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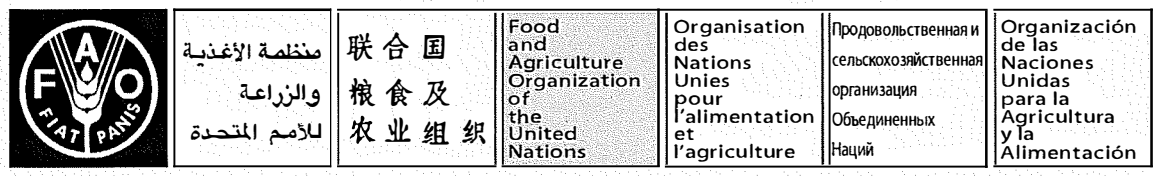
June 2010



COUNCIL

Hundred and Fortieth Session

Rome, 29 November - 3 December 2010

Report of the 133rd Session of the Finance Committee
Rome, 31 May – 1 June 2010

Table of Contents

	Paragraphs
Introduction	1 - 3
World Food Programme Matters	
AUDITED ANNUAL ACCOUNTS 2009	4 - 7
FINAL REPORT OF THE EVALUATION PANEL ON THE SELECTION AND APPOINTMENT OF THE WFP EXTERNAL AUDITOR FOR THE TERM 1 JULY 2010 – 30 JUNE 2016	8 - 10
APPOINTMENT OF MEMBERS TO THE AUDIT COMMITTEE	11 - 14
UPDATE ON THE WFP MANAGEMENT PLAN (2010-2011)	15 - 24
FINANCIAL FRAMEWORK REVIEW OPTIONS	25 - 28

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PROPOSED AMENDMENTS TO THE TERMS OF REFERENCE OF THE WFP AUDIT COMMITTEE 29

ANNUAL REPORT OF THE AUDIT COMMITTEE 30 - 31

REPORT ON THE IMPLEMENTATION OF THE EXTERNAL AUDITOR'S RECOMMENDATIONS 32 - 36

ANNUAL REPORT OF THE INSPECTOR GENERAL 2009 37 - 44

REPORT OF THE EXECUTIVE DIRECTOR ON THE UTILIZATION OF CONTRIBUTIONS AND WAIVERS OF COSTS (GENERAL RULES XII.4 AND XIII.4 (G)) 45 - 46

INVESTIGATION ON WFP OPERATIONS IN SOMALIA 47 - 51

Other Matters

CONSIDERATION OF WFP EXECUTIVE BOARD DOCUMENTS BY THE FAO FINANCE COMMITTEE 52 - 55

DATE AND PLACE OF THE HUNDRED AND THIRTY-FOURTH SESSION 56

ANY OTHER MATTERS 57

Annex A

CLAUSE ON REMUNERATION FROM DRAFT CONTRACT WITH NEW EXTERNAL AUDITOR OF THE WORLD FOOD PROGRAMME page 10

REPORT OF THE HUNDRED AND THIRTY-THIRD SESSION OF THE FINANCE COMMITTEE
31 May – 1 June 2010

Introduction

1. The Committee submitted to the Council the following report of its Hundred and Thirty-third Session.

2. The Chairperson Mr Yasser A. R. Sorour was present, along with the following representatives of Members:

- Ms Kristina Gill (Australia)
- H.E Li Zhengdong (China)
- Mr Louis Charicauth (Gabon)
- Mr Shobhana K. Pattanayak (India)
- H.E. Javad Shakhs Tavakolian (Islamic Republic of Iran)
- Mr Claudio Miscia (Italy)
- H.E. Jorge E. Chen Charpentier (Mexico)
- Mr Ronald Elkhuizen (Netherlands)
- Mr Gerardo Vega Berrio (Panama)
- Mr Mohamed Eltayeb Elfaki Elnor (Sudan)
- Mr Robert Sabiiti (Uganda)
- Ms Elizabeth Petrovski (USA)

3. The Chairperson informed the Committee that Ms Kristina Gill had been designated to replace Ms Sara Cowan as the representative of Australia at this session. The Committee further noted that:

- Mr Claudio Miscia had been designated to replace Mr Augusto Zodda as the representative of Italy at this session
- Mr Gerardo Vega Berrio had been designated to replace H.E. Guido J. Martinelli della Togna as the representative of Panama at this session, and
- Ms Elizabeth Petrovski had been designated to replace Mr Michael Glover as the representative of the United States of America at this session

Summaries of the qualifications of Ms Gill, Messrs Miscia and Vega Berrio, and Ms Petrovski are listed in the addendum to this report (CL 140/7-Add.1).

