
Distribution: General

Date: 7 June 2017

Original: English

Agenda Item 6

WFP/EB.A/2017/6(A,B,C,D,E,F,G,H,I,J/K)/3

WFP/EB.A/2017/5-A/3

Resource, Financial and Budgetary Matters

Executive Board documents are available on WFP's Website (<http://executiveboard.wfp.org>).

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:

- Audited Annual Accounts, 2016 (WFP/EB.A/2017/6-A/1)
- Policy for Disclosure of Oversight Reports (WFP/EB.A/2017/6-B/1 + Corr.1)
- Appointment of Two Members to the Audit Committee (WFP/EB.A/2017/6-C/1*)
- Revised Terms of Reference of the Audit Committee (WFP/EB.A/2017/6-D/1)
- Annual Report of the Audit Committee (WFP/EB.A/2017/6-E/1)
- Annual Report of the Inspector General (WFP/EB.A/2017/6-F/1) and Note by the Executive Director (WFP/EB.A/2017/6-F/1/Add.1)
- Report of the External Auditor on Decentralization (WFP/EB.A/2017/6-G/1) and WFP Management Response to the Recommendations (WFP/EB.A/2017/6-G/1/Add.1*)
- Report of the External Auditor on Changes in Human Resources (WFP/EB.A/2017/6-H/1) and WFP Management Response to the Recommendations (WFP/EB.A/2017/6-H/1/Add.1)
- Report on the Implementation of the External Auditor Recommendations (WFP/EB.A/2017/6-I/1)
- Report on the Utilization of WFP's Advance Financing Mechanisms (1 January – 31 December 2016) (WFP/EB.A/2017/6-J/1)
- Report of the Executive Director on the Utilization of Contributions and Waivers of Costs (General Rules XII.4 and XIII.4 (h)) (WFP/EB.A/2017/6-K/1)
- Update on the Integrated Road Map (WFP/EB.A/2017/5-A/1)



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COUNCIL

Hundred and Fifty-eighth Session

Rome, 4-8 December 2017

Report of the 167th Session of the Finance Committee (29-31 May 2017)

Executive Summary

At its 167th Session, the Committee reviewed 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 2017.

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 2017.

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 Sixty-seventh Session.

2. In addition to the Chairperson, Mr Khalid Mehboob, the following representatives of Members were present:

- Mr Carlos Alberto Amaral (Angola)
- Ms Kristina Gill (Australia)
- Ms Gianina Müller Pozzebon (Brazil)
- Mr Xu Yubo (China)
- Mr Khaled M.S.H. Eltaweel (Egypt)
- Mr Mateo Nsogo Nguere Micue (Equatorial Guinea)
- Ms Hannah Laubenthal (Germany)
- Mr Benito Santiago Jiménez Sauma (Mexico)
- Mr Lupino jr. Lazaro (Philippines)
- Mr Vladimir V. Kuznetsov (Russian Federation)
- Mr Sid Ahmed M. Alamain Hamid Alamain (Sudan)
- Ms Elizabeth Petrovski (United States of America)

3. The Chairperson informed the Committee that:

- Ms Maria Esperança Pires Dos Santos (Angola) had been designated to replace Mr Carlos Alberto Amaral for part of the session;
- Ms Kristina Gill (Australia) had been designated to replace Ms Cathrine Stephenson for this session;
- Ms Gianina Müller Pozzebon (Brazil) had been designated to replace Mr Antonio Otávio Sá Ricarte for this session;
- Mr Xu Yubo (China) had been designated to replace Mr Niu Dun for this session;
- Ms Hannah Laubenthal (Germany) had been designated to replace Mr Heiner Thofern for this session;
- Mr Sid Ahmed M. Alamain Hamid Alamain (Sudan) had been designated to replace Ms Abla Malik Osman Malik for this session; and
- Ms Elizabeth Petrovski (USA) had been designated to replace Mr Thomas M. Duffy 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 167th Session of the Committee:

- Cuba
- Dominican Republic
- France
- Italy
- Netherlands
- United Kingdom
- Venezuela, Bolivarian Republic of

World Food Programme Matters

Audited Annual Accounts, 2016

6. The Committee discussed WFP's *Audited Annual Accounts 2016*, supported by a briefing made by the WFP Secretariat which detailed key elements within the Audited Financial Statements.

