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Food
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Продовольственная и
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организация
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Наций

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

COUNCIL

Hundred and Thirty-sixth Session

Rome, 15 - 19 June 2009

**Report of the 127th Session of the Finance Committee
Rome, 27 – 28 May 2009**

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**REPORT OF THE HUNDRED AND TWENTY-SEVENTH SESSION OF THE
FINANCE COMMITTEE**

27 – 28 May 2009

Introduction

1. The Committee submitted to the Council the following report of its Hundred and Twenty-seventh Session, which had been convened at the request of the World Food Programme (WFP) to review financial issues that would be presented to the upcoming session of the WFP Executive Board.

2. The following representatives were present:

Chairperson:	Mr Yasser A.R. Sorour (Egypt)
Vice-Chairperson:	Mr Lee Brudvig (United States of America)
Members:	Mr MOUNGUI MÉDI (Cameroon)
	Mr Li Zhengdong (China)
	Mr Jean-Jacques Soula (France)
	Mr Eckhard W. Hein (Germany)
	H.E. Don Jorge E. Chen Charpentier (Mexico)
	Mr Aamir A. Khawaja (Pakistan)
	H.E. Don Eudoro Jaén Esquivel (Panama)

3. The Committee decided, under Rule II.3 of the Rules of Procedure of the Finance Committee to open, without prejudice to Rule II.3, the deliberations of its 127th Session to silent observers from all Member Nations of the Organization.

4. The Chairperson informed the Committee that Mr Søren Skafte (Denmark) and Mr Robert Sabiiti (Uganda) were regretfully unable to attend the 127th Session of the Finance Committee.

5. The Committee noted that the External Auditor was not present at the 127th Session.

6. The Committee welcomed the efforts exerted by the WFP Secretariat which led to the fact that the Committee received the documents pertaining to this session at a time which allowed members to study these documents.

World Food Programme Matters

**AUDITED ANNUAL ACCOUNTS, 2008
(WFP/EB/A/2009/6-A/1)**

7. The Secretariat presented the *WFP Annual Accounts, 2008*, the first financial statements prepared under International Public Sector Accounting Standards (IPSAS) within the UN system. The annual accounts were presented together with the report of the External Auditor, who gave an unqualified opinion on the accounts.

8. The Committee congratulated the Secretariat on the major achievement in being the first UN agency to implement IPSAS, highlighting that the improved information and presentation would greatly help the Committee in its future consideration of WFP issues. The Committee recognized the importance of IPSAS as an instrument that could further

strengthen WFP's Enterprise Risk Management (ERM) and Results Based Management (RBM) capabilities.

9. The Committee requested multiple clarifications on the investments of WFP including the investment objectives, the investment performance, the management and reduction of the legacy portfolio, the applicability of stop-loss policy, the measures taken to reduce the risk profile of the investments and the long term investment of employee benefit funds.

10. The Secretariat conveyed that the IPSAS financial statements presented the reader more insight than previously in financial risk management, with the notes outlining the breakdown of cash and investments as well as interest and investment income. The impact of the market volatility faced in 2008 was primarily due to the recognition of unrealized losses based on the IPSAS mark-to-market principle. Market liquidity for asset-backed and mortgage-backed securities, all rated AAA at the time of purchase, had reduced and therefore asset prices of these securities were impacted. The under-performance of the short term investments entrusted to the external investment managers significantly impacted investment income, and realized and unrealized losses exceeded interest income by USD 9.6 million during the calendar year. This should be seen in the context of the interest and investment income of USD 300 million in the period 2000-2007, and medium term performance of the short term investment had been positive at 3.2% per annum since 2000.

11. The Secretariat stressed that security of principal was the first investment objective, followed by liquidity and rate of return and conveyed that the average credit rating of the short term investments remained very high at AAA/AA+. Nevertheless, the Secretariat determined that the volatility of investment returns faced in 2008 was not acceptable and had implemented a number of measures to reduce the risk profile of the investments (as presented to the Executive Board in February 2009) including a reduction in size of short term investments and a corresponding increase in money market holdings; as well as implementation of new and more conservative investment guidelines

12. A specific stop-loss policy is not included in the investment guidelines and the application of such would have been difficult in the illiquidity market circumstances. Securities no longer in compliance with the more conservative guidelines were placed in a segregated legacy portfolio and were gradually divested by two investment managers. The size of the legacy portfolio was reduced from USD 152 million (11% of total cash and investments) to USD 102 million (7%) during the first four months of 2009.

