

FC 107/20 (Section I)

World
Food
Prog

Executive Board
Annual Session

Rome, 24–26 May 2004

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

AUDITED BIENNIAL ACCOUNTS (2002–2003): SECTION I

Report of the Executive Director on the
Financial Administration of the World Food
Programme for the Biennium 2002–2003

Public GENERAL

WFP/EB.A/2004/6 B/1/1

2004

ENGLISH

NOTE TO THE EXECUTIVE BOARD

This document is submitted for approval by the Executive Board.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal point indicated below, preferably well in advance of the Board's meeting.

Director, Finance Division (FS): Mr S. Sharma tel.: 066513-2700

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact the Supervisor, Meeting Servicing and Distribution Unit (tel.: 066513-2328).



Report of the Executive Director on the Financial Administration of the World Food Programme for the Biennium 2002–2003 (Section I) (WFP/EB.A/2004/6-B/1/1) is the first part of a three-part set of documents submitted to the Executive Board in accordance with General Regulation XIV.6 (b) and Financial Regulation 13.1, which provide for the submission of the audited biennial financial statements of WFP. This Report of the Executive Director sets out the operational and financial highlights of the financial administration of WFP during the biennium and concludes with recommendations to the Executive Board.

The other two parts are:

Opinion of the External Auditor on the Audited Financial Statements (2002–2003), (WFP/EB.A/2004/6-B/1/2); and

Long-Form Report of the External Auditor with Comments on Financial Matters (Section III) (WFP EB.A/2004/6-B/1/3) providing information on the outcome of their audit work during the biennium.





EXECUTIVE SUMMARY

Financial Statements and Notes

A major change in the structure of Financial Statements I and II and the Notes is the presentation of all Programme Category Funds under one column.

Financial Administration

Two changes in accounting policies were implemented during the biennium, as approved by the Executive Board: (i) recognition of income through the accrual method, as recommended by the External Auditor and (ii) adoption of standard staff cost accounting for all Headquarters-based and international staff. The Secretariat asks the Board to note the application of the staff cost variance accounting for project-funded staff and for Programme Support and Administrative-funded staff.

The following improvements on financial reporting were also implemented:

- submission of audited financial statements to the Annual Session of the Board in May instead of its Third Regular Session in October;
- timeliness in submitting standard project reports to donors within three months for annual reports and within five months for closed projects; and
- submission of monthly financial statements for management purposes.



The General Fund was used to cover unfunded expenditures of projects, write-off of contributions receivable and a final transfer to the Kosovo Special Account totalling US\$8.4 million. The General Fund had a balance of US\$30.9 million at 31 December 2003. From this amount, The Secretariat is requesting that the Executive Board approve a transfer of US\$20 million to the Direct Support Cost Advance Facility, in line with its approval in the 2004–2005 Management Plan.

At the end of 2003, cash and short-term investments were US\$907.4 million, of which US\$780.2 million was in short-term investments. The long-term investments amounted to US\$126.2 million and was earmarked for staff benef



INTRODUCTION

1. In accordance with Article XIV.6 (b) of the General Regulations and Financial Regulations 13.1 and 13.2, the Executive Director has the honour to submit the financial statements of the WFP for the biennium ending 31 December 2003.
2. In the 2000–2001 biennium, WFP introduced its new corporate system, WINGS, and during the 2002–2003 biennium, the system has been used extensively and effectively within WFP. WINGS is accessible to all field offices and is fully operational in all regional bureaux and 47 country offices. It is now the practice to prepare monthly, annual and biennial financial statements for management and the Board. The biennial financial statements for 2002–2003 are presented to the Annual Session of the Board in May,



Cross Charging of Expenditures

6. An example of increased transparency in financial reporting brought about by WINGS was on the issue of cross charging of expenditures between projects and programme categories, as identified by the External Auditor and explained in the External Audit section below. In view of the uncertainty of an accurate, detailed presentation by programme category funds, the Secretariat agreed with the External Auditor that the audited financial statements would show programme category information under a single Programme Category Fund column.

FINANCIAL MANAGEMENT

Financial and Accounting Policy Changes

7. In an effort to improve the quality of accounting and clarity of the financial reports, two changes were made to the financial and accounting policies during the biennium.

Implementation of accrual basis for income

8. In 2000–2001, the External Auditor recommended that WFP recognize income on an accrual basis by the 2004–2005 biennium. In view of the improvements expected from the change, it was decided to implement the policy with immediate effect from the 2002–2003 biennium. Contribution income (except for trust funds) is now recognized when donors confirm a pledge, not when cash is received.



statements for 2000–2001 were presented to the Board in October 2002 at the Third Regular Session. To assist the Board in carrying out its corporate governance responsibilities in a timely manner, the audited biennial financial statements for 2002–2003 are being presented to the Board at its Annual Session in May 2004. By maximizing the benefits of the WINGS system and through streamlining and re-structuring the financial reporting processes, the Secretariat was able to produce financial statements considerably earlier than in prior biennia. The External Auditor, working within the reduced timeframe, responded to our request for an earlier audit opinion on the Financial Statements.