7. The Committee was informed of the accounting policy change on non-exchange revenue recognition in order to provide meaningful information related to contributions revenue stipulated for future years. As a result, deferred revenue of USD 986 million was recorded in 2016 and USD 239 million in 2015 (as re-stated).

8. The Committee was informed of the main reasons behind movements in key elements of Financial Statement II which contributed to the 2016 surplus of USD 542 million compared with a deficit in 2015 (USD 51 million). This surplus was mainly due to the increase in contribution revenue (USD 5.8 billion against USD 4.7 billion in 2015) which, in accordance with International Public Sector Accounting Standards, was recognized when confirmed in writing by donors and where the contribution was stipulated for the current financial reporting year, and the increase in total expenses (USD 5.4 billion against USD 4.8 billion in 2015) which were recognized when goods and services were delivered.

9. The Committee was informed of the main reasons behind movements in the key elements of Statement I: the increase in cash and short-term investments (USD 2.0 billion against USD 1.6 billion in 2015); the increase in contributions receivable (USD 3.2 billion against USD 2.3 billion in 2015); the decrease in inventories (USD 643 million against USD 650 million in 2015); and the increase in employee benefit liabilities (USD 660 million against USD 613 million in 2015). The Committee was informed that overall budgetary utilization in 2016 was 61 percent of the final needs-based budget in Financial Statement V.

10. The Committee was informed that in 2016 the Secretariat had continued the practice of including a Statement on Internal Control, signed by the Executive Director, to provide assurance on the effectiveness of internal control in WFP. The Committee was informed that a 100 percent submission rate of Assurance Statements by all directors had been achieved. In addition, it was informed that the Statement on Internal Control included two new internal control weaknesses that arose in 2016, on enterprise risk management and oversight and talent management and workforce planning.

11. The Committee requested clarification on several technical aspects of the 2016 Annual Accounts:

Statement II (Statement of Financial Performance)

12. The Committee noted the increase in food commodity losses, USD 21.1 million in 2016 from USD 11.6 million in 2015, mainly due to the increased losses in South Sudan, Syrian Arab Republic and Yemen. These losses would be reported to the Executive Board at the annual session with explanations of the nature of losses and mitigation actions. The formal write-off process for such losses would be streamlined for timely approvals, reporting and preparation of the annual financial statements.

13. The Committee noted the increase of staff costs, USD 826 million in 2016 vs. USD 797 million in 2015, which was spread across employee categories (international staff, national staff and consultants).

Statement I (Statement of Financial Position)

14. The Committee inquired about the reduction of the funding level for employee benefits liabilities to 66% in 2016 from 70% in 2015, and any mitigation measures for the future. The Committee was informed that the employee benefits liabilities were influenced by internal and external factors, such as employee demographic changes, medical cost inflation and interest rates. In 2016, the reduction of funding level was mainly due to current lower discount rates used to value the liabilities and declining interest rates impacting both the discount rate for the liability and the rate of return of investment. An asset-liability study would be conducted in the latter part of 2017, which would advise on the optimal mix of equities, bonds and currencies in WFP investments to address the employee benefits long-term liabilities, and results would be reported to the Investment Committee.

Statement V (Statement of Comparison of Budget and Actual Amounts)

15. The Committee sought explanation for the 67 percent utilization of the critical corporate initiatives (CCI) budget. The Committee was informed that the CCI contained multiyear initiatives for effective implementation, which included carry over of the budget to the subsequent year.

Statement on Internal Control

16. The Committee inquired as to the robustness of the Statement on Internal Control in light of Section 5.2 (regional bureau (RB) effectiveness of oversight) from the External Auditor's Report on Decentralization, which highlighted the non-standard approach to RB oversight and possible implications on the quality of the assurance statements. The Committee was informed that the assurance statements were under continuous improvement, were analysed to gather trends and issues and that the RB review was given increasing attention. The Committee was further informed that this source of evidence was one element in the preparation of the Statement; other key sources being the review of External Audit, Internal Audit and Joint Inspection Unit recommendations, quarterly risk reports and the Office of the Inspector General (OIG) and Audit Committee feedback. The Committee was informed that management was planning enhancements in the assurance statement process.