13. With regards to the long term investment of employee benefit funds, the Secretariat clarified that these were made to service the long term employee liabilities of the Programme. Since 2003 the Secretariat had invested USD 96 million in the employee benefit funds in bonds and equities which had risen in value to USD 107 million at the end of 2008. Compared to the rest of the UN system WFP had one of the highest ratios of funding versus liabilities. The investment objectives and guidelines for the employee benefit funds take into account the long term investment horizon and the asset class of equities was still considered suitable in this regard. The Secretariat would commission an asset-liability study in 2009 to determine the appropriate asset allocation for the employee benefit funds based on the changed market environment.

14. The Secretariat accepted the Committee's recommendation that the investment policy and guidelines were to be shared with the Executive Board.

15. Regarding the appropriateness of the levels of cash held by WFP, the Secretariat explained that cash levels were related to the cycles of donor contributions (for receipts) and the rate of project implementation (for payments). Cash balances increased by approximately USD 200 million during 2008 while the Programme of Work almost doubled. .

16. In the discussion of inventory balances the Secretariat highlighted that the amount of commodities held at the year end very much depends on country specific factors.

Commodities had been prepositioned in some countries to ensure an adequate pipeline where transport and weather conditions made this necessary, while in other countries such prepositioning was not as necessary. On average the stock held at year end represented 2.6 months of WFP global requirements.

17. The Committee expressed its concern over the presentation within the financial statements of losses, write offs and ex-gratia payments, totaling USD 20.5 million as outlined in Table 7 of the External Auditor's report. It welcomed the Secretariat's intention to develop, in consultation with the External Auditor, a more consolidated overview of these as part of future financial statements.

18. The Committee welcomed the proposal to amend Financial regulation 13.1 to read as follows: "*The Executive Director shall submit to the Board for its approval annual financial statements in respect of the WFP Fund, including its funds and accounts. These financial statements shall be prepared in accordance with the International Public Sector Accounting Standards (IPSAS).*"

FINANCIAL FRAMEWORK REVIEW (WFP/EB/A/2009/6-C/1)

19. The Secretariat introduced the document, a first of three reports that were to be issued to the Executive Board on the review of the financial framework. A second paper conveying the results of the review and highlighting any issues or decisions for eventual Board approval, would be presented at the November 2009 session. In the first session of 2010, a paper with changes requiring Board approval would be tabled (if necessary). The review was initiated in order to ensure that WFP financial framework was fully aligned to the strategic plan and supported WFP strategic objectives. The current document outlined the focus of the review and detailed the creation of the internal Strategic Resource Allocation Committee (SRAC) that would oversee resource allocation decisions in WFP.

20. The Committee welcomed the review of financial framework and was interested in receiving comparative reports from other agencies. Some members enquired about the relationship the SRAC would have with the finance function. The Secretariat responded by explaining that the SRAC would allow a strategic partnership between the departments within WFP, achieving greater consultation between operational, resourcing and financial decision makers.

21. The Committee highlighted that it would be important to improve coherence and consistency in and between programme categories; to develop clear funding channels, with top priority given to reinforcing transparency in resource allocation and reducing earmarking of funds. The Committee also stressed the need to develop strategies for emerging donors.

22. While welcoming in general the interest of private sector entities to provide services to WFP on a *pro bono* basis, the Committee had several queries regarding the relationship between WFP and the Boston Consulting Group (BCG), which was providing WFP with consulting services including in support of the Financial Framework Review on such a basis valued at some USD 3 million a year since 2003. The Committee welcomed the assurance that the input provided by the BCG has been helpful and relevant to WFP.

23. In noting the fact that BCG had also been a commercial provider of services, the Committee was concerned that any provider of *pro bono* services could be put at an unfair advantage when competing for commercial work at WFP. The Secretariat described the competitive tendering process put in place for all WFP service providers and the selection criteria, approved by the WFP Executive Board, for partnering with private sector partners – including measures provided for in applicable rules that were intended to mitigate the risk that providers of *pro bono* services would be placed at an advantage in seeking commercial contracts from WFP. The Committee stressed that the rules should be enforced and strictly applied.

