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# COUNCIL

## Hundred and Sixty-eighth Session

29 November–3 December 2021

### Report of the 186th Session of the Finance Committee (7–9 June 2021)

#### Executive Summary

At its 186th 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 2021.

#### 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 in June 2021.

*Queries on the substantive content of this document may be addressed to:*

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## Introduction

1. The Committee submitted to the Council the following report of its Hundred and Eighty-sixth Session.
2. In addition to the Chairperson, Ms Imelda Smolčić Nijers (Uruguay), the following representatives of Members were present:
 

<ul style="list-style-type: none"> <li>• Ms Kristina Gill (Australia)</li> <li>• Mr Manash Mitra (Bangladesh)</li> <li>• Mr Rodrigo Estrela de Carvalho (Brazil)</li> <li>• Mr Haitham Abdelhady Elsayed Elshahat (Egypt)</li> <li>• Mr Addisu Melkamu Kebede (Ethiopia)</li> <li>• Mr Ramón Lohmar (Germany)</li> </ul>	<ul style="list-style-type: none"> <li>• Mr Toru Hisazome (Japan)</li> <li>• Mr Benito Santiago Jiménez Sauma (Mexico)</li> <li>• Mr Farid Moustapha M. Sanda (Niger)</li> <li>• Mr Vladimir V. Kuznetsov (Russian Federation)</li> <li>• Ms Saadia Elmubarak Ahmed Daak (Sudan)</li> <li>• Ms Elizabeth Petrovski (United States of America)</li> </ul>
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3. The Chairperson informed the Committee that:
  - Ms Kristina Gill (Australia) had been designated to replace Ms Lynda Hayden as the representative of Australia for this session;
  - Mr Ramón Lohmar (Germany) had been designated to replace Mr Heiner Thofern as the representative of Germany for this session;
  - Mr Addisu Melkamu Kebede (Ethiopia) had been designated to replace H.E. (Ms) Zenebu Tadesse Woldetsadik as the representative of Ethiopia for this session;
  - Mr Farid Moustapha M. Sanda (Niger) had been designated to replace Ms Tahirou Rahila Rabiou as the representative of Niger for this session;
  - Ms Elizabeth Petrovski (United States of America) had been designated to replace Ms Jennifer Harhigh as the representative of the United States of America for 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. The 186th Session of the Finance Committee was convened virtually on an exceptional basis due to the COVID-19 pandemic. The Finance Committee confirmed, pursuant to Rule VII of the rules of procedure of the Finance Committee, that it agreed to suspend Rule II(4) of the rules of procedure of the Committee which requires that sessions shall be held at the seat of the Organization.
6. In addition, silent observers from the following Members attended the 186th Session of the Committee:
 

<ul style="list-style-type: none"> <li>• Bahamas</li> <li>• Belgium</li> <li>• Cabo Verde</li> <li>• Cameroon</li> <li>• Dominican Republic</li> <li>• Guinea</li> <li>• Haiti</li> </ul>	<ul style="list-style-type: none"> <li>• India</li> <li>• Indonesia</li> <li>• Kenya</li> <li>• Kuwait</li> <li>• Lesotho</li> <li>• Panama</li> <li>• Portugal</li> </ul>	<ul style="list-style-type: none"> <li>• Senegal</li> <li>• Thailand</li> <li>• Turkey</li> <li>• Uzbekistan</li> <li>• Venezuela (Bolivarian Republic of)</li> <li>• Zimbabwe</li> </ul>
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## World Food Programme Matters

