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COUNCIL

Hundred and Fifty-sixth Session

Rome, 24-28 April 2017

Report of the 165th Session of the Finance Committee (7-8 February 2017)

Executive Summary

At its 165th Session, the Committee reviewed a number of financial, budgetary and oversight matters relating to the World Food Programme (WFP), prior to their consideration by the First Regular Session of the WFP Executive Board in February 2017.

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 First Regular Session of the WFP Executive Board in February 2017.

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Introduction

1. The Committee submitted to the Council the following report of its 165th Session.
2. In addition to the Chairperson, Mr Khalid Mehboob, the following representatives of Members were present:
 - Mr Carlos Alberto Amaral (Angola)
 - Ms Kristina Gill (Australia)
 - Mr Antonio Otávio Sá Ricarte (Brazil)
 - Mr Xie Jianmin (China)
 - Mr Khaled M.S.H. Eltaweel (Egypt)
 - Mr Mateo Nsogo Nguere Micue (Equatorial Guinea)
 - Ms Hannah Laubenthal (Germany)
 - Mr Benito Santiago Jiménez Sauma (Mexico)
 - Mr Lupino jr. Lazaro (Philippines)
 - Mr Vladimir V. Kuznetsov (Russian Federation)
 - Ms Abla Malik Osman Malik (Sudan)
 - Mr Thomas M. Duffy (United States of America)
3. The Chairperson informed the Committee that:
 - Ms Kristina Gill (Australia) had been designated to replace Ms Cathrine Stephenson for this session;
 - Ms Larissa Maria Lima Costa (Brazil) had been designated to replace Mr Antonio Otávio Sá Ricarte for part of this session;
 - Mr Xie Jianmin (China) had been designated to replace Mr Niu Dun for this session;
 - Mr Mateo Nsogo Nguere Micue (Equatorial Guinea) had been designated to replace Mr Crisantos Obama Ondo as the representative of Equatorial Guinea for the remainder of the term of office;
 - Ms Hannah Laubenthal (Germany) had been designated to replace Mr Heiner Thofern for this session; and
 - Ms Elizabeth Petrovski (USA) had been designated to replace Mr Thomas M. Duffy for part of this session.
4. 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/>
5. In addition, silent observers from the following Members attended the 165th Session of the Committee:
 - Colombia
 - Cyprus
 - Denmark
 - Dominican Republic
 - European Union
 - Italy
 - Japan
 - Republic of Malta
 - Romania
 - Spain
 - United Kingdom

World Food Programme Matters

Addendum to the WFP Management Plan (2017-2019) – Use of the PSA Equalization Account

6. The Committee considered the *Addendum to the WFP Management Plan (2017-2019) – Use of the PSA Equalization Account*, which included: (i) proposals for four critical corporate initiatives in 2017 prioritizing implementation of the Integrated Road Map (IRM), Cost Excellence, evaluation and preparedness; and (ii) adjustments of advance financing ceilings within the corporate services financing mechanism.
7. The Committee noted that the proposed use of USD 13.5 million from the PSA Equalization Account would leave a projected closing balance at the end of 2017 of USD 166.8 million, which was still well above the target level agreed with the Executive Board.
8. The Committee welcomed the provision of additional detail on the IRM investment during the session which had not been included in the document presented to the Finance Committee. In reviewing the IRM budgetary information, the Committee noted the total estimated investment for 2017 of USD 45.36 million and the incremental budget (funding requirement) of USD 30.4 million. The Committee was informed that the bulk of IRM spending was anticipated for 2017 and the first quarter of 2018 and that a “Cost to Completion” was being prepared for presentation to the Executive Board at its forthcoming Session. While it was not possible to state categorically that there would be no further requests for funding in 2017, the Committee was informed that there were no plans at present for such a proposal. In the event that additional resources would be required for the IRM, WFP could make use of multilateral contributions for institutional strengthening if necessary and on which members would be appropriately informed.
9. The Committee highlighted the proposals for use of PSA savings in support of the IRM, stressing that WFP should ensure that this re-prioritization not detract from WFP’s emergency response capacity. The Committee was informed that staff savings represented around 1% of the PSA staff budget and represented part of the normal management of the PSA budget. As such, the impact on the organisation would be minimal.
10. The Committee also highlighted the significant re-prioritization undertaken in arriving at the incremental budget, and requested clarification on how this was achieved without an adverse impact on other areas. The Committee was informed that the re-prioritization of staff resources reflected the new way of doing business under the IRM, such that work performed under the current project and financial architecture would be replaced by work performed in support of the IRM.
11. The Committee noted the Critical Corporate Initiative request for Cost Excellence of USD 3.3 million in 2017, and the re-prioritization of USD 1.5 million in resources to be dedicated to the IRM in 2017. While the former was a one-time requirement, the latter was a recurring PSA saving which would be available for re-programming in the Management Plan (2018-2020).
12. **The Committee:**
- a) **reviewed the *Addendum to the WFP Management Plan (2017–2019) – Use of the PSA Equalization Account*;**
 - b) **recalled that the Management Plan (2017–2019) which the Committee had reviewed at its 163rd Session in November 2016 included an indicative amount of USD 15 million in 2017 to implement the Integrated Road Map and other non-recurring investments;**
 - c) **endorsed the proposed allocation of USD 13.5 million, as critical corporate initiatives, from the Programme Support and Administrative Equalization Account for: i) implementation of the Integrated Road Map (USD 8.2 million); ii) cost**