External Audit Recommendations

17. The Committee noted that the Secretariat had accepted the 2016 audit recommendations related to improving internal controls in the cash-based transfers area, clarifying accounting policies and improving the audit trail in the revenue area and improving IT general and application controls.

18. The Committee:

- a) **examined WFP's 2016 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) **appreciated the Statement on Internal Control which provided specific assurance on the effectiveness of internal control in WFP and appreciated the efforts being made to address the risks and internal controls issues highlighted in the Statement. The Committee also noted the information provided by the Secretariat on the potential further involvement of Regional Bureaus in the review of individual Statements of Assurance on the effectiveness of internal control;**
- d) **noted that the WFP Secretariat responses to the External Auditor's recommendations on the 2016 Accounts would be included in the *Report on the Implementation of the External Auditors recommendations* when it was presented to the Annual Meeting of the Executive Board;**
- e) **noted the change in accounting policy for recognition of contributions revenue introduced in 2016 and that this change had also been applied to the comparative financial statements for 2015;**
- f) **noted the funding from the General Fund of USD 4,387,371 during 2016 for the write-off of receivables;**
- g) **noted post-delivery losses of commodities during 2016 of USD 21.1 million, forming part of the operating expenses for the same period; and**

- h) **recommended that the Executive Board approves the 2016 Annual Financial Statements of WFP, together with the Report of the External Auditor.**

Policy for Disclosure of Oversight Reports

19. The Committee discussed the *Policy for Disclosure of Oversight Reports* following a briefing by the Secretariat. The primary objective of the proposed document was to add the new Office of Inspector General (OIG) product, proactive integrity reviews (PIRs), to the policy of disclosure. The policy proposed that the proactive integrity reviews would follow the same disclosure as for investigations, i.e. be shared with permanent representations upon request. The Committee highlighted the need to clarify how to implement the policy as well as inform on completed PIRs and investigation reports.

20. **The Committee:**

- a) **agreed with the proposed revisions to the *Policy for Disclosure of Oversight Reports* extending the scope of the disclosure policy to include Proactive Integrity Review (PIR) reports;**
- b) **requested that a procedure be established to ensure that Permanent Representatives were made aware on a regular basis of PIR Reports and investigation reports that had been issued;**
- c) **advised the WFP Executive Board to approve the Executive Director's proposed revisions to the *Policy for Disclosure of Oversight Reports*.**

Appointment of Two Members to the Audit Committee

21. The Committee reviewed the Executive Director's recommendations for appointment to the Audit Committee and commended the WFP Secretariat and the selection and appointment panel, which included two Executive Board members, for having implemented a thorough selection process, and for having taken into account balance in geographic and gender representation.

22. While supporting the appointment of the two proposed candidates, the Committee recalled the importance of their independence, of their service in a personal capacity and of their time commitments to perform their work as per the mandate of the Audit Committee which should remain robust.

23. **The Committee:**

- a) **noted the competence of the two candidates recommended by the Executive Director, Mr Pedro Guazo (Mexico) and Ms Agnieszka Słomka-Gołębiowska (Poland); and**
- b) **recommended that their appointment be approved by the Executive Board.**

Annual Report of the Audit Committee

24. The Audit Committee Chairperson presented the *Annual Report of the Audit Committee*, covering the period from 1 April 2016 to 31 March 2017, during which the Audit Committee had met three times. Topics discussed at open sessions with WFP Management, the Inspector General and the External Auditor covered the full scope of Audit Committee responsibilities set out in its terms of reference. Sessions with the Executive Director and the Executive Board Bureau had helped the Audit Committee identify the most important issues for its consideration.

25. The Committee considered the highlights of the report presented by the Audit Committee Chairperson including risk management issues, internal control processes, cost efficiencies, implementation of actions coming out of the proactive integrity review reports and the operation of the Office of the Inspector General.

