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联合国  
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Food  
and  
Agriculture  
Organization  
of  
the  
United  
Nations

Organisation  
des  
Nations  
Unies  
pour  
l'alimentation  
et  
l'agriculture

Organización  
de las  
Naciones  
Unidas  
para la  
Agricultura  
y la  
Alimentación

## COUNCIL

### Hundred and Thirty-third Session

Rome, 14 – 16 November 2007

Report of the 120<sup>th</sup> Session of the Finance Committee  
Rome, 8 – 9 October 2007

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**REPORT OF THE HUNDRED AND TWENTIETH SESSION OF THE FINANCE  
COMMITTEE**  
8 – 9 October 2007

**Introduction**

1. The Committee submitted to the Council the following report of its Hundred and Twentieth Session, which had been convened at the request of the World Food Programme (WFP) to review financial issues that would be presented to the upcoming session of the WFP Executive Board.

2. The following representatives were present:

Chairperson: Mr Aamir Khawaja (Pakistan)  
Vice-Chairperson: Mr Augusto Zodda (Italy)  
Members: Mr Aboubakar Bakayoko (Côte d'Ivoire)  
Mr Søren Skafte (Denmark)  
Mr Eckhard W. Hein (Germany)  
Mr Seiichi Yokoi (Japan)  
Ms Ana M. Baiardi Quesnel (Paraguay)  
Mr Roberto Seminario (Peru)  
H.E. Soltan Saad S.K. Al-Moraikhi (Qatar)  
Mr Lee Brudvig (United States of America)  
H.E. Mary M. Muchada (Zimbabwe)

3. The Committee noted that H.E. Soltan Saad S.K. Al-Moraikhi had been designated to replace Mr Ahmed Ibrahim Al-Abdulla as the representative of the State of Qatar at this session and that H.E. Mary M. Muchada had been designated to replace Mrs Verenika Mutiro Takaendesa as the representative of Zimbabwe at this session.

4. During the adoption of the Agenda and Timetable, the Committee expressed concern about the late arrival of some of the documentation, and in particular the document on *Termination Payments for Service Contract Holders*<sup>1</sup> which was made available only on the last working day prior to the meeting. This did not facilitate the discussion of this item with the benefit of prior consultations.

**World Food Programme Matters**

**WFP BIENNIAL MANAGEMENT PLAN (2008-2009) (WFP/EB.2/2007/5-A/1)**

5. The Secretariat presented the WFP Biennial Management Plan for 2008-2009, which had the competing objectives of reducing Programme Support and Administrative (PSA) expenditure by 21% in real terms to reflect a lower resource outlook and lower reserves, while at the same time maintaining operational capacity to meet beneficiary needs.

6. The Secretariat outlined the planning challenges faced by WFP, which included 100% reliance on voluntary funding, including for central overhead costs and the underlying

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<sup>1</sup> doc. WFP/EB.2/2007/5-B/1

uncertainties of WFP's operations. In response to questions about the logic of organizational changes, the Secretariat explained that the new proposed structure followed the CFO/COO model being considered by some other sister agencies; and which would facilitate better oversight of the total budget and the strategic planning process, enhance total risk management, and improve co-ordination and communication.

7. The Secretariat also outlined the process followed in the compilation of the PSA budget which included extensive consultations within the Secretariat as well as five informal consultations with the Executive Board members and observers.

8. The Committee acknowledged the broad, consultative process and the proactive steps taken by the Secretariat in compiling the PSA budget. However, the Committee highlighted that extensive organizational restructuring, as part of the Management Plan 2008-09, was being proposed before the finalization of the new Strategic Plan 2008-2011. It noted that normally organizational structure should be geared to implement a strategy and not vice versa. The Committee was concerned that this could potentially necessitate further organizational and operational changes after adoption of the Strategic Framework in 2008 when the organization would already have gone through a period of extensive change.

9. The Committee appreciated the efforts made by the Secretariat to develop a Management Plan which responded to an increasingly difficult situation and reflected an approach which should enable the WFP to live within its own means. The Committee expressed concern about potential conflicts that could arise as a result of the new organizational structure, in particular: the substantial increase in the number of units reporting directly to the Executive Director; the inclusion of the Human Resources Division and the Security and Management Services Division within the Operations and Management Department; and the combination of the Finance and Legal sections within a single administrative entity. The Committee enquired whether there was a precedent of such functions being combined in any UN entity, and was informed that there was none. The Committee highlighted the need for a risk assessment of these organizational changes in the context of best business practices.

