of such costs was charged to a specifically funded programme which supplemented the resources at the disposal of WFP.

### ***Inconsistent Treatment of Contributions***

94. While ISC was levied on some contributions to the FMIP, others were not subject to that levy. This exception to the overriding principle of “full cost recovery” was not authorized.

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<sup>1</sup> This scope is defined as follows: “to improve WFP’s financial management capability, in particular its ability to account for, and report on, in both an accurate and timely manner, the utilization of the resources placed at the Programme’s disposal.”

### **FMIP Funding**

95. Total estimated costs of FMIP increased from US\$28.5 million at the time the programme was approved by the Executive Director to US\$32 million in 1998 (+12.3%). However, there are now firm indications that these estimates will be exceeded since the bids received for the integrated finance and human resources system were substantially higher than envisaged, the cost of the travel module were not factored in and the current implementation plan was optimistic in terms of the time required to make major systems operational.

On the basis of the US\$32 million cost estimate, the present funding situation of the FMIP is detailed in the following table:

(in US\$ million)	Estimated Costs	Resources
Total cost estimate	32	
Member States donations		10.2
Contribution from WFP General Fund		6.2
Total funding		16.4
Funding deficit	15.6	
<i>Reimbursable advance</i> from WFP General Fund (authorised by the Executive Board in November 1997)		10

The FMIP is facing a shortage of funds and WFP has no contingency plans related to resourcing or adjusting the implementation of FMIP to available resources.

### **FMIP Accomplishments**

96. Some major accomplishments were achieved through FMIP, including improvement in information technology infrastructure, networking of major WFP units, a thorough review of business processes and the conception and creation of bespoke systems to carry them out. Among the key operational systems, commodity tracking, resource mobilization and programme approval are the most advanced: they are being tested and staff are being trained to use them; they should be rolled out shortly. The data warehouse project is also well advanced. The selection of the core FMS - Human Resources - Procurement software is being finalized.

However, these key systems are not yet operational. First, the shortage of donations may prevent further commitment of funds. Second, the implementation phase will place considerable demands on WFP staff. In particular, once the FMS contract is in place, any delays caused by WFP's inability to make appropriate staff available, as and when required, will cause costs to escalate and will jeopardize the success of the project. Finally, additional customizing of systems to WFP business needs and adjustments to user requirements might prove necessary. Seen in this context the present end-1999 deadline appears optimistic.

## OTHER MATTERS

### The Year 2000 Problem

97. The change in hardware and software systems envisaged by WFP is taking place at a critical time in the life of computer-based systems and the organizations they support: the coming of the next millennium and the attending year 2000 problem. My staff received assurances that all new systems implemented under the FMIP were year 2000-compliant. However, there is a distinct possibility that present systems will have to continue to operate in the year 2000 and beyond. I wish to stress that this is a major management problem, not just an information technology issue, and that senior management responsibility and oversight are essential to successfully deal with it.

In this context, I cannot emphasize too strongly the need for senior management to take on overall responsibility for addressing the year 2000 problem. This includes assessing its scope by identifying the many ways in which all systems in use might be affected, developing solutions (including contingency plans where no immediate response is available), testing the feasibility of these solutions and implementing them. Since it is well known that information technology systems tend not to be delivered on time, it is also essential that effective reporting arrangements be put in place to provide senior management with an early warning of any difficulties. Given the magnitude and pervasiveness of this problem, there is little time left.

### Action Taken in Response to Previous Reports:

#### ***Upgrading of Financial Information, Accounting and Procedural Discipline***

98. In my previous report, I had recommended that immediate improvements, consistent with the longer-term FMIP strategy, be implemented with a view to upgrading financial information and accounting procedures and procedural discipline. My staff noted that there was still ample room for further improvements in such areas in 1996-97.
99. The WIS/GL:M interface and the time-consuming reconciliation it entails remain a major problem. A confirmation of this is found in the necessity to extend WIS maintenance and enhancement services until the end of 1999 and maybe beyond. This activity relies essentially on a former WFP staff member who gained a unique knowledge of the system and had to be hired as a long-term consultant after he left the Organization.
100. Although limited changes to the account structure were introduced in 1997 to implement the R&LTF model and purge obsolete accounts (some 50% of the total number of accounts were deleted), the chart of accounts was not substantially revised and updated. My staff was informed that a major effort was under way to produce written accounting procedures detailing the operation of each account, designating the officer responsible for such operation and for validating transactions in GL:M. Once achieved, this should represent a major improvement in the control of accounting transactions.

In addition, financial and accounting instructions are still needed to determine the treatment retained for bilateral operations, Landside Transport, Storage and Handling (LTSH) transactions, self-insurance operations and the provision mechanism introduced in 1995 to report estimates of future ITSH/LTSH expenditure. By the same token, the procedures and supporting systems for implementing the new inventory policy announced in March 1995 were not yet operational (see Note 16).

101. More generally, my staff noted that the documentation of financial procedures and the provision of operational guidelines to staff remained a major management problem at the end of 1997. Cases in point include the processing of Imprest returns, the monitoring of the value of pledges receivable, the implementation of the financial concepts introduced under the R&LTF model such as ISC and DSC or the decentralization initiated in 1997 under the "Organizational Change Initiative". With respect to this latter area, my staff's visits to regional offices showed that there was an urgent need to define the role and responsibilities of these offices in the areas of personnel, budgetary and financial management.

102. I wish to reiterate my previous recommendations not to rely excessively on technology and the implementation of FMIP to resolve all identified difficulties. On the contrary, it is my understanding that, to a large extent, WFP deficiencies in financial management lie, on the one hand, with the need to further develop and disseminate clear and organization-wide operational and financial guidance and, on the other hand, with the urgent need to reinforce finance staff, particularly at headquarters, both in quantity and quality. In my opinion these problems should be given priority.

### **Acknowledgement**

103. I wish to record my appreciation of the cooperation and assistance extended by the Executive Director and her staff during the audit.

**Pierre JOXE**  
Premier Président de la Cour des Comptes  
de la République Française  
External Auditor



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## **PROGRESS REPORT ON THE IMPLEMENTATION OF RECOMMENDATIONS IN THE 1996-97 AUDIT REPORT OF THE EXTERNAL AUDITOR**

1. The Executive Director is pleased to submit this report which contains the responses of the Secretariat as well as information on actions taken to date or actions that will be taken to implement the recommendations contained in the Report of the External Auditor on the Financial Statements of the World Food Programme for the financial period 1 January 1996 to 31 December 1997. The report of the External Auditor conveys results of their audits conducted during 1996, 1997 and the first four months of 1998. As soon as these audit activities were concluded, the External Auditor immediately conveyed results of their audits to the offices concerned at the headquarters and country offices in the form of audit observations and management letters, respectively. This practice provided the offices concerned with the opportunity to immediately take corrective actions or to formulate appropriate decisions and strategies to implement the recommendations in the future. Thus, the Secretariat deemed it appropriate to provide this information to the Board; it is to be considered as the first progress report on the implementation of recommendations in the 1996-97 audit report of the External Auditor.
2. The present document, which is in a matrix form, consists of three columns. The first column reflects the recommendations of the External Auditor as presented in his 1996-97 report with indications of the relevant paragraph number; the second column reflects the Secretariat's responses and comments; and the third column reflects the actions that had been taken or actions that are to be taken with a specific timeframe for completion.
3. As indicated in another report (Progress Report on the Implementation of Recommendations in the 1994-95 Audit Report of the External Auditor - EB.3/98/4-A), which is also submitted during this session of the Board, the Executive Director requests that the present report be considered in the context of the Financial Management Improvement Programme, the ongoing review of the Resource and Long-term Financing policies; the ongoing reorganization of the Programme; and the new General Regulations and Rules, the new Financial Regulations, and the Financial Rules which are in the process of being revised.