- excellence initiatives (USD 3.3 million); iii) evaluation (USD 1.5 million); and iv) preparedness (USD 0.5 million);
- d) **noted** that in addition to the proposed allocation of USD 8.2 million from the PSA Equalization Account, existing financial resources of USD 22.2 million would be reprioritized during 2017 for the IRM implementation, and took note of the assurances provided by the Secretariat that this reprioritization exercise would not affect WFP's operational capacity;
- e) **noted** the update on the corporate services financing mechanism, and looked forward to receiving further information on this as part of future management plans;
- f) **requested** the Secretariat to include the additional detail on the IRM incremental budget provided during the session in the relevant WFP Executive Board document; and
- g) **advised** the Executive Board, in accordance with Article XIV of the General Regulations of WFP, to approve the *Addendum to the WFP Management Plan (2017–2019) – Use of the PSA Equalization Account*.

Update on the Anti-Fraud and Anti-Corruption Policy

13. The Committee reviewed the *Update on the Anti-Fraud and Anti-Corruption (AFAC) Policy* following a briefing by the Inspector General and the Director of Finance and Treasury. It considered the efforts undertaken by WFP to counter fraud and corruption since the approval of the revised Anti-Fraud and Anti-Corruption Policy by the WFP Executive Board in June 2015, and further developments anticipated in 2017 and beyond as part of WFP's commitment to continuous improvement in line with best practices.

14. The update included an overview of WFP's response to a Joint Inspection Unit report on "Fraud Prevention, Detection and Response on United Nations System Organizations" that contained 15 recommendations for organizations. The Committee noted that 13 recommendations had been implemented by WFP, and that a fraud risk assessment and a counter-fraud strategy and action plan were being implemented in 2017. In 2017, WFP also planned to establish a counter-fraud management function to complement the independent activities carried out by the Office of the Inspector General, taking into consideration the findings of the fraud risk assessment.

15. The Committee commended WFP for the report, which was considered timely and informative. It considered that WFP's proactive efforts to counter fraud and corruption would enhance transparency and promote the organization's effectiveness, and expressed appreciation for WFP's efforts to increase awareness and train its personnel on ethics and counter-fraud matters through mandatory courses and targeted sessions.

16. The Committee sought clarifications on a number of issues, including whether increased investigation activity and detected instances of fraud indicated a deterioration in the control environment; on the consistency of counter-fraud clauses of WFP contracts with national legislation; on protections in place for individuals who submit allegations of wrongdoing; on the presentation of statistical information on investigations and proactive integrity reviews in governing body reports; on the financial disclosure processes for key personnel; on screening processes to avoid conflicts of interest among personnel; and on the process through which an investigation would be initiated in the event of prima facie evidence of fraud. The Committee received assurance that increased investigation activity and detected instances of fraud did not indicate a deterioration in the internal control environment of WFP.

17. In its consideration of Proactive Integrity Reviews (PIRs), a risk assessment tool introduced in the 2015 revised Anti-Fraud and Anti-Corruption Policy, the Committee,

- was informed that these reviews were proactively launched on the basis of a concern raised by the Office of the Inspector General or Management about specific fraud risks (compared to

investigations, which required an allegation) and were intended to detect and mitigate the risk of fraud and corruption and support managers to strengthen their offices' counter-fraud controls. PIRs were piloted in 2016 with five reviews utilizing varying methodologies for testing purposes;

- received assurances from the Inspector General that any prima facie evidence of fraud uncovered in the course of a PIR was immediately reviewed and investigated in line with formal processes for initiating and carrying out investigations;
- received an explanation that any other fraud risk identified during a PIR was considered by Management and the Office of the Inspector General for follow-up;
- was also informed that the Office of the Inspector General had prepared a PIR manual including Standard Operating Procedures (SOPs) which would be updated based on a lessons-learned exercise which was currently being performed, and that management was considering how best to integrate the still nascent PIR follow-up into the mature follow-up processes in place for other types of independent reviews; and
- was informed that the PIR tool was expected to be mainstreamed in the third quarter of 2017.

18. **The Committee:**

- a) **reviewed the *Update on the Anti-Fraud and Anti-Corruption Policy*;**
- b) **recalled that the Committee had reviewed the revised Anti-Fraud and Anti-Corruption Policy at its 158th Session in May 2015 prior to its approval by the WFP Executive Board at its 2015 Annual Session;**
- c) **noted and welcomed the progress and activities presented in the report on the implementation of the Anti-Fraud and Anti-Corruption Policy and the WFP governance, risk and control environment; and**
- d) **advised the Executive Board in accordance with Article XIV of the General Regulations of WFP to take note of the *Update on the Anti-Fraud and Anti-Corruption Policy*.**

Other Matters

Date and Place of the Hundred and Sixty-sixth Session

19. The Committee was informed that the 166th Session was scheduled to be held in Rome from 27 to 31 March 2017.