26. Following requests from the members, the Audit Committee Chairperson confirmed that zero tolerance to fraud should be applied for all detected cases of fraudulent practices, for which adequate systematic measures and procedures had to be implemented, noting that it however did not prevent the organization from reviewing and reinforcing its enterprise risk management and risk

thresholds for its operations. The Committee was informed that the Secretariat would present an update of the risk appetite statement to the Board at its First Regular Session in 2018.

27. The Committee was informed that a costed proposal for risk management activities would be made as part of the next Management Plan. With respect to cash-based transfers (CBTs), for which the Committee noted capacity gaps and skills, the Audit Committee Chairperson confirmed that controls on CBTs should be strengthened. The Committee was informed that improved control actions continued to be taken by the Secretariat, through a focus on long and complex CBT activities, joint missions to provide cross-functional training and the augmentation of daily business support, external recruitment of people and procurement of systems to help address capacity gaps, and consideration of further organizational arrangements for strengthening accountability for this important business line. In response to queries by Committee Members on cost accounting for indirect support costs, the Audit Committee Chairperson considered that WFP, as a leader in transparency, could move in that direction.

28. Noting that it was the last time that the Chairperson was presenting the report as he approached the end of his second term as an Audit Committee member, the Committee expressed its appreciation for his guidance and independent view on the activities of WFP.

29. **The Committee:**

- a) **considered the *Annual Report of the Audit Committee* for the period 1 April 2016 - 31 March 2017;**
- b) **acknowledged the important role of the Audit Committee and encouraged the Audit Committee in its ongoing work;**
- c) **welcomed the report, which included positive conclusions on overall risk management and internal control processes and the operation of the Office of the Inspector General;**
- d) **appreciated the guidance provided by the Audit Committee in the areas under its mandate, in particular the additional perspectives and insights provided in the Report; and**
- e) **approved the submission of the report to the Executive Board at its June 2017 Annual Session for its consideration.**

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

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

31. The Committee thanked OIG for its report and welcomed highlighted key areas of risks and improvement in WFP.

32. The Committee noted the absence of the issue of stretched resources in the Note of the Executive Director. It was provided assurances by the Secretariat that the matter was given priority, in line with its comments as documented in the Statement of Internal Control and Annual Performance Report for 2016, as well as coverage of this risk and mitigating actions in WFP's Corporate Risk Register. The Secretariat agreed that future notes by the Executive Director would provide more details on management actions in response to key areas of risk and improvement highlighted in the Inspector General's report.

33. The Acting Inspector General clarified that the annual opinion was formed based on a mix of qualitative and quantitative data aggregation of work done, and that the annual audit plan was developed on a risk-based approach, considering available resources. Under the current Internal Audit Strategy OIG was delivering under stable resources. The Committee was provided clarification that OIG's budget had increased between 2015 and 2016 in purchasing power terms and its output had increased despite WFP's OIG being comparatively the least resourced of United Nations Agencies. The issue of sufficient coverage by OIG was discussed upon presentation of the annual workplan with the Audit Committee and management. Increase in high risk observation and distribution of audit ratings also resulted from a focused risk approach.

34. The Acting Inspector General confirmed the efficiency of thematic audits in reinforcing its presence in the field, which was also leveraged in coordination with the External Auditor.

35. On the status of outstanding high-risk agreed actions, the Committee was informed by the Secretariat that since the issuance of the Annual Report, all the 2015 high-risk actions had been closed, and five remained for 2016. Formal completion of agreed actions was subject to review by OIG.

36. The Committee was informed that the lag between investigations and recoveries was one element for consideration for the decrease of recoveries against fraud losses.

