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RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

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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**

This document is printed in a limited number of copies. Executive Board documents are available on WFP's WEB site (<http://www.wfp.org/eb>).

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.

WFP took over payroll processing from the Food and Agriculture Organization of the United Nations; the payroll system went live in WINGS in January 2002. At the end of 2003, all offices had access to WINGS. All six regional bureaux and 47 country offices have the full version of WINGS, allowing them full access to information and processing of transactions; the rest have WINGS Lite, allowing them access to information only. Full WINGS will also be installed in these country offices depending on available telecommunications facilities and their capacity needs.

The Business Process Review, which started in March 2003 to improve efficiency, is ongoing; the progress made in pilot projects will be reported to the Board in May and October 2004.

The Strengthening Financial Management initiatives approved in the 2004–2005 Management Plan cover three main areas:

- adequate staffing of finance professionals;
- proper training of finance staff and non-finance managers; and
- comprehensive guidelines on finance and accounting procedures.

Financial Highlights

WFP ended the biennium with total income of US\$5.8 billion, an increase of US\$1.82 billion, or 45.7 percent, over the previous biennium. Of total expenditures of US\$5.1 billion, 57.7 percent represent emergency operations, 22.5 percent protracted relief and recovery operations and 8.3 percent development operations. These ratios were distorted by the unusually high value — US\$1.3 billion — of the Iraq emergency operations. Of total expenditures, direct support costs were 10 percent (12 percent in 2001); and Programme Support and Administrative costs were 5 percent (7 percent in 2000–2001).



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 benefit funds (US\$64 million) and the long-term loan (US\$62.2 million). Contributions receivable had a balance of US\$1.749 billion (US\$1.595 billion in 2001), of which 86.6 percent is current and 13.4 percent is outstanding for longer than two years.

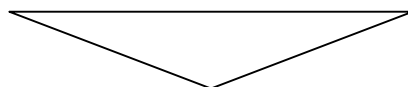
The PSA Equalization Account, a new reserve set up in 2003, had a balance of US\$230.6 million at the end of the year. In the 2004–2005 Management Plan, the Board approved the utilization of US\$110 million from this account, leaving a balance of US\$120.6 million. The Secretariat is requesting that the Executive Board approve the transfer of US\$24.1 million from this reserve to the Direct Support Cost Advance Facility, in line with approval in the 2004–2005 Management Plan.

The Direct Support Cost Advance Facility had a balance of US\$15.9 million on 31 December 2003. With the transfer of US\$20 million from the General Fund and US\$24.1 million from the Programme Support and Administrative Equalization Account, the Direct Support Costs Advance Facility will have a balance of US\$60 million, as approved in the Management Plan.

External Audit

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. A full report on the follow-up of recommendations of the External Auditor will be submitted to the Executive Board at its Third Session in October. This section of the document provides a brief background on the audit observations, and recommendations and activities undertaken to address these issues.

DRAFT DECISION*



The Executive Board:

- a) approves the 2002–2003 Biennial Financial Statements of WFP, together with the report of the External Auditor, pursuant to General Regulation XIV.6 (b);
- b) notes the application of the Staff Cost Variance Account to both project-funded and PSA-funded staff costs;
- c) notes the funding from the General Fund of US\$8.4 million during the biennium for the purpose set out in Table 5; and
- d) approves the transfer of US\$20 million from the General Fund and US\$24.1 million from the PSA Equalization Account to the DSC Advance Facility Reserve, to bring the balance of the Reserve to US\$60 million, as approved by the Executive Board in the 2004–2005 Management Plan.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.



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, whereas these were previously provided to the Third Session of the Board in October. This is an integral part of the effort to provide high-quality financial information that is relevant, accurate and timely.
3. During the biennium, accounting policy changes were introduced, including the recognition of contribution income when pledges are confirmed by donors; this has improved the quality of information in the financial statements.
4. The improvements made to WFP's financial administration in recent years will continue during the coming biennium. The Strengthening Financial Management initiative launched at the end of 2003 is designed to improve WFP's financial management at all levels. The all-encompassing initiative will focus on all aspects of financial administration – staffing, training, procedural guidelines, reporting and analysis. This report summarizes the operational and financial highlights of WFP's financial administration during the 2002–2003 biennium, pursuant to the provision of Article XIV, paragraphs 2 and 3 of the General Regulations.