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External Auditor's recommendations (as per 1996-97 Audit Report)	WFP response	Actions taken to date or to be taken
<b>1. Contributions</b> <b>Commodity contributions</b>		
The new procedure on the valuation of contributions in kind issued at the end of 1997, with a view to simplifying these methods and making them consistent, be effectively implemented in 1998 (paras. 10, 37 and 38).	Agreed	➤ Directive FS 97/04 on Valuation of Commodity Contributions in Kind is being implemented for contributions recorded as of 1 January 1998.
<b>Contributions receivable</b>		
The pledge management process be thoroughly reviewed and upgraded (paras. 11 and 40).  A clear definition of responsibilities be established between the various units concerned with respect to registration of pledges, allocation of resources and monitoring of the outstanding value of pledges (para. 40)	Agreed	➤ A permanent inter-divisional working group has been established, consisting of representatives from RE, ODP, FSFA and FSI, to analyse and provide follow-up action on modifications, adjustments and write-offs of contributions and reconciliation of WIS/GL:M. A consultant has been hired to continue the process of retiring old contributions receivable.
<b>Government cash contributions for local costs (GCCC)</b>		
Financial Regulations be fully implemented through adequate agreements with recipient governments or explicit waivers granted by the Executive Board (paras. 12 and 42).	WFP concurs that efforts must be systematically made to secure adequate agreements with recipient governments on the level of contributions (cash or in-kind) to local costs.	➤ WFP Country Directors were reminded in mid-1996 of the modalities for securing government contributions, including the necessity to seek formal agreements. Negotiations, often protracted, pertaining to 1996-97 GCCC payments have led to some agreements being formalized in 1998. Such reminders will be sent to Country Directors on a biennial basis.
Agreed GCCC should be considered as receivable by WFP, accounted for as such and the recovery of the	WFP will review its current practices of accounting for GCCC and consider the recommendation of the External	➤ Data on amounts sought and received during the biennium were reconciled to facilitate

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corresponding amounts pursued (paras. 41 and 42).	Auditor in terms of WFP's new Financial Regulations and in consultation with the Executive Board, if necessary.	communications with country offices for them to pursue collection more aggressively and to advise on the outcome. Follow-up action by OEDB is to become a regular practice as well.
<b>2. Expenditures</b> <b>Outstanding Obligations and Provisions</b>		
<p>Further improvements in the review of outstanding obligations and provisions and a modification of the accounting procedure for the posting of internal transport, storage and handling (ITSH) costs (para. 13).</p> <p>The accounting procedure for posting ITSH expenditure be modified to clearly distinguish in the general ledger unliquidated obligations from provisions and therefore dispense with the need for manual adjustments which are less accurate (para. 47).</p>	<p>Conceptually WFP agrees with this recommendation, but effective implementation may not be practical.</p> <p>The modification in accounting procedure needed to delineate provisions and outstanding obligations has to be implemented in the system (WIS), as the task priorities of FSID will allow.</p> <p>The new procedure could be the set up of an ITSH Provisions account (currently generated through the bill of lading data input operation) for a specific project and then as ITSH actions or actual costs are taken or incurred (i.e., amounts supported by legal binding documents) they could be recorded under a different object of expenditure and automatically charged from the Provisions account.</p>	<ul style="list-style-type: none"> <li>➤ FSFA has drafted a revised accounting procedure for LTSH which will make a distinction between unliquidated obligations and provisions at the transaction level, thus rendering the year-end analysis of the balances unnecessary. However, the programming effort to enhance WIS in this respect is under consideration; it may not be economically justifiable to enhance WIS at this late stage in its useful life.</li> <li>➤ The 1998-99 biennium ought to see full implementation of the LTSH project in which LTSH (as a provision) will be sub-allotted by OTF to the relevant spending body (usually OTL or a country office).</li> </ul>
Inflow of new balances of unliquidated obligations should be more closely monitored, throughout the biennium (para. 45).	<p>It is agreed that close monitoring is necessary.</p> <p>The exercise, involving close liaison with country offices, takes place over a period of at least two months. Therefore, the frequency and depth of these reviews provide a satisfactory level of monitoring of unliquidated obligations.</p>	<ul style="list-style-type: none"> <li>➤ FSFD and OT currently carry out a global de-obligation exercise twice every year in which all outstanding balances of overland transport and ITSH are reviewed to establish the necessity of maintaining or surrendering balances.</li> </ul>
The instructions addressed to the various operational units detail precisely the type of supporting documentation needed to keep an obligation and	The imposition of this discipline, together with provisions of detailed rules, should eliminate current uncertainties in this area.	<ul style="list-style-type: none"> <li>➤ FSFD has been preparing guidelines defining the documentation arrangements required for each type of commitment.</li> </ul>



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<p>provision outstanding, and require a justification of the continued validity of the obligations and provisions raised during the second year of the biennium (para. 45).</p>	<p>LTSH will remain as a provision unless specific commitments are raised based on legally binding documentation and the provision correspondingly reduced.</p> <p>FSFD reviews documents for commitments set up for administrative type of expenditures, i.e., direct and indirect support costs. However, details of commitments set up for direct operational costs are automatically verified through the review modules of WIS. In case of discrepancies, FSFD refers these to the originating unit and/or the Computer Development Branch for appropriate adjustments and ensures that similar problems do not recur.</p>	<ul style="list-style-type: none"> <li>➤ OTF has held discussions with FSFA to begin precisely this process of documenting the decisions taken on the type of evidence that WFP requires to justify retention of both obligations and provisions in the books of account.</li> <li>➤ It has been proposed that standard documentation be prepared to assist country offices in preparing their response to headquarters.</li> </ul>
<b>Cancellation of Outstanding Commitments</b>		
<p>WFP consider the advantages and feasibility of a more transparent method of reporting cancelled commitments. In the case of the Programme Support and Administration budget (PSAB), cancelled obligations are reported as "savings" (i.e., windfall income) in Statement I. In the case of projects, commitments cancelled after a reasonable period of time (e.g., one year) could similarly be reported as a credit to donors, i.e., an unexpended part of their donation for given projects. Such amounts could then be re-allocated, with the agreement of the donor concerned, to the same or another project. Thus, expenditure and savings on prior commitments for projects would be reported separately instead of being netted against one another (paras. 14 and 49).</p>	<p>While the recommendation lends to transparency in reporting cancelled commitments, the Secretariat believes that with the present system this could be handled through a note to the financial statements disclosing the amount involved, calculated through the generation of accounting reports, either through the WIS or the GLM systems. However, this recommendation may be considered in the FMS module of FMIP.</p> <p>The release of PSA obligations remaining unused after more than one year following the end of the financial period is considered "below the line" in accordance with Financial Regulation 9.9, which states that the balance shall revert to the General Fund. However, this regulation does not apply for donor funds. The timing restrictions on the use of donor funds are set out in the agreements with the donors. Within the time limits and other conditions set by the donors, funds may be obligated and unused obligations released and reused.</p>	<ul style="list-style-type: none"> <li>➤ The matter is under consideration for a change in disclosure in the financial statements.</li> </ul>

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	Under the current accounting methodology (accrual basis), unused obligations are released as credits to expenditure under the relevant donor contribution, and again become available for reprogramming. It could be envisaged that a distinction be made in the accounts between current period expenditure (when an expenditure is both disbursed and accrued, as current period obligations) and adjustments to prior period obligations. The Secretariat will investigate this option.	
<b>Direct Support Costs</b>		
The accounting procedures retained for the reclassification of project expenditures from direct support costs to other operational costs be detailed in specific financial and accounting instructions to ensure that they are treated consistently across programme categories and across financial periods (paras. 15 and 51).	In the Resource and Long-term Financing (R&LTF) policies it was indicated that the cost categories for projects would be direct operational support costs and direct and indirect support costs. However, in the implementation of these policies, it became clear that the cost categorization was not consistent across projects. This was primarily due to the fact that historically the PSA was funding direct support costs in some instances, and direct support resources were funding indirect support costs in other instances.	➤ This situation will be rectified with the adoption of the proposed changes to the R&LTF policies, currently under review by the Formal Working Group of the Executive Board, a review required in the decision of CFA: 40. With the adoption of the proposals, costs will be defined in a concrete and accurate manner resulting in a more transparent and consistent categorization of costs for all projects.
<b>Consultants</b>		
Greater care be exercised in the recruitment of consultants (paras. 16 and 52).	Contracts with UNICC, the rates and periods are administered by that organization's rules and practices which differ from those of WFP.  To simplify the process of engagement and contract administration, contracts had been arranged through UNICC wherever possible. This makes use of the unique services that have been established to assist United Nations organizations in the engagement of specialized consultants from the information systems and computer sectors, and is consistent with past practices of WFP. These services include vetting of qualifications and work	➤ HR is currently reviewing short-term employment practices and will issue a discussion paper for review by the Sub-Group on Administration.

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	experience of candidates and the intended level of remuneration within the context of industry standards. Furthermore, it is acknowledged that the charge levied by UNICC for these services is significantly lower than that which would be incurred by WFP if the Programme handled the contracts directly.	
<b>3. Country office expenditure</b>		
Reiterate previous recommendations to implement a stricter checking of field transactions before they are posted to the general ledger to the effect that (paras. 17 and 57):		
<ul style="list-style-type: none"> <li>• Imprest account transactions be transmitted to headquarters in an electronic form and under a format consistent with the central accounting system in order to avoid manual re-entry of data and eliminate risks of erroneous inputs;</li> </ul>		<ul style="list-style-type: none"> <li>➤ As indicated in the Progress Report on the Implementation of the Recommendations of the External Auditor in his 1994-95 Audit Report, a large percentage of country offices have already been linked electronically to headquarters. This is progressively pursued to achieve full implementation.</li> </ul>
<ul style="list-style-type: none"> <li>• considering the large number of transactions concerned, their regularity be thoroughly checked against supporting documentation on a statistical basis and the samples selected after due consideration of risk areas;</li> </ul>		<ul style="list-style-type: none"> <li>➤ FS Directives FS 98/005 and 007 have been issued on 17 June and 1 July 1998, respectively, exempting Pakistan, Kenya and Mozambique clusters together with Angola and Ethiopia country offices from the submission of documentary evidence substantiating the entries in the cash books.</li> <li>➤ Control procedures have been established whereby FSFF will perform verification checks on sample documentation requested from the country offices.</li> </ul>

