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RESOURCE, FINANCIAL AND BUDGETARY MATTERS

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12 November 2012

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REPORT OF THE ADVISORY COMMITTEE ON ADMINISTRATIVE AND BUDGETARY QUESTIONS (ACABQ)

The Executive Director is pleased to submit herewith the report of the Advisory Committee on Administrative and Budgetary Questions pertaining to WFP. The report covers the following agenda items:

- Policy for Disclosure of Oversight Reports (WFP/EB.2/2012/4-A/1)
- WFP Management Plan (2013–2015) (WFP/EB.2/2012/5-A/1)
- Increased Fee for the External Auditor (WFP/EB.2/2012/5-B/1)
- Work Plan of the External Auditor for the Period July 2012 to June 2013 (WFP/EB.2/2012/5-C/1) + Corr.1
- Housing Allowance of the Executive Director (WFP/EB.2/2012/13-A/1)

COPY OF LETTER RECEIVED FROM THE UNITED NATIONS — NEW YORK

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Advisory Committee on Administrative
and Budgetary Questions

12 November 2012

Dear Ms. Cousin,

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

- Management Plan for the period 2013–2015
(WFP/EB.2/2012/5-A/1)
- Policy for Disclosure of Oversight Reports
(WFP/EB.2/2012/4-A/1)
- Increased Fee for the External Auditor
(WFP/EB.2/2012/5-B/1)
- Housing allowance for the Executive Director
(WFP/EB.2/2012/13-A/1)

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

Yours sincerely,
Collen V. Kelapile
Chairman

Ms. Ertharin Cousin
Executive Director
World Food Programme
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Encl.

WORLD FOOD PROGRAMME

Resource, Financial and Budgetary Matters

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the reports of the World Food Programme (WFP) on the Management Plan for the period 2013-2015 (WFP/EB.2/2012/5-A/1), the policy for disclosure of oversight reports (WFP/EB.2/2012/4-A/1), the increased fee for the external auditor (WFP/EB.2/2012/5-B/1) and the housing allowance for the Executive Director (WFP/EB.2/2012/13-A/1), which are submitted to the Executive Board of WFP for approval. The Committee also had before it the Work plan of the External Auditor for the period July 2012 to June 2013 (WFP/EB.2/2012/5-C/1), which is submitted for the information of the Board.
2. During its consideration of the reports, the Advisory Committee met with the Officer-in-Charge of Resources Management and Accountability/Acting Chief Financial Officer, as well as other representatives of WFP, who provided additional information and clarification.
3. **The Advisory Committee commends the representatives of WFP for the quality of the presentation given to it on the documentation provided for its consideration.**

II. WFP Management Plan and Budgetary Requirements (2013-2015)

4. The WFP Management Plan (WFP/EB.2/2012/5-A/1), which covers the budgetary requirements for the period up to December 2013, is the second instalment to follow the annual budget cycle as part of a three-year rolling plan. The WFP Management Plan reflects a process of organizational strengthening, and it introduces the Programme's realigned structure and the actions required to maximize efficiency and effectiveness. Paragraphs 5-7 of the report outline a framework for action, including guiding principles for organizational realignment and the 7 inter-related themes and corresponding actions to optimize the organizational realignment of WFP. An organisational design and realignment team reviewed individual functions in WFP to determine their optimum location. The new organizational design, described as "fit for purpose", foresees empowered country offices; supportive regional bureaux; a light and lean headquarters; the integration of policy and programming under a single Division; the Gender Unit reporting to top management; a single streamlined performance monitoring and reporting system; and increased evaluation coverage (see WFP/EB.2/2012/5-A/1, para. 8).

⇒ *Format and presentation*

5. While the Management Plan provides information on the management initiatives undertaken and the related revisions to its organizational structure and its staffing table, the document does not include meaningful indicators of achievement for the substantive, managerial and administrative areas that would allow an objective assessment at the close of the reporting period of the actual progress made. **The Advisory Committee recommends that WFP include several major indicators of achievement and performance measures for its substantive activities, management and administration, and to provide, where relevant, additional qualitative and quantitative information to facilitate the assessment of progress in the achievement of expected accomplishments.**

