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## COUNCIL

### Hundred and Forty-fourth Session

Rome, 11-15 June 2012

### Report of the 144<sup>th</sup> Session of the Finance Committee (14 May 2012)

#### Executive Summary

At its 144<sup>th</sup> Session, the Committee considered a number of financial, budgetary and oversight matters relating to the World Food Programme (WFP), prior to their consideration by the Annual Session of the WFP Executive Board in June 2012.

#### Suggested action by the Council

The Council is invited to note the views and recommendations of the Finance Committee in respect of matters considered by the Annual Session of the WFP Executive Board of WFP in June 2012.

*Queries on this document may be addressed to:*

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## REPORT OF THE HUNDRED AND FORTY-FOURTH SESSION OF THE FINANCE COMMITTEE

14 May 2012

### Introduction

1. The Committee submitted to the FAO Council and to the World Food Programme (WFP) Executive Board the following report of its Hundred and Forty-fourth Session.
2. In addition to the Chairperson, Mr MOUNGUI MÉDI, the following Members were present:
  - Mr Olyntho Vieira (Brazil)
  - Mr Laurent D. Couliadiati (Burkina Faso)
  - Mr Shobhana K. Pattanayak (India)
  - Mr Hideya Yamada (Japan)
  - Ms Manar Sabah Mohammad Al-Sabah (Kuwait)
  - Mr Vladimir V. Kuznetsov (Russian Federation)
3. The following substitute representatives of Members were also present:
  - Ms Kristina Gill had been designated to replace Mr Travis Power as the representative of Australia for this session;
  - Mr Alan Romero Zavala had been designated to replace H.E. Miguel Ruíz-Cabañas Izquierdo as the representative of Mexico for this session;
  - Ms Eva van Woersem had been designated to replace Mr Ronald Elkhuizen as the representative of the Netherlands for this session;
  - Mr Muawia Eltoum Elamin Elbukhari had been designated to replace Mr Mohamed Eltayeb Elfaki Elnor as the representative of the Sudan for this session; and
  - Ms Elizabeth Petrovski had been designated to replace Ms Karen Johnson as the representative of the United States of America for this session.
4. The Committee noted that Morocco was not represented at the 144<sup>th</sup> Session.
5. A summary of the qualifications of the substitute representatives can be downloaded from the Governing and Statutory Body Web site at:  
<http://www.fao.org/unfao/govbodies/gsbhome/finance-committee/substitute-representatives/en/>
6. In addition, silent observers from the following Member Nations attended the whole or part of the 144<sup>th</sup> Session of the Committee:
  - Germany
  - Norway

### Audited Annual Accounts, 2011

7. The Committee discussed WFP's *Audited Annual Accounts 2011* and the newly introduced Statement on Internal Control, supported by a briefing made by the WFP Secretariat which detailed the key elements within the Audited WFP Financial Statements. The Secretariat explained the main reasons behind movements in the key elements, the decrease in contributions receivable balance (USD 1.8 billion against USD 2.5 billion in 2010), the increase in inventories (USD 766 million against USD 700 million in 2010) and the increase in employee benefit liabilities (USD 349 million against USD 309 million in 2010). The Secretariat also explained the reasons for the deficit in 2011 of USD 281 million in Financial Statement II in comparison with 2010.

8. The Committee was informed that in 2011 the Secretariat had implemented for the first time a Statement on Internal Control, signed by the Executive Director, to provide additional assurance on the effectiveness of internal control in WFP. The Secretariat gave a brief overview of the extensive process adopted to put together the Executive Director's Statement, including the collection of "Assurance Statements" from approximately 130 managers regarding internal control for their respective offices/divisions which formed the basis of the Statement. As an additional measure of accountability, all manager-submitted Assurance Statements were cleared by at least one higher level of supervision. The Secretariat was pleased to inform the Committee that a 100 percent submission rate had been achieved.

9. The External Auditor was pleased to inform the Committee that it had completed the audit of the Annual Accounts 2011 in accordance with the International Standards of Auditing and stated that the Annual Accounts presented fairly, in all material aspects, the financial position of WFP as at 31 December 2011, its financial performance and the performance of its cash flows for the year ended 31 December 2011, in accordance with International Public Sector Accounting Standards (IPSAS).