External Auditor's recommendations (as per 1996-97 Audit Report)	WFP response	Actions taken to date or to be taken
<ul style="list-style-type: none"> <li>bank statements, cash books and general ledger bank balances be systematically reconciled every month and all discrepancies duly investigated;</li> </ul>		<ul style="list-style-type: none"> <li>➤ The reconciliation of bank statements and cash books balances, is part of the controls prescribed in Directive FS 98/005. Reconciliation with GL:M balance is also done</li> </ul>
<ul style="list-style-type: none"> <li>operational instructions be issued to guide the work of processors at headquarters.</li> </ul>		<ul style="list-style-type: none"> <li>➤ A draft processing guide for processors has been prepared and is to be finalized by October 1998. The process of issuing instructions on certain aspects of work will continue as appropriate.</li> </ul>
<p>Country Directors be reminded of the importance of checking expenditure against commitments, and this be strictly enforced.</p> <p>If the outcome of the decentralization policy is to shift the responsibility of accounting for field operations to regional finance officers, such a move be carefully prepared with (para. 58):</p>	<p>The financial responsibilities of country directors are expressly embodied in the Revised Country Office Accounting Guide.</p>	<ul style="list-style-type: none"> <li>➤ To be issued in August 1998 although advance instructions were already sent to the Regional Managers in July 1998.</li> </ul>
<ul style="list-style-type: none"> <li>a clear definition of responsibilities maintaining the final control of the Director, FS, responsible for preparing the accounts of the Programme, over the accounting entries posted to the general ledger;</li> </ul>	<p>The Programme is investigating the most cost-effective way to maintain the final control of the Director, FS over the accounting entries posted to the General Ledger. At present the entries processed in the field are the object of the same format and voucher statistical control as those posted in headquarters. FSFF will become a control and guidance unit when most returns are routinely processed in the field.</p>	
<ul style="list-style-type: none"> <li>the issuance of organization-wide financial and accounting instructions to ensure standard treatment of transactions;</li> </ul>	<p>The Country Office Accounting Guide embodies comprehensive standard accounting procedures to be applied in the country offices.</p>	<ul style="list-style-type: none"> <li>➤ Actions have been taken in the form of FS Directives and instructions.</li> </ul>
<ul style="list-style-type: none"> <li>training of field finance officers;</li> </ul>	<p>A series of training sessions have already taken place both in the field and at headquarters.</p>	<ul style="list-style-type: none"> <li>➤ Training will continue in the future.</li> </ul>
<ul style="list-style-type: none"> <li>definition of controls to be carried out on field transactions; and</li> </ul>		

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<ul style="list-style-type: none"> <li>• setting up a strong central unit to implement this reform and provide guidance to field personnel.</li> </ul>		
<b>4. Programme Support and Administrative Costs (PSAC)</b>		
<p>Comprehensive budgetary arrangements, specifying recognized expenditure components and the categories of resources applicable to meeting such expenditure, be worked out with a view to providing the Programme with an administrative structure commensurate with their missions (paras. 18 and 62).</p>	<p>WFP fully agrees that, with the possibility of the R&amp;LTF policies being revised, there continues to be scope to refine and devise comprehensive budget arrangements. The R&amp;LTF policies introduced on 1 January 1996 the concepts of direct support costs (DSC) representing expenditure items directly linked to operational activities and indirect support costs (ISC) which were used to fund the PSA. But there were certain expenditure items that were being charged under PSA prior to the new R&amp;LTF policies that should be more appropriately classified and funded as DSC. And it took some time during the biennium for the Programme to become accustomed to the new policies and to define clearly the expenditure components applicable to PSA and DSC.</p> <p>In their negotiations with donors, RE submit proposals which outline the direct and indirect support costs associated with proposed contributions. Every effort is made in these discussions with donors to ensure that full compliance with all provisions of the R&amp;LTF policies are achieved, including the provision of indirect support costs.</p>	<p>➤ The budget allotment and sub-allotment processes relating to administrative and operational structures have been revised to inform managers (at headquarters and in country offices) of the resource categories placed (and that can be placed) at their disposal for specific areas of cost (whether it be PSA, DSC or otherwise) and the specific expenditure components which are to be covered under these resources. To the extent possible and to instil a further sense of budgetary planning, these expenditure components are broken down by line items of expenditure. This process continues to be fine-tuned with the aim of ensuring that expenditure components that fall under a particular resource category are clearly defined and used for the intended purpose.</p>
<b>5. Cash Management</b>		
<b>Investment Management</b>		
<p>WFP reconsider the present arrangements and structure for the management of their cash with a view to (i) bringing into line official investment policy and actual</p>	<p>Agreed. Currently responsibilities are divided between FAO and WFP, and this creates a less than satisfactory situation.</p>	<p>➤ A report on FAO and WFP Asset Management was presented to the FAO Advisory Committee on Investments. Four recommendations affecting WFP</p>

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conduct of investment management, (ii) out-sourcing the management of investments to professional managers, and (iii) re-organizing the structure to ensure adequate oversight of the external managers and control of bank accounts (paras. 19 and 66).		were made by the Committee. Namely, that WFP assume full responsibility for short-term assets, form an Investment Committee, appoint an Investment Consultant to review the investment policy, and outsources excess funds to external managers. These recommendations have been presented to the Director-General of FAO for approval.
<b>Cash Management</b>		
In spite of the recruitment of a cash manager in March 1996 and the signature of a Memorandum of Understanding with FAO in October 1996, there is still considerable room for improvement in the operation of bank accounts and implementation of an investment policy (para. 63).	Disagree. During 1996-97 the average amount held in interest-bearing current accounts was \$115 million and not \$600 million as indicated (para. 66). The amount held in current accounts is liquidity necessary to meet daily expenditures (equivalent to less than 60 days' expenditure) and is independent of interest rate differentials. The excess liquidity is held in time deposits. The interest earned on time deposits in 1997 averaged 5.70% which is better than the interest of 5.45% available from professionally managed short-term liquid asset funds.	
<b>Bank Accounts</b>		
The rules governing the opening and closing of WFP bank accounts and the assignment of responsibilities for operating each individual bank account at headquarters and in the field be strictly adhered to as they constitute an essential element of the safeguarding of WFP assets (para. 64).	Agreed	➤ All bank accounts have been properly authorized and responsibilities assigned.
<b>6. Self-Insurance Policy</b>		
Self-insurance transactions be reported as a provision on the liabilities side of the balance sheet, as was the case in the 1994-95 financial statements. If, nevertheless, it were decided to proceed with the establishment of a special	As recommended, formal endorsement will be sought from the Executive Board.  The Secretariat has decided that the most appropriate accounting procedure for the self-insurance scheme is as	➤ The Executive Director, in her statement accompanying the 1996-97 accounts, recommends that the Board formally approve the self-insurance scheme and endorse the setting up of a special

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account for self-insurance operations, I recommend that its establishment and the principles governing its operation be formally endorsed by the Executive Board (paras. 20 and 69).	a special account in the General Fund.	account.
<b>7. Bilateral Operations</b>		
Closer cooperation be ensured and clear responsibilities delineated between the administrative units involved (Resources, Operations and Finance) (paras. 21 and 70).	The real over-expenditure on bilaterals amounted to \$0.2 million. The Financial Regulations do not prohibit bilateral agreements where WFP receives an advance before operations start and the balance on submission of the final report. Expenditure in excess of the advance gives rise to a temporary deficit balance which is settled by donor remittance of funds after the final report is sent to the donor. This type of arrangement shows deficits as long as the donor has not settled the balance.	<ul style="list-style-type: none"> <li>➤ An RE focal point on bilateral operations has been appointed. RE will continue working on the clearing of these bilateral balances.</li> <li>➤ The implementation of the RMS of FMIP will enable the handling of contributions and income on those few remaining bilaterals in the same manner as other types of pledges.</li> </ul>
<b>8. Procurement of commodities and non-food items</b>		
The various procurement rules needed to be revised, harmonized, and assembled in a comprehensive document to make them more easily accessible to staff. Delegations of authority, in particular, needed to be clarified (paras. 23 and 73 to 78).	Agreed	<ul style="list-style-type: none"> <li>➤ Draft of non-food procurement manual is in the clearance process to include new, expanded delegation of authority. In addition, delegations of authority for food procurement will be increased.</li> </ul>
Given the many constraints weighing on purchase decisions (legal considerations, availability of cash, variety of donors, diversity of projects and local food patterns, seasonality of markets), food purchase planning is limited. This is probably an area where further progress could be achieved in the future (para. 72).	Agreed	<ul style="list-style-type: none"> <li>➤ An annual non-food procurement plan was initiated in 1998. Food procurement plan to be initiated in 1999.</li> </ul>
A large sample of contracts did not disclose significant irregularities, but the following anomalies noted should be corrected in the future (paras. 24 and 79 to 84):		
<ul style="list-style-type: none"> <li>• discontinue the practice of issuing cheques to payees whose identity and address are not those of the</li> </ul>	Agreed	<ul style="list-style-type: none"> <li>➤ This practice has been rectified. Payment is to be made to the contractor whose address is listed in the</li> </ul>