### Audited Annual Accounts, 2020

7. The Committee reviewed WFP's *Audited Annual Accounts, 2020*.
8. The Committee was informed that in 2020, WFP's revenue (USD 8.9 billion) and expenses recognized (USD 8.1 billion) grew by 8 and 6 percent respectively, resulting in a surplus of USD 0.8 billion. WFP's net assets at the end of 2020 stood at USD 6.8 billion while the final needs-based budget amounted to USD 13.3 billion.
9. The Committee commended WFP for its strong financial position and performance and sought clarifications on the inventory level, long-term investments and employee benefit liabilities. The Committee noted that WFP's inventory value had increased due to a change in inventory composition because higher value commodities were held in inventory at year-end, the increase in long-term investments exceeded the increase in employee benefit liabilities, and the discount rates used in the actuarial valuation were impacted by a change in liability currency mix estimates in addition to economic movements.
10. The Committee received assurances from Management of its commitment to implement all audit recommendations.
11. The Committee identified as important: implementation of recommendation 1 calling for inclusion of an implementation plan with expected resource levels in the Management Plan document; and implementation of recommendation 2 to establish a written procedure for regular updates to the Financial Resource Management Manual, while also highlighting the need to monitor these types of controls overall.
12. **The Committee:**
  - a) **examined WFP's 2020 Audited Financial Statements together with the Audit Opinion and the Report of the External Auditor;**
  - b) **noted that the External Auditor had completed the audit in accordance with the International Standards on Auditing, and had provided an unqualified audit opinion;**
  - c) **welcomed the recommendations presented in the Report of the External Auditor and encouraged Management to take action to address these recommendations within the timelines set out in the Report; and**
  - d) **recommended that the Executive Board approves the 2020 Annual Financial Statements of WFP, together with the Report of the External Auditor.**

### Report on the utilization of WFP's advance financing mechanisms (1 January–31 December 2020)

13. The Committee reviewed the *Report on the Utilization of WFP's Advance Financing Mechanisms (1 January–31 December 2020)*.
14. The Committee supported WFP's use of advance financing mechanisms as an important means to increase flexibility, responsiveness, and efficiency of WFP's operations.
15. The Committee noted the inherent risk in Internal Project Lending and Macro Advance Financing, and the rationale for an operational reserve to serve as a safety net in the event of a default. It was informed that no defaults had occurred for a number of years, nor were foreseen from 2020 activities. Management clarified that considering the significant operational benefits from such a facility, an occasional default should not necessarily be regarded as a failure. The Immediate Response Account (IRA) provided uncollateralized advances and therefore, by design, the IRA allocations could be converted into grants.

16. The Committee received clarifications that USD 20 million of the Global Commodity Management Facility envelope was allocated to procurement from smallholder farmers, but this did not exclude any potential expansion, should the need arise.

17. **The Committee:**

- a) **welcomed the Report on the Utilization of WFP’s Advance Financing Facilities (1 January–31 December 2020);**
- b) **noted with satisfaction the comprehensive presentation of information on the use of WFP’s advance financing mechanisms during 2020; and**
- c) **recommended that the Executive Board approve the proposed increase to the ceiling of the Global Commodity Management Facility from USD 560 million to USD 660 million.**

#### **Revised anti-fraud and anti-corruption policy**

18. The Committee reviewed the *Revised anti-fraud and anti-corruption policy*.

19. The Committee was informed on:

- a. the rationale for the policy improvements which included strengthened management accountability;
- b. changes incorporated since the March 2021 Executive Board informal consultation; and
- c. the roll-out of the policy, including the plan to engage internal stakeholders.

20. The Committee was provided clarifications on several aspects, including: provisions in third party contracts; resource allocation; application of lessons learnt; how WFP will equip directors to escalate material cases; how overall success of policy implementation will be measured; determination of materiality; referral to national authorities; and interagency and partner sharing on best practices.

21. The Committee welcomed the revised policy and appreciated its emphasis on tone at the top, zero tolerance for inaction, and first and foremost reporting to the Office of the Inspector General (OIG). The Committee underlined the importance of prompt remediation of internal control issues by Management without affecting the investigation process.

22. **The Committee:**

- a) **reviewed the revised anti-fraud and anti-corruption policy;**
- b) **welcomed the improvements introduced to the updated policy that would strengthen management accountability through more transparent and comprehensive reporting and thereby enable WFP to address and remediate control concerns more promptly and effectively; and**
- c) **recommended that the Executive Board approve the revised anti-fraud and anti-corruption policy.**

#### **Revised policy for the disclosure of oversight reports issued by the Office of the Inspector General**

23. The Committee reviewed the *Revised policy for the disclosure of oversight reports issued by the Office of the Inspector General*.

24. The Committee appreciated OIG’s commitment to transparency. The Committee was provided clarifications on: special purpose reviews; sharing of information relevant to the Board on advisory matters, highlighting the policy’s adherence to professional standards, and on HSHAAD cases; and the 30-day delay before public disclosure of audit reports.

25. The Committee welcomed confirmation that they would receive notification on when documents were posted on the membership-only restricted area.