6. The Advisory Committee was informed that, in contrast to the practice in most other United Nations system organizations, WFP formulates its Management Plan on the basis of assessed needs, and that operational activity and the extent to which individual projects are implemented depend entirely on the level of voluntary contributions actually received. In this regard, the Committee recalls that it had emphasized that the introduction of a three-year rolling management plan with annual appropriations presented opportunities for WFP to focus on improving its budget formulation process, to incorporate more trend analysis and to improve budgeting assumptions (WFP/EB.A/2011/6 (A,B,C,D,E,F,G,H)/2, WFP/EB.A/2011/5-C/2, para 19). **The Advisory Committee points out that WFP's approach of presenting its budget, of which 93 per cent is based on projections for ongoing requirements under a large number of individual projects, rather than on the anticipated level of resources, may not always provide a completely reliable prediction of its operations and does not facilitate measurement of its budget performance, and may impact negatively on the budget function as a planning tool. The Committee requests that WFP, in close consultation with its Executive Board, keep under review its budget formulation methodology.**

⇒ *Budgetary requirements*

7. As indicated in paragraphs 10 to 12 of the Management Plan, total resources required for the revised programme of work for 2013 are estimated at \$4.969 billion, which is an aggregation of active projects and their logical and foreseen extensions, and does not take into account any unforeseen needs that may arise during the year. WFP plans to reach 71 million beneficiaries through 150 projects in 76 countries delivering 4.1 million metric tons of food and US\$464 million in cash and vouchers (WFP/EB.2/2012/5-A/1, para. 72). With regard to projected resource levels, WFP indicates that the current forecast for voluntary contributions in 2013 amounts to \$3.7 billion, which is less than the amount forecast for the year 2012 of \$3.75 billion; however, WFP anticipates increased levels of voluntary contributions in 2014 and 2015 (ibid, figure 3).
8. Section III of the Management Plan for 2013-2015 details the operational requirements by programme category, by strategic objective and by cost component, as well as the operational requirements by region, with a corresponding breakdown for each regional bureau by strategic objective, programme category and cost component, in both percentage and monetary terms (WFP/EB.2/2012/5-A/1, pages 113–172). The strategic objectives correspond to those included in the approved Strategic Plan for the period 2008-2011. The Advisory Committee was informed, upon enquiry, that the WFP Executive Board decided to extend the validity of the Strategic Plan for the period 2008-2011 through 31 December 2013 in response to General Assembly resolution 63/232, in which the Assembly decided to change the comprehensive policy review of operational activities from a triennial to a quadrennial cycle in order to better provide policy guidance to the United Nations funds and programmes and the specialized agencies. In 2013, the operating requirements in support of the strategic objectives are estimated in the report as follows: (1) save lives and protect livelihoods in emergencies (\$2.703 billion); (2) prevent acute hunger and invest in disaster preparedness and mitigation measures (\$570 million); (3) restore and rebuild lives and livelihoods in post-conflict, post-disaster or transition situations (\$1.0 billion); (4) reduce chronic hunger and under nutrition (\$590 million); and (5) strengthen the capacities of countries to reduce hunger, including through hand-over strategies and local purchase (\$96 million) (see WFP/EB.2/2012/5-A/1, paras. 83 to 87 and table III.2).
9. Seventy-one percent of WFP projected operational requirements are for food and related direct operational costs, amounting to \$3.54 billion in 2013, which include external transport, landside transport, storage and handling and other direct operational costs, Of the

projected operational requirements, \$2.15 billion covers the cost of 4.1 million metric tons of food and \$297 million corresponds to external transport costs. The Advisory Committee notes that the requirement for external transport reflects an increase of 6 per cent in the rates for international shipping over 2012 budgeted levels, due to increasing fuel prices and surcharges, as well as higher shipping costs for containerized nutrition products (see WFP/EB.2/2012/5-A/1, para 96). **The Advisory Committee recommends that transport costs should be closely monitored to ensure these services are obtained at the lowest possible cost.**