External Auditor's recommendations (as per 1996-97 Audit Report)	WFP response	Actions taken to date or to be taken
vendor who had signed the contract;		contract document.
• losses incurred due to defaults;	Agreed	➤ Performance bonds are now required to reduce risk of loss due to default.
• circumvention of bidding procedures and the delegated levels of authority in procurement;	Agreed	➤ The issuance of a revised non-food procurement manual is expected to decrease the incidence of circumvention of bidding procedures, including exceeding delegation of authority. In addition, directives will be issued to provide operational guidelines to the field. Also, regional training workshops are being planned.
• contract for telephone services not put out to tender and negotiation, and the officer who signed for the Programme did not have the authority to do so; and	Agreed	➤ FSIT has been advised that authority to sign contracts rests with MS.
• contract for travel services not concluded in consultation with the Contracts and Purchases Committee prior to signing and the condition in the contract for providing services during normal hours on-site was not respected.	MS's interpretation of the contract manual led to the conclusion that the approval by the Contracts and Purchases Committee was not required because the signature did not entail a financial commitment by WFP. The subject agreement in fact is a travel agency concession based on variable and non-exclusive terms. The provision of services during working hours outside office premises was done on a trial basis to improve service by regrouping the resources of the Concessionaire. It did not prove to be satisfactory to WFP and therefore the on-site service of the Concessionaire was reintroduced early August 1998.	
<b>9. Procurement of ocean transport and services</b>		
Internal controls of operations could be improved, particularly with respect to performance evaluation and effectiveness of the ex-post review of contracts (paras. 25, and 86 to 88).		
The performance indicator used by OTS, the FOB/C&F	In addition to the FOB/C&F differential, OTS uses other	➤ OTS has set up a database to collect all such



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differential, should be supplemented by other market comparators.	<p>market indicators such as the so-called Market Reports, which list all fixtures concluded by other charters in the coal, iron and grain trades. They also include reports on time charter contracts fixed between owners and operators. Other sources of information on market movements are available at the Baltic Exchange (operating, in some ways, similarly to a stock exchange), which produces various indices based on future contracts and actual fixtures concluded worldwide.</p> <p>OTS agrees to the practice of calculating Equivalent Time Charters, which will compare WFP costs to market rates.</p>	<p>information from the various Market Reports and publications it has access to. A first print-out of this database, which will represent a collection of fixtures similar to those completed by WFP, will be submitted to the Committee on Commodities, Transport and Insurance (CCTI) at the end of 1998 for review, evaluation and recommendation</p> <p>➤ This is already being done by OTS.</p>
The benefit of ex-post review of OTS operations by the CCTI, transport section, would be enhanced if they were more focused on the search for the most competitive offer and the economic results achieved.	OTS acknowledges the advantage of submitting the final freight cost figures to the CCTI once a voyage is completed and the final freight account settled.	➤ This will be done for the next CCTI meeting covering third quarter 1998 activities.
<b>10. Financial Management Improvement Programme (FMIP)</b>		
The following observations were presented for appropriate consideration by the Programme:		
<b>Compliance with legal authority</b>		
Weaknesses in the compliance with legal authority relate to the following (paras. 27 and 92 to 94):		
<ul style="list-style-type: none"> <li>formal approval of FMIP by the Executive Board;</li> </ul>	While it is true that formal approval of the Executive Board was never sought to create the FMIP, the Board has been kept fully informed of the programme's content, funding status and implementation status since the FMIP's inception. This goes back to the detailed briefing provided at CFA:40 and has included the circulation of FMIP Progress Reports at EB sessions since 1996.	➤ No additional action needed but the EB will be continuously informed of FMIP progress.
<ul style="list-style-type: none"> <li>the decision to account for its operations in a special</li> </ul>	During the 1994-95 biennium FMIP was defined as a	➤ Pursuant to new Financial Regulation 5.1, the

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account under the General Fund;	Special Operation. This was consistent with the definition of Special Operations used before the introduction of the new R&LTF policies. However, with the R&LTF policies, the definition of Special Operations changed to the extent that FMIP could no longer be considered as one. For this reason, it was redefined and accounted for as a special account within the General Fund. However, prior to 1998, no measures were taken to formally create the account.	Executive Director's Decision Memorandum dated 7 July 1998, established the FMIP Special Account.

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<ul style="list-style-type: none"> <li>the charging of programme support and administrative costs to the FMIP budget; and</li> </ul>	<p>It is also reminded that FMIP was developed to pursue its main objective - "<i>to improve WFP's financial management capability</i>" - at <u>two levels</u>: i) effecting longer-term, more permanent improvements by putting in place new procedures and supporting information systems; and ii) providing immediate improvements through staff augmentation in certain FS units. While both are valid approaches and fully consistent with the FMIP objective, the resources applied to the latter are PSA in character. Hence, the blurring of the delineation between PSA and FMIP budgets.</p>	<ul style="list-style-type: none"> <li>➤ With the reclassification of FMIP as a special account, there will be a clear delineation of expenditures charged against PSA and FMIP and closer monitoring of these expenditures.</li> </ul>
<ul style="list-style-type: none"> <li>inconsistent treatment of contributions to the programme with respect to the charging of indirect support costs.</li> </ul>	<p>Of the eight contributions received to date, only in two cases was the indirect support cost levy applied. However, this was done with ample justification:</p> <ul style="list-style-type: none"> <li>the contribution made by the USA towards the FMIP in 1995 was a component of a contribution made for the Rwanda regional operation. Since the USA allowed part of the funds to be used for systems improvements, WFP elected to direct part through the FMIP. However, as a contribution for a Special Emergency Operations (SEO), the contribution was subject to the 9% ISC levy which applied at the time.</li> <li>The contribution of US\$3 million later in 1995 from another donor was a transfer of the balance from a bilateral operations account. All bilateral contributions are charged the appropriate fees at the time of receipt. There was no mechanism to credit these back for unexpended balances.</li> </ul> <p>Apart from the above exceptions, approximately US\$8.8</p>	

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	<p>million received for FMIP from donors which have been fully credited <u>without</u> an ISC levy. We believe that this exemption is fully justified because:</p> <ul style="list-style-type: none"> <li>• Although initially treated as a Special Operation as a matter of convenience to fit within an existing programme category, FMIP is <u>not an operation in the normal sense</u> - and thus does not create the need for additional support; and</li> <li>• the <u>impact</u> of FMIP is much the same as many activities covered through ISC and, in fact, in future WFP should have a provision within its recurrent budget to fund gradual, ongoing improvements and maintenance to its information systems so as to eliminate the need for a major, one-off intervention like the FMIP.</li> </ul>	
<b>FMIP funding</b>		
<p>FMIP is facing a shortage of funds and WFP has no contingency plans related to resourcing or adjusting the implementation of FMIP available resources (paras. 28 and 95).</p>	<p>At present FMIP is facing a funding shortfall of approximately US\$17.5 million. Thus, the advance of US\$10 million from the General Fund approved by the Executive Board in late 1997 means that a further US\$7.5 million needs to be raised to complete the programme.</p>	<ul style="list-style-type: none"> <li>➤ The Executive Director, in her statement accompanying the 1996-97 accounts, recommends the Board to formally approve that new direct contributions to FMIP be applied to the implementation of the programme and that repayment US\$10 million advance be deferred until such time as FMIP has been fully funded.</li> <li>➤ All FMIP expenditure plans are being closely monitored (through an oversight committee) in an effort to ensure that costs remain within established budgets.</li> </ul>
<b>FMIP accomplishments</b>		

External Auditor's recommendations (as per 1996-97 Audit Report)	WFP response	Actions taken to date or to be taken
<p>Some major accomplishments were achieved through FMIP. However, key FMIP systems are not yet operational and require additional work, testing and training of staff. Seen in this context, the present end-1999 deadline appears unrealistic (paras. 29 and 96).</p>	<p>The new strategic information systems make up the core of FMIP. There are eight in total, though they combine to form an integrated whole. Work is currently under way on all of these as indicated in the next column.</p>	<ul style="list-style-type: none"> <li>➤ Resource Mobilization System - Is in its final stages of implementation at headquarters and will be placed in general use by September 1998. Roll-out to a limited number of WFP country offices is planned to start in the fourth quarter of 1998.</li> <li>➤ Commodity Tracking System (CTS) - Development of the initial version of the system is now complete and it is being field-tested in East Africa during July and August 1998. Full roll-out is expected to get under way early in the fourth quarter of 1998.</li> <li>➤ Financial Management, HR Management and Procurement Management Systems - being obtained through a contract with a system Integration Partner (IP). The contract, expected to extend for approximately 20 months, has been negotiated and is expected to get under way from the beginning of September.</li> <li>➤ Programming, Logistics Management and Project Planning and Management Systems - now being addressed as a combined initiative. Business process re-engineering is already under way and it is expected that the system user requirements will be fully defined by the first quarter of 1999. With this schedule, it may be anticipated that the system will be introduced into general use during the first quarter of 2000.</li> </ul>

