

برنامج  
الأغذية  
العالمي



Programme  
Alimentaire  
Mondial

World  
Food  
Programme

Programa  
Mundial  
de Alimentos

Executive Board  
Annual Session

Rome, 3–6 June 2014

# RESOURCE, FINANCIAL AND BUDGETARY MATTERS

## Agenda item 6



Distribution: GENERAL

WFP/EB.A/2014/6(A,B,C,D,E,F,G,H,I,J,K)/3

20 May 2014

ORIGINAL: ENGLISH

## 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, 2013 (WFP/EB.A/2014/6-A/1 + Corr.1)
- Appointment of Two Members to the Audit Committee (WFP/EB.A/2014/6-B/1)
- Appointment of Two Executive Board Members to the Selection Panel for the Appointment of Three Audit Committee Members (WFP/EB.A/2014/6-C/1)
- Financial Framework Review (WFP/EB.A/2014/6-D/1)
- Annual Report of the Audit Committee (WFP/EB.A/2014/6-E/1)
- Annual Report of the WFP Inspector General and Note by the Executive Director (WFP/EB.A/2014/6-F/1 and WFP/EB.A/2014/6-F/1/Add.1)
- Report of the External Auditor on Food Procurement in WFP and WFP Management Response (WFP/EB.A/2014/6-G/1 and WFP/EB.A/2014/6-G/1/Add.1)
- Report of the External Auditor on United Nations Humanitarian Response Depot and WFP Management Response (WFP/EB.A/2014/6-H/1 and WFP/EB.A/2014/6-H/1/Add.1)
- Report on the Implementation of the External Auditor Recommendations (WFP/EB.A/2014/6-I/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/2014/6-J/1)
- Report on the Utilization of WFP's Advance Financing Mechanisms (1 January–31 December 2013) (WFP/EB.A/2014/6-K/1)



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

منظمة  
الأغذية والزراعة  
للأمم المتحدة

E

## COUNCIL

### Hundred and Forty-ninth Session

Rome, 16-20 June 2014

### Report of the 153<sup>rd</sup> Session of the Finance Committee (Rome, 12-14 May 2014)

#### Executive Summary

At its 153<sup>rd</sup> 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 2014.

#### 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 2014.

*Queries on this document may be addressed to:*

David McSherry  
Secretary, Finance Committee  
Tel: +3906 5705 3719

---

## Table of Contents

---

|   | Pages |
|---|-------|
| Introduction .....  | 4     |
| World Food Programme Matters .....  | 4     |
| Audited Annual Accounts, 2013 .....   | 4     |
| Appointment of Two Members to the Audit Committee .....   | 6     |
| Appointment of Two Executive Board Members to the Selection Panel<br>for the Appointment of Three Audit Committee Members ..... | 7     |
| Financial Framework Review .....  | 7     |
| Annual Report of the Audit Committee .....  | 8     |
| Annual Report of the Inspector General and Note<br>by the Executive Director on the Annual Report .....                         | 10    |
| Report of the External Auditor on Food Procurement in WFP and Management Response .....   | 11    |
| Report of the External Auditor on United Nations Humanitarian<br>Response Depot and WFP Management Response .....               | 12    |
| Report on the Implementation of the External Auditor Recommendations .....  | 13    |
| Date and Place of the Hundred and Fifty-fourth Session .....  | 14    |
| Documents for information .....   | 15    |

**REPORT OF THE HUNDRED AND FIFTY-THIRD SESSION  
OF THE FINANCE COMMITTEE  
(12–14 May 2014)**

**Introduction**

1. The Committee submitted to the Council the following report of its Hundred and Fifty-third 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 Khaled M.S.H. Eltaweel (Egypt)
  - Mr Otmar Greiff (Germany)
  - Mr Abdoulaye Traore (Guinea)
  - Mr Hideya Yamada (Japan)
  - Mr Benito Jiménez Sauma (Mexico)
  - Mr Khalid Mehboob (Pakistan)
  - Mr Vladimir V. Kuznetsov (Russian Federation)
  - Ms Abla Malik Osman Malik (Sudan)
  - Ms Elizabeth Petrovski (USA)
3. The Chairperson informed the Committee that:
  - Ms Kristina Gill (Australia) had been designated to replace Mr Matthew Worrell for this session;
  - Mr Otmar Greiff (Germany) had been designated to replace Mr Georg Friedel Cramer for this session;
  - Mr Benito Jiménez Sauma (Mexico) had been designated to replace Ms Emma María José Rodríguez Sifuentes for this session;
  - Ms Elizabeth Petrovski (USA) had been designated to replace Ms Natalie Brown for this session; and
  - Mr Faouzi Lekjaa (Morocco) did not attend the 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 Member Nations attended the 153rd Session of the Committee:
  - Denmark
  - Norway
  - United Kingdom

**World Food Programme Matters**

**Audited Annual Accounts, 2013**

6. The Committee discussed WFP's *Audited Annual Accounts 2013*, supported by a briefing made by the WFP Secretariat which detailed the key elements within the Audited WFP Financial Statements. The Committee also received a briefing from the External Auditor on the associated audit report, which was presented together with the statements in one document.

7. The Committee was informed that there were no accounting policy changes in 2013. WFP had fully applied the three new International Public Sector Accounting Standards (IPSAS) on financial instruments issued in 2010 and effective from 1 January 2013 with an impact on disclosure only.

8. The Committee was informed of the main reasons behind movements in the key elements: the increase in the cash and short-term investments (USD 1.4 billion against USD 1.3 billion in 2012); the increase in the long-term investments (USD 428 million against USD 353 million in 2012); the relatively stable contribution receivable balance of USD 1.9 billion; the decrease in inventories (USD 665 million against USD 710 million in 2012); and the increase in employee benefit liabilities (USD 422 million against USD 385 million in 2012). The Committee was also informed that the reason for the surplus in 2013 of USD 21 million in Financial Statement II in comparison with 2012 was mainly due to the increase in contribution revenue (USD 4.4 billion against USD 4.0 billion in 2012). The Committee was informed that the overall budgetary utilization in 2013 was 64 percent of the final budget in Financial Statement V.

9. The Committee was informed that in 2013 the Secretariat included for the third consecutive year a Statement on Internal Control, signed by the Executive Director, to provide additional assurance on the effectiveness of internal control in WFP. The Secretariat provided a brief overview of the extensive process adopted to put together the Executive Director's Statement on Internal Control, including the collection of "Assurance Statements" from 140 managers regarding internal control for their respective offices/divisions which formed the basis of the Statement. As an additional measure of accountability, all manager-submitted Assurance Statements were cleared by at least one higher level of supervision. The Secretariat was pleased to inform the Committee that a 100 percent submission rate had been achieved.

10. The External Auditor was pleased to inform the Committee that it had completed the audit of the Annual Accounts 2013 in accordance with the International Standards of Auditing and stated that the Annual