FINANCIAL STATEMENTS AND NOTES

Changes in Presentation

5. The structure of Statement I (Income and Expenditure and Changes in Fund Balances) and Statement II (Assets, Liabilities, Reserves and Fund Balances) differ from the previous biennia in that:
 - All programmes (development, emergency relief, protracted relief and recovery, and special operations) are shown under the Programme Category Funds column. The details by programme categories are presented in the Annex to this report.
 - A new column, Eliminations, is presented to reflect transactions that create inter-office balances in the financial statements. This presentation is in accordance with the United Nations Systems Accounting Standards.
 - In Statement II, assets are presented in their order of liquidity and liabilities are classified as Current or Long-term. Cash and funds held in trust in country offices are now presented under the Trust Funds column.
 - The Notes to the Financial Statements have been improved by incorporating detailed schedules and presenting the information in a logical sequence



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.

⇒ *Adoption of standard staff cost accounting for international and HQ-based staff*

9. In October 2002, the Executive Board approved the creation of the Staff Cost Variance Equalization Account, where the variances between the costs of actual payments made to staff, and standard staff costs that are charged to projects and the Programme Support and Administrative (PSA), are accumulated and carried forward from year to year.
10. The background documents presented to the Executive Board in October 2002 referred mainly to direct support cost (DSC) funded project staff costs. When implementing procedures for recording staff-cost variances however, the Secretariat included both project-funded and PSA-funded staff. The regular movement of staff between one category and another demanded a consistent approach because the funding source is neutral in the assignment of staff. The Executive Board is therefore requested to note the application of the Staff Cost Variance Account to both project-funded and PSA-funded staff, in order to maintain equitable charging of standard staff costs.

Improvements in Reporting

11. Effective decision-making depends upon the availability of high-quality and timely information. This is especially true of financial information. During the 2002–2003 biennium, improvements in financial reporting were introduced in three important areas.

⇒ *Submission of Audited Biennial Financial Statements to the Annual Meeting of the Executive Board*

12. Biennial financial statements are required, under Financial Regulation 13.3, to be submitted to the External Auditor on 31 March of the year following the end of the biennium. Following the review by the External Auditor, the audited biennial financial



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 Implementation

⇒ *Successful go-live for HR/payroll*

15. WFP implemented its own payroll as part of WINGS development in January 2002. WFP payroll covers all international staff members and the general-service staff in Rome; in total numbering approximately 2,000.
16. The HR/Payroll in WINGS has, over the biennium, undergone many changes and enhancements in order to stabilize the system and to achieve outstanding tasks not completed in Phase 1 of the project. Further improvements will be undertaken in the course of the WINGS system upgrade later this biennium.

⇒ *Wings Roll-Out*

17. At the end of 2001, only three offices, Headquarters and two regional bureaux, were live in WINGS. Following a major roll-out effort in 2002 and 2003, all offices now have access to WINGS. Fifty-four offices, consisting of Headquarters, all six regional bureaux and 47 country offices have input capability, while the seven liaison offices and 33 other country offices have read-only capability.
18. The offices with read-only WINGS use COAGSAPInt software, developed in-house to record cash transactions, which are uploaded to WINGS monthly. Full WINGS will be rolled out to these offices subject to availability of telecommunications facilities and following a review of the capacity needs of all offices.



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, implementation of projects and reporting requirements of donors.
25. Orientation training for newly recruited international and national finance professionals is being planned for delivery twice a year. Refresher training programmes on WINGS procedures and on implementation of specific financial policies will continue in 2004 and beyond. These are geared not only towards field office finance staff but also to country directors and other non-finance managers in the field to enable them to produce and understand financial reports such as country-specific and project expenditure reports.



⇒ *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)			
	2002–2003	2000–2001	% increase
INCOME			
Commodity in-kind contributions	1 775.0	785.5	126.0
Other contributions	3 877.1	3 090.6	25.4
Other income (interest, currency gain, etc)	152.1	107.1	42.0
TOTAL INCOME*	5 804.2	3 983.2	45.7
EXPENDITURE			
Commodities in-kind and purchased	2 719.7	1 513.0	79.8
Direct operational costs	1 619.7	1 076.4	50.5
Direct support costs	507.5	370.6	36.9
Indirect support costs	232.2	229.6	1.1
TOTAL EXPENDITURE	5 079.1	3 189.6	59.2
EXCESS OF INCOME OVER EXPENDITURE	725.1	793.6	-8.6
*Includes \$687.3 million commodity in-kind and \$225.8 million cash contributions from OIP.			

