

November 2012

	منظمة الأغذية والزراعة للأمم المتحدة	联合国 粮食及 农业组织	Food and Agriculture Organization of the United Nations	Organisation des Nations Unies pour l'alimentation et l'agriculture	Продовольственная и сельскохозяйственная организация Объединенных Наций	Organización de las Naciones Unidas para la Alimentación y la Agricultura
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COUNCIL

Hundred and Forty-fifth Session

Rome, 3-7 December 2012

Report of the 146th Session of the Finance Committee (29-30 October 2012)

Executive Summary

At its 146th (Special) 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 Second Regular Session of the WFP Executive Board in November 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 Second Regular Session of the WFP Executive Board of WFP in November 2012.

Queries on 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 Forty-sixth Session.
2. In addition to the Chairperson, Mr MOUNGUI MÉDI, the following representatives of Members were present:
 - Ms Kristina Gill (Australia)
 - Mr Olyntho Vieira (Brazil)
 - Mr Shobhana K. Pattanayak (India)
 - Mr Hideya Yamada (Japan)
 - Ms Emma María José Rodríguez Sifuentes (Mexico)
 - Mr Faouzi Lekjaa (Morocco)
 - Mr Ronald Elkhuizen (Netherlands)
 - Mr Vladimir V. Kuznetsov (Russian Federation)
 - Mr Mohamed Eltayeb Elfaki Elnor (Sudan)
 - Ms Elizabeth Petrovski (USA)
3. The Chairperson informed the Committee that:
 - Mr Matthew Worrell had been designated to replace Mr Travis Power as the representative of Australia for the remainder of its term of office;
 - Ms Kristina Gill had been designated to replace Mr Matthew Worrell as the representative of Australia for this session;
 - Ms Emma María José Rodríguez Sifuentes had been designated to replace H.E. Miguel Ruíz-Cabañas Izquierdo as the representative of Mexico for the remainder of its term of office;
 - Mr Alan Romero Zavala had been designated to replace Ms Emma María José Rodríguez Sifuentes for part of this session;
 - Ms Elizabeth Petrovski had been designated to replace Ms Karen Johnson as the representative of the United States of America for this session; and
 - Mr Laurent D. Couliati (Burkina Faso) and Ms Manar Sabah Mohammad Al-Sabah (Kuwait) did not attend 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/en/>
5. In addition, silent observers from the following Member Nations attended the 146th Session of the Committee:
 - European Union
 - Norway
 - Switzerland
 - France

World Food Programme Matters

Policy for Disclosure of Oversight Reports

6. The Committee received a brief introduction from the WFP Inspector General on the *Policy for Disclosure of Oversight Reports*. WFP's Executive Board, while approving the Oversight Framework and Oversight Reports Disclosure Policy during its annual session in June 2011, requested a review of the concept of inspection and an update of the Oversight Reports Disclosure Policy. The Policy for Disclosure of Oversight Reports included additional provisions for disclosing inspection reports; disclosing internal audit and inspection reports on the public website; and authorizing the Inspector General to enter into formal agreements for sharing investigation reports on a confidential

and reciprocal basis. It further proposed modifications to the procedure for redacting or withholding reports so that the Inspector General would make decisions regarding redaction or withholding in accordance with the safeguards set forth in the Disclosure Policies.

7. The Committee requested and received clarification on the following points:
- The relationship between the proposed policy and similar policies of other bodies within the United Nations System – the proposed policy would place WFP at the forefront of transparency together with other United Nations Funds and Programmes that had already approved similar policies;
 - The one-month period between issuance of a report and public disclosure of the report – this period would provide an opportunity for management to take remedial action;
 - The difference between the current disclosure policy of investigation reports and the proposed procedures – the final investigation report would be available to the Inspector General’s counterparts on a reciprocal basis ;
 - How the Permanent Representatives would know which investigation reports were available for disclosure before the issuance of the Annual Report of the Inspector General – reports would be listed as and when available for disclosure; and
 - Replies to queries from the public in general – no replies would be provided.
8. The Committee further expressed its hope that the Oversight Office would not impose self-censure after its reports were publicly disclosed, and expected that detailed procedures would be developed so that the provision of information, inter alia, would not violate WFP’s privileges and immunities. The Committee reviewed the presented draft decision and invited the Executive Board to approve the decision during the Second Regular Session.