10. The Committee requested clarification on several technical aspects of the 2011 Annual Accounts:

- *The existence of benchmarks for short- and long-term investments.* The Secretariat explained that WFP used different market-based benchmarks to measure performance of the different portfolios and that this use was monitored by the Investment Committee and the Investment Advisory Panel.
- *The level of operational activity and internal controls regarding cash and vouchers.* The Secretariat explained that total cash and voucher expenditure was USD 213 million (including associated costs) – higher than the Management Plan proposal – and that internal controls were in place for reasonable mitigation of the risks involved.
- *The evolution of surpluses and deficits.* The Secretariat explained that the accumulated surpluses from the period 2008–2011 were USD 1.3 billion, which would be implemented during the following years.
- *The assurances that can be taken by the Finance Committee on the Statement of Internal Control (SIC).* The Secretariat and the Inspector General pointed out that the SIC was a management statement by the Executive Director, reflecting the fact that the primary responsibility for internal control in all aspects lay with the Secretariat.
- *Details of the write-offs for which funding from the General Fund was requested, particularly the amounts related to suppliers and to staff.* The Secretariat indicated that these write-offs were arrived at after thorough analysis and investigation of each case, and that funding was taken from the General Fund only where no appropriate project funding source was available. In addition, nearly all write-offs related to external suppliers with a minimal balance (less than USD 5,000) related to staff write-offs.
- *Clarification on Budget Statement V and the External Auditor recommendation on resource planning.* The Secretariat indicated that it would elaborate a more detailed budgeting process and explore the inclusion of a new column in Statement V with details of resources made available to projects to help understanding and evaluation of the Budget Statement.

11. **The Committee:**

- **acknowledged that WFP's 2011 Audited Annual Accounts had received an unqualified audit opinion from the External Auditor;**
- **asked WFP to continue ensuring that the actuaries' valuation of employee benefit liabilities was as close as possible to reality;**
- **recognized that the deficit in 2011 should be seen within a longer-term context, considering the accumulated surpluses from previous periods;**
- **encouraged WFP to implement all recommendations made by the External Auditor;**
- **recommended that the Executive Board approve the Audited Annual Accounts 2011;**

- **recommended that the Executive Board take note of the funding of write-offs and losses from the General Fund, to the amount of USD 752,890, based on Financial Regulation 12.4.**

### **Forward Purchase Facility**

12. The Committee discussed the document on the *Forward Purchase Facility* presented by the Secretariat. The Secretariat highlighted that in 2011, the Forward Purchase Facility had expanded to include greater quantities of non-cereal foods, wider geographic coverage and local sourcing in developing markets. With the establishment of supply lines in both East and West Africa in 2011, the demands on the facility had increased. WFP country offices had gained, on average, 56 days of supply lead-time by utilizing USD 147.5 million – 98 percent – of the amount allocated for the procurement of corporate food stocks.

13. Given that operating at this level of capacity had limited further expansion, the Secretariat proposed increasing the allocation from the Working Capital Financing Facility from USD 150 million to USD 300 million, while maintaining the approved Working Capital Financing Facility budget ceiling of USD 557 million. This would reduce the amount available for traditional advance financing from USD 407 million to USD 257 million, while increasing the availability of funding for the Forward Purchase Facility Special Account. This change would enable WFP to respond to increasing demands, enhance operational efficiency, and reduce response times. With the proposed USD 257 million ceiling, the Facility would continue to make loans to operations and corporate services on the basis of forecast income, without jeopardizing traditional advance financing. Under this proposal, the leverage for advance financing would remain unchanged at 6:1, backed by the USD 92.9 million operational reserve.

14. The Committee thanked the Secretariat for the document and the proposal. Committee members raised questions regarding risk mitigation measures and responsibility for monitoring the measures. The Secretariat responded that the advisory group reviewed all forward purchase requests, assessed the risk and informed the Chief Financial Officer (CFO) who was responsible for management of WFP's advance financing mechanisms.

15. The Committee asked whether the proposal presented to them might be premature, given that only 18 months previously the ceiling had been increased from USD 60 million to USD 150 million. The Secretariat emphasized the need to increase the budget ceiling further as the Forward Purchase Facility had become part of WFP's core business with more country offices requesting purchases from the Facility than could be met at the current budget level.

16. The Committee requested further information on innovative solutions to donor-imposed constraints, such as bag marking. The Secretariat outlined various options for addressing donor visibility at different stages of the supply chain, from procurement to distribution.

17. The Committee asked for clarification of the difference between traditional advance financing and the Forward Purchase Facility. The Secretariat emphasized that the Facility is linked to income and requirements, whereas traditional advance financing was linked to a specific project and collateral.

18. The Committee requested clarification of the need to seek approval for this increase, making reference to the decision of the Second Regular Session of the 2010 Executive Board on the "Review of the Working Capital Financing Facility". The Secretariat responded that while approval from the Executive Board might not be required on a legal basis, for better financial governance the Executive Board would be asked to approve the draft decision.