10. According to the report, cash and vouchers and related direct operating costs, projected to amount to \$464 million in 2013, will constitute 10 per cent of total operational requirements, compared to 5 per cent in 2012, and are projected to increase 82 per cent over 2012 levels (ibid, para. 99). As WFP expands this programme modality, additional support for country offices and regional bureaux is needed to ensure that the most efficient and appropriate interventions are designed and implemented (ibid, para 263). **The Advisory Committee reiterates its previous recommendation on this topic that, given the risks inherent in the expanded use of cash transfers, the external auditor should monitor this activity closely, and the Committee further requests that the relevant findings of the external auditor should be reported on in the next management plan (see WFP/EB.1/2011/5(A,B,C)/2 WFP/EB.1/2011/12-B/2, para. 5).**
11. The Management Plan highlights the decreases under the budgets of Headquarters units in an amount of \$13.3 million, or by 7 per cent (see WFP/EB.2/2012/5-A/1, para.181) and the increases in the budgets in regional bureaux and country offices in the amount of \$86.3 million (ibid, para 177), or by 16 per cent, reflecting the priorities outlined in the framework for action. According to table A.1.2 in the report, the number of positions financed from direct support costs and from the programme support and administrative (PSA) budget decreases by a total of 936 positions, or by 10.5 per cent, from a total of 8,907 positions in 2012 to 7,971 positions in 2013. The number of positions in the regional and country offices decreases by a total of 909 positions, or by 11.2 per cent, to 7,188 positions in 2013, and the number of programme support and management positions in Headquarters and the liaison offices decreases by a total of 27 positions, or by 3.3 per cent, to 783 positions in 2013. The Committee was informed, upon enquiry, that the 27 positions eliminated in Headquarters and the liaison offices comprised 17 international and 10 GS positions, while a total of 80 positions, comprising 18 international and 62 GS positions, were established in regional bureaux and country offices. The Committee was further informed that the proposed staffing table reflects anticipated decreases in the scale of WFP operations in Afghanistan, Haiti, Liberia and Uganda, while reflecting increases in the scale of operations in other countries, including Niger, Sudan and Ethiopia. **The Committee welcomes the reassignment of resources from the Headquarters to the regional bureaux and the country offices; however, it recommends a gradual approach to ensure a consistent level of service delivery in support of all operations.**
12. The PSA budget is financed by indirect support costs and amounts to \$249.1 million for the year 2013, or zero nominal growth over the 2012 baseline, and assumes voluntary funding of operations of \$3.7 billion in 2013 (ibid, page 13). The proposed PSA budget takes into account the anticipated level of indirect support cost (ISC) income of \$236 million in 2013 as well as the resources available from current reserves. WFP proposes to maintain the current recovery rate for indirect support costs of 7 per cent of contributions (ibid, para. 183), which requires Board approval. The PSA budget covers the majority of WFP Headquarters and Regional Bureaux costs, and also ensures a core presence in each country office. The Advisory Committee was informed that WFP operations are financed under the principle of full-cost recovery, which requires that

donors contributing food commodities or cash cover the full operational costs related to their contribution including a percentage to cover the related indirect support costs (ISC).

13. According to the Management Plan, the main areas of increase in the PSA budget are under staff costs (\$500,000), due primarily to increases in international staff costs, whereas the increase in Euro-based salaries has been offset by the depreciation in the Euro; additional support to regional bureaux and country offices (\$11.6 million); gender (\$400,000); and monitoring and evaluation (\$800,000) (para. 176-180).
14. Concerning the Programme' evaluation activities, according to paragraph 9 of Annex III to the report, the Office of Evaluation aims to ensure increased use of evaluation results in 2013. The cost of the Office of Evaluation is estimated at \$5.1 million in the year 2013 (see WFP/EB.2/2012/5-A/1, table IV.7), and is projected to cost \$6 million in 2014 and \$7.8 million in 2015. (ibid, Annex III, table A.III.3). **While the Advisory Committee recognizes the importance of continual programmatic and business process review to ensure the most effective and efficient delivery of mandates, it cautions WFP to ensure that monitoring and evaluation functions are provided in the most economical and productive manner possible.**
15. The report indicates that WFP foresees security expenditures of \$18.8 million in 2013, and that, where possible, individual projects will be charged for security expenditures that are directly related to operations (see WFP/EB.2/2012/5-A/1, para. 60). This includes an \$11.5 million share of UNDSS costs, which are projected to be 19 percent higher in 2013 than in 2012, and an amount of \$7.3 million set aside in the Security Emergency Fund to purchase security equipment not covered by direct support costs. The Board is requested to authorize up to \$10 million from the interest earned in the General Fund to cover any amounts that cannot be charged to projects (ibid, para 60).
16. The Advisory Committee was informed that under the methodology approved by the High-Level Committee on Management, the Chief Executives Board for Coordination (CEB) Secretariat collects headcount data as of the end of the calendar year preceding the budget submittal for the following biennium, and that the jointly-financed budget for the United Nations Security Management System is apportioned by the actual percentage of participating organization's field staff for which the United Nations system has a security responsibility. It was further indicated to the Committee that the initial appropriation for the 2012-2013 biennium for these field security costs could be exceeded. **The Advisory Committee trusts that WFP will obtain the security services necessary for its operations in the field through DSS, and it recommends that WFP make any additional information available to the Executive Board on the anticipated increases in security costs.**
17. **The Advisory Committee has no objection to the proposed utilization of interest earned on the General Fund to finance a portion of WFP's security costs in 2013.**
18. Finally, the Advisory Committee notes the proposal on page 13 of the report relating to the requirement for the submission of the Management Plan to the Members of the Board not later than 60 days before the session. WFP has not been able to meet this requirement, due to the frequency of sessions, and proposes an exemption from the related provisions under Financial Regulation 9.2 containing this requirement. **The Advisory Committee has no objection to the approval of an exemption from Financial Regulation 9.2 for this purpose, and further recommends that WFP undertake to amend the relevant Financial Regulation as appropriate.**