24. The Committee welcomed the report, took note of the establishment of the SRAC and the intent for the SRAC to commence work in the ensuing week, and looked forward to future discussions on the issue.

**REPORT ON IMPLEMENTATION OF THE EXTERNAL AUDITOR'S
RECOMMENDATIONS
(WFP/EB/A/2009/6-D/1)**

25. The Secretariat introduced the report on the progress toward implementation of External Auditor's recommendations, produced by the Secretariat on an annual basis. Although the document indicated that 18 of the 36 recommendations were deemed complete (a completion rate of 50%), 8 of the incomplete recommendations had been received very recently. If these recommendations were excluded the completion rate was approximately 64%.

26. Members asked about implementation of decentralization guidelines, the Secretariat responded that they would be included in the Management Plan 2010-2011. The Committee also asked about implementation of recommendations referring to Managing for Results. The Secretariat acknowledged that while the item was deemed completed, some tools were still being refined, such as the PACE system.

27. In regards to disclosure of senior staff salaries the Secretariat highlighted that the current disclosures were IPSAS compliant and noted that in some areas salary disclosure could be a security issue and the issue was being discussed in close cooperation with other UN agencies. Because disclosure had been recommended by the External Auditor and supported in principle by the Finance Committee, the Secretariat agreed to give the matter due consideration.

**REPORT OF THE INSPECTOR-GENERAL
(WFP/EB/A/2009/6-E/1)**

28. The Inspector General (IG) introduced the report and noted significant improvement in the Programme's governance and oversight in the past year. These included the implementation of IPSAS which contributed to improvements in Inventory Management, Property, Plant and Equipment Management, and Payments Management through accrual system; the development of WINGS II, establishment of the Ethics Office, the adoption of the Financial Disclosure Policies, and modification of the Whistleblower Protection Policy. Nevertheless, the Committee noted that there were areas requiring improvement which have been identified by the Office of Internal Audit as noted in the report, in particular in the IT area.

29. The Committee recognized the quality of internal audit and inspection and investigation functions in WFP as evidenced by the highest quality ratings given by the Institute of Internal Audit (IIA) in its review of the internal audit and by the Anti-fraud Office of the European Commission (OLAF) and the Inter-American Development Bank (IADB) in their review of the investigation functions.

30. Overall, the Committee found the report informative and useful, and commended the progress achieved in oversight and noted the plan to develop an Information Disclosure Policy and an Anti-fraud Policy. However, members suggested that future reports should contain positive aspects of oversight, as the present report mainly highlighted negative issues only. Members noted that complaints in the category of harassment and sexual harassment were about the same as in the previous year.

31. In response to the Committee's questions, the IG explained the following:

- That the report described the activities and findings of the Oversight Services Division for the information of the Executive Board (EB). Reports on individual audits

and investigations are presented to the Executive Director, and categorize findings as *high*, *medium* or *low* risk. Further, the IG informed the Committee that WFP was in the process of developing a policy on information disclosure, which would include the sharing of Internal Audit reports with the EB membership;

- There were 31 complaints of harassment/sexual harassment/abuse of power in 2008 in WFP (which had 13,000 people working for it). Because of WFP's zero tolerance policy on this issue, and also of actions taken by newly established offices such as Ombudsman, Ethics Office, and the Counsellor, more staff were aware of the policy and had been coming forward with complaints. However, it was noted that actual cases of investigations that arise from complaints were fewer in 2008 than 2007. The IG explained the process of converting complaints to cases which is done only after supporting information and evidence is evaluated and considered adequate to warrant an investigation case;

- On staffing and resources, the IG confirmed that staff increased by only 16% since 2004, whereas OSD's budget doubled during this period due to cost increases, driven primarily by the exchange rate between the Euro and the US Dollar. Staff is distinctively allocated to the Office of Internal Audit and the Office of Inspection and Investigations. However, investigations are undertaken as required and inspections are undertaken if resources are available. In 2008, due to high investigation case load, only one inspection was undertaken;

- On Enterprise Risk Management, a policy was approved by the Board in 2005. OSD continued to assist with training on risk management, where required. More recently, ERM was placed under the Accountability Department and was being linked to RBM;

