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منظمة
الأغذية والزراعة
للأمم المتحدة

COUNCIL

Hundred and Sixty-fourth Session

6-10 July 2020¹

Report of the 181st Session of the Finance Committee (3-5 June 2020)

Executive Summary

At its 181st 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 2020.

Suggested action by 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 2020.

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

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¹ Rescheduled from 8-12 June 2020

Introduction

1. The Committee submitted to the Council the following report of its Hundred and Eighty-first Session. This Session was held as a virtual meeting.

2. In addition to the Chairperson, Ms Imelda Smolcic Nijers (Uruguay), the following representatives of Members were present:

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| • Ms Kristina Gill
(Australia) | • Mr Toru Hisazome
(Japan) |
| • Mr Manash Mitra
(Bangladesh) | • Mr Benito Santiago Jiménez Sauma
(Mexico) |
| • Mr Rodrigo Estrela de Carvalho
(Brazil) | • Ms Tahirou Rahila Rabiou
(Niger) |
| • Mr Haitham Abdelhady Elsayed Elshahat
(Egypt) | • Mr Denis Cherednichenko
(Russian Federation) |
| • H.E. Zenebu Tadesse Woldetsadik
(Ethiopia) | • Mr Sid Ahmed M. Alamain Hamid
Alamain (Sudan) |
| • Mr Ramón Lohmar
(Germany) | • Ms Elizabeth Petrovski
(United States of America) |

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 Denis Cherednichenko (Russian Federation) had been designated to replace Mr Vladimir V. Kuznetsov as the representative of the Russian Federation for this session;
- Ms Jennifer Harhigh (United States of America) had been designated to replace Ms Emily Katkar as the representative of the United States of America for the remainder of the term of office; and
- 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. In addition, silent observers from the following Members attended the 181st Session of the Committee:

- | | |
|----------------------|------------------|
| • Angola | • Guatemala |
| • Belgium | • Indonesia |
| • Congo | • Israel |
| • Costa Rica | • Monaco |
| • Cuba | • Morocco |
| • Dominican Republic | • Peru |
| • Finland | • United Kingdom |
| • Gabon | • Venezuela |
| • Greece | |

Election of the Vice Chairperson

6. Ms Jennifer Harhigh (United States of America) was unanimously elected Vice Chairperson until the end of the Committee's present term of office.

World Food Programme Matters

Audited Annual Accounts, 2019

7. The Committee reviewed WFP's *Audited Annual Accounts, 2019*.

8. The Committee was informed that Accounts were prepared under International Public Sector Accounting Standards (IPSAS) and had obtained an unqualified audit opinion.

9. The Committee was informed that 2019 was a record year both in terms of revenue (USD 8.3 billion) and expenses recognised (USD 7.6 billion) resulting in a surplus of USD 0.7 billion. The net assets at the end of 2019 stood at USD 5.9 billion. The Committee was informed that overall budgetary utilization in 2019 was 64 percent of the final needs-based budget.

10. The Committee inquired on the impact of COVID-19 on resource requirements and expense level in 2020, long-term investments and employee benefit liabilities. It was informed that resource requirements were increasing with COVID-19 impact, and the expense level was likewise expected to increase in 2020 as surpluses from prior periods were utilised. The low interest rates continued to impact the level of employee benefit liabilities, while the impact on financial markets was being assessed in terms of needs to adjust investment strategy.

11. The Committee noted that as resources increased, as well as cash-based transfers, WFP management must have stronger commitment and more focussed efforts to ensure that systems are in place to protect resources and ensure the organization is able to achieve its objectives.

12. **The Committee:**

- a) **examined WFP's 2019 Audited Financial Statements together with the Audit Opinion and the Report by the External Auditor;**
- b) **noted that the External Auditor had completed the audit in accordance with the International Standards of Auditing, and had provided an unqualified audit opinion;**
- c) **noted and appreciated the Statement on Internal Control and encouraged WFP to address risks and internal control issues identified therein; and**
- d) **recommended that the Executive Board approves the 2019 Annual Financial Statements of WFP, together with the Report of the External Auditor.**

Replenishment of the Special Account for Wellness Programmes

13. The Committee reviewed the *Replenishment of the Special Account for Wellness Programmes*.

14. The Committee welcomed WFP's commitment to ensuring the health and safety of its employees worldwide. The Committee was informed that no replenishment of the Special Account had been foreseen until 2021, and recognised the fiduciary demands posed by the COVID-19 pandemic.