Standard project reports

13. There have been significant improvements in the timeliness of issuing Standard Project Reports (SPRs) to donors on the utilization of contributions. For both the 2002 and 2003 reports, 90 percent were issued before the end of the first quarter. All 362 financial SPRs for 2003 were completed and issued by 9 April 2004. In addition, improved processes during the biennium have permitted the issuance of final SPRs within five months of project closure; this has allowed for more timely decisions by donors on the reprogramming or refund of unspent contribution balances.

Monthly financial statements

14. In past biennia, a financial statement package consisting of balance sheet, income statement and cash flow were prepared for management review on a yearly basis. Since March 2002, through the implementation of WINGS and the streamlining of the financial reporting procedures, these financial statements are now prepared every month for management purposes.

Systems 1



Business Process Review (BPR)

19. In March 2003, WFP began a BPR designed to improve efficiency in the utilization of donor contributions. The aim is to achieve the maximum use of resources to meet the needs of the greatest number of beneficiaries. This initiative has been undertaken to identify and correct the causes of the accumulation of unspent contribution balances in WFP's accounts. To tackle the problem of accumulating balances, the BPR addresses two underlying issues:
 - the need to ensure full use of resources allocated to projects, through business process changes; and
 - the need to ensure that resources are available to projects when required, through a new financing model based on improved business processes.
20. The design of the business process changes are targeted for completion by the end of 2004 in order to roll out the improvements to emergency operations (EMOPs) and protracted relief and recovery operations (PRROs) in 2005. During 2004, a number of pilot projects will test the BPR methodologies. The Board has been kept apprised of all aspects of the BPR and will be informed of further progress in its 2004 sessions.

Strengthening Financial Management Initiatives

21. The 2004–2005 Management Plan included an important initiative on Strengthening Financial Management in WFP. This initiative aims to improve the financial effectiveness and efficiency of the Programme in three areas: (i) adequate staffing of finance professionals; (ii) proper training; and (iii) comprehensive and detailed guidelines on finance and accounting procedures.

Staffing

22. The existing core of finance professionals consists of 45 international staff and 31 national officers. In order to strengthen the staff capacity of finance professionals, 22 new international staff and 14 new national staff are to be recruited in 2004.

Training

23. Three types of targeted training for managers, finance officers and finance staff are being provided to further improve their financial competence and effectiveness: (i) management orientation; (ii) orientation training; and (iii) refresher courses.
24. A one-day financial management orientation on the "Essence of Financial Management" was developed and provided to all country directors and managers at Headquarters. This orientation was also provided to finance staff in the majority of WFP's country offices. The objective is to enhance the skills of managers to carry out their financial responsibilities within the context of corporate management functions on stewardship of funds,



Guidelines

26. The Consolidated Finance Manual, comprising a repository of financial policies, procedures and guidelines, is in the final stages of production and is due to be issued through WFP's intranet in the second quarter of 2004. It includes updates on country office accounting procedures and will be issued in English, French and Spanish.
27. Finance directives and accounting instructions will continue to be issued to address new situations. These will also serve as updates to the Manual.

FINANCIAL HIGHLIGHTS

Income, Expenditure and Fund Balances

Summary of income and expenditure

28. WFP's income for 2002–2003 was US\$5.8 billion, an increase of US\$1.82 billion or 45.7 percent more than the previous biennium. The emergency and bilateral operations in Iraq alone totalled US\$1.3 billion, with US\$913.1 million coming from the Office of Iraq Programme (OIP).

TABLE 1: SUMMARY OF TOTAL INCOME AND EXPENDITURE OF WFP FUND

(US\$ million)





TABLE 3: SUPPORT COST AS PERCENTAGE OF EXPENDITURE				
(US\$ million)				
	2002–2003		2000–2001	
	Amount	%	Amount	%
Total expenditures	5 079.1	100	3 189.6	100
Total support costs:				
DSC	507.5	10	370.6	12
PSA	232.2	5	229.6	7
	739.7	15	600.2	19

32. Despite the increase in total expenditures by 59.2 percent, the PSA remained fairly constant in dollar terms.

Fund balances

33. At the end of December 2003, the total WFP Fund balance consisted of the following:

TABLE 4: TOTAL FUND BALANCES BY PROGRAMME CATEGORY		
	2002–2003	
	Amount (US\$ million)	%



approved by the Executive Board in the context of its approval of the 2004–2005 Management Plan:

TABLE 5: UTILIZATION OF THE GENERAL FUND IN 2002–2003 (in US\$)	
Unfunded expenditures in development projects	5 440 328
Unfunded expenditures on closed projects	2 476 963
Write-off of contributions receivable	439 934
Final transfer to Kosovo Disaster Special Account	32 260
TOTAL	8 389 485

36. The Secretariat is requesting that the Executive Board take note of the utilization of US\$8.4 million of the General Fund for the purposes stated above.