37. **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 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) **welcomed the assurance on the Independence of the Office of the Inspector General provided through the Statement of Independence;**
- d) **welcomed the Executive Director's concurrence with the recommendations presented in the Report and appreciated the confirmation by the Secretariat that future reports would provide more complete details of actions being taken to address the recommendations;**
- e) **noted the areas of internal control, governance and risk management practices identified in the report that required improvement; and**
- f) **advised the WFP Executive Board to take note of the *Annual Report of the Inspector General* and encouraged management to take advantage of the opportunities for further improvement highlighted in the report.**

Report of the External Auditor on Decentralization and WFP Management Response

38. The Committee discussed the *Report of the External Auditor on Decentralization* following a briefing by the External Auditor and WFP management. The objective of the audit was to determine whether management of decentralization complied with the principles of economy, efficiency and effectiveness and whether there was scope for improvement, and whether the activities, transactions and information were compliant with WFP policies, procedures and guidance.

39. The report included findings related to reporting lines for field office managers, assessment of the viability of decentralized offices, defining the nature of oversight responsibilities of regional bureaux, reporting procedures for losses in field offices that might constitute fraud, special considerations for WFP presence in middle-income countries and monitoring the impact of organizational reforms. The report made 17 recommendations, with which management had agreed or partially agreed.

40. The Committee noted that the timelines for implementation of the recommendations would be provided before the annual session of the Executive Board. It requested and received clarification on issues including the enhancement of information on the WFP intranet on the organizational structure and that this information would be available to Executive Board members and the reasons for partial agreement with four of the recommendations.

41. The Committee was informed that the country strategic plans (CSPs) would reflect programmatic approaches as well as criteria and conditions to facilitate exit strategies and transfer to national governments, particularly in middle-income countries (MICs). The Committee was also informed that the transfer of overhead costs to national government in MICs settings was a priority, but required time and coordination with national governments.

42. In connection with the recommendations relating to losses of assets that might constitute fraud, the External Auditor indicated the procedure defined in the Anti-Fraud Anti-Corruption policy to be followed and noted that the recommendations were intended to stress the obligations of country directors with regard to timely reporting of theft that might constitute fraud. The Committee noted that the Secretariat concurred with the External Auditor on this point and had confirmed that guidelines would be issued to facilitate Country Office's work in recognising when to report theft that might constitute fraud.

43. **The Committee:**

- a) **reviewed the *Report of the External Auditor on Decentralization and the Management Response to the recommendations*;**
- b) **noted the management response to the recommendations, including clarifications on those which had been partially agreed;**
- c) **noted that the timeframe for implementation of the recommendations was being reviewed by the Secretariat; and**
- d) **looked forward to an update on implementation through the *Report on the Implementation of the External Auditor Recommendations*.**

Report of the External Auditor on Changes in Human Resources and WFP Management Response

44. The Committee discussed the *Report of the External Auditor on Changes in Human Resources* following a briefing by the External Auditor and WFP management. The objective of the audit was to examine WFP human resources in terms of the implementation of the People Strategy (2014-17), the implementation of recommendations from the previous external audit on the same subject issued in May 2012, and the development of the organization's human resources policies from 2012 to 2016.

45. The report included findings related to clarifying the criteria governing use of each contractual modality, re-examining recruitment and remuneration practices for consultants, development of a framework for workforce planning, structure and staffing reviews in field offices, performance management and career prospects for national professional officers. The report made 14 recommendations, with which management had agreed or partially agreed.

46. The Committee requested and received clarification on issues including the implementation status of previous audit recommendations; the number, length of employment, recruitment practices for, and remuneration levels of, consultants; the planned review of performance rewards; the planned development of workforce planning tools; and the use of 360-degree reporting. The Committee was informed that consultants continued to be a vital part of the Programme's response to staffing requirements and that changes in policy and the implementation of the e-recruitment system would increase the transparency of the recruitment processes. The Committee was provided information on the Organization's early considerations of performance rewards for particularly exceptional performers and that 360-degree reporting had been implemented for executive leadership staff members and as a leadership development tool for staff nominated for promotion to P4 and P5 grades. On the subject of workforce planning, the Committee was informed that the Nutrition division would host a pilot project of workforce tools and processes and, based on lessons learned, this would serve as a base for rollout to other functional areas within the Programme.