26. **The Committee:**

- a) **welcomed** the revised policy for the disclosure of oversight reports issued by the Office of the Inspector General;
- b) **welcomed** the revisions that would: align the policy with the standard practices of United Nations system entities; update the policy to take into account new forms of oversight reports currently being issued and new practices that had been introduced since 2017; and align the policy with the charter of the Office of the Inspector General, which was updated with the approval of the Board in 2019; and
- c) **recommended** the Executive Board to approve the revised policy for the disclosure of oversight reports issued by the Office of the Inspector General.

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

27. The Committee reviewed the *Annual Report of the Inspector General* and the *Note by the Executive Director on the Annual Report*.

28. The Committee welcomed the favourable opinion issued by the Office of the Inspector General (OIG) and the conclusion that no material weaknesses were identified. It highlighted areas of concern raised in the report that reflected their own concerns and those of other oversight bodies, including on integration of fragmented digital platforms, including those for beneficiary management, and disaggregation of gender data.

29. On beneficiary management, the Committee noted that Management's statement that the area of internal control was on track appeared to contrast with OIG's report as well as the Report of the External Auditor on the management of information on beneficiaries. Management clarified that beneficiary management and information technology solutions were reported as a significant risk and internal control matter in the statement on internal control, and remained prioritized for further attention in 2021. Specific concerns were also raised on loss reporting, for Cash Based Transfers in particular, in terms of how losses were defined, and materiality considered.

30. The Committee supported an increase in the budget allocation to OIG along with an increase in the number of staff and hoped that this would allow for broader audit and investigations coverage. It noted also the sharp increase in investigation cases during the period as well as the increase in caseload per investigator and suggested that this could require an even greater increase in resources.

31. The Committee upon inquiry was informed by the Inspector General that Management has the responsibility for setting and testing internal controls.

32. **The Committee:**

- a) **considered** the *Annual Report of the WFP Inspector General* together with the *Note by the Executive Director on the Annual Report*;
- b) **noted** the assurance opinion issued by the Inspector General that the oversight work performed did not disclose any significant weaknesses in the governance, risk management and control processes in place across WFP that would seriously compromise the achievement of WFP's strategic and operational objectives;
- c) **welcomed** stronger collaboration with the investigative functions of UN agencies and cooperating partners and encouraged Management to continue this practice;
- d) **highlighted** the recurrence of concerns on SCOPE and beneficiary management and the urgency to holistically address the concerns expressed by the different oversight bodies; and
- e) **advised** the Executive Board to take note of the *Annual Report of the Inspector General* and to encourage Management to take advantage of the opportunities for further improvement in various areas highlighted in the report.

### Management review of significant risk and control issues, 2020

33. The Committee reviewed the *Management review of significant risk and control issues, 2020*.

34. The Committee was provided an overview of seven risk areas carried over from 2019. Strong progress was made in three areas<sup>1</sup> which reached an adequate level of maturity on account of recent and ongoing efforts, and WFP would continue to take actions in the remaining four areas prioritized<sup>2</sup> for further attention in 2021. The Committee was informed that the issues were illustrated through thematic analysis and quotes collected from WFP's 127 senior managers during the Executive Director's Assurance Exercise, which was further streamlined in 2020; and apprised of material events escalated to Management during the period.

35. The Committee welcomed the Management Review and complimented the Enterprise Risk Management division for the thorough and rich analysis and insight it provided to stakeholders. The Committee was informed on how Management used the information to further strengthen risk and controls and received clarification on key technical matters, including: progress on monitoring and review systems; efforts to address risks related to workplace culture and conduct; workforce planning initiatives, including in gender diversity and inclusion; and NGO management. The Committee upon inquiry was informed that minimum controls were being incorporated into processes for Regional Bureau oversight.

36. **The Committee:**

- a) **welcomed the document, which provided further description and helpful analysis of seven risk and control matters identified as significant in the 2019 Statement of Internal Control and updates on the progress achieved in 2020;**
- b) **encouraged Management to continue to take actions to mitigate these risks, in particular in the four areas prioritized for further action, to ensure the most efficient and effective use of WFP's resources and the safeguarding of its assets; and**
- c) **recommended the Executive Board to take note of the *Management review of significant risk and control issues, 2020*.**

### Annual Report of the Audit Committee

37. The Committee reviewed the *Annual Report of the Audit Committee* for the period 1 April 2020 to 31 March 2021.

38. The Committee noted the information provided by the Audit Committee that while the Enterprise Risk Management (ERM) function had been strongly reinforced and tangible improvements achieved over the years, more effort was needed to measure and monitor residual risk and act on identified risks, in particular given the significant growth of the level of activities of the Organization. The Committee noted the Audit Committee's observation on the need to increase the resources allocated to the Office of Inspections and Investigations so that the Office could efficiently process the increasing number of investigations. The Committee was informed that, beyond ensuring its independence, the ethics function should also allow for greater interaction with the line functions so that its recommendations and advice could be more easily incorporated into WFP's activities. The Committee noted that a software upgrade of the SCOPE system to fully streamline the data might be required.

