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**Executive Board
First Regular Session**

Rome, 9–11 February 2009

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6



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REPORT OF THE FAO FINANCE COMMITTEE

The Executive Director is pleased to submit herewith the report of the FAO Finance Committee pertaining to WFP. The report covers the following agenda items:

- Fourth Update on the WFP Management Plan (2008–2009) (WFP/EB.1/2009/6-A/1 + Corr.1)
- WFP Audit Committee Terms of Reference (WFP/EB.1/2009/6-B/1)
- Appointment of the External Auditor (WFP/EB.1/2009/6-C/1)
- Review of WINGS II and Preparedness for IPSAS: Report by the External Auditor and WFP Management Response (WFP/EB.1/2009/6-D/1 + Add.1)

February 2009



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Alimentación

COUNCIL

Hundred and Thirty-sixth Session

Rome, 15–19 June 2009

Report of the 124th Session of the Finance Committee Rome, 5–6 February 2009

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REPORT OF THE HUNDRED AND TWENTY-FOURTH SESSION OF THE FINANCE COMMITTEE

5–6 February 2009

Introduction

1. The Committee submitted to the Council the following report of its Hundred and Twenty-fourth 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)
Ms Yao Xiangjun (China)
Mr Søren Skafte (Denmark)
Mr Jean-Jacques Soula (France)
Mr Eckhard W. Hein (Germany)
H.E. Don Jorge E. Chen Charpentier (Mexico)
H.E. Don Eudoro Jaén Esquivel (Panama)
Mr Robert Sabiiti (Uganda)
3. When adopting the agenda, the Finance Committee noted the improvement in the timeliness of submission of most WFP documents prior to the session. However, Committee members expressed their serious concern over the late submission of the document Review of WINGS II and Preparedness for IPSAS: Report by the External Auditor and WFP Management Response (WFP/EB.1/2009/6-D/1 + Add.1). The Committee did examine this document in view of its importance and the important information contained therein, and stated categorically that in future it would not consider any documents submitted after the established deadlines as long as the Committee did not remain convinced otherwise.
4. 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 124th Session, except for the adoption of the report, to silent observers from all Member Nations of the Organization.
5. The Committee noted the formal presentation of the report of the Finance Committee to the Board of WFP should be examined more in depth.
6. The Chairperson informed the Committee that Mr Aamir A. Khawaja (Pakistan) would be unable to attend this 124th Session of the Finance Committee. The Chairperson further informed the Committee that Ms Yao Xiangjun had been designated to replace Mr Li Zhengdong as the representative of the People's Republic of China at this session. The Committee also noted that Ms Elizabeth Petrovski had been designated to replace Mr Lee Brudvig as the representative of the United States of America during one afternoon. Furthermore, His Excellency Don Eudoro Jaén Esquivel (Panama) was replaced for part of the session by Mr Horacio Maltez. A summary of the qualifications of Ms Yao, Ms Petrovski and Mr Maltez are listed in the addendum to this report (CL 136/6-Add.1).



7. Mr Lee Brudvig (United States of America) was unanimously elected Vice Chairperson for 2009.

World Food Programme Matters

FOURTH UPDATE ON THE WFP MANAGEMENT PLAN (2008–2009) (WFP/EB.1/2009/6-A/1)

8. The item was to be submitted to the WFP Executive Board for consideration and consisted of the *Fourth Update on the Management Plan*; a related corrigendum; and an addendum with supplementary information on the third *Update on the Management Plan*.
9. The Committee appreciated the informative and proactive nature of the document, and looked forward to further improvements in future documents, in particular on trends and forward-looking projections.
10. The *Fourth Update on the Management Plan* highlighted the change in the Programme of Work. Due to the decrease in world prices, in particular for food commodities and fuel, the cost of the delivery of the Programme of Work had decreased substantially. However, there had been recent new operational requirements of USD 449 million, leading to a new foreseen Programme of Work of USD 10.9 billion for the biennium. The Committee reiterated the need to highlight in future reports any new aspects and requirements that arise between Management Plan updates.
11. It was highlighted that to improve planning in future, a provision for unforeseen emergencies should be included in the Management Plan Programme of Work. This would ensure more realistic planning and avoid continuous changes to planning assumptions.
12. It was noted that the income estimate had not changed from USD 8 billion, equivalent to approximately 75 percent of the planned Programme of Work, and was considered a conservative estimate. The Committee observed that prices could be volatile in 2009 and asked for clarifications from the Secretariat regarding particular cost items such as shipping and staff costs, which were provided.
13. Regarding the proposed allocation of 112 new Programme Support and Administrative (PSA) posts the Committee was informed that the proposed Policy and Communications Donor Relations Officer post in Brussels would supplement the existing Brussels office hitherto staffed by four professionals and three technical/administrative assistants.
14. The Committee noted that given the current world economic prospects, which included fluctuation and volatility in prices, investment losses could continue and requested further information on investment policies and portfolio performance. The Secretariat informed the Committee that WFP investment policies and performance were overseen internally by an Investment Committee and were subject to review by the Audit Committee, and that the World Bank was used as an investment advisor. In connection with the reported losses of USD 20 million the Secretariat pointed out that in the years before the current financial crisis, over USD 300 million in interest income had been credited to the General Fund. As a result of the changed financial environment, new, more conservative investment guidelines had been issued to reduce the risk profile of investments, and the size of the short-term investment portfolio had been substantially reduced.
15. The Committee likewise recommended that further efforts be made to maintain an acceptable level of the General Fund.