External Auditor's recommendations (as per 1996-97 Audit Report)	WFP response	Actions taken to date or to be taken
<b>11. The year 2000 problem</b>		
<p>The year 2000 problem is a major management issue and not just an information technology issue. In this context there is a need for senior management to take on overall responsibility for addressing the year 2000 problem (paras. 30 and 97).</p> <p>It is also essential that effective reporting arrangements be put in place to provide senior management with an early warning of any difficulties. Given the magnitude and pervasiveness of this problem, there is little time left (paras. 30 and 97).</p>	<p>Considerable information exists on the year 2000 problem and help is available to organizations gratis or at a modest cost. Although there is considerable variation in the way that recommended strategies are presented, there seems to be a consensus as regards the steps to be taken to address the year 2000 problem.</p> <p>While it is true that the system implementation schedule will extend into early 2000, many components will already be in use by the end of 1999. Furthermore, measures are being taken to ensure that there are no problems with year 2000 compliance for WFP's existing systems.</p>	<p>➤ WFP has decided to follow the recommendation of the UK National Audit office and indicated below are the projected completion dates for each project stage. This inventory will include all hardware and software (package and in house development) used at the headquarters:</p> <ul style="list-style-type: none"> <li>• Assign clear responsibility for year 2000 compliance - mid-August 1998;</li> <li>• Create an inventory of systems - mid-August 1998</li> <li>• Audit all systems for compliance - mid-September 1998;</li> <li>• Produce a prioritized list of systems requiring modification - end-September 1998;</li> <li>• Estimate the cost of modifications - mid-October 1998;</li> <li>• Finalize a prioritized, costed, timed programme of action - beginning November 1998;</li> <li>• Manage such a programme of action, keeping to budget and schedule- May 1999;</li> <li>• Test all modified system - July 1999.</li> </ul> <p>➤ A search for vendor products that are year 2000 compliance has been conducted through the WEB and identified those in respect of WFP's existing systems.</p>

External Auditor's recommendations (as per 1996-97 Audit Report)	WFP response	Actions taken to date or to be taken
		<ul style="list-style-type: none"> <li>➤ The greater problem is field compliance; FSI has no direct control over hardware and software procurement done at the country office level. WFP will send out a report explaining the year 2000 problem to all country offices. The report will include the headquarters standard software configuration that each country office should mirror as closely as possible, given systems end-product support available in their respective countries.. Included in the report will be the Internet address to vendors, year 2000 support pages and any testing procedures used at headquarters to ensure year 2000 compliance. A help desk for the year 2000 problem will be set up to support the country offices in their research and resolution of the problem.</li> </ul>
<b>12. Reiterated recommendations in previous reports</b> <b>Upgrading of financial information, accounting and procedural discipline</b>		
<p>Immediate improvements, consistent with the longer-term FMIP strategy, be implemented with a view to upgrading financial information and accounting systems and procedural discipline (paras. 31 and 98).</p>	<p>Errors are now corrected at their source in WIS before the month's transactions are allowed to flow to GL:M.</p>	<ul style="list-style-type: none"> <li>➤ Steps have been taken to reduce the number of wrong entries flowing from WIS to GL:M, by close collaboration between FSFA and FSI. GL:M makes test runs and if errors are detected, these are sent back to WIS for correction and resubmission to GL:M.</li> <li>➤ WIS maintenance and enhancement will continue, until replacement systems are in place, to respond to changing operational needs and in strengthening internal controls.</li> </ul>

External Auditor's recommendations (as per 1996-97 Audit Report)	WFP response	Actions taken to date or to be taken
<p>Once achieved, the major effort that is under way to produce written accounting procedures detailing the operation of each account in the chart of accounts and for validating transactions in GL:M should represent a major improvement in the control of accounting transactions (para. 100).</p>	<p>A new Chart of Accounts will be issued this summer and procedures for updating it are being produced.</p> <p>The Chart of Accounts database will be used in the review of validity of all open accounts in GL:M. This will also be used to automatically check for discrepancies between WIS account information and the Chart of Accounts. Such changes will lessen the number of account codes to be analysed by Finance staff from 500 account-code combinations to approximately 50 account-code variables.</p>	<p>➤ Chart of Accounts - A comprehensive database of account information has been developed and reviewed that would allow the following:</p> <ul style="list-style-type: none"> <li>• quick and simple production of new issues;</li> <li>• a systematic check of all accounts used in the 1996-97 biennium;</li> <li>• elimination of unnecessary or duplicated codes and reduction of complexity;</li> <li>• the preparation of account description sheets providing details of the operation of each account; and</li> <li>• the designation of a responsible unit for each account.</li> </ul> <p>➤ GL:M - Accounts with no activity in the 1996-97 biennium have been selectively purged in GL:M.</p>
<p>Financial and accounting instructions are still needed to determine the treatment retained for bilateral operations, LTSH transactions, self-insurance operations and the provision mechanism introduced in 1995 to report estimates of future ITSH/LTSH expenditure (para. 100).</p>	<p>It is not contemplated to issue instructions on bilateral operations as their importance is rapidly decreasing.</p> <p>At present, the WIS system is not able to implement the new LTSH model; an instruction will be issued when it is actually implemented. It will address the provision mechanism, among other issues.</p>	
<p>The procedures and supporting systems for implementing the new inventory policy announced in March 1995 were not yet operational (para. 100).</p>	<p>The new WFP Inventory System (WInS) has been operational since early 1997. To date, consolidated records for 75 country offices are available in MSA. In some of these 75 consolidated inventories, data for 1997 purchases have not been included. This is not a system shortcoming but rather a delay in adopting/implementing the WInS and/or in technical process.</p>	<p>➤ Closer and frequent communications with country offices to assist them in performing inventory maintenance under the delegated authority of country offices in providing training at the country level.</p>
<p>The documentation of financial procedures and the</p>	<p>All issues on updating and maintaining pledges</p>	



External Auditor's recommendations (as per 1996-97 Audit Report)	WFP response	Actions taken to date or to be taken
provision of operational guidelines remain a major management problem at the end of 1997, particularly the processing of Imprest returns, the monitoring of the value of pledges receivable, and the implementation of financial concepts such as ISC and DSC introduced under the R&LTF model.(para. 101).	receivable are referred to the newly created ongoing working group on pledges receivable mentioned in these recommendation on Contributions Receivable.	
With respect to the Organizational Change Initiative the visits to the regional offices showed that there was an urgent need to define the role and responsibilities of these offices in the areas of personnel, budgetary and financial management ( para. 101).	WFP agrees that more has to be done to define roles and responsibilities, particularly during a time of evolving organizational change and decentralization. Of particular importance is ensuring that the required tools (e.g., connectivity) are in place to facilitate this process and allowing regional/country offices to exercise full management control and responsibility over the resources placed at their disposal.	<ul style="list-style-type: none"> <li>➤ Within the scope of established budgets, a move is underway to allow regional offices to play a much more heightened role in determining how resources will be distributed and/or programmed to the countries within their region. Manuals on the budget process, including guidance to managers, continue to be updated and will eventually be available in electronic form. The certification process has been streamlined in such a way that managers have a wider latitude of spending authority for established budgets.</li> <li>➤ HR has developed a role statement for all the outposted Personnel Officers in both regional offices and large stand-alone operations. Personnel Officers have been trained at the beginning of their assignment and after six months brought to headquarters for specialized training, which included job classification, clarification of their role and level of delegation.</li> </ul>

## **PROGRESS REPORT ON THE IMPLEMENTATION OF RECOMMENDATIONS IN THE 1994-95 AUDIT REPORT OF THE EXTERNAL AUDITOR**

1. The Executive Board will recall that, when the report of the External Auditor on the financial statements of the World Food Programme for the financial period 1 January 1994 to 31 December 1995 (document WFP/EB.3/96/4-B) was presented, in October 1996, the Executive Director decided to present to the Board follow-up progress reports on the implementation of the External Auditor's recommendations.
2. The first progress report was presented at the 1997 Executive Board Annual Session (document WFP/EB.A/97/4-F). The progress report reflected the recommendations as presented in the report of the External Auditor on the financial statements for 1994-95, the corresponding response of WFP, the actions taken, the status and the due date for implementation. The annex to the present document is a second progress report on the recommendations for the 1994-95 biennium. The first two columns of the annex reflect the same recommendations and responses, the third column reflects the follow-up actions taken to date, and target date for completion of implementation if these are still in progress, and the fourth column includes the status and comments and reactions of the External Auditor in his audit report for the 1996-97 biennium to the actions taken by the Programme.
3. The Executive Director requests that actions taken in certain areas and the ongoing efforts by the Secretariat to address issues which are still outstanding be considered by the Board in the context of the following major initiatives:
  - a) The implementation of the Financial Management Improvement Programme (FMIP) which is in full progress. At the time of writing this document, final negotiations are taking place for the selection of an implementing partner for the development of an integrated system package comprising core applications for finance, human resources, procurement, and travel.
  - b) The implementation of the resource and long term financing (R&LTF) model on 1 January 1996 which required significant changes that affected the implementation of some audit recommendations. The R&LTF model is presently being reviewed by a Formal Working Group of the Executive Board.
  - c) In 1996, the Programme implemented a reorganization plan, the full implementation of which is still in progress.
  - d) The change in General Regulations and Rules and Financial Regulations, effective 1 January 1998.
4. The Executive Director assures the Board that the recommendations of the External Auditor in his audit report for the 1994-95 biennium were seriously considered and addressed by the Programme within existing available resources and in line with the ongoing changes in regulations, policies and other arrangements.