⇒ *Expenditure by Programme Category*

29. The total expenditure of US\$5.1 billion by programme category is shown in Table 2.



TABLE 2: TOTAL EXPENDITURE BY PROGRAMME CATEGORY				
(US\$ million)				
	2002–2003		2000–2001	
	Amount	%	Amount	%
Programme Category Funds				
- Development	423.1	8.3	418.1	13.1
- Emergency	2 940.3	57.7	1 592.2	49.9
- Protracted relief and recovery	1 149.0	22.5	763.6	24.0
- Special operations	118.8	2.3	65.0	2.0
Subtotal	4 631.2	90.8	2 838.9	89.0
Others				
- General Fund and Special Accounts	297.9	5.8	258.3	8.1
- Bilaterals and Trust funds	170.8	3.4	92.4	2.9
TOTAL*	5 099.9	100.0	3 189.6	100.0
* Before elimination of US\$20.8 million.				

30. Expenditures on EMOPs, at 57.7 percent of total expenditures, continue to constitute the major portion of WFP's activities, followed by PRROs at 22.5 percent. Development expenditures represented 8.3 percent of the total expenditures in 2002–2003, primarily because of the unusually high value of the Iraq EMOPs.

⇒ *Support costs*

31. The increase in volume of operations placed a heavy toll on the support services, whose increase of 23.2 percent was well below the overall expenditure increase of 59.2 percent. Out of US\$5.1 billion total expenditures, only 15 percent (19 percent in 2000–2001) were in support services, consisting of 10 percent DSC and 5 percent PSA (12 percent and 7 percent respectively in 2000–2001).



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)	%
Programme Category Funds		
- Development	246.0	13.4
- Emergency	805.0	43.9
- Protracted relief and recovery	558.6	30.4
- Special operations	33.3	1.8
Subtotal	1 642.9	89.5
General Fund and Special Accounts	110.8	6.0
Bilaterals and Trust funds	81.8	4.5
TOTAL	1 835.5	100.0

34. As of 31 December 2003, fund balances under the Programme Category Funds totalled US\$1.64 billion; details are shown in the Annex. Of this amount, only US\$412.9 million is in the form of cash and short-term investments as shown in Statement II of the financial statements.
35. The General Fund had an adjusted balance of US\$56.5 million at the beginning of the biennium. With the total income of US\$42.1 million, including unrealized currency gains of US\$8 million and expenditures and adjustments of US\$67.7 million during the biennium, the ending balance as of 31 December 2003 was US\$30.9 million. The expenditures and adjustments included the following utilization in addition to those



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
Bank and cash holdings:		
- At Headquarters	100.3	63.1
- At country offices	26.9	15.1
Short-term investments	780.2	684.1
TOTAL	907.4	762.3

38. The long-term investments totalling US\$126.2 million as of 31 December 2003 have been set aside in order to resolve two types of long-term liabilities, as described below:

TABLE 7: LONG-TERM INVESTMENTS (US\$ million)		
	2003	2001
For staff benefit funds*	64.0	19.1
For repayment of the US\$106 million long-term loan – placed in US Treasury STRIPS	62.2	66.3
TOTAL	126.2	85.4
* Consists of the After-Service Medical Coverage Plan (ASMCP), the Compensation Plan Reserve Fund (CPRF) and the Separation Payment Scheme (SPS).		



⇒ *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	%
Year of confirmation of pledges				
2003	1 212.5	69.3	–	–
2002	302.9	17.3	–	–
2001	168.9	9.7	1 052.8	66.0
2000 and prior	64.3	3.7	293.4	18.4
1999 and prior	–	–	249.0	15.6
TOTAL	1 748.5	100	1 595.2	100

⇒ *Accounts receivable*

40. Accounts receivable are prepaid expenses and amounts due to WFP other than donor contributions. At the end of 2003, the total accounts receivable, amounting to US\$185.4 million, increased by 103 percent compared to the balance at the end of 2001 because of increases in advances to vendors and in third party receivables. In relation to total expenditures for the biennium however, the accounts receivable in 2003 represent only 3.7 percent (2.9 percent in 2001).

⇒ *Current liabilities*

41. Consistent with the increase in volume of operations, current liabilities increased by 68.2 percent, from US\$407.3 million in 2001 to US\$685 million in 2003. As a percentage of total expenditures, the balance in 2003 is 13.5 percent (12.8 percent in 2001).