World Food Programme Matters

AUDITED ANNUAL ACCOUNTS 2009

4. The Secretariat presented the *WFP Annual Accounts, 2009*, the second set of financial statements prepared by WFP under International Public Sector Accounting Standards (IPSAS).

5. The Secretariat made a short presentation to the Committee of the key figures and highlights within the Financial Statements, including of the position on the following:

a) WFP's closing cash investment balances of USD 1,948.6 million
b) Closing fund inventory balance of USD 720.7 million
c) Contributions receivable balance of USD 2,045.6 million
d) 2009 surpluses of USD 145.2 million
e) Closing fund and reserve balance of USD 4,0581 million
f) Employee Benefit Liability closing balance of USD 278.7 million

g) Statement V showing a comparison of Budgeted USD 6,483.8 million and Actual USD 3,783.8 million amounts

6. Detailed responses to several other observations and concerns of the Committee were provided by the Secretariat:

1. The Secretariat noted that the gap between WFP's Direct Cost Budget and the level of actual utilization in 2009 indicated in Financial Statement V was due to the fact that the Direct Cost Budget was based on needs
2. Concerns were raised about the decline in income together with an increase in expenditure, and of relevant observations thereon by the External Auditor[1].
3. The Committee noted that that only 67% of the programme of work of the internal audit was undertaken in 2009, as noted by the External Auditor, was largely a result of a shortage of staff in the Office of the Inspector-General
4. The increased balance on the Programme Support and Administrative (PSA) Equalization Account was explained by the surplus of Indirect Support Cost (ISC) income over PSA expenditures
5. The Committee noted that there was a need for WFP to focus on moving towards the most direct, simplest way of achieving VAT exemptions, where possible under local VAT regulations
6. The Committee noted that the implementation of the Committee of the Sponsoring Organizations of the Treadway Commission (COSO) principles of internal control, including a strong Enterprise Risk Management System, was underway and was a priority activity for WFP
7. In response to several technical requests for clarification on the information within the Financial Statements presented by WFP, the Secretariat clarified that:

   i) the basis for recording multi-year contributions was that the full amount of the contribution was recorded in full on receipt of the written pledge
   ii) the details of the additional two Key Personnel referred to in Note 10, being the result of two individuals acting as Deputy Executive Director (DED) for Resource Mobilization in 2009; and the creation of the post of DED, Resource Management and Accountability

7. **The Committee:**

- **<u>Recommended</u> that the Executive Board approve the WFP Annual Accounts 2009**
- **<u>Complimented</u> WFP on its second successful year in producing Financial Statements compliant with IPSAS**

FINAL REPORT OF THE EVALUATION PANEL ON THE SELECTION AND APPOINTMENT OF THE WFP EXTERNAL AUDITOR FOR THE TERM 1 JULY 2010 – 30 JUNE 2016

8. The Chairperson of the Evaluation Panel on the Selection and Appointment of the WFP External Auditor informed the Members that, through a competitive and transparent selection process for a non renewable six-year term, the Evaluation Panel recommended the Executive Board to appoint the Comptroller and Auditor General of India as the WFP External Auditor from 1 July, 2010 to 30 June, 2016. It also recommended that the Executive Board authorize its President to sign the contract on its behalf between WFP and the Comptroller and Auditor General of India.

[1] WFP/EB.A/2010/6-A/1, 2009 External Auditor's Report (paragraph 13, page 68)

9. The Committee was informed that the Comptroller and Auditor General of India mentioned the possibility of limited increases in its fee, due to variations in costs of air travel, staff costs and rates of DSA, after 2010 not to exceed a cap of 8% of the total fee during its term of office.

10. **The Committee:**

- **Recommended the appointment of the Comptroller and Auditor General of India as the new WFP External Auditor for the period of 1 July, 2010 to 30 June, 2016**
- **Agreed to the proposed annual remuneration of USD 385,000, inclusive of fees and all other costs and expenses**
- **Noted that the annual remuneration could not be increased without prior approval of the Executive Board, which should be sought and obtained prior to the beginning of work to which it related (Clause from the draft contract attached as Annex A)**
- **Requested the Secretariat to identify, and report on, lessons learned from the selection process, including the need to ensure sufficient time for overlap between outgoing and incoming External Auditors, and matters related to remuneration of the External Auditor**

APPOINTMENT OF MEMBERS TO THE AUDIT COMMITTEE

11. The Committee was informed that two of the five members of the Audit Committee were concluding their initial term of two years, necessitating the appointment of two new candidates. Following a careful selection process and review of the applicants, the Executive Director intended to recommend Ms. Irene Petruskeviciene and Mr. James A. Rose for approval of appointment as members of the Audit Committee.