10. The Secretariat responded that this organizational realignment was meant to be the first adjustment to capture the obvious needs of a future Strategic Plan, to position WFP for further necessary changes and to develop a structure appropriate to deliver. The Secretariat also noted that any further changes would be implemented during the remainder of the 2008-09 biennium with all changes reflected in the 2010-11 Biennial Management Plan, providing for possible adjustments, as needed, to support the Strategic Plan as it develops.

11. The Committee also noted concerns raised by some members representing major beneficiaries of the WFP programme, which related to the restructuring of regional offices – in particular the effect it could have on programme delivery at regional and country level, and recommended that further consultation be held on the matter.

12. The PSA proposal of US\$345 million was based on a resource projection which funds 90% of the operational requirements. The Committee, based on past experience and in order to quantify risks in a less optimistic scenario, enquired about the implications of 80% funding of the requirements. The Secretariat explained that if the level of funding was to reduce to 80%, and the realized Indirect Support Costs (ISC) rate remained at only 6.4%, the ISC income would be in the region of US\$276 to US\$277 million. The Committee was concerned about the General Fund balance being used in this case as the only funding recourse in such a scenario to bridge the gap between reduced ISC income and PSA needs.

13. The Committee expressed concern about the dynamics of administrative costs. In response, the Secretariat explained that the PSA proposal within the Management Plan involved a series of undertakings including: organizational realignment; span of control adjustment; and reduction of over 290 posts with the highest proportion of reductions in headquarters. The post reductions proposed at senior management level, which would result in additional responsibility

for senior managers and an increased need for greater accountability and oversight, were also highlighted. The Committee also noted that since 2002, the WFP's staffing pattern tended to strengthen the headquarters more than the decentralized structures.

14. Finally, while several members expressed agreement to retain the ISC recovery rate at 7%, the Committee noted that if the methodology to calculate the ISC rate approved by the Board in 2006 were applied, the ISC rate would have to be raised from 7.0% to 8.2% to increase the balance of the PSA equalization account to the target level of four months' PSA expenditure.

#### **TERMINATION PAYMENTS FOR SERVICE CONTRACT HOLDERS (WFP/EB.2/2007/5-B/1)**

15. The Secretariat presented the report which explained differing staff contractual arrangements, the operational imperatives which had led WFP to make use of Service Contracts (SCs) and Special Service Agreements (SSAs), and outlined what the WFP practice had been with respect to paying termination indemnities for national field staff. The Secretariat also clarified that the paper did not present specific options for approval due to the strong reservations expressed by the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the decision of the WFP Executive Board to cease making termination payments to employees in the "non-staff" category.

16. The Committee noted that it was seriously hampered in its ability to consult and comment on this report due to the late receipt of the document, but nonetheless chose to take up the matter. The Committee noted that, in line with the advice of the ACABQ on this matter, the use of *ex-gratia* payments for making termination payments to SC and SSA staff was inappropriate for such payments. An opinion was sought from the External Auditor and the FAO Legal Counsel who confirmed that, while *ex-gratia* payments in this case were within the WFP's Financial Rules and Regulations and the Executive Director's authority, they remained a questionable choice given the view of the ACABQ.

17. This raised an issue of oversight for how Governing Bodies were kept apprised of certain decisions. The Committee expressed its concern that, while termination payments had been included in the financial statements, the attention of the Executive Board had not been specifically drawn to the issue. The Committee requested that in future the Executive Board be kept informed of such decisions at an early stage.

18. The Committee noted that the financial implications to WFP in having authorised payments to SCs and SSAs since 2002 was in the range of US\$10 million, and urged the Secretariat to ensure that regular staffing reviews were carried out to monitor the appropriate use of these contractual instruments.

#### **HAS DECENTRALISATION MET THE WORLD FOOD PROGRAMME'S OPERATIONAL NEEDS?: REPORT OF THE EXTERNAL AUDITOR (WFP/EB.2/2007/5-C/1)**

19. The Committee agreed that the report was very useful and timely in view of WFP's current circumstances and, despite considering the report rather generic, deemed the recommendations of the External Auditor a good basis for consideration and decisions of the Executive Board. The Committee also noted that since 2002 WFP's staffing pattern tended to strengthen the headquarters more than the decentralized structures. The Committee recommended that WFP make clear choices on appropriate staffing levels at headquarters and in regional and country offices recognizing that these needed to change in accordance with current needs, but should be based on consistent criteria and policies.