47. **The Committee:**

- a) **reviewed the *Report of the External Auditor on Changes in Human Resources and the Management Response to the recommendations*;**
- b) **noted the management response to the recommendations, including clarifications on those which had been partially agreed;**

- c) **looked forward to future updates on the implementation of recommendations including on the recruitment and remuneration of consultants.**

Report on the Implementation of the External Auditor Recommendations

48. The Committee discussed the *Report on the Implementation of the External Auditor Recommendations* following a briefing by the Secretariat that highlighted the recommendations that had been implemented and those that remained outstanding. Of the 52 recommendations included in the report, 29 recommendations were closed in the current reporting cycle. Due to timing and workload, the nine recommendations from the audit of the 2016 Audited Annual Accounts were not in the current report, but would be available in time for the June Annual Session of the WFP Executive Board. The Committee was informed that the Secretariat had accepted all of the recommendations arising from the audit of the 2016 Audited Annual Accounts, which related to issues such as enhancing controls for cash-based transfers, clarifying accounting policies and improving the audit trail in the revenue area, and improving IT and systems controls.

49. The Committee was informed that the External Auditor had provided his views on all of the recommendations that the Secretariat deemed complete. The Committee noted that while some progress had been made, some recommendations remained outstanding, including in the areas of food procurement and school feeding. The Committee noted the clarifications provided on the timelines for implementation and which varied due to factors such as the complexity of the issues and the need for policy and systems changes. The Committee noted the Secretariat's acknowledgement that capacity stretch had contributed to some challenges in meeting the desired implementation timelines, and that the issue was under discussion within the Secretariat with a view to appropriately mitigating related risks, including through dedicating additional resources where appropriate.

50. The Committee:

- a) **considered the *Report on the Implementation of the External Auditor Recommendations*;**
- b) **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 2017;**
- c) **encouraged the Secretariat to expedite the implementation of the outstanding recommendations within the timeline indicated in the report;**
- d) **looked forward to further updates on the progress of implementation; and**
- e) **recommended that the Executive Board take note of the *Report on the Implementation of the External Auditor Recommendations*.**

Report on the Utilization of WFP's Advance Financing Mechanisms (1 January – 31 December 2016)

51. The Committee reviewed the *Report on the Utilization of WFP's Advance Financing Mechanisms (1 January – 31 December 2016)* presented by the WFP Secretariat, including details of the assessment on macro advance financing carried out by the Boston Consulting Group (BCG).

52. The Committee congratulated WFP on its advance financing mechanisms, which had grown over the years and had an excellent record of prudent risk management. It appreciated the Secretariat's efforts to expand internal project lending to better respond to humanitarian needs, particularly through macro advance financing pilots, based on informed trend analysis.

53. The Committee noted the benefits provided, which had been analyzed and quantified by BCG, as well as the challenges faced in implementing the macro advance financing pilots in 2016 and enquired about the next steps that might be taken to further the concept. The Committee indicated that these steps could include expanding the pilots to include a larger more complex emergency operation such as one of the four famines facing north eastern Nigeria, Somalia, South Sudan and Yemen. This could provide more detailed and impactful results during the pilot phase.

54. The Committee also enquired about the Immediate Response Account (IRA) and actions that were being taken to increase the level of contributions. The Committee opined that the IRA was not yet being used to its full potential and enquired as to what else WFP could be doing to exploit the mechanism and increase donor contributions.

55. For both macro advance financing and the IRA, the Committee noted the existence of challenges in expanding their respective abilities to respond, in particular challenges of a legal nature and in respect of donor visibility. The Committee agreed that visibility and advocacy issues were the critical issues to be addressed on the IRA in the immediate future. The Committee was informed that the next steps on the Macro advance financing were dependent to a degree on donor conditions and was assured that management of risk was always a priority of management as it sought to extend the pilots during the remainder of 2017 up to a ceiling of USD 150 million to USD 200 million, as previously reported to the Board. Donor outreach was an important step that needed to be undertaken by the Secretariat to advocate for the facilities and the positive outcomes being generated while also coming to a better understanding of the nature of donor constraints and how, or if, they could be mitigated.