12. The Committee was informed that the appointment of the two recommended candidates was scheduled to be approved at the forthcoming Annual Session of the Executive Board. The Committee was also informed that a proposal had been made to extend the terms of the two out-going members of the Audit Committee by one year. If that proposal was adopted by the Executive Board, the term of the two in-coming members would begin approximately one year after their appointment, upon the expiry of the extended terms of the two out-going Audit Committee members.

13. The Committee was informed that the one-year extension of the out-going members was being proposed in light of high turnover and in the interest of continuity, as three Audit Committee members had already been replaced in the past year. The Committee was informed, further, that although such one-year extensions were not provided for under the Terms of Reference of the Audit Committee, the Executive Board had the authority to approve them as *ad hoc* exceptions to those Terms of Reference.

14. **The Committee:**

- **Noted the competence of the two candidates recommended by the Executive Director and recommended that their appointment be approved by the Executive Board**
- **Noted that the Board may, in relation to extension of the terms of the two in-coming members and the start dates of the terms of the two out-going members, wish to consider two options:**
  - **OPTION 1: That the terms of the in-coming members begin upon approval of appointment (in the case of the in-coming member who would replace the out-going member whose term expired on 2 May 2010) and on 30 July 2010 (in the case of the in-coming member replacing the out-going member whose term expires on 29 July 2010). Under this option, the terms of the two out-going members would not be extended, on the grounds that such renewals**

could establish a precedent, and that the three remaining Audit Committee members (out of a total membership of five) are sufficient to ensure continuity

- **OPTION 2: That the term of the two out-going members be extended, in the interest of continuity, by one year, with the term of the in-coming members beginning one year from approval of appointment (in the case of the in-coming member replacing the out-going member whose term expired on 2 May 2010) and on 30 July 2011 (in case of the in-coming member replacing the out-going member whose term expires on 29 July 2010).**

UPDATE ON THE WFP MANAGEMENT PLAN (2010-2011)

15. The Secretariat presented the *Update on the WFP Biennial Management Plan (2010-2011)*, which outlined USD 1.2 billion in increases in WFP's Programme of Work for 2010 since the previous update. Overall, the Programme of Work now totalled USD 10.7 billion for the biennium, of which USD 6.4 billion was related to 2010. Forecast contribution income for 2010 remained unchanged at USD 3.75 billion.

16. The Committee requested additional information on the proposed increases, in particular with regard to Pakistan, and requested an amended version of Table 1 including the base figures according to the original management plan and their increase in percentage.

17. The Committee enquired about the definition of unforeseen requirements as mentioned in annex 8 of the original management plan and its application in subsequent updates. The Committee was informed that over the past several years, on average 50% of requirements were unforeseen.

18. The Committee sought further information about how the Secretariat would deal with the trend of falling levels of contributions and the growing amount of activities.

19. The Committee noted that cost saving and efficiency operations as done in Sudan resulted in savings in DSC and landside transport, storage and handling (LTSH) totalling USD 66.8 million.

20. The Secretariat informed that WFP would continue to seek to achieve more savings and gain efficiencies within its Programme of Work in view of the pressure of extraordinary demands.

21. The overall Programme of Work requirements were also discussed, including the potential impact of changes to the WFP Cereal Index and the methodology used for compiling the Programme of Work. The stability of cereal price index in the recent months indicated that cereal price changes did not require a review of the Programme of Work.

22. The Committee sought clarifications on the employee benefit liabilities under IPSAS and the related proposed funding policy for the long-term employee benefit liabilities. The Secretariat presented the main issues covered by the asset-liability study, the reasons for increases in liabilities over time, and the long term investment management of the funds set aside for this purpose. The Secretariat conveyed that 52% of the long term employee benefit liabilities of USD 250.0 million as valued by the actuary as of 31 December 2009 had been funded.