9. **The Committee:**

- **Appreciated the presentation of the Policy for Disclosure of Oversight Reports which followed up on the recommendation of the Board when approving the Oversight Framework and Reports Disclosure Policy in June 2011;**
- **Considered that transparency should also allow the preservation of confidentiality and leave some latitude to the Inspector General to redact or withhold the report based on the procedures set out in the Policy;**
- **Acknowledged that the proposed period of one month to disclose the reports was justified to permit correction of factual errors and implementation of remedial actions;**
- **Highlighted the fact that Permanent Representatives would have access to the finalised investigation reports before the Annual Report of the Inspector General was presented to the Board;**
- **Suggested that the Board, when examining this Policy, could consider that disclosure should not impinge, inter alia, on WFP’s privileges and immunity;**
- **Welcomed the proposed arrangement to enter into formal agreements for sharing investigation reports on a confidential and reciprocal basis with the Inspector General’s counterparts in member nations and public international organizations which would place WFP’s policy at the forefront of transparency on oversight reports within the UN system;**
- **Recognized that the General Assembly was currently discussing a similar transparency policy, and that approval of this policy for WFP might add impetus to the GA discussions and set a positive precedent for policy convergence within the UN system; and**
- **Advised the Executive Board to approve the revised Policy for Disclosure of Oversight Reports.**

WFP Management Plan (2013-2015)

10. The Secretariat presented the *WFP Management Plan (2013-2015)* including WFP's 2013 budget totalling USD 5,661 million, including operational requirements of USD 4,969 million. The budget proposal included a programme support and administrative budget of USD 249.1 million based on a forecast of likely 2013 income of USD 3,700 million. The proposal also included supplementary Programme Support and Administrative (PSA) investments of USD 20 million to support the implementation of the framework for action, USD 10.0 million for security related expenditures, USD 0.4 million for the finalization of the Treasury Management system, as well as special accounts and trust funds of USD 412.9 million.

11. The Committee welcomed the report including additional details provided on the organizational strengthening process. The Committee also felt it would be helpful if additional information on expenditures and levels of contributions were included in future Management Plan documents to improve comparability with previous budgets. The Committee was provided with information to augment table A.V.I and table III.2 of the management plan (these tables are included as Annex I to this document).

12. The Committee requested further details on the proposed supplementary USD 20 million included in the 2013 budget proposal. The Committee was informed that these investments supported the implementation of the organizational strengthening process, but that the final details of this proposal would not be known until the various costed work-streams in the Framework for Action were further analysed and the results of the on-going reassignment exercises finalised including costs for termination packages.

13. The Committee inquired as to how progress would be measured on the proposed supplementary PSA appropriation of USD 20 million. The Committee was informed that the Secretariat would provide additional reports to the Executive Board once the individual budgets of the change management work-streams had been identified. The Committee was further informed that the current Management Results Framework would be augmented to reflect additional outcome indicators for the organizational strengthening process, which would be reported on through the Annual Performance Reports in subsequent years.

14. The Committee also requested the Secretariat to provide the Board with details on the use of termination funds in 2012 and 2013.

15. The Committee inquired whether the current process of funding WFP security costs through the use of interest income was appropriate and sustainable. The Committee was informed that the Secretariat agreed with the concerns raised and that it was working with the United Nations Department of Safety and Security and other organizations on a change to the cost sharing arrangement to allow it to further embed security costs in its operations.

16. The Committee inquired about staff increases in the procurement division. The Committee was informed that additional staff in the procurement division were due to the addition of food safety and quality capacity as recommended by the PSA budget review panel.

17. The Committee noted that the projected level of the PSA Equalization account at the end of 2013 of USD 49 million was below the target level agreed by the EB of 4 months regular PSA expenditure, i.e. USD 83 million. The Committee was of the opinion that this was a governance issue on which the Executive Board should take a position. The Committee was informed that the Secretariat closely monitored the level of this account by adopting a prudent approach between balancing needs in order to facilitate the organizational change management process and retaining a sufficient balance in the equalization account.

18. The Committee requested additional information on the funding of evaluations of single operations (known as operations evaluations). The Committee was informed that twelve country specific evaluations were planned for 2013 which would be funded from direct support costs of the projects concerned. The Committee was further informed that the Secretariat planned to augment the

funding of these evaluations for small country offices through the use of multilateral resources where necessary.

19. The Committee was informed that the Nutrition Adviser role would not include the responsibility to support WFP's operations on nutritional issues which would be covered by the new Policy and Programme Innovation Division (PPI). As a result the professional capacity in this office was restricted to one director-level post.