56. **The Committee:**

- a) **welcomed the *Report on the Utilization of WFP's Advance Financing Facilities (1 January – 31 December 2016)*, including on the use of macro-advance financing as a new facility implemented on a pilot basis during 2016 and on the positive learnings and challenges experienced during this implementation;**
- b) **looked forward to updates on the macro-advance financing model in 2017;**
- c) **emphasized the need to continue to improve understanding and visibility of the Immediate Response Account; and**
- d) **invited the Executive Board to take note of the report.**

Revised Terms of Reference of the Audit Committee

57. The Committee reviewed the *Revised Terms of Reference of the Audit Committee* and was informed that the proposed revisions due to changes in travel conditions arose from a 2012 WFP travel directive which no longer applied a 40 percent supplementary daily subsistence allowance for Assistant Secretary-General-level travellers and which had resulted in a reduction of USD 40,000 of Audit Committee member travel costs over the last five years. The Committee also noted that the proposed revisions of the terms of reference would become applicable when approved by the Board at its Annual Session in June or at any date that the Board might decide to establish.

58. Following the presentation by the Secretariat of the proposals presented in the document, the Committee considered additional proposals relating to extending the length of the cooling off period for members of the Audit Committee, a revision to the modalities for presenting the recommended candidates to the Executive Board for approval, and the inclusion of an indemnity clause, in line with the practice of some specialized agencies, funds and programmes of the United Nations system and the United Nations Secretariat. While appreciating the additional proposals, the Committee requested more time to review them and to further study best practices followed by other organizations like WFP, including the legal implications of the proposals.

59. Following a request from the Committee for Management's views on the proposed additional revisions, the Secretariat indicated that it appreciated the additional proposals made for the cooling off period and the indemnity clause and its reservations with regard to modifying the process by which candidates were proposed for appointment by the Executive Director for approval by the Board. It recalled that the Audit Committee, as an external independent body that reports both to the Board and Management, was productively and actively engaged with management in providing advisory support to Management.

60. **The Committee:**

- a) **reviewed and supported the proposed revisions to the Terms of Reference of the Audit Committee to reflect recent strengthening of oversight activities at WFP and changes to the organizational structure and corporate travel policy;**
- b) **recommended the WFP Executive Board approve the *Revised Terms of Reference of the Audit Committee*;**
- c) **agreed to review further proposed updates to the Terms of Reference at a future session of the Finance Committee based on further review of best practice with regard to: the cooling off period; the process for recommendation of candidates to the Executive Board; and the indemnification of members for actions performed in the course of exercising their responsibilities as members of the Audit Committee; and**
- d) **requested the Secretariat to facilitate this review with an analysis of proposed revisions, including any legal implications.**

Update on the Integrated Road Map

61. The Committee welcomed the update on implementation of the Integrated Road Map (IRM) which would provide a new business model for WFP with a focus on performance, transparency and maximizing value for money.

62. The Committee noted that the lessons learned from the corporate transition to date and preparation and roll-out the first wave of country strategic plans (CSPs) were being progressively implemented to improve the CSP framework and accompanying country portfolio budgets under wave 1B and future waves of CSPs and Interim CSPs (ICSPs).

63. The Committee was informed that the pace of implementation had raised some concerns from Members and in addition the internal analysis of initial lessons learned by the Secretariat, pointed to the need for a flexible approach to implementation.

64. The Committee noted the target go-live date remained 1 January 2018 for most country offices and that, exceptionally, some country offices would continue with project implementation in 2018, while working towards transitioning to the IRM framework no later than January 2019. The Committee was informed that the Secretariat anticipated that approximately 15 country offices would continue under the current framework in 2018.

65. The Committee noted that the increased flexibility would provide an extended period of time to consider the necessary changes to the WFP General Rules and Financial Regulations in critical areas such as delegations of authority and full-cost recovery, to gather and assess lessons learned in a systematic manner and refine the tagging model via focus areas.

66. The Committee was informed that additional resource requirements for 2018 might be required as a result of the more flexible approach and these were under review. The additional requirements would be presented as part of the Management Plan's proposed critical corporate initiatives and would be preceded by informal consultations.

67. The Committee took note that at the Second Regular Session of 2017 the Secretariat intended to present for approval interim principles to guide the application of full-cost recovery, interim delegations of authority for revisions not related to fundamental changes, emergency response or service delivery, and certain derogations from the WFP General Rules and Financial Regulations to enable implementation of the CSP framework and country portfolio budget structure in 2018.