23. Clarifications were provided by the Secretariat in regard to a number of figures presented, including the forecasted 2011 balances of the unearmarked portion of the General Fund of USD 0.8 million and the PSA equalization account of USD 79.7 million. Additional clarifications on the hedging policy covering USD 169 million of the USD 476 million biennial PSA budget and the impact of foreign exchange movements on the Programme,

primarily via non-USD contributions receivable of 20% of total as of 31 December 2009, were also given.

24. **The Committee:**

- **Took note of the Update on the WFP Biennial Management Plan and an increase in the Programme of Work for 2010 of USD 1.2 billion**
- **Encouraged the Secretariat to achieve more savings and apply the lessons learned from the Sudan cost efficiency review to other projects**
- **Urged WFP to identify alternative mechanisms that would further facilitate contributions from developing countries in emergency situations, including in-kind contributions**
- **Recommended that the Secretariat present to the Executive Board at its upcomming session, as well as to the Finance Committee, an amended Table 1 including the base figures according to the original Management Plan and their increase in percentage**
- **Recommended that the additional information be provided by the Secretariat – in the next Management Plan update – on the following: i) the proposed increases (to be reflected in amended Table 1 of the document); ii) analysis of unforeseen requirements; iii) information on how the Secretariat deals with the trend of falling levels of contributions and the growing amount of activities**
- **Recommended approval of the plan to provide for the unfunded staff liabilities over 15 years, however noted that the annual amount of USD 7.5 million could vary over time and that the 2010 appropriation of USD 7.5 million from the PSA Equalization Account should not become standard practice**
- **Recommended to approve an increase in the PSA appropriation for 2011 of USD 3.37 million to fund the PSA-related impact of the above plan in 2011**

FINANCIAL FRAMEWORK REVIEW OPTIONS

25. The Secretariat briefed the Committee on the document, which outlined the Secretariat's findings in relation to the WFP's costing and funding framework. Submitted to the Board for approval, the paper presented a variety of options and recommendations proposed by the Secretariat in relation to the review of the tonnage-based model, funding of country-specific direct support costs and PSA stability.

26. The Secretariat recommended that the principle of full-cost recovery be retained, however a new cost model for non-commodity activities be introduced in order to address the limitations inherent in the tonnage-based model. The Secretariat emphasized that the recommendations presented in the document would be further refined and an implementation proposal would be presented to the Second Session of the Executive Board in November 2010.

27. The Committee received additional clarifications on the recommendations outlined in the document:

(i) Recommendation 2 (Modify current direct support cost funding model to a percentage of direct operational costs rather than a rate per mt):

The Committee requested clarifications on how the DSC rate would be calculated as well as examples on how the new model would be employed. The Secretariat provided the clarifications and undertook to provide the examples at the next session of the Executive Board

(ii) Recommendation 3 (Encourage and accept contributions specifically for DSC more transparently and with greater flexibility):

In response to the Committee's request to clarify the recommendation and confirm whether this option was already utilised before, the Secretariat noted that accepting direct contributions to DSC would increase operational flexibility, enhance planning and could also lead to significant efficiency gains. The Secretariat also confirmed that the approach was allowed by the WFP General Regulations and Rules, but had been utilised infrequently.

(iii) Recommendation 5 (Encourage and accept direct contributions to the PSA budget on a case-by-case basis more transparently and flexibly):

The Secretariat acknowledged the Finance Committee's concern that the proposal was not in line with WFP's policy of Full Cost Recovery, however emphasized that the use of direct appeals could be a useful supplement to the existing PSA funding mechanism.

As outlined in the document, there were several informal consultations of the WFP Executive Board on these issues. In this context, the Committee also noted that the Secretariat mentioned that the word 'encouraged' was used in recommendations 3 and 5, while the word 'allow' was used in informal consultations.

28. **The Committee:**

- **Commended WFP on the series of reviews and discussions undertaken in the Financial Framework Review process**

PROPOSED AMENDMENTS TO THE TERMS OF REFERENCE OF THE WFP AUDIT COMMITTEE

29. **The Committee:**

- **Decided to postpone the discussion on the amendments to the Terms of Reference of the WFP due to a need for more time to examine the issue in greater detail**

ANNUAL REPORT OF THE AUDIT COMMITTEE

30. The Committee expressed its concern that neither the Chairperson of the Audit Committee, nor any other members were present for the discussion on the Annual Report of the Audit Committee.