39. **The Committee:**

- a) **acknowledged the important role of the Audit Committee and encouraged the Audit Committee in its ongoing work;**

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<sup>1</sup> Monitoring and review systems; capacity to scale-up to respond to emergencies; and food safety and quality.

<sup>2</sup> Workplace culture and conduct; talent management and workforce planning; non-governmental organizations management; and beneficiary management and information technology solutions.

- b) **appreciated the guidance provided by the Audit Committee in the areas under its mandate, in particular on: enterprise risk management; internal audit and investigations; people policy and strategic workforce planning; ethics activities and ethics culture; beneficiary management and future planning in WFP;**
- c) **highlighted the recommendations made in the Annual Report of the Audit Committee to further strengthen the ERM function; and**
- d) **recommended the Executive Board to take note of the Report.**

#### **Report of the External Auditor on critical corporate initiatives and WFP management response**

40. The Committee reviewed the *Report of the External Auditor on critical corporate initiatives* and the management response to the recommendations.
41. The Committee welcomed the report, which addressed the Executive Boards' requests to provide more information on prioritization, appraisal, management and reporting of CCIs, and supported all the recommendations.
42. The Committee was pleased to note that Management agreed with the recommendations made in the External Auditor's report and noted the implementation timeframes, ranging from Q3 2021 through Q4 2022. Regarding recommendation 5, which had been partially agreed in the management response, Management clarified that it was open to including a specific decision point on each critical corporate initiative in the draft decision of future Management Plans.
43. The Committee recalled that it had previously expressed its concern about the nature of CCIs presented for funding through the PSAEA. Management acknowledged that the numerous individual CCIs below USD 1 million in the period from 2015 through 2018 did not reflect an adequate application of the CCI criteria established with the Board in 2014. It opined that the application of the CCI criteria and the presentation had since gradually improved, while implementation of the recommendations would greatly strengthen the rigour in planning, monitoring, governance and reporting of CCIs in future.
44. The Committee was provided assurances that Management was also following up on recommendations contained in Annex I of the External Auditors' report, which were not addressed to the Board.
45. The External Auditor acknowledged that WFP had started work on several issues identified in the report before the Audit was launched, particularly through the foundational work of the bottom up strategic budgeting exercise (BUSBE). Management explained that this included initiatives such as the engagement of the field in allocation decisions on Investment Cases, and better definition of CCIs. Management also recalled that the Annual Performance Report for 2020 included detailed information on CCI expenditures and comparison with budgets, implementation time frame and the benefits achieved.
46. **The Committee:**
- a) **expressed its appreciation for the report of the External Auditor on critical corporate initiatives and its expectation of increased rigour and information provided in future proposals and follow-up reporting on CCIs;**
  - b) **noted the management response to the recommendations, including clarification on recommendation 5 which had been partially agreed;**
  - c) **encouraged Management to implement the recommendations within the timeline outlined in the document, as well as actions for the Secretariat's attention described in Annex 1; and**
  - d) **looked forward to being periodically updated on the progress in implementing the recommendations as well as on the actions for the Secretariat's attention described in Annex 1.**