Assets, Liabilities and Reserves

Cash and investments

37. Cash held in banks and short-term investments as of 31 December 2003 amounted to US\$907.4 million, consisting of the following:

TABLE 6: CASH AND SHORT-TERM INVESTMENTS (US\$ million)		
	2003	2001

Contributions receivable

39. The contributions receivable had a balance of US\$1.7 billion as of 31 December 2003, of which 86.6 percent is current (pledges) confirmed in 2002–2003, and 13.4 percent is more than two years old.

TABLE 8: CONTRIBUTIONS RECEIVABLE

	2002–2003		2000–2001	
	US\$ million	%	US\$ million	%



43. The PSA Equalization Account operated for the first time during the 2002–2003 biennium, and has a final balance of US\$230.6 million, of which US\$88.4 million related to previous biennia, was but recorded in 2002–2003 as part of the new income recognition policy.
44. In the Management Plan, the Executive Board approved the utilization of US\$110 million of the PSA Equalization Account for various projects and activities for implementation during the 2004–2005 biennium.
45. The Executive Board also approved the DSC Advance Facility (DSCAF) of US\$60 million in the context of its approval of the Management Plan. At the end of 2003, the outstanding balance of DSCAF was US\$15.9 million, necessitating a transfer of US\$44.1 million from other reserves. The Executive Director recommends the approval of the Executive Board for transfers of US\$20 million from the General Fund and US\$24.1 million from the PSA Equalization Account to the DSCAF.
46. The Secretariat will present a comprehensive proposal in the context of the Business Process Review for the utilization and allocation of the remaining surplus in the PSA Equalization Account.

EXTERNAL AUDIT

47. The External Auditor, after reviewing the 2002–2003 biennial accounts rendered an unqualified opinion on the financial statements that the statements present fairly the results of the financial performance and position of WFP at the end of the biennium. The External Auditor also submitted a Long-Form Report, which sets out the main audit findings and recommendations. The Secretariat will submit a detailed report to the Executive Board at its Third Session in October on actions taken to follow-up the recommendations. This section provides a brief overview of the observations, recommendations and actions in progress to address those recommendations.
48. Most of the observations of the External Audit address issues related to the implementation of the Resource Policy Framework or the implementation of decentralization and WINGS.
49. The Financial Policy Framework (FPF), implemented since 1996, classified WFP's activities into four categories. While in operational terms the Programme should achieve seamless transitions from emergency to development and from development to mitigation of disasters, in financial terms, each of the programme categories was supposed to be distinct. The financial framework did not accommodate the imperative for WFP to assist beneficiaries through whatever means available. As an example, country directors had to frequently use development resources to assist victims of disaster. The transparency WINGS provided has brought these practices and situation to light, which have implications on the presentation of financial information by programme category highlighting the need for WFP to address these issues.
50. In addition, project budgets provide for expenditures related to the actual feeding period – without any provision for start-up and wind-down costs, which was provided by the PSA. With the new minimum structure funded from the PSA, country offices may now have to use the resources under an existing project to meet wind-down expenditures of the current project, or start-up costs of the successor project. A new set of guidelines issued in 2003 provides a basis for consistent and transparent treatment of balance of resources from a closed project.



ANNEX

**PROGRAMME CATEGORY FUNDS
STATEMENT OF INCOME AND EXPENDITURE AND FUND BLANCES
FOR THE BIENNIUM ENDED 31 DECEMBER 2003
(US\$ thousand)**

	Development	Emergency relief	Protracted relief and recovery	Special Operations	Total 2002-2003	Prior period 2000-2001 (Restated)
INCOME						
Commodity in-kind contributions	74 651	676 886	333 792	788	1 086 118	785 492



ACRONYMS USED IN THE DOCUMENT

ASMCP	After-Service Medical Coverage Plan
BPR	Business Process Review
COAGSAPInt	Country Office Accounting Guide SAP Interface
CPRF	Compensation Plan Reserve Fund
DSC	Direct Support Cost
DSCAF	Direct Support Cost Advance Facility
EMOP	emergency operation
ERP	Enterprise Resource Planning
FPF	Financial Policy Framework
HR	Human Resources
OIP	Office of Iraq Programme
PRRO	protracted relief and recovery operation
PSA	Programme Support and Administrative (costs)
SAP	Systems, Application and Products for Data Processing
SPR	Standard Project Reports
SPS	Separation Payment Scheme
STRIPS	Separate Trading of Registered Interest and Principal of Securities
WINGS	WFP Information Network and Global System
WFP	World Food Programme