31. **The Committee:**

- **Noted that it was not able to discuss the aforementioned document**
- **Requested members to submit any comments on the document in writing to the Secretary for onforwarding to the Executive Board by the Committee**
- **Noted its expectation that the Chairperson or other members of the Audit Committee present the Annual Report in future sessions**

REPORT ON THE IMPLEMENTATION OF THE EXTERNAL AUDITOR'S RECOMMENDATIONS

32. The Secretariat introduced the report on the progress toward implementation of the External Auditor's recommendations, produced by the Secretariat on an annual basis.

33. The report presented to the Committee covered 8 audit reports with 38 audit recommendations that were outstanding. It was emphasized that out of the 38 recommendations, 22 were made in 2010, 16 of which had already been implemented.

34. The Committee noted the Secretariat's clarification that as this was his final year in office, the current External Auditor had included in his report a comment in response to progress in implementation of several of the recommendations.

35. The Committee received the Secretariat's assurance that more efforts would continue to be directed towards timely implementation of all the recommendations of the External Auditor.

36. **The Committee:**

- **Took note of the report concerning the progress on implementing the recommendations of the External Auditor**
- **Looked forward to the Secretariat's responses to the 2010 audit recommendations and the implementation of those recommendations**

ANNUAL REPORT OF THE INSPECTOR GENERAL 2009

37. In accordance with the WFP General Regulations, the annual report of the Inspector General was presented to the Executive Board for its consideration. The Inspector General introduced the 2009 report to the Finance Committee.

38. The Committee welcomed the report and there was a general discussion, including the following key issues:

- staff turnover and reassignment in the Oversight Office
- performance indicators
- the assurance statement
- the budget of the office
- food diversion
- security
- internal audit recommendation implementation
- complaints and investigation cases

39. The Committee noted the negative moderate assurance provided by the Oversight Office, and received clarification on the consistency of the detailed oversight findings with the overall opinion.

40. The Committee was advised that the Office was developing performance indicators in the context of WFP's results-based management initiative.

41. The Committee noted food diversions as opposed to sales of small quantities of food by beneficiaries, and highlighted the desirability of developing risk tolerance levels.

42. The Committee expressed concern over staff vacancies in 2009 and was assured that the office was nearly fully staffed now.

43. The Committee noted that reassignment of staff to and from the Office might bring in staff without the required skills and experience, and might result in limited career opportunities for specialised auditors and investigators. The Secretariat explained that the reassignment of skilled oversight staff in key positions outside the Office had proved beneficial to WFP's internal control environment, and that staff reassigned to the Oversight Office without the applicable qualification were required to obtain such during the first year of assignment.

44. **The Committee:**

- **Appreciated the efforts made by the Inspector General and his team**
- **Took note of shortcomings due to staff shortages and supported the need to strengthen the Oversight Office with the necessary skilled personnel**

REPORT OF THE EXECUTIVE DIRECTOR ON THE UTILIZATION OF CONTRIBUTIONS AND WAIVERS OF COSTS (GENERAL RULES XII.4 AND XIII.4 (G))

45. The Secretariat presented the report on the use of unrestricted cash resources to purchase commodities and waivers of costs, which was produced to fulfil WFP's General Regulations and Rules.

46. **The Committee:**

- **Took note of the report of the Executive Director on the utilization of contributions and waivers of costs (General Rules XII.4 and XIII.4 (g)**

INVESTIGATION ON WFP OPERATIONS IN SOMALIA

47. The Inspector General introduced the document on behalf of the Executive Board Bureau. He explained that the External Auditor was engaged with the task of reviewing the Somalia allegations, and presented the External Auditor's advice paper. He informed the Committee that the Executive Director had taken three major actions in this respect.

48. Firstly, the Executive Director asked the Inspector General to review the allegations and report. This work was in progress, and it would present the evidence already collected by the Oversight Office in 2009, and identify gaps which would require additional work. This was expected to be completed within June 2010.

49. Secondly, the Executive Director appointed a Special Envoy for Somalia, Tun Myat, a former WFP Director and Under-Secretary General, to review how oversight recommendations had been implemented by management. The Special Envoy had provided comprehensive recommendations to the Executive Director and implementation was underway.

50. Thirdly, the Executive Director organised an expert group on risk management in the supply chain, including representatives from the private sector, international NGOs and other risk management practitioners, to advise WFP.