- Of the two outstanding recommendations from the IIA review of OSDA, one was the implementation of ERM; the other related to the independence of Oversight Services Division. Towards this, the Executive Director had established a fixed term for the Inspector General, further changes on the new role of the Audit Committee, disclosure of audit information to the membership and any other improvement in oversight would require updating the Oversight Services Division charter, which would be approved by the Executive Director;

- With regard to the selection of country offices to be audited, the IG explained that this is based on risk assessment of various country offices. Because of volume of operations, staff involved, offices involved and other complexities in Africa, there are more audits performed in that continent than elsewhere;

- Monitoring of commodities and programme implementation had been identified as a frequent weakness over many years. The two major recent initiatives, namely IPSAS and WINGS II, were expected to improve on monitoring of commodities and programmes activities

32. The Committee welcomed the fact of Information Technology being audited for the first time as an element of the process-based audit, and noted with some concern that more weaknesses were highlighted in that area.

FIFTH UPDATE ON THE WFP MANAGEMENT PLAN (2008-2009) (WFP/EB/A/2009/6-F/1)

33. The Secretariat presented the final update on the 2008-2009 WFP Management Plan, with a revised Programme of Work of USD 11.8 billion for the two years. The Update included a resource projection of USD 8.4 billion for the two years and an updated Programme Support and Administrative (PSA) equalization account projection which showed a forecasted closing balance sufficient to approximately four months of PSA.

34. The Committee sought clarification on the difference between Indirect Support Costs (ISC) projected to be received (USD 505 million in 2008-2009) in the PSA equalization account forecast, which depends on the resource forecast, and the total ISC income requirement (USD 771 million in Table 1), which was based on the full Programme of Work.

35. The Committee also sought greater detail on the increases in the Programme of Work, which the Secretariat agreed to provide as an attachment to the Report of the Finance Committee when transmitted to the Executive Board (see Annex).

36. The Committee commented – and the Secretariat confirmed - that in the future, different sources of operational reporting would be better aligned due to the adoption of IPSAS and the recent organizational restructuring.

**REPORT OF THE EXECUTIVE DIRECTOR ON THE
UTILIZATION OF CONTRIBUTIONS AND WAIVERS
OF COSTS (GENERAL RULES XII.4 AND XIII.4 (G))
(WFP/EB.A/2009/6-H/1)**

37. The Committee noted the report on the use of unrestricted cash resources to purchase commodities and waivers of ISC, which was produced in response to Financial Regulation requirements. The Committee suggested to add information to the report which would make it more relevant, namely to include the purchases of commodities from all resources, and not just untied cash resources.

**APPOINTMENT OF MEMBERS TO THE AUDIT COMMITTEE
(WFP/EB.A/2009/6-B/1 AND WFP/EB.A/2009/6-B/1-ADDENDUM)**

38. The Secretariat presented the document outlining the ED proposal for appointment of the new Audit Committee members, noting that the selection was made according to criteria adopted: that candidates must have recent and relevant financial experience, some of the members of the Audit Committee must have senior level audit experience and be independent of both the Secretariat and the Executive Board.

39. The Committee welcomed the good mix of finance, audit and political experience on the Audit Committee and stressed the need for geographical balance.

40. On the basis of the qualifications of the two candidates and the criteria on the selection of members which were taken into account, the Finance Committee endorsed the two candidates proposed.

**ANNUAL REPORT OF THE WFP AUDIT COMMITTEE
(WFP/EB.A/2009/6-G/1)**

41. The Finance Committee welcomed the opportunity to review the *Annual Report of the WFP Audit Committee* which, as per revised terms of reference was being submitted to the Executive Board. The report outlines the composition and functions of the Audit Committee and comments on IPSAS implementation, the preparation of the Financial Statements and issues such as internal controls, risk management and external audit. The Audit Committee noted the difficulties in the implementation of WINGS II.

42. The Committee also supported the need to clarify the role of the Audit Committee and its interaction with other audit bodies; and the dual reporting line to the Executive Director; and the Executive Board, and its Advisory Bodies (the Finance Committee and the Advisory Committee on Administrative and Budgetary Questions); as well as involvement of the Audit Committee in selecting the External Auditor.