15. As to the allocation of funds to Country Offices, the Committee noted that wellness funding was provided to all Country Offices in the form of grants or loans, often on a co-funding basis. Management clarified that there were multiple WFP funding sources available to address the corporate risks posed by COVID-19. The Committee was informed that the Wellness Strategy was a multi-disciplinary, cross-functional framework and that the Bottom-up Strategic Budgeting Exercise (BUSBE) would help clarify the rationale for the various funding sources, including the programme

support and administrative (budget) (PSA) funding for the Wellness Division and the Special Account to support the corporate framework.

16. **The Committee:**

- a) **recalled** that the special account for wellness programmes (SAWP) was established by the Executive Board at its 2015 annual session to fund the implementation of the WFP Staff Wellness Strategy (2015–2019);
- b) **noted** that Funding from the Programme Support and Administrative Equalization Account (PSAEA) in the amount of USD 8 million was now required to repay the USD 2.5 million PSA advance and to replenish the SAWP, in the amount of USD 5.5 million, so that it could fund initiatives through 2024 in line with the up-coming wellness strategy for 2020–2024, including the ongoing COVID-19 response under the medical and safety pillars; and
- c) **recommended** that the Executive Board approves the “*Replenishment of the Special Account for Wellness Programmes*”.

Annual Report of the Audit Committee

17. **The Committee:**

- a) **considered** the *Annual Report of the Audit Committee* for the period 1 April 2019 to 31 March 2020;
- b) **acknowledged** the important role of the Audit Committee and **encouraged** the Audit Committee in its ongoing work;
- c) **appreciated** the guidance provided by the Audit Committee with regard to needed improvements, in particular in enterprise risk management and internal controls including fraud prevention mechanisms and information technology in the current climate of COVID-19, as well as the need to address longstanding audit recommendations, workforce planning and workplace culture;
- d) **took note** of the Audit Committee’s assurance that in response to the COVID-19 pandemic the Audit Committee had adjusted its methods of working and timing of meetings to continue to deliver on its oversight responsibility laid down in its terms of reference; and
- e) **recommended** the submission of the report to the Executive Board at its June 2020 Annual Session for its consideration.

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

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

19. The Committee welcomed the favourable opinion issued by the Office of the Inspector General (OIG). It also highlighted that areas of concern raised resonated with their concerns, especially on WFP priorities, NGO controls, beneficiary management, risk management, workforce planning and data protection and privacy. Specific concerns were raised on the materiality of the fraud related to food safety and quality, on reported issues recurring from prior reports and insufficient prioritisation of actions to guide implementation of control improvements and of audit recommendations.

20. The Committee enquired on the resourcing of OIG, increase of complaints to the Office of Investigations, coverage of the internal audit function, and supported their recent resource increase. The Committee heard of OIG’s thinking on flexible arrangements for expertise through the use of consultants in 2021, and the Secretariat confirmed that the zero-growth budget principle would not apply to oversight.

21. The Committee discussed the progress on the implementation of agreed actions, together with management's recent reprioritization exercise which entailed reassessing the timelines for implementing overdue actions.

22. **The Committee:**

- a) **expressed appreciation for the *Annual Report of the Inspector General* and the detailed responses presented in the note by the Executive Director on areas highlighted in the report;**
- b) **noted and welcomed the assurance opinion issued by the Inspector General that the oversight work performed did not disclose any significant weaknesses in the internal control, governance and risk management processes in place across WFP that would seriously compromise the achievement of WFP's strategic and operational objectives;**
- c) **registered its concern and emphasized the importance of addressing recurrent issues from past years and outstanding high priority recommendations highlighted in the report;**
- d) **advised the WFP Executive Board to take note of the *Annual Report of the Inspector General*; and**
- e) **recommended that the second paragraph of the draft decision of the Executive Board be revised to reflect that "*The Board expects management to take advantage of the opportunities for improvement highlighted in the report*".**

Report of the External Auditor on the real estate portfolio and WFP management response

23. The Committee reviewed the *Report of the External Auditor on the real estate portfolio* and the *management response to the recommendations*.