## **Report of the External Auditor on the management of information on beneficiaries and WFP management response**

47. The Committee reviewed the *Report of the External Auditor on the management of information on beneficiaries* and the management response to the recommendations.
48. The Committee was provided clarifications on:
- a. how WFP intended to apply the ten criteria to evaluate Country Offices' beneficiary management capacity (recommendation 2);
  - b. WFP's views on reporting of indirect beneficiaries (recommendation 4);
  - c. WFP's future actions to improve quality of targeting (recommendation 6);
  - d. reasons why recommendation 7 was partially accepted; and
  - e. WFP's vision for digital beneficiary information management (recommendations 9 and 11).
49. The Committee welcomed WFP's acceptance of the Audit recommendations and was informed that:
- a. the ten criteria listed in recommendation 2 were well noted and were taken into account in WFP's current effort to improve data quality;
  - b. the recommendation on counting indirect beneficiaries was fully accepted and that Tier 3 would be mainly emphasized in impact evaluations;
  - c. WFP prioritized achieving a greater quality in targeting and was working on it in a holistic way, in line with the findings of other recent audits;
  - d. the caveat put in response to recommendation 7 was a protection safeguard, aimed at protecting beneficiaries from the blanket publication of potentially sensitive information;
  - e. WFP was working on developing an integrated digital ecosystem, regulated by common standards and technical interoperability allowing central oversight and reporting; and
  - f. SCOPE would be part of this ecosystem as *primus inter pares*.
50. The External Auditor recommended that Management inform the Executive Board about those countries in which SCOPE cannot be deployed and why.
51. **The Committee:**
- a) **expressed its appreciation for the report of the External Auditor on the management of information on beneficiaries;**
  - b) **noted the management response to the recommendations, including clarifications on recommendation 7, which had been partially agreed; and**
  - c) **encouraged Management to implement the recommendations within the timeline outlined in the document.**

### **Report on the implementation of the External Auditor's recommendations**

52. The Committee reviewed the *Report on the Implementation of the External Auditor's Recommendations*.
53. The Committee was informed that 31 out of 56 recommendations outstanding in June 2020 were closed, with a 55 percent implementation rate, exceeding the 52 percent rate of the previous quinquennium. The External Auditor commented on the closure of these recommendations. Of the 25 open recommendations, 24 were targeted for closure within 2021. There were seven new recommendations from the 2020 audited annual accounts.
54. The Committee received clarifications on:
- a. continuing efforts to strengthen and harmonize the oversight role of Regional Bureaux, noting that the External Auditor would conduct a performance audit on Management Oversight in 2021;

- b. implementation of the vendor management investment case project and related discussions to upgrade the WINGS<sup>3</sup> software;
- c. digitalization of the cooperating partners management process, including field-level agreements, to improve performance oversight; and
- d. progress made to complete the staffing framework and the consultant policy.

55. **The Committee:**

- a) **noted the status of implementation of outstanding recommendations of the External Auditor;**
- b) **encouraged the Secretariat to implement the remaining outstanding recommendations within the timelines indicated in the report; and**
- c) **recommended that the Executive Board take note of the Report on the Implementation of the External Auditor Recommendations.**

### **Utilization of the self-insurance special account surplus**

56. The Committee reviewed the document *Utilization of the self-insurance special account surplus*.

57. The Committee noted that self-insurance capital was accumulated when each metric tonne purchased by the Country Office was charged internally. As a result, by 2020, there was a surplus of USD 20 million in the self-insurance special account, in excess of the USD 47 million capital required to meet potential obligations.

58. The Committee welcomed WFP's efforts to continue seeking replenishment of the Immediate Response Account (IRA) and appreciated its relevance in saving lives.

59. **The Committee:**

- a) **took note of the information presented in the document that the self-insurance special account had USD 20 million more than was required to meet claims settlement obligations;**
- b) **noted that the proposal for the use of excess funds in the special account was presented in accordance with the provisions of the Executive Director circular on WFP's self-insurance arrangements (OED2020/001);**
- c) **further noted that the proposed transfer to the Immediate Response Account would mitigate the risk of WFP not being able to accommodate concurrent requests for IRA funds during the COVID-19 pandemic;**
- d) **encouraged Management to keep Members apprised of the planned revamping of the IRA; and**
- e) **recommended that the Executive Board approve the transfer of USD 20 million from the self-insurance special account to the IRA.**

### **Working Methods of the Finance Committee**

60. **The Committee:**

- a) **requested that the website of the Finance Committee include the full list of documents to be presented to each session on the opening of the webpage to facilitate monitoring of document availability by Members of the Committee;**
- b) **expressed appreciation for the structuring of the agenda and timetable of the 186th Session around thematic areas and encouraged the Secretariat to follow this approach, where possible, at future sessions.**

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<sup>3</sup> WFP Information Network and Global System

**Date and Place of the Hundred and Eighty-seventh Session**

61. The Committee was informed that the next session was scheduled to be held from 28 to 29 October 2021. The arrangements for the session would be established in accordance with the evolving COVID-19 restrictions.