51. **The Committee:**

- **Took note of the two documents presented**
- **Noted that the Executive Board would be required to make a decision on whether the external audit tasks should be assigned to the current and outgoing External Auditor, to be completed before the end of June, or to the incoming External Auditor**
- **Stressed the importance of a clear timeframe for the future steps to be taken**
- **Recommended that lessons should be learned from Somalia for the future**

Other Matters

CONSIDERATION OF WFP EXECUTIVE BOARD DOCUMENTS BY THE FAO FINANCE COMMITTEE

52. Following a request from its Members, the Committee considered a draft paper on criteria for documentation to be submitted for review by the FAO Finance Committee. The paper had been produced by the Secretariat in 2007 and submitted to the Executive Board Bureau, but no further action had been taken since that time.

53. The WFP General Regulations[2] on Financial Arrangements specified that the following documents should be submitted to the Finance Committee and the ACABQ:

- the biennial WFP budget, and supplementary WFP budgets;
- annual financial statements of WFP, together with the report of the External Auditor;
- other financial reports;
- all matters related to financial administration of WFP.

54. The Committee felt that the criteria for the submission of WFP EB documents to the Finance Committee required further review according to the IPA approved by FAO Conference in November 2009.

55. **The Committee:**

- **Requested the Chairperson of the Finance Committee to discuss the criteria further with the President and the Bureau of the WFP Executive Board and report to the Members of the Finance Committee on the outcome of those discussions**

DATE AND PLACE OF THE HUNDRED AND THIRTY-FOURTH SESSION

56. The Committee was informed that the 134th Session was tentatively scheduled to be held in Rome from 25 to 29 October 2010. The final dates of the session would be agreed in consultation with the Chairperson.

ANY OTHER MATTERS

57. With regard to preparations of documents for its sessions dedicated to WFP matters, the Committee stressed that:

1. **all documents should be addressed to the Finance Committee**
2. **documents should be received by Members in all languages of the Committee not later than two weeks before each session**
3. **each document should include a draft recommendation by the Finance Committee**

[2] WFP General Regulations and Rules, Article XIV: Financial Arrangements

Annex A

CLAUSE ON REMUNERATION FROM DRAFT CONTRACT WITH NEW EXTERNAL AUDITOR OF THE WORLD FOOD PROGRAMME

Article 6: Remuneration

(a) As full consideration for the Services provided by the External Auditor, WFP shall pay to the External Auditor annual remuneration in the amount of USD 385,000 (Three Hundred Eighty Five Thousand United States Dollars), inclusive of fees and all other costs and expenses (the "Total Annual Remuneration"), to be paid in quarterly instalments, in arrears. The agreed currency of this Agreement is the United States Dollar (USD).

(b) The External Auditor represents and warrants that, in proposing the Total Annual Remuneration, it exercised its professional judgement and fully considered the scope of the work described in Schedule 1A [CONTAINS SCOPE OF WORK TO BE PERFORMED BY EXTERNAL AUDITOR] hereto and the conditions under which it will be required to perform the Services.

(c) The External Auditor represents and warrants that it has taken into account the rates with regard to personnel that are set forth in Schedule 2 hereto [CONTAINS COST DETAILS PROVIDED BY EXTERNAL AUDITOR IN ITS FINANCIAL PROPOSAL, USED TO CALCULATE TOTAL ANNUAL REMUNERATION], together with all other costs and expenses, in proposing the Total Annual Remuneration, and that these represent the full cost of the Services including, but not limited to, the costs of salary and allowances, per diem, social security contributions, health, medical and pension benefits, board and lodging, pocket money, out-of-pocket expenses, contingencies and all other costs that will be incurred by the External Auditor in providing the Services.

(d) The External Auditor represents that it does not expect its costs to rise significantly. However, in the event of variation in the cost of air travel, staff costs and rates of daily subsistence allowance, the External Auditor may request limited increases in relation to Services to be provided after the first year of the term of this Agreement, which shall not, over the term of this Agreement, exceed a cumulative total of 8 percent of Total Annual Remuneration. In addition, any increase in cost on account of changes in the relevant exchange rate, or of the scope or programme of work, would be the object of discussion with WFP. The External Auditor acknowledges and agrees that any request for additional remuneration must be justified in detail, and that WFP shall not be liable to pay any increase in the Total Annual Remuneration, or for additional work or expenses not foreseen by this Agreement (whether proposed by the External Auditor or requested by WFP), without the approval of the Executive Board of WFP, which must be obtained before such work begins and any expenses in relation to it are incurred. The personnel and cost rates employed in the calculation of remuneration for additional work approved by the Executive Board shall remain consistent with the personnel and cost rates that are reflected in this Agreement.