20. **The Committee:**

- **Considered the Management Plan (2013-2015) and welcomed the consultative process around the Management Plan, which had been subject to four informal consultations;**
- **Welcomed the process of Organizational Strengthening which sought to improve the organization's efficiency and effectiveness in an increasingly complex humanitarian environment;**
- **Recommended that the EB initiate discussion on the level and the use of the equalization account owing to the expressed concern on the forecasted level of USD 49 million;**
- **Endorsed giving increased authority to Regional Bureaus/Country Offices while cautioning that this should not be at the expense of maintaining a critical mass at headquarters, ensuring a sufficient level of backstopping;**
- **Took note of the outlook of plans to reach 71 million beneficiaries in 2013 through the distribution of more than 4 million metric tons of food, with a total cost of foreseen requirements of USD 4,969 million;**
- **Acknowledged the planned contributions of USD 3.7 billion, which resulted in a gap between total operational requirements and estimated contributions, and while welcoming the update on prioritization, called on members to look for possible ways to close the gap and at the same time to make timely contributions;**
- **Considered the request for an exemption from Financial Regulation 9.2 and noted that this was a recurring request. After lengthy discussions, the Committee recommended that the Secretariat submit a proposal to the bureau to consider how to proceed with this matter; and**
- **Endorsed the approval of the draft decisions contained in the document at the Second Regular Session of the Executive Board.**

Increased Fee for the External Auditor

21. The Committee discussed the *Increased Fee for the External Auditor* which presented the External Auditor's proposal for a 4 percent increase in the External Auditor's fee, involving a total increase of USD 15,400 per annum from April 2012 onwards. The Committee discussed the proposal, supported by a briefing made by the External Auditor which detailed a net increase of 13 percent in the audit costs including daily subsistence allowance, staff costs, and airfare to Rome over the previous two years. In response to the Committee's request for a breakdown of figures, the External Auditor provided further details explaining the increase under the various components in absolute terms.

22. The Committee recalled that that the External Auditor's Agreement with WFP under Article 6(d) specified that the External Auditor may request limited increases in relation to services to be provided after the first year of the term of the agreement, due to variations in audit costs on travel, staff and DSA, and not to exceed, over the term of its office, a cumulative total of 8 percent of total annual remuneration.

23. The Committee requested and received additional clarification on the current factors guiding the External Auditor's decision. The Committee was advised that the DSA rates used were the UN rates set by the International Civil Service Commission, that airfare costs used were standard economy class tickets of various European airlines, and that the staff costs were the salaries and allowances of Government of India visiting audit team members and the Director of External Audit, Rome, with the increase in the various costs detailed in the additional Annex provided. The Committee requested and

received assurances from the External Auditor that a fee increase larger than the 8 percent stipulated in the External Auditor's Agreement would not be requested, except in the event of unforeseen and compelling circumstances.

24. The Committee reviewed the presented draft decision and invited the Executive Board to approve the decision during the Second Regular Session.

25. **The Committee:**

- **Examined in detail the proposal for an increase in the fee for the External Auditor as presented by the Comptroller and Auditor General of India;**
- **Appreciated that the proposal was duly supported and gradual in nature, considering the terms of the contract which provided for a maximum increase of 8 percent as compared to the 4 percent proposed; and**
- **Recommended the Executive Board to approve the Increased Fee for the External Auditor effective from April 2012 onwards.**

Housing Allowance of the Executive Director

26. The Committee discussed the *Housing Allowance of the Executive Director* which presented the Secretariat's proposal for an increase in the housing allowance of the Executive Director to EUR 160,000 per annum, inclusive of services and utilities. This proposal continued the current practice of actual cost reimbursement of the property. On the basis of a security risk assessment WFP may also provide and maintain required security equipment, which would remain WFP property.

27. The Committee was informed of the Executive Director's wish to have this document reviewed by the Committee and the United Nations Advisory Committee on Administrative and Budgetary Questions to ensure full transparency. The Committee was briefed on the Secretariat's review of the housing allowance, in line with the Board's decision 2007/EB.1/17 of 22 February 2007. The Committee was informed that the Secretariat compared the Italian retail price index - which was previously used as the annual index to adjust the housing allowance - to the Italian Institute of Statistics index of housing, water, electricity and fuel prices (IPCA index). The IPCA index included price trends for both high-value and low-value rental housing. The analysis of an international real estate company operating in Rome indicated that the prices for high-value properties had remained steady while the prices of low-value properties had decreased. Therefore, an adjusted IPCA for diplomatic housing would likely be 7 to 10 percent higher over the five year period.

28. The Committee discussed the possibility of the Executive Board to reflect on the future processes for the establishment of the housing allowance of the Executive Director.

29. The Committee noted that the proposed housing allowance was lower than those of both FAO and IFAD, set at EUR 180,000 per annum.