## PROGRESS REPORT ON THE IMPLEMENTATION OF RECOMMENDATIONS IN THE 1994-95 AUDIT REPORT OF THE EXTERNAL AUDITOR

External Auditor's recommendations (as per WFP/EB.A/97/4-F)	WFP response (as per WFP/EB.A/97/4-F)	Follow-up actions taken to date and target date	Status and comments of the External Auditor(*)
<b>1. Format of Financial Statements</b>			
I recommend that, in the future, the grouping of activities on the face of the financial statements be based on the delineations recognized in the long-term financing model.	The 1996-1997 financial statements will provide information detailed by programme categories and funding windows.	➤ The chart of accounts has been updated. The Financial Statements for 1996-97 have been reorganized to comply with the resource and long-term financing policies which came into effect on 1 January 1996.	• The chart of accounts is being revised continuously.
<b>2. Surplus and Operational Reserve</b>			
I recommend that a policy document be submitted to the Executive Board detailing the funding and replenishment modalities of the operational reserve (determination of sources of funding, authorization to draw-down, replenishment mechanism, responsibilities for monitoring operations).	(No response)	➤ The Executive Board approved in May 1997 the modalities for the funding and replenishment of the Operational Reserve (WFP/EB.A/97/4-D).	• Recommendation has been addressed (paragraph 36).
<b>3. Undisbursed Expenditure</b>			
Recognizing the practical difficulties of implementing such a change, I still recommend that, in the future, ITSH cost estimates be replaced by regular obligations defined and accounted for in compliance with the provisions of the UN accounting standards.	The changes outlined by the Executive Director in 1994 (and quoted in the External Auditor's report) have now been made. With these changes, new ITSH obligations are based on contract rates.  Existing ITSH obligations have been analysed, and those with supporting contracts confirmed as	➤ A decision, to record ITSH estimates for commodities called forward as Provisions and ITSH expenditures duly supported by contracts as Outstanding Obligations, was reached at the 50 <sup>th</sup> Audit Committee meeting. This is now reflected in the 1996-97 Financial Statements.	• The External Auditor noted improvements in the review of obligations and provisions resulting in better estimating expenditure. He recommended further improvements in the future (paragraph 13).

External Auditor's recommendations (as per WFP/EB.A/97/4-F)	WFP response (as per WFP/EB.A/97/4-F)	Follow-up actions taken to date and target date	Status and comments of the External Auditor(*)
	<p>unliquidated obligations.</p> <p>A decision needs to be formulated for those ITSH obligations whose rates are not based on contracts— either to provide for them as undisbursed expenditure or to provide for them as encumbered surplus.</p>		
<b>4. Country Office Expenditure</b>			
I recommend that:			
<ul style="list-style-type: none"> <li>• Imprest account transactions be transmitted to headquarters in an electronic form and under a format consistent with the central accounting system in order to avoid manual re-entry of data.</li> </ul>	<p>Imprest account transactions are now transmitted electronically from 3/4 of the country offices with electronic mail connections.</p> <p>Programmes have been developed to upload FIS information to the mainframe systems via interface files. Further development of these interfaces would not be cost-effective, as the new field accounting systems will be introduced in 1998.</p>	<ul style="list-style-type: none"> <li>➤ A good percentage of transactions on IOVs and Imprest accounts are being transmitted electronically from the country offices to the headquarters. However there is still manual intervention in the recording of these transactions to WIS and GL:M which will be eliminated once field offices are linked to the headquarters' systems that will allow direct processing of transactions of COs.</li> <li>➤ Kampala and Abidjan, two clusters, are now linked to the WIS headquarters system. This enhancement allows these offices to directly process into WIS their own transactions and those of the country offices under their responsibility. Rwanda, Burundi, Democratic Republic of Congo and Tanzania now submit their returns to Kampala and Guinea, Sierra Leone and Liberia now submit their returns to Abidjan for direct processing into WIS.</li> <li>➤ The Islamabad Cluster is in the process of being linked to headquarters systems. It is planned that the</li> </ul>	<ul style="list-style-type: none"> <li>• The External Auditor noted some improvements in the timely processing of Imprest and IOV returns although the situation is not yet completely under control. He reiterated these recommendations on Country Office Expenditure in his 1996-97 report (paragraph 54).</li> </ul>

External Auditor's recommendations (as per WFP/EB.A/97/4-F)	WFP response (as per WFP/EB.A/97/4-F)	Follow-up actions taken to date and target date	Status and comments of the External Auditor(*)
		Maputo Cluster and the Ethiopia Country Office will be linked by fourth quarter of 1998.	
<ul style="list-style-type: none"> <li>Considering the large amount of transactions concerned, their regularity be thoroughly checked against supporting documentation on a statistical basis and the samples be selected after due consideration of risk areas.</li> </ul>		<ul style="list-style-type: none"> <li>An instruction on processing of Country Office returns was issued by FSFF on 23 October 1997. The procedures indicate: (a) number of vouchers to be selected and how to select them (b) what to check on the individual vouchers and how to document the review process, and (c) if weaknesses were found in the first sample, how to select a second sample for review.</li> </ul>	
<ul style="list-style-type: none"> <li>Supporting documentation be available at headquarters for review.</li> </ul>	<p>Documentation is not requested from those country offices where the finance officer was previously a headquarters chief accountant.</p> <p>WFP's decentralization means that country offices will input their own expenditure, with direct connection to the WIS system. They will then keep all documentation.</p>	<ul style="list-style-type: none"> <li>As per FS Directive FS98/005, dated 17 June 1998, countries in the Islamabad, Nairobi, Kampala and Abidjan Clusters and the Angola Country Office are no longer required to submit supporting documentation of processed Imprest returns to FSFF in Rome. However, to maintain effective controls in place, FSFF will select, on a monthly basis, a sample of disbursement vouchers and request Country Directors or Regional Managers to send the related supporting documentation (e.g., invoices, contracts, etc.) to Rome for review by FSFF.</li> <li>With FS Directive FS98/001 dated 1 April 1998 to the Regional Offices (Clusters) the input/upload of data into WIS, as these become linked, was delegated in the framework of the Organizational Change Initiative.</li> </ul>	

External Auditor's recommendations (as per WFP/EB.A/97/4-F)	WFP response (as per WFP/EB.A/97/4-F)	Follow-up actions taken to date and target date	Status and comments of the External Auditor(*)
<ul style="list-style-type: none"> <li>The importance of the checking of expenditure against commitments be reminded to Country Directors and strictly enforced.</li> </ul>		<ul style="list-style-type: none"> <li>The importance of checking expenditures against commitments was conveyed to the Country Directors as follows:               <ul style="list-style-type: none"> <li>in notes sent to the 25 country offices whose cash is replenished on the basis of forecasts (as described further in paragraph 5 Operation of Imprest Accounts);</li> <li>in workshops that were organized by FSFF throughout 1996 and 1997 to discuss future field financial systems and attended by country office finance officers and assistants;</li> </ul> </li> <li>The Chairman of the Audit Committee, the DED, issued a memorandum on 12 March 1998 conveying to all country directors internal control weaknesses in country offices frequently identified in OEDA Reports to encourage COs to do a self-review and to take corrective action on their own initiative.</li> </ul>	
<b>5. Operation of Imprest Accounts</b>			
<p>The management of Imprest accounts should be based on determined Imprest levels and replenishments should be linked to the statement of expenditure already incurred and justified.</p>	<p>New procedures were introduced (as mentioned by the External Auditor) to replenish Imprest accounts based on forecasts from the country directors of nine country offices.</p>	<ul style="list-style-type: none"> <li>The application of these procedures was extended (with effect from 1 January 1997) to cover the 25 country offices holding the larger balances of cash. These steps, including the introduction of zero balance bank accounts in 5 large country offices, have proved to be successful as indicated by the decrease in the total cash holdings of country offices from \$33.8 million at the end of 1995 to less than \$14 million at the end of 1997.</li> <li>The reduced cash holdings in COs have likewise been confirmed by external (Management Letter on External Audit Mission to Uganda dated 14/05/98) and internal audit missions to country offices.</li> </ul>	<ul style="list-style-type: none"> <li>Recommendation has been addressed (paragraph 54).</li> </ul>