68. The Committee noted that after close consultation and consideration of lessons learned from the interim governance arrangements in 2018, the Executive Board would consider a final package of amendments to the WFP General Rules and Financial Regulations at the Second Regular Session of 2018.

69. The Committee reviewed the Secretariat's proposal to employ the approval by correspondence mechanism for project budget revisions under the current system and extensions in time for transitional interim country strategic plans, recognizing that the mechanism would ensure the Executive Board's oversight role during the transition and implementation period.

70. The Committee was provided assurances in a response to a query on the application of focus areas that additional guidance had been issued and would be stringently applied.

71. **The Committee:**

- a) **noted and appreciated the progress reported on implementation of the Integrated Road Map;**
- b) **supported the Secretariat's proposal to allow for increased flexibility in the Integrated Road Map implementation timeline, with some country offices continuing to implement projects under the current system beyond 1 January 2018, while maintaining the commitment to transition completely to the Integrated Road Map framework by 1 January 2019;**
- c) **noted that this proposal would require derogations from certain provisions of the General Rules and Financial Regulations and requested the Executive Director to present a formal proposal to this effect for approval at the Executive Board's Second Regular Session in 2017;**
- d) **noted that the Secretariat would present proposals at the Executive Board's Second Regular Session in 2017 with respect to interim delegations of authority and principles to guide the interim application of full-cost recovery for country strategic plans, interim country strategic plans, transitional interim country strategic plans and limited emergency operations in 2018;**
- e) **endorsed as a temporary measure the procedure set out in the document for Executive Board approval by correspondence of project budget revisions in 2017 and 2018 and time extensions for transitional interim country strategic plans during the transition period until June 2019;**
- f) **noted the proposal of the Secretariat to present the proposed final amendments to the General Rules and Financial Regulations and the revised delegations of authority to the Board for approval at its Second Regular Session in 2018 so that they might come into effect on 1 January 2019, and noted the proposal that the thresholds be reviewed after three years and amended, as necessary;**
- g) **recommended for adoption by the Executive Board, the draft decisions presented in the document.**

FAO Matters

Commissary Accounts - Staff Welfare Fund

72. The Committee reviewed the proposal to revise the funding mechanism of the Staff Welfare Fund (SWF) and in particular to abolish the current mechanism under which the Commissary is required to transfer one per cent of its annual sales to the Staff Welfare Fund.

73. The Committee requested and received clarifications on the process that led to this proposal including assurances that staff would continue to be updated on developments.

74. **The Committee:**

- a) **supported the revised funding mechanism proposed for the Staff Welfare Fund whereby part of the annual net profits of the Commissary would be provided to the SWF after an adequate share of the profits had been transferred to the Commissary Reserve Fund, noting that this would help safeguard the sustainability of the Commissary;**
- b) **agreed with the special procedure that could be followed for presentation of the draft Conference Resolution to the upcoming Conference given the current exceptional financial circumstances of the Commissary;**

- c) **endorsed the draft Conference Resolution presented in Appendix 2 of FC 167/13 and submitted it to the Conference for approval at its 40th Session in July 2017, noting that the reference in the draft Conference Resolution to “net income” should be replaced by “net profits”;**
- d) **encouraged the holding of informal consultations by the Independent Chairperson of the Council with Chairs of regional groups prior to the Conference Session on this subject;**
- e) **requested updates at future sessions of the Finance Committee on the review of the business model of the Commissary and on the funding of the Staff Welfare Fund.**

Other Matters

Date and Place of the Hundred and Sixty-eighth Session

75. The Committee was informed that the 168th Session was scheduled to be held in Rome from 6 to 10 November 2017.

Any Other Matters

76. Noting that it was the last session of the Chairperson, the Committee expressed its appreciation for his guidance and leadership of the work of the Committee.

Documents for Information

- Report of the Executive Director on the Utilization of Contributions and Waivers of Costs (General Rules XII.4 and XIII.4 (h)) (doc. FC 167/INF/2)