24. The Committee was informed that WFP management welcomed the agreed recommendations and that their implementation would strengthen real estate management in WFP.

25. The Committee was informed that the timeframe related to recommendation 15 on communicating to field offices the priority to be given to common premises was set for the final quarter of 2020, as guidance would be included in the Administrative Services Manual which required review and internal clearance before issuance. The Committee received assurances that, in the interim, opportunities to reiterate the importance of co-location would be incorporated into outreach to field offices.

26. **The Committee:**

- a) **expressed its appreciation for the report of the External Auditor on the real estate portfolio;**
- b) **noted the management response to the recommendations, including clarifications on those which had been partially agreed; and**
- c) **encouraged WFP management to implement the recommendations within the timeline outlined in the document.**

Report of the External Auditor on air transport services and WFP management response

27. The Committee reviewed the *Report of the External Auditor on air transport services* and the *management response to the recommendations*.

28. The Committee noted the in-depth report on the air services which validated the critical importance of the air services and their importance to the entire humanitarian and development community.
29. The Committee noted that WFP agreed with most of the recommendations and welcomed the conclusions that a comprehensive policy framework should be developed for the approval of the Executive Board. The Committee also welcomed the recommendation for a Resource Mobilization Strategy to ensure predictable funding and expand engagement of all stakeholders in the process.
30. The Committee noted the report's recommendation that the financial and regulatory framework of WFP Aviation needed updating and supported WFP's commitment to review and revise the necessary frameworks to reduce cost, increase transparency and improve financial reporting, while maintaining its safety record.
31. Regarding the use of air operators that were not in the List of Registered Air Operators (LORA), the Committee was reassured that WFP strictly followed its contracting processes and used air operators outside the LORA list only exceptionally to meet emergency needs such as evacuations or refugee repatriations. Such contracting followed documented Air Operator's Aviation Safety Risk Evaluation processes undertaken by the Aviation Safety unit.
32. The Committee was also informed that WFP would continue to ensure implementation of its risk management frameworks and particularly strengthen control to mitigate fraud risks related to transportation of passengers. It welcomed the effort to implement an environmental programme for the air transport service in line with WFP's Environment Policy.
33. Regarding the deployment of Remotely Piloted Aircraft Systems (RPAS), popularly called drones, WFP reassured the Committee of active engagement with the industry to find solutions with cargo delivery capabilities fit for its mission. Updates on drones would be provided periodically.
34. **The Committee:**
- a) **expressed its appreciation for the *Report of the External Auditor on air transport services*;**
 - b) **noted the management response to the recommendations, including clarifications on those which had been partially agreed; and**
 - c) **encouraged WFP management to implement the recommendations within the timeline outlined in the document.**

Report on the implementation of the External Auditor's recommendations

35. The Committee discussed the *Report on the Implementation of the External Auditor Recommendations* following a briefing by the Secretariat that highlighted the recommendations implemented and outstanding. There were four new recommendations from the 2019 audited annual accounts. Of the 54 outstanding recommendations at the last reporting, 33 recommendations were closed with a 61% implementation rate. The External Auditor had provided his comments on the closure of these recommendations. Of the remaining 25 open issues, 16 (64%) were targeted for closure within 2020.
36. The Committee received clarifications that: a) recommended timeframes for determination and reporting of changes in recommendation timeframes could be modified; b) the country presence review framework and review of organization roles and responsibilities was related to the Bottom-Up Strategic Budgeting exercise; c) WFP's ambition is real-time commodity tracking using the LESS system; and d) country portfolio budget cost reporting structures would be reflected in future annual performance reports.

37. **The Committee:**

- a) **noted the implementation rate of outstanding recommendations of the External Auditor and noted the new recommendations made by the External Auditor in the reports issued in 2019;**
- 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's Recommendations*.**

**Report on the utilization of WFP's advance financing mechanisms
(1 January - 31 December 2019)**

38. The Committee reviewed the *Report on the Utilization of WFP's Advance Financing Facilities (1 January – 31 December 2019)*.