External Auditor's recommendations (as per WFP/EB.A/97/4-F)	WFP response (as per WFP/EB.A/97/4-F)	Follow-up actions taken to date and target date	Status and comments of the External Auditor(*)
<b>6. Bank Accounts and Petty Cash</b>			
I recommend that the established regulations governing the opening and management of petty cash and Imprest bank accounts by country office staff be more strictly enforced.	(No response)	<ul style="list-style-type: none"> <li>➤ Chapter 500 of the revised Country Office Accounting Guide which is to provide guidance on the opening, management and control of Imprest, sub-Imprest and bank accounts and petty cash is to be issued by 31 July 1998.</li> <li>➤ Cash handling was also covered in the memorandum issued on 12 March 1998 by the Chairman of the Audit Committee referred to in paragraph 4.</li> </ul>	<ul style="list-style-type: none"> <li>• The External Auditor noted the reduction in the number of WFP headquarters bank accounts and the closure and regularization of bank accounts in the field (paragraph 64).</li> </ul>
<b>7. Government Cash Counterpart Contributions (GCCCs)</b>			
I recommend that the legal status of GCCC be clarified to determine the conditions under which recipient governments are required to pay such contributions.	<p>A legal opinion was obtained from the Legal Counsel of FAO. This states:</p> <p>“There is no need to ask for a waiver from the Executive Board in cases where the basic agreements with non-LDC recipient governments do not provide for the payment of cash contributions. However, in view of the clear lines of the policy enunciated by the CFA and reflected in Financial Regulation 4.9, action should be taken to review such country agreements with a view to their renegotiation to include such a provision, wherever possible. The entire policy could be brought up with the Executive Board and its</p>	<ul style="list-style-type: none"> <li>➤ OEDB is reconciling the budgetary and accounting data pertaining to the GCCC amounts sought and received to date from concerned countries. Upon completion of this exercise, OEDB in coordination with OD, will send a letter to country offices to determine follow-up action and status of uncollected contributions.</li> </ul>	<ul style="list-style-type: none"> <li>• The External Auditor reiterated the recommendation to implement revised agreements with recipient governments and record outstanding contributions as receivable in the books of WFP. (paragraphs 12 and 42).</li> </ul>

External Auditor's recommendations (as per WFP/EB.A/97/4-F)	WFP response (as per WFP/EB.A/97/4-F)	Follow-up actions taken to date and target date	Status and comments of the External Auditor(*)
	Open-ended Working Group in connection with the revision of the Financial Regulations, given that the Executive Board has not reviewed its policy since the adoption of the Financial Regulations. LDCs can still be considered exempt from such contributions, even though the CFA decision predates Financial Regulation 4.9."		
<b>8. Services Rendered by Other International Organizations</b>			
I recommend that, for the future:			
<ul style="list-style-type: none"> <li>• The Programme revise its budgetary estimates of the costs of services to be requested from the FAO in order to adjust them as closely as possible to actual requests during the forthcoming biennium.</li> <li>• The Programme request supporting documentation of the cost of services which can be individualized.</li> <li>• The "keys" used to allocate costs that cannot be individualized be reviewed and adjusted in the light of experience.</li> </ul>	The difference between budgetary estimates and actual expenditure was mostly due to unexpected savings or by the outsourcing of costly services.	<ul style="list-style-type: none"> <li>➤ Negotiations took place between the various FAO/WFP units concerned to agree on the level of services provided in 1998-99 and the related costs. The result of the negotiations was confirmed in a memo from FAO dated 11 August 1997.</li> <li>➤ The negotiations between FAO and the Programme resulted in an overall net reduction from the previous biennium of US\$334,000 in the 1998-99 budget for FAO services. Significant reductions were achieved in maintenance and general operating expenses and internal audit, offset by increases in personnel work, legal services and technical support.</li> <li>➤ The Programme set up an internal procedure to identify and obtain supporting documentation for services rendered by FAO.</li> <li>➤ For audit services, work programmes for the biennium are discussed between OEDA and FAO Internal Audit Office and copies of relevant audit reports are</li> </ul>	<ul style="list-style-type: none"> <li>• Completed</li> <li>• The External Auditor made no further comments in his report.</li> </ul>



External Auditor's recommendations (as per WFP/EB.A/97/4-F)	WFP response (as per WFP/EB.A/97/4-F)	Follow-up actions taken to date and target date	Status and comments of the External Auditor(*)
		<p>submitted to WFP. For legal services actual hours of work of the FAO Legal Counsel are charged to WFP. For computer services, quarterly reports are provided by FAO on the computer processing time.</p> <p>➤ The relevant WFP Offices were made responsible for raising commitment requests and to certify that FAO services were actually rendered to them.</p>	
<b>9. Cash and Investments</b>			
<p>I recommend that the conclusion of an agreement between the FAO and the WFP be considered as a matter of priority and implemented as soon as possible.</p>	(No response)	<p>➤ A memorandum of understanding between FAO and WFP was signed in October 1996.</p> <p>➤ ED Circular ED97/017 on Investment Management Policy issued on 1 January 1997 (and the applicable FS Directive FS97/001 dated 1 January 1997) set out WFP's principles on investment management and established the relevant committees responsible for the oversight of the Programme's cash management activities.</p>	<ul style="list-style-type: none"> <li>• The External Auditor noted the signing of the MOU (paragraph 63), the issuance of the ED Circular (paragraph 65) and discussions underway between FAO and WFP on the management of WFP investments (paragraph 65).</li> </ul>
<b>10. Accounts Receivable and Payable</b>			
<ul style="list-style-type: none"> <li>• I recommend that the Programme, in cooperation with FAO, monitor personnel-related receivables more closely.</li> </ul>	<p>FAO was asked to conduct a survey of advances granted to staff members who were no longer on WFP's payroll.</p>	<p>➤ As a result of the survey all adjustments were made in December 1997 except for \$10,186.45 due to missing Receipt Voucher which is still under investigation by FAO and WFP.</p> <p>➤ The calculation of profit/loss on exchange for salary advances in FINSYS/PERSYS was improved so it now provides details for more efficient monitoring.</p> <p>➤ FSFA issued on 1 November 1996 Accounting Instructions and Procedures 96/005 on Salary Advances to implement a semi-annual review of all outstanding advances.</p>	<ul style="list-style-type: none"> <li>• Completed</li> </ul>

External Auditor's recommendations (as per WFP/EB.A/97/4-F)	WFP response (as per WFP/EB.A/97/4-F)	Follow-up actions taken to date and target date	Status and comments of the External Auditor(*)
		➤ The 1996-97 closure instructions and accounting procedures were modified to include this.	
• I recommend that [the project preparation costs] account be monitored and cleared regularly.		➤ FSFA issued on 1 October 1997 Accounting Instructions and Procedures 97/005 on Project Preparation Costs.	• Completed
• I recommend that the Secretariat clearly assign responsibilities for monitoring and accounting for demurrage charges and review outstanding balances.	The demurrage account is reviewed twice a year by the Finance and Transport divisions.	➤ FSFA issued on 1 June 1997 Accounting Instructions and Procedures 97/001 for the handling of the Demurrage and Despatch Accounts. In addition, procedures for demurrage are in OT manual, Section 1.2.2.6.	• Completed
• ...establish, as a matter of urgency, effective procedures to ensure that suspense account items are cleared on a timely basis.	The staffing of the Financial Services should reach its normal level by the end of 1997, and will allow the implementation of effective procedures.	➤ FSFA issued Accounting Instructions and Procedures 96/007 on Cost and Currency Variances, 96/008 on Payroll Charges and 96/009 on Transactions Rejected in WIS. ➤ Special attention was paid to the handling of suspense accounts in the 1997 closure. ➤ The suspense accounts credit balance was reduced from \$8.1 million as at 31 December 1995 to \$2.2 million as at 31 December 1997 (net reduction of 73%).	• Completed with ongoing improvements, as necessary
<b>11. Insurance Policy</b>			
I recommend that, in the future, precise guidelines allowing for regular posting of premiums and claims to the insurance account throughout the biennium be issued.	(No response)	➤ Self- Insurance Scheme Accounting Procedures were extensively developed and drafted in March 1997. ➤ System changes are presently being addressed by FSI. Combined testing has been recommended by FSI which will involve the participation of both FSFA and OTI staff and will be completed by November 1998.	• The External Auditor noted the changes in policy for accounting for the self-insurance scheme and presents his opinion in the 1996-97 report (Paragraphs 67- 69).

External Auditor's recommendations (as per WFP/EB.A/97/4-F)	WFP response (as per WFP/EB.A/97/4-F)	Follow-up actions taken to date and target date	Status and comments of the External Auditor(*)
		<ul style="list-style-type: none"> <li>➤ The Programme adopted the policy that the self-insurance scheme is to be accounted for as a Special Account in the General Fund pursuant to the definition of this account and the provisions in Financial Regulations 1.1 and 5.1, respectively.</li> </ul>	
<b>12. Monetization of Commodities</b>			
<p>I recommend that ... a "monetization policy" document be produced and comprehensive guidelines be issued spelling out the various scenarios under which WFP may get involved in the successive stages of monetization operations with the attending responsibilities.</p>	(No response)	<ul style="list-style-type: none"> <li>➤ ED Circular ED95/007 on Auditing of Locally Generated Funds was issued on 22 December 1995 (and the applicable OD Directive OD95/002 dated 22 December 1995) reaffirming the ED's responsibility for the financial management of monetized funds and requiring the annual audit of all these funds by local external auditors under OEDA's supervision.</li> <li>➤ FS Directive FS96/002 on Management of Funds Generated from the Sale of Donated Commodities was issued on 6 November 1996 and defined involvement of WFP in various stages of any monetization scheme.</li> <li>➤ FS Directive FS98/004 on Accounting Treatment for Funds Generated from the Sale of Donated Commodities was issued on 16 June 1998 to prescribe, in cases where WFP is regarded as trustee for the monetized funds, the procedures for separate bank accounts, accounting for proceeds, monthly reconciliation of the cash book and reporting to FS.</li> <li>➤ The Executive Board approved in May 1997 policies on the use of monetized funds for WFP food aid in relief and development (WFP/EB.A/97/5-A).</li> <li>➤ The AED issued written instructions on 24 November 1997 to all Country Offices on the Closing of Dual-Signatory Accounts.</li> </ul>	<ul style="list-style-type: none"> <li>• Completed with on-going improvements, as necessary.</li> </ul>