WFP AUDIT COMMITTEE TERMS OF REFERENCE (WFP/EB.1/2009/6-B/1)

16. The Secretariat outlined the evolution and history of the Audit Committee and highlighted that it was currently composed of external members and reported solely to the Executive Director.
17. The Committee supported the principle of having a fully independent Audit Committee but highlighted the need to clarify the reporting line of the Audit Committee and the relationship between the advice provided by the Audit Committee, the Finance Committee and the Advisory Committee on Administrative and Budgetary Questions (ACABQ). The members also highlighted that more work needed to be done on the Audit Committee's terms of reference and the role of the Finance Committee in appointing members of the Audit Committee. The Finance Committee recommended that further consideration was needed for the Audit Committee's terms of reference and mandate in order to provide the basis for an informed decision. One member of the Committee proposed that this be done on the basis of an evaluation of the functioning of the current Committee since its establishment, and on the basis of the independent opinion of the External Auditor presented at this session.

APPOINTMENT AND REAPPOINTMENT OF THE EXTERNAL AUDITOR (WFP/EB.1/2009/6-C/1)

18. The Secretariat outlined the proposal to change the Financial Regulations regarding the appointment of the External Auditor. The External Auditor should be appointed through a competitive process for a six-year term, which would not be immediately renewable. No External Auditor would be eligible for appointment for two consecutive terms. The External Auditor could only be appointed again through a competitive process after a one-term break in service. The Committee supported the proposal. One member of the Committee expressed regret that there was no consensus among members of the Executive Board on the inclusion of private sector auditors in the competition for the External Auditor role in WFP.

REVIEW OF WINGS II AND PREPAREDNESS FOR IPSAS: REPORT BY THE EXTERNAL AUDITOR AND WFP MANAGEMENT RESPONSE (WFP/EB.1/2009/6-D/1 + Add.1)

19. While confirming its views on the importance of the full implementation of International Public Sector Accounting Standards (IPSAS), the Committee expressed concern about the statement on the dry run that the External Auditor might not be able to produce an unqualified opinion on the accounts of WFP for 2008 unless certain steps were taken. The Secretariat noted that the External Audit recommendations were fully accepted and were being implemented. It was noted that WFP was at the forefront of the IPSAS compliance efforts within the UN System and that many organizations had deferred IPSAS implementation while WFP was going ahead. The External Auditor commended WFP's progress and the benefits of all the IPSAS compliance efforts in improvement of financial and inventory management. One member of the Committee preferred to have an assessment of the efficiency and effectiveness of the implementation of WINGS II as soon as the system was implemented. The Secretariat confirmed assessment would be done after a stabilization period.

Other Matters

DATE AND PLACE OF THE HUNDRED AND TWENTY-FIFTH SESSION

20. The Committee was informed that the 125th Session was scheduled to be held in Rome from 9 to 10 March 2009.
21. The Chairperson also intimated that a coordination meeting chaired by the Chairperson of the Conference Committee for the Follow-up to the Independent External Evaluation of FAO (CoC-IEE) would better inform whether additional dates would be required for extension of the duration of the 125th Session.



22. With regards to the agenda of the 125th Session, the Chairperson reiterated that the standard process of formulation would be followed, and members would be able to suggest amendments or additions before finalization.
23. The Committee stated that it wished to receive documents as early as possible but also noted the need for flexibility in the timing of submission of documents relating to the 125th Session in order to enable the Committee to examine, and provide its views on the most up-to-date information available.

Any Other Matters

24. One member drew the attention of the Committee to two papers that would be presented to the Executive Board, namely the Annual Report for 2008 to ECOSOC and FAO Council (WFP/EB.1/2009/4) and the Strategic Results Framework (WFP/EB.1/2009/5-C). The member complimented the Secretariat on the papers but commented that such papers were of interest to the FAO Finance Committee and consideration should be given to presenting such papers in future.
25. The Committee wished to highlight the connectedness of results-based management (RBM) implementation and financial parameters, as RBM should measure financial efficiency, among other parameters. The Committee wished to be kept informed of all developments on RBM and noted that this request had been made in the past when reviewing an External Auditor report on RBM.