19. **The Advisory Committee recommends approval of WFP's proposals regarding the Management Plan for the period 2013-2015, subject to the observations and recommendations contained in the present report.**

III. Policy for Disclosure of Oversight Reports

20. In the relevant report (see WFP/EB.2/2012/4-A/1), WFP proposes that the Board approve revisions to the policy for the disclosure of internal audit reports to Member States (see WFP/EB.2/2010/4-B/1/Rev.1) and to the oversight framework and reports disclosure policy (see WFP/EB.A/2011/5-C/1). The present proposal would expand the policies to include inspection reports; making public the disclosure of internal audit and inspection reports, including on the website; authorizing the Inspector General to enter into agreements to share investigation reports on a reciprocal basis and authorizing the Inspector General to make decisions on redaction and/or withholding of a reports. According to the report, before placement on the public website or provision to a Permanent Representative, all reports will be reviewed to ensure that they contain no information deemed too sensitive, as described in the disclosure policies. The Advisory Committee was informed that all Permanent Representatives accredited to the United Nations Rome-based agencies would have access, upon request, to all investigation reports made available to any other Member State, including those reports that have been provided in a redacted form, in the expectation that the contents of the individual reports will be kept confidential.
21. The Advisory Committee recalls it had initially considered the WFP disclosure policy in its report for submission to the Board during its second regular session held in November 2010 (see WFP/EB.2/2010/5 (A,B,C,D,E)/2, WFP/EB.2/2010/4(B,C)/2), in which the Committee supported the move towards greater disclosure and transparency, but noted that the proposed procedures were restrictive, particularly when viewed in the context of the practice of the United Nations as established by General Assembly resolution 59/272. Subsequently, the Committee considered a proposed revision to the disclosure policy in a report for submission to the Board during its annual session held in June 2011, in which it indicated its appreciation that the revised policy took into account its earlier observations and provided enhanced transparency in respect of access by Member States (see WFP/EB.A/2011/6 (A,B,C,D,E,F,G,H)/2, WFP/EB.A/2011/5-C/2, para 16).
22. **The Advisory Committee notes that Member States will be accorded equal treatment regarding WFP's provision of investigation reports and that the proposed revisions to the policies for disclosure of oversight reports are consistent with its previous recommendations for greater disclosure and transparency, and therefore it recommends their approval by the Board.**

IV. Increased Fee for the External Auditor

23. In the relevant report, WFP proposes a 4 percent increase in the fee payable to the External Auditor with effect from April 2012, based on an increase in the applicable daily subsistence allowance, staff costs and airfare (see WFP/EB.2/2012/5-B/1). The Comptroller and Auditor General of India has been appointed External Auditor for WFP for the term 1 July 2010 to 30 June 2016. The Advisory Committee was informed that the proposed increase of \$15,400 was based on movements in the DSA rates applicable to the Rome duty station during the last two years and on the actual costs for air travel to and from India, as well as for staff support incurred by the External Auditor of WFP. **The Advisory Committee has no objection to the proposed increased fee for the External Auditor.**

V. Housing Allowance for the Executive Director

24. WFP requests the Board to approve an increase in the Executive Director's housing allowance to €160,000 per annum, inclusive of services and utilities, with effect from 1 April 2012, from the current rate of €121,440 per annum, which has been in effect from 1 April 2007. The report indicates that the housing allowance would continue to be a reimbursement of the actual cost of a property; indexed annually against the Italian retail price index; and would be reviewed at five-year intervals by the Bureau and the Board (WFP/EB.2/2012/13-A/1, para 1). According to the report, the proposed increase in the allowance is based on an analysis of the movement of two consumer price indices, comprising the Italian retail price index (RPI) and the harmonized consumer price index (HCPI), for the period 2007 to 2012. However, the movement in the components of the two consumer price indices for diplomatic residences in the duty station had increased an additional 7 to 10 per cent higher in the same period. WFP proposes therefore to apply a correction to the result obtained from the two consumer price indices to increase the ceiling for the housing allowance for the Executive Director by an additional 8.5 per cent, to arrive at the proposed ceiling of €160,000 per annum (*ibid*, para. 4).
25. The Advisory Committee notes that the last increase in the housing allowance for the Executive Director was not presented for its consideration prior to its approval by the Board in the annual session held in June 2007. WFP representatives informed the Committee that because a separate document had not been prepared on the matter at the time, it did not consult the Advisory Committee. **While the Advisory Committee does not object to the proposed increase in the housing allowance for the Executive Director, it requests WFP to ensure that it provides the Committee with all pertinent documentation for sessions of the Board for its consideration in a timely manner.**