**PROGRESS REPORT ON THE IMPLEMENTATION OF THE  
RECOMMENDATIONS OF THE EXTERNAL AUDITOR (WFP/EB.2/2007/5-D/1)**

20. The Secretariat introduced the report and informed the Committee that the External Auditor's report on the Democratic People's Republic of Korea (DPRK), which was before the Committee, had been received in good time, allowing the Secretariat to respond to the issues raised by the External Auditor. Additional information was provided by the Secretariat with respect to two recommendations concerning the review of the Dubai Support Office whereby the Committee was informed of their completed status, thus increasing the percentage of recommendations where implementation had been completed.

21. Members of the Committee requested clarification on an audit recommendation concerning recording of staff time spent on communication activities. As there were differing views between the Secretariat and the External Auditor on the cost effectiveness of the recommendation, the Committee recommended that the Secretariat continue discussions with the External Auditor on this matter.

22. The Secretariat responded to other questions raised by the Committee on specific recommendations. The External Auditor informed the Committee that, while agreeing with the Secretariat on those recommendations that were reported as completed, the effectiveness of the measures undertaken by the Secretariat would be evaluated in subsequent field visits by the External Auditor.

**FIFTH PROGRESS REPORT ON THE IMPLEMENTATION OF  
INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS  
(WFP/EB.2/2007/5-E/1)**

23. The Secretariat provided clarifications to questions related to WFP's readiness to adopt the International Public Sector Accounting Standards (IPSAS) in January 2008, utilizing IPSAS guidelines regarding opening balances, transitional clauses and new financial statements presentation.

24. The Secretariat informed the Committee of the recently determined "go live" date of the WFP Information Network and Global System II (WINGS II) being January 2009, which would allow appropriate financial closure for 2008 and WINGS II deployment.

25. The Committee welcomed the document and clarifications provided by the Secretariat on technical questions and noted 2008 as being transitional for IPSAS adoption. The Committee noted that the Secretariat had planned for unforeseen circumstances and that the United Nations System Accounting Standards (UNSAS) also provided for IPSAS implementation. The Secretariat informed the Committee that the IPSAS adoption was running within its Executive Board approved budget of US\$3.7 million, including the delivery of training activities.

**SPECIAL AUDIT REQUESTED BY THE EXECUTIVE BOARD IN RELATION  
TO WFP'S ACTIVITIES IN THE DEMOCRATIC PEOPLE'S REPUBLIC OF  
KOREA: REPORT BY THE EXTERNAL AUDITOR (WFP/EB.2/2007/5-F/1)**

26. The External Auditor introduced the report indicating that the special audit of the WFP operations in the DPRK was undertaken based on the request of the Executive Board in March 2007 at the same time that the ACABQ had requested the United Nations Board of Auditors to conduct a special audit on the operations of the United Nations organizations, funds and programmes. He also indicated that the last audit undertaken by the External Auditor in the DPRK was in 2005 and added that there had been a significant reduction in WFP operations in the DPRK since then.

27. In summarizing his report, the External Auditor indicated a number of risks and constraints, and the actions taken by the Secretariat to mitigate these risks, and concluded that the risk to WFP was limited. He also added that the Secretariat had responded, and generally addressed the recommendations provided by the External Auditor.

28. In response to the question by some members of the Committee on the issue of limited monitoring of food deliveries and whether the Board was made aware of this, the Secretariat and the External Auditor informed the Committee that the issue on limited monitoring had been raised with the Executive Board for a number of years, including the issue on post delivery losses.

29. The Committee acknowledged that the environment in the DPRK was a very difficult one for WFP to conduct its activities but there were reassuring arrangements made by the Secretariat in those areas of concern including the segregation of responsibilities between international and national staff. The Committee noted that monitoring continued to be of fundamental concern, as was the payment of staff salaries to the Government rather than directly to staff. The Committee was satisfied by the fact that the External Auditor had accepted the actions taken by the Secretariat and considered that the recommendations had all been implemented.

#### **STATUS REPORT ON WINGS II (WFP/EB.2/2007/5-G/1)**

30. The Committee took note of the document after being provided with clarifications on questions raised by the Committee on the relationship of WINGS II to IPSAS implementation and on financial aspects of WINGS II, and the implementation date of January 2009.

### **Other Matters**

#### **DATE AND PLACE OF THE HUNDRED AND TWENTY-FIRST SESSION**

31. The Committee was informed that the 121<sup>st</sup> Session was tentatively scheduled to be held in Rome from 26 to 30 May 2008. The final dates of the Session would be decided in consultation with the Chairperson.