30. **The Committee:**

- **Welcomed the transparent process and clear proposal;**
- **Examined the proposal pertaining to the Executive Director's housing allowance and agreed with the ceiling of EUR 160,000 per annum, inclusive of service and utilities; and**
- **Recommended the Executive Board to approve the Housing Allowance of the Executive Director.**

Other Matters

Working Methods of the Finance Committee

31. The Committee was briefed by the Secretariat on three proposed changes to its working methods: a change in Financial Regulation 7.1 such that review by the Committee of the WFP Strategic Plan would not be required; an informal agreement to submit financial administrative documents to the Executive Board's Annual and Second Sessions only and thereby reduce the

frequency of Finance Committee sessions from three per annum to two per annum; and a proposal for oversight documents to be reviewed by the Audit Committee and not by the Finance Committee.

32. The Committee was informed that the Advisory Committee on Administrative and Budgetary Questions (ACABQ) had requested a reduction in hearings from three sessions per annum to two sessions per annum and had further requested that the ACABQ review only finance documents.

33. The Committee reiterated its past position that review by the Committee of the WFP Strategic Plan is not required and expressed support for the Secretariat's current practice of submitting financial administrative documents to the Board at its Annual and Second Sessions. The Committee expressed reservations about oversight documents being reviewed by the Audit Committee in place of the Finance Committee and stressed the need to continue with the established practice of these reports being considered by the Finance Committee.

34. The Committee encouraged the Secretariat to align discussions of the proposals with the Audit Committee and the Executive Board Bureau, and keep all bodies informed. The Committee noted that the written opinion of the ACABQ would facilitate fruitful discussion of the proposals.

35. **The Committee:**

- **Noted the Secretariat's proposal relating to documents which are submitted to the Committee and the ACABQ on financial and oversight issues;**
- **Underlined that for a more fruitful discussion to take place it would be necessary for the Committee to receive written documents; and**
- **Requested the Chairman of the Finance Committee to discuss this issue with the Chair of the ACABQ.**

Date and Place of the Hundred and Forty-seventh Session

36. The Committee was informed that the 147th Session was scheduled to be held in Rome from 5 to 9 November 2012.

Annex I

OPERATIONAL REQUIREMENTS AND MAIN ACTIVITIES BY STRATEGIC OBJECTIVE AND PROJECT CATEGORY						
Strategic Objective		Total operational requirements (US\$ million)	% of total operational requirements	Main activities (% of requirements)	Requirements by Project Category (US\$ million)	
Strategic Objective 1	Save lives and protect livelihoods in emergencies	2 703	54	General food distribution (81%) Supplementary feeding (6%)	DEV	0
					EMOP	919
					PRRO	1 649
					SO	135
Strategic Objective 2	Prevent acute hunger and invest in disaster preparedness and mitigation measures	570	12	Food for work/assets (75%) General food distribution (19%)	DEV	137
					EMOP	85
					PRRO	342
					SO	6
Strategic Objective 3	Restore and rebuild lives and livelihoods in post-conflict, post-disaster or transition situations	1 010	20	Food for work/assets (33%) School feeding (27%)	DEV	99
					EMOP	67
					PRRO	757
					SO	87
Strategic Objective 4	Reduce chronic hunger and undernutrition	590	12	School feeding (62%) Mother-and-child health and nutrition (12%)	DEV	556
					EMOP	0
					PRRO	35
					SO	0
Strategic Objective 5	Strengthen the capacities of countries to reduce hunger, including through hand-over strategies and local purchase	96	2	Capacity augmentation (100%)	DEV	47
					EMOP	3
					PRRO	17
					SO	29

Historical Unforeseen Requirements and Total Contributions, 2004-2012 (US\$ million)					
	Original Programme of Work	Unforeseen Requirements	Final Programme of Work	% Increase	Total contributions¹
2004-2005 biennium	4 784	1 076	5 860	22	5 002
2006-2007 biennium	6 198	252	6 450	4	5 412
2008-2009 biennium	5 792	5 987	11 779	103	9 243
2010	4 606	2 241	6 848	49	4 129
2011	4 347	1 764	6 111	41	3 597
2012	5 162	1 405*	6 566*	27	3 750*
Annual average (excl. 2008-2009)	3 585	963	4 548	27	3 127

**Unforeseen requirements and final programme of work for 2012 based on mid-year figures. 2012 total contributions based on estimate.*

¹ *Total Contributions include trust funds*

Annex II

Documents for information

- Work Plan of the External Auditor for the period July 2012 to June 2013 (docs FC 146/INF/2 and FC 146/INF/2 Corr.1)