External Auditor's recommendations (as per WFP/EB.A/97/4-F)	WFP response (as per WFP/EB.A/97/4-F)	Follow-up actions taken to date and target date	Status and comments of the External Auditor(*)
<b>13. Valuation of Transactions in Kind</b>			
I recommend that the valuation system applied to transactions in-kind be reviewed with a view to documenting, simplifying and unifying the recording of such transactions.	(No response)	<ul style="list-style-type: none"> <li>➤ FS Directive FS97/004 on Valuation of Commodity Contributions in Kind was issued on 23 October 1997 to prescribe a more simplified process for the valuation by programme category, pricing and accounting of donated commodities.</li> </ul>	<ul style="list-style-type: none"> <li>• The External Auditor considered this procedure as an improvement to be reviewed in the new biennium as implementation started in 1998 (paragraph 37).</li> </ul>
<b>14. Closure of Completed Projects</b>			
I recommend that procedures for closing projects and surrendering the related budget balances be issued and implemented with a view to close the gap between the completion of operations and the final closure of projects.	(No response)	<ul style="list-style-type: none"> <li>➤ New procedures for project closure have been developed for inclusion in the LTSH implementation strategy.</li> <li>➤ About 474 pre-WIS and 741 WIS completed projects were closed in an extensive project-closure exercise undertaken in 1997 by FSFA, FSI and OD. Completed projects have been closed periodically since then.</li> <li>➤ FSI is working on a WIS programme that will automatically close bilateral accounts and surrender related budget balances. This WIS programme is expected to be completed by 31 December 1998.</li> </ul>	<ul style="list-style-type: none"> <li>• In progress.</li> </ul>
<b>15. Bilateral Operations</b>			
<ul style="list-style-type: none"> <li>• My predecessor had recommended that the Programme review the expenditure and funding position of each bilateral operation on a monthly basis.</li> </ul>	(No response)	<ul style="list-style-type: none"> <li>➤ Presently, GL:M reports on expenditure and funding position of each bilateral account are issued periodically for internal review. To date bilateral reports have not been produced monthly by GL:M; however, the latest reports were issued in May 1998 for review by FSFA in June 1998.</li> </ul>	<ul style="list-style-type: none"> <li>• The External Auditor noted improvements in the monitoring of negative bilateral balances but reiterated recommendation that closer cooperation be ensured and clear responsibilities delineated between the administrative units involved (Resources,</li> </ul>

External Auditor's recommendations (as per WFP/EB.A/97/4-F)	WFP response (as per WFP/EB.A/97/4-F)	Follow-up actions taken to date and target date	Status and comments of the External Auditor(*)
			Operations and Finance) (paragraph 70).
<ul style="list-style-type: none"> <li>[I concur with the recent Internal Audit Department recommendation that] clear responsibilities for the management of all aspects of bilateral funds be determined.</li> </ul>		<ul style="list-style-type: none"> <li>➤ The specific responsibilities of the offices concerned has not yet been resolved. These offices expect to address this weakness through a series of discussions/meetings to be completed by December 1998.</li> </ul>	
<b>16. Personnel-Related Liabilities</b>			
End of service benefits should be provided for or their amount disclosed.	(No response)	<ul style="list-style-type: none"> <li>➤ At its Annual Session in May 1997, the Executive Board agreed that WFP needs to recognize after-service medical liabilities and should develop a detailed plan for the amortization of these liabilities. The Board indicated that more information will be required before it can make a final decision (WFP/EB.A/97/9 - decision 1997/EB.A/8).</li> <li>➤ The 1996-97 Financial Statements now discloses all personnel-related liabilities, including the relevant amounts.</li> <li>➤ FAO provided in June 1998 the data necessary to assess the WFP fair share of after-service medical coverage. With this data the Programme can now prepare a document for the Board's review and decision.</li> </ul>	<ul style="list-style-type: none"> <li>• A document will be submitted to the Executive Board in January 1999.</li> </ul>

External Auditor's recommendations (as per WFP/EB.A/97/4-F)	WFP response (as per WFP/EB.A/97/4-F)	Follow-up actions taken to date and target date	Status and comments of the External Auditor(*)
<b>17. Country Office Physical Assets</b>			
I recommend that [new policies ... to include decentralizing and computerizing inventory management] be implemented as soon as possible.	(No response)	➤ MS Directive MS97/008/003 on Guidelines and Procedures in the Management and Control of Inventory of the World Food Programme was issued on 16 April 1997 providing specific operational instructions in inventory management. A computerized inventory system is now operational but would need some modifications.	<ul style="list-style-type: none"> <li>Completed with on-going improvements, as necessary. Noted by the External Auditor (paragraph 100).</li> </ul>
<b>18. Financial Information and Accounting Systems</b>			
Improvements should include:			
<ul style="list-style-type: none"> <li>Issuance of organization-wide written operational instructions defining internal control terminology and procedures and assigning responsibilities to carry them out.</li> </ul>	The Finance Manual and the Country Office Accounting Guide include sections on key internal controls which will be developed and updated.	➤ Greater emphasis has been given in the issuance of ED Circulars, Division Directives and other guidelines not only to define internal-control terms but also prescribe procedures and processes and identify responsibilities.	<ul style="list-style-type: none"> <li>The External Auditor noted that there was still ample room for further improvements. (paragraph 98).</li> </ul>
<ul style="list-style-type: none"> <li>Issuance and implementation of operational accounting instructions (including a revised chart of accounts adapted to the new financing model adopted by the WFP).</li> </ul>	Progress in this area has been hampered by lack of available resources.	<ul style="list-style-type: none"> <li>➤ A revised, updated and improved chart of accounts is currently being finalized. It is user-friendly and informative at all levels of detail, and it also indicates the manager or staff responsible for each account. A summary sheet, that explains the functions of each account and how to utilize it, is being developed.</li> <li>➤ In addition to the accounting instructions and procedures already referred to in paragraph 10, FSFA has issued five instructions in 1996 on Education Grant Advance, Invoicing Other Organizations, Payroll Reconciliation, Reconciliation of Personnel Related Accounts and Current Accounts Statements, three instructions in 1997 on HQ Rental, FAO-Interest Income - Currency Exchange Adjustments - Bank Charges - Counselling Charges and UNDP Current Account Statement and two instructions in 1998 on</li> </ul>	<ul style="list-style-type: none"> <li>The External Auditor noted that limited changes were introduced and was informed of major efforts to improve the control of accounting transactions (paragraph 100).</li> </ul>

External Auditor's recommendations (as per WFP/EB.A/97/4-F)	WFP response (as per WFP/EB.A/97/4-F)	Follow-up actions taken to date and target date	Status and comments of the External Auditor(*)
		Letters of Credit and Contributions Receivable/Receipt Vouchers.	
<ul style="list-style-type: none"> <li>• Creation and/or updating of systems documentation (users and development guides)</li> </ul>	WFP will not keep its existing systems more than two to three years and creating systems development guides is probably not cost-effective.	<ul style="list-style-type: none"> <li>➤ WIS users' manual has been published in May 1996.</li> <li>➤ A GL:M manual was issued in May 1997.</li> </ul>	<ul style="list-style-type: none"> <li>• Completed with on-going improvements, as necessary.</li> </ul>
<ul style="list-style-type: none"> <li>• Revision of interfaces (particularly with PERSYS).</li> </ul>	As FAO is soon to replace PERSYS, the usefulness of addressing issues linked to PERSYS will have to be assessed.	<ul style="list-style-type: none"> <li>➤ The problems with the interfaces between the various feeder systems and GL:M were investigated at the end of 1996. Some progress was achieved in 1997 in automating the transfer of Journal Voucher and Payment Voucher information from WIS into GL:M. Further enhancements will be evaluated in the implementation of the new Financial Management System (FMS) under FMIP.</li> <li>➤ Further problems of interfaces particularly with PERSYS will be evaluated in the implementation of HR processes under FMIP.</li> </ul>	<ul style="list-style-type: none"> <li>• In progress.</li> </ul>
<ul style="list-style-type: none"> <li>• Transmission of country office accounting information to headquarters in an electronic form.</li> </ul>		<ul style="list-style-type: none"> <li>➤ As highlighted in FMIP Progress Reports, the continuing expansion of WFP's connectivity to country offices will make this possible with a few exceptions when it would not be cost efficient to do so. All clusters and stand- alone country offices will be linked by end of 1999.</li> </ul>	<ul style="list-style-type: none"> <li>• In progress.</li> </ul>

(\*) This column includes comments of the External Auditor in his Long-Form Report for the financial period 1996-97 on actions taken by WFP on his recommendations. The relevant paragraph numbers in the audit report have been indicated in parenthesis.