⇒ *Reserves*

42. Reserve balances as of 31 December 2003 consisted of:

TABLE 9: RESERVES (In US\$ million)		
	2003	2001
Operational Reserve	57.0	57.0
Immediate Response Account	32.7	41.7
DSC Advance Facility	15.9	13.4
Staff Cost Variance Equalization Account	0.1	–
Staff Safety and Security Account	0.1	6.5
PSA Equalization Account	230.6	–
TOTAL	336.4	118.6



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.



51. The Framework also provided for a minimum structure for the country office representational purpose from the PSA; all other support had to be included in DSCs. Such provision created an apparent inconsistency in the categorization of expenditures into DSC and PSA.
52. These issues, reported by the external auditor and emanating from the Resource Policy Framework, need to be addressed in the course of the BPR.
53. The decentralization initiative as well as the application of Enterprise Resource Planning (ERP) model in WINGS brought to light other issues. The ERP expects managers to take full responsibility for the financial management of the decentralized office, yet WINGS was not fully configured to provide pertinent reports. Providing management reports from WINGS or through a data warehouse is a priority under the BPR and the Strengthening Financial Management initiatives.
54. Updating of financial guidelines and manuals to address changes brought about by decentralization and the implementation of WINGS, is an important aspect of the Strengthening Financial Management initiatives. Related to the provision of adequate finance professionals in field offices is the expanded the regional bureau finance officers responsibility to oversight and guidance over the financial affairs of country offices.

CONCLUSIONS AND RECOMMENDATIONS

55. The Executive Director submits the 2002–2003 Biennial Financial Statements of WFP, together with the Report of the External Auditor, pursuant to General Regulation XIV.6 (b) to the Executive Board for approval.
56. The Executive Director recommends that the Executive Board:
 - a) Note the application of staff cost variance account to both project-funded and PSA-funded staff costs.
 - b) Note the funding from the General Fund of US\$8.4 million during the biennium for the purpose set out in Table 5;
 - c) Approve the transfer of US\$20 million from the General Fund and US\$24.1 million from the PSA Equalization Account to the DSC Advance Facility reserve, to bring the balance of the latter to US\$60 million, as approved in the 2004–2005 Management Plan.



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
Other contributions	389 818	1 898 205	1 106 800	129 122	3 523 945	2 979 621
Contribution from Office of Iraq Programme	–	815 976	–	–	815 976	–
Currency exchange adjustments	4 727	29 143	17 231	837	51 938	2 608
Transfer of indirect support cost contributions to General Fund	(28 975)	(225 859)	(82 590)	(8 393)	(345 817)	(308 236)
TOTAL INCOME INCLUDING TRANSFER	440 221	3 194 351	1 375 233	122 355	5 132 160	3 459 485
EXPENDITURE						
Commodities in-kind	75 717	1 298 443	332 180	–	1 706 340	907 802
Commodities purchased	195 622	517 076	253 953	–	966 651	587 552
Ocean transport and related costs	53 914	218 612	160 469	264	433 259	439 550
Landside transport storage and handling	47 771	631 007	268 885	–	947 664	507 567
Other direct operational costs	15 564	65 115	13 175	102 056	195 910	91 430
Direct support costs	34 547	210 053	120 292	16 558	381 450	304 913
TOTAL EXPENDITURE	423 135	2 940 308	1 148 954	118 878	4 631 274	2 838 814
Excess (shortfall) of income over expenditure	17 086	254 043	226 279	3 477	500 886	620 671
Fund balances, beginning of period	276 871	853 549	461 066	35 855	1 627 341	1 254 883
Contribution adjustments	(37 350)	(266 211)	(112 205)	(6 789)	(422 555)	(226 318)
Prior period adjustments	(16 022)	(35 475)	(14 781)	74	(66 204)	(458)
Transfers between funds and accounts	5 430	(253)	(1 756)	744	4 165	(21)
Transfers to reserves	–	(632)	–	(109)	(741)	(21 416)
FUND BALANCES, END OF PERIOD	246 015	805 022	558 603	33 252	1 642 892	1 627 341

Breakdown of contribution adjustments						
Reprogramming of unused fund balances	(4 967)	(36 880)	(21 854)	(1 930)	(65 631)	(99 288)
Refund of unused fund balances	(1 267)	(30 513)	(11 946)	(869)	(44 595)	(3 157)
Write-off of contribution receivables	(165)	(27)	(168)	(79)	(439)	–
Write-down of contribution receivables	(30 951)	(198 791)	(78 237)	(3 910)	(311 889)	(123 873)
TOTAL	(37 350)	(266 211)	(112 205)	(6 789)	(422 555)	(226 318)



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