#### **The Committee:**

- **welcomed the document, which offered an innovative mechanism for conducting purchases more efficiently, while improving lead-times and providing flexibility and better planning options to WFP country offices;**
- **appreciated the risk mitigation measures outlined, which were inherent to the Facility;**

- **encouraged the Secretariat to develop tailored processes and procedures for monitoring risks;**
- **noted the importance of using the Forward Purchase Facility to respond to emergency needs in East Africa and other regions;**
- **expressed the need for a briefing on the modalities for implementing the Facility to provide a better understanding of its performance and assist in the development of key performance indicators;**
- **emphasized the need to retain the 6:1 leverage, which it saw as an essential level for mitigating risk for the Facility;**
- **recommended that the Executive Board approve the allocation of up to USD 300 million from the Working Capital Financing Facility for the Forward Purchase Facility Special Account.**

### **Appointment of Members to the Audit Committee**

19. The Committee discussed the document on the *Appointment of Members to the Audit Committee* presented by the Secretariat. In particular, the Secretariat outlined that the terms of three Audit Committee (AC) members were coming to an end in 2012: Ms Elvira Lazzati (Argentina) on 8 June; Mr Antoine Antoun (Lebanon and France) on 6 July; and Ms Kholeka Mzondeki (South Africa) on 9 November.

20. The Selection Panel for the appointment of members to the Audit Committee, formed at the request of the Executive Board during the First Regular Session of February 2012, had met on 20 March and proposed renewal of the terms of the three outgoing AC members and a general timeframe for the selection of future AC members, taking into account the terms of the existing members. The Secretariat also noted that the Committee encouraged it to continue appointing AC members through an external recruitment process.

21. **The Committee:**

- **recommended that the Executive Board approve the renewal of the terms of the three outgoing Audit Committee members (Ms Elvira Lazzati, Mr Antoine Antoun and Ms Kholeka Mzondeki; and**
- **Recommended that the Executive Board approve and follow the proposed timeframe for selection of future Audit Committee members.**

### **Annual Report of the Audit Committee**

22. The Chair of WFP's Audit Committee, Mr Antoine Antoun, presented the eighth Audit Committee annual report which covered the period from 1 April 2011 to 31 March 2012, during which the Audit Committee had met three times. The report had been structured to reflect the seven areas of Audit Committee responsibility described in the new Terms of Reference.

23. The Audit Committee reported that it had full cooperation from WFP management, the Executive Director and the Bureau of the Executive Board, with whom it met regularly at each of its meetings. Other highlights from the report included the Audit Committee's satisfaction with the assessment by the International Institute of Internal Auditors; the use of WFP's risk register by increasing numbers of WFP offices; the inclusion of a best practice Statement on Internal Control signed by the Executive Director with the Audited Annual Accounts; and the External Auditor's approval of the financial statements with no reservations.

24. The Audit Committee did not object to the proposal made by the Secretariat on revising the criteria for submission of Executive Board documents to the Advisory Committee on Administrative and Budgetary Questions (ACABQ), the Finance Committee and the Audit Committee. This would result in cost efficiencies for WFP and was in accordance with good corporate governance practice. The Finance Committee stressed that differences in status, terms of reference, and levels of responsibility should be taken into account when considering proposals on the criteria for submission

of Executive Board documents and decided to consider this issue in due course upon presentation of the proposal.

25. The Finance Committee expressed concerns regarding the proposal for Audit Committee members to make field visits to WFP operations. The added value of these visits would have to be clearly established to avoid duplication of efforts by the External and Internal Auditors and unnecessary burdening of field office staff with extra tasks. The Audit Committee Chair clarified to the Finance Committee that the purpose of these field visits would be to give Audit Committee members an idea of how WFP works.

26. The Committee invited the Audit Committee to present a proposal for field visits, including an analysis of the costs and benefits.

27. In response to concerns about the large amounts of value-added tax (VAT) still to be reimbursed to WFP, the Audit Committee clarified that it had suggested the use of an expert in tax law. The Audit Committee welcomed WFP's creation of a provision to offset the possible loss of these funds.

28. Regarding the term of office for the head of oversight, the Audit Committee felt that candidates for the post might be discouraged from applying by the stipulation that – after completing one or two, four-year terms of office – an outgoing head of oversight could not seek further employment in WFP. The Audit Committee would be discussing this issue in the future, to review whether it was feasible to suggest types of employment in WFP that could be permissible.