VI. Other matters

⇒ *Review of the WFP Strategic Plan by the Advisory Committee and the FAO Finance Committee*

26. WFP Financial Regulation 7.1 requires the Executive Director to forward the Strategic Plan to the Advisory Committee on Budgetary Questions and to the FAO Finance Committee for review and thereafter to submit to the Board their respective comments and recommendations. The Advisory Committee notes that its functions and responsibilities are governed by the provisions of Assembly resolutions 14 (I) of 13 February 1946 and 32/103 of 14 December 1977 and rules 155 to 157 of the rules of procedure of the Assembly, which includes to examine on behalf of the General Assembly the administrative budgets of the specialized agencies and proposals for financial arrangements with such agencies, and to consider and report to the General Assembly on the auditors' reports on the accounts of the United Nations and of the specialized agencies.
27. The Advisory Committee further notes in paragraphs 54-55 of the report of the FAO Finance Committee, which was submitted to the Board for its annual session held in June 2011, that the Chairperson of the FAO Finance Committee and the President of the WFP Executive Board had discussed the interpretation and implementation of the mandate of the Finance Committee and had considered all documents that were submitted to the Finance Committee over the previous three years. Following this review, the Chairperson of the Finance Committee and the President of the Executive Board agreed that the WFP Strategic Plan should not be brought to the FAO Finance Committee's attention because of the absence of financial implications of the document in its current form (see WFP/EB.A/2011/6 (A,B,C,D,E,F,G,H) /3 WFP/EB.A/2011/5-C/3). The FAO Finance

Committee, for its part, indicated its agreement, in paragraph 57 of the report, that the WFP Strategic Plan should not be reviewed by the FAO Finance Committee, since it had no financial implications, and it further recommended that WFP Financial Regulation 7.1 should be revised, in consultation with the Chair of the Advisory Committee on Administrative and Budgetary Questions. **The Advisory Committee points out that it had not been provided with the report of the FAO Finance Committee for information during its consideration of the documentation for the Executive Board, nor has the consultation with the Advisory Committee recommended by the FAO Finance Committee in paragraph 57 of its report been undertaken by WFP in the intervening period.**

28. The WFP Strategic Plan was last submitted for the consideration of the Advisory Committee in a report submitted for the approval of the Board during its annual session held in June 2008 (see WFP/EB.A/2008/5-A/1/Rev.1.), and the observations and recommendations of the Committee were contained in its related report (see WFP/EB.A/2008/5-A/2, WFP/EB.A/2008/6 (A,B,C,E,F,G,H,I)/2). As indicated in paragraph 8 above, the Board decided to extend the validity of the Strategic Plan for the period 2008-2011 through 31 December 2013. According to the report on the Management Plan for the period 2013-2015, the WFP budget is presented by Strategic Objective for operational requirements and by Management Result Dimension (MRD) for PSA appropriations with a view to aligning resources with priorities and ensuring that the Strategic Plan is implemented effectively (see WFP/EB.2/2012/5-A/1, para. 33). **While the WFP Strategic Plan does not generally have direct financial implications, the Advisory Committee notes that it guides budget planning, formulation and implementation for WFP over a four-year period in respect of both operational requirements and the programme support and administrative budget. The Committee is not able at this time to support a revision to the WFP Financial Regulations to remove the Advisory Committee on Administrative and Budgetary Questions from the process of consideration of the WFP Strategic Plan.**

⇒ *Streamlining the process of reviewing financial and administrative documents*

29. The Advisory Committee recalls its recommendation that the WFP Secretariat should continue, in consultation with its Executive Board, to develop proposals for streamlining the process of reviewing financial and administrative documents requiring the approval of the Board, with a view to enhancing the effectiveness of interaction with the Advisory Committee, as well as with the other legislative bodies engaged in the process (see WFP/EB.2/2011/5(A,B,C,D,E,F)/2, para 3). The Committee and the representatives of WFP exchanged views on efforts made to streamline the consideration of WFP documentation falling under the purview of the Advisory Committee. Upon enquiry, the Committee was informed that an informal agreement had been reached within WFP to submit finance-related documents only in the annual and second regular sessions of the Board, rather than in all three sessions of the Board, which would not require any revision to the WFP general or financial regulations. **The Advisory Committee expresses its appreciation for the efforts undertaken by WFP to streamline and facilitate the work of the Committee in its collaboration with WFP.**