43. Given the role of the Audit Committee as an advisory body, the Committee stressed the need to recognize the conclusions of the Audit Committee as recommendations to the Executive Director and the Executive Board, and not as decisions as mentioned in paragraph 10 of the Audit Committee report. The Committee also requested that a member of the Audit Committee be present in the session of the Finance Committee when future reports of the WFP Audit Committee are presented.

UPDATE ON THE WINGS II PROJECT (WFP/EB.1/2009/6-I/1)

44. The Secretariat presented the latest update on the WINGS II project, highlighting that the project was in the final stages of preparation for go-live which was scheduled for 1 July 2009. Since the paper was prepared at the end of April, further progress had been made in testing, data migration and organizational readiness.

45. The Committee welcomed the document but stressed the need to implement the relevant recommendation in the reports *Progress on Implementation of the External Auditor Recommendations* (Recommendations 2 to 4) and taking into account the *Report of the WFP Audit Committee* (Paragraph 52), and stressed the need for an assessment of the costs and benefits of WINGS II.

46. The Committee drew the attention of the Executive Board to paragraph 22 of the WINGS II document (WFP/EB.1/2009/6-I/1). The WINGS II 2009 Edition would not deliver a number of functionalities which had been deferred for budgetary reasons and to reduce complexity and risk of implementation. Therefore, the full cost of WINGS II would exceed the budget allocation of USD 56.5 million if the deferred functionalities were to be delivered.

47. The Committee looked forward to an update on the costing and timing for the implementation of the deferred functionalities.

Other Matters

DATE AND PLACE OF THE HUNDRED AND TWENTY-EIGHTH SESSION

48. The Committee was informed that the 128th Session was scheduled to be held in Rome from 27 to 31 July 2009.

ANY OTHER MATTERS

49. The Committee reiterated its resolve for further definition of its role vis-à-vis the WFP governance structure by means of future engagement between the Chairperson and the President of the Executive Board. The Committee recommended that the Chairperson of the Finance Committee present the report of the Committee at the WFP Executive Board session.

50. The Committee expressed the need to reconsider criteria for presenting Executive Board documents to the Finance Committee, and that a meeting should be held between the Chairperson of the Finance Committee and the Executive Board Bureau to discuss this matter.

ANNEX

*Additional information on projected increases in requirements outlined in document
“Fifth Update on the WFP Management Plan (2008-2009)”*

Table 1: Increases in requirements for projects listed as 'Other' in the 5th Management Plan Update (2008-2009)

Country Office	Project	Increase in requirements (US\$ million)
Kyrgyzstan	EMOP 10804.0	11.86
Ethiopia	PRRO 10665.0	11.68
Tajikistan	PRRO 10603.0	8.66
Central African Republic	DEV 10361.0	5.38
Afghanistan	SOP 10514.0	5.14
Uganda	DEV 10792.0	4.97
Burkina Faso	DEV 10399.0	4.53
Pakistan	PRRO 10504.0	4.34
Yemen	EMOP 10806.0	3.72
Burundi	PRRO 10528.1	3.16
Yemen	EMOP 10684.0	2.62
Myanmar	SOP 10751.0	2.61
Syria	EMOP 10778.0	2.54
Nepal	PRRO 10676.0	2.45
Malawi	PRRO 10309.1	2.25
Kenya	CP 10668.0	2.02
Other*		8.86
TOTAL		86.79

* The line item 'Other' in this table includes the impact of more than 200 project budget revisions

Table 2: Increases in requirements by individual project, for countries with several projects, listed in the 5th Management Plan Update (2008-2009)

		(US\$ million)
Democratic Republic of the Congo	EMOP 10824.0	27.77
	Special Operation 10556.0	13.06
		<u>40.83</u>
Occupied Palestinian Territory	EMOP 10817.0	78.97
	Special Operation 10815.0	3.34
		<u>82.31</u>
Somalia	EMOP 10812.0	65.18
	Special Operation 10681.0	11.50
		<u>76.68</u>
Uganda	Country Programme 10807.0	22.54
	PRRO 10121.3	81.02
	PRRO 10121.2	22.71
	EMOP 10811.0	77.77
		<u>204.04</u>