29. **The Committee:**

- **welcomed the presence of the Audit Committee Chair as well as the Annual Report of the Audit Committee;**
- **invited the Audit Committee to pay careful attention to its role as an expert advisory body, to avoid duplication of efforts with other oversight bodies in WFP;**
- **noted the proposal regarding site visits and emphasized the need to demonstrate clear benefits from such visits; and**
- **took note of the Annual Report of the Audit Committee for consideration by the Executive Board.**

#### **Annual Report of the WFP Inspector General and Note by the Executive Director on the Annual Report of the WFP Inspector General**

30. In accordance with WFP General Regulations, the *Annual Report of the WFP Inspector General* would be presented to the Executive Board for its consideration. The Inspector General introduced the 2011 report to the Finance Committee, followed by presentation of a Note by the Executive Director in response to the report, introduced by the Chief of Staff.

31. The Committee welcomed both documents and congratulated the Inspector General on the clear, structured and readable report. There was a general discussion, including the following key issues.

32. The Committee was informed that in 2011, as in previous years, the oversight work performed and reported had not disclosed any significant weaknesses in the internal control, governance and risk management processes in place across WFP that would have a pervasive effect on the achievement of WFP's objectives.

33. The Committee noted that owing to improvements in the infrastructure, many weaknesses in control systems identified in previous reports had been addressed. Nevertheless, it was clear that there were opportunities for further improvements.

34. The Committee appreciated that the Executive Director in her response, expressed the intention to address the areas for improvement raised by the Inspector General.

35. The Committee noted that the Office of Internal Audit had undergone an external quality assessment and had been certified as conforming to the Institute of Internal Auditors standards at the highest level.
36. The Committee voiced its concern regarding the losses due to fraud as compared with the recorded recoveries. It listened to the response on the administrative actions taken *vis-a-vis* concerned staff and recognized WFP's zero tolerance policy.
37. The Committee sought explanations on the number of partially satisfactory and unsatisfactory internal audit reports as well as the changes in the internal audit work plan. It was explained that emerging risks during the year required changes in the work plan, and that a declining number of unsatisfactory audit reports was a good indicator of the functioning of the Programme, as there would always be an opportunity for improvements in response to partially satisfactory reports.
38. The Committee enquired about the challenges faced in inter agency coordination in some complex emergencies and it was explained that these challenges related to the transition from relief to recovery in the aftermath of major emergencies.
39. The Committee called for a clear allocation of responsibilities by management for the implementation of the Anti-Fraud and Anti-Corruption Policy.
40. The Committee awaited with interest the results of the Rapid Organisational Assessment that was being undertaken by the Secretariat and which would incorporate suggestions made by the Inspector General in his report and would form the basis for important decisions to be taken by WFP.

41. **The Committee:**

- **appreciated the efforts made by the Inspector General and his team;**
- **advised the Executive Board, in accordance with Article XIV of the General Regulations of WFP, to take note of the *Annual Report of the WFP Inspector General*;**
- **welcomed the *Note by the Executive Director on the Annual Report of the WFP Inspector General* and advised the Executive Board to take note of the document; and**
- **advised the Executive Board to encourage management to take advantage of the opportunities for further improvement highlighted in the report.**

**Report of the External Auditor on Management of Human Resources in WFP and Management Response to the Recommendations**

42. The Committee discussed the *Report of the External Auditor on Management of Human Resources in WFP*. The External Auditor explained that the main objective of the audit was to assess whether the Human Resources (HR) policies were aligned to WFP's dynamic staffing needs and that they were supported by credible and transparent processes that built trust among the staff. The audit spanned the WFP Headquarters in Rome, seven Country Offices (CO) and four Regional Bureaux (RB).
43. The External Auditor explained that fifteen recommendations had been submitted to the Secretariat and that they were linked to workforce planning, staffing decisions, performance evaluation and capacity development. The report outlined how challenging working and living conditions in hardship duty stations, uncertainties in funding, and a decentralized structure were some of the key drivers to HR planning and implementation in WFP.
44. The Secretariat confirmed that the recommendations had been accepted and validated the efforts underway to manage and develop human resources outlined in the WFP human resources strategy.
45. The Committee noted that many of the changes identified in the report with regard to staffing decisions implied a cultural change. Management concurred and highlighted the steps that had been taken to implement the revised career model and related directives, which included extensive analysis, consultation, and stakeholder buy-in.



46. The Committee also noted concerns on the extensive use of consultants. Management explained that, for a voluntarily funded organization, the use of consultants provided the flexibility required to balance staffing requirements with long term contractual liabilities. Management also noted that the revised career policies were expected to address some of the issues raised regarding the use of an internal candidate pool (a closed loop in recruitment).

47. With regard to workforce planning, the Committee noted the importance of corporate-wide human resource planning. Management explained that the shift to a three year rolling management plan would strengthen forecasting capacity. In addition, the results from the skills audit would provide additional qualitative information to supplement the quantitative staffing data that was currently captured.

48. **The Committee:**

- **considered the External Auditor's Report and the Management Response and took note of the recommendations;**
- **noted that thirteen of the fifteen recommendations had been accepted and two partially accepted, and recommended that the Executive Board urge the Secretariat to fully implement the accepted recommendations and keep the two partially accepted recommendations under review;**
- **noted the important role that consultants played and recognized the risks inherent to heavy reliance on the use of consultant services and the restrictions imposed by WFP's funding model. In this regard the Committee advised that a more strategic and transparent approach be applied in hiring consultants;**
- **encouraged the Secretariat to implement and promote systems that maximized information handover; and**
- **noted the need to integrate the review of the report on human resources management with the outcome of the rapid organizational assessment.**

### **Report of the External Auditor on Emergency Preparedness for IT Support in WFP and Management Response to the Recommendations**

49. The Committee discussed the *Report of the External Auditor on Emergency Preparedness for IT Support in WFP*. The main objective of the audit was to obtain assurance on the information and communications technology emergency preparedness and operational performance of the Fast Information Technology and Telecommunications Emergency Support Team (FITTEST), in strategic alignment with WFP goals.

50. The Committee noted that ten recommendations had been submitted to the Secretariat which had analysed them and fully accepted nine and partially accepted one. The Secretariat informed the Committee that two of the recommendations had already been implemented and that the rest would be implemented over the following three to five months.

51. The Committee noted that the FITTEST team had undergone a number of operational changes in recent years, and that the team would benefit from specific, transparent and documented linkages between its work plan, project plans and key performance indicators for its services. Furthermore, since WFP's formal accounting system - WINGS II - was not tailored to handle the full cost recovery model of FITTEST, it managed and tracked its project stocks and activities outside of the WINGS II system in standalone Excel sheets. The Secretariat confirmed however, that all financial transaction were included in WINGS, which was the core and official accounting system of WFP and was IPSAS compliant.

52. In response to questions from the Committee regarding similar findings of a 2005 External Audit report on FITTEST, the Secretariat highlighted that much progress had been made and that the current requirements were to fine-tune the improvements made. For example, key performance indicators had been developed and fees and procurement had been standardized.

53. **The Committee:**

- **considered the External Auditor's report and the management response which accepted nine of the ten recommendations in full, and one partially;**
- **appreciated the work of the External Auditor and the preparation of the ten recommendations;**
- **noted that management had established a precise timeframe and would implement solutions to track all issues related to purchases and project costing; and**
- **recommended that the Executive Board consider positively the *Report of the External Auditor on Emergency Preparedness for IT Support in WFP* and the *Management response to the Recommendations*.**

**Report on the Implementation of the External Auditor Recommendations**

54. The Committee discussed the *Report on the Implementation of the External Auditor Recommendations* following a briefing by the Secretariat highlighting the recommendations that had been implemented and those which remained outstanding at the end of 2011. Of the twenty-two recommendations outstanding, one was from 2010, fifteen from 2011 and six from 2012.

55. The Secretariat stated that not all the recommendations which were deemed complete by the Secretariat had been commented on by the External Auditor. This review by the External Auditor would be captured in the semi-annual review to be instituted in 2012, and formally submitted in the Annual Progress Report to the Executive Board in 2013.

56. **The Committee:**

- **welcomed the *Report on the Implementation of the External Auditor Recommendations*;**
- **noted the progress made by WFP in implementing outstanding recommendations of the External Auditor;**
- **encouraged the WFP Secretariat to expedite the implementation of the recommendations; and**
- **recommended that the progress report include a rating as to priority and the timeframe for implementation of recommendations that were still in progress.**

**Date and Place of the Hundred and Forty-fifth Session**

57. The Committee was informed that the 145<sup>th</sup> Session was scheduled to be held in Rome from 31 May to 1 June 2012.

**Any Other Matters**

58. Regarding the Secretariat's proposal which had been discussed with the Executive Board Bureau to modify the criteria for submission of Executive Board documents to the FAO Finance Committee, the ACABQ and the Audit Committee, the Chairperson recognized the need for additional consultation amongst the Members of the Finance Committee before providing feedback.

**Annex 1 - Documents for information**

- Report of the Executive Director on the Utilization of Contributions and Waivers of Costs (General Rules XII.4 and XIII.4 (h)) (doc. FC 144/INF/2)