39. The Committee was informed that, in 2019, WFP received an unprecedented level of funding, and advance financing mechanisms had proven to be among the most critical tools available to country offices to steer operational efficiency, cover imminent breaks in pipelines and increase predictability of funding.

40. With regard to the impact of the Global Commodity Management Facility (GCMF) on smallholder farmers, and what actions WFP was taking to reinforce and improve its advance financing mechanisms, the Committee was informed that, in 2019, procurement from smallholder farmers accounted for around 4 to 5 percent of the total volume of food sourced through GCMF, and that a working group was established to define implementation parameters and a framework of actions required to reach the objective of procuring 10 percent of the food from small holders. The Committee was also informed that WFP was looking into the establishment of thematic advance financing, and that an innovation in internal financing was the upfront and more predictable allocation to resilience building and root causes activities, to better support medium- to long-term planning for operations.

41. **The Committee:**

- a) **welcomed the *Report on the Utilization of WFP's Advance Financing Facilities (1 January – 31 December 2019)*;**
- b) **noted with satisfaction the comprehensive presentation of information on the performance of WFP's advance financing instruments during 2019; and**
- c) **recommended the Executive Board to take note of the Report.**

Management review of significant risk and control issues

42. The Committee reviewed the *Management review of significant risk and control issues*.

43. The Committee heard an overview of eight key areas of risk highlighted in the document, including two that arose in 2019 and six that were carried over from 2018, as well as a summary of actions that the Secretariat had and would continue to take to address these. The Committee was informed that the issues were illustrated through thematic analysis and quotes collected from senior WFP management during the Executive Director's Assurance Exercise, which had been substantially strengthened in 2019.

44. The Committee welcomed the new Management Review and noted that it provided information and insight of value to stakeholders. It received clarification on some technical matters such as the roll-out of WFP's corporate digital beneficiary and transfer-management platform (SCOPE), how the document was used to prepare the Statement of Internal Control and how it would internally be used to strengthen risk management and internal controls, the corporate monitoring strategy and the impact of COVID-19 on the timeline of some planned initiatives.

45. **The Committee:**

- a) **noted that the document provided a description and analysis of eight significant risks and control matters in 2019 that had been prioritized for attention in 2020;**
- b) **encouraged the actions that WFP management was taking to mitigate these risks to ensure the most efficient and effective use of WFP's resources and the safeguarding of its assets: and**
- c) **recommended that the Executive Board take note of the *Management review of significant risk and control issues, 2019.***

Utilization of the programme support and administrative equalization account reserve

46. The Committee considered the document *Utilization of the programme support and administrative equalization account reserve.*

47. The Committee heard that the PSAEA was a critical reserve that can be utilized, subject to Board approval, for initiatives intended to improve operational efficiency. At the same time, WFP's Immediate Response Account (IRA), critical to enable life-saving assistance in the absence of forecasted contributions, was facing a growing level of stress.

48. The Committee received clarifications on PSAEA and IRA balances before and after the proposed transfer, and on the allocation of IRA funds to Country Offices. The Committee was reassured that the PSAEA balance had a healthy balance. It also noted that the total transfers from the PSAEA to the IRA in 2020, comprising the transfer approved in the Management Plan (2020-22) and the proposed transfer of USD 30 million, would amount to USD 52.5 million.

49. The Committee expressed its satisfaction that the proposed injection to the IRA would contribute to WFP's efforts to provide timely life-saving assistance to beneficiaries, while substantial directed contributions from donors remained crucial to providing assistance to WFP's country operations.

50. **The Committee**

- a) **recommended that the Executive Board approves the allocation from the PSA Equalization Account of USD 30 million to the IRA to mitigate the risk of WFP being unable to accommodate concurrent requests for IRA funds during the global COVID-19 pandemic.**

Other Matters

Date and Place of the next session

51. The Committee was informed that the next session was scheduled to be held as a virtual meeting from 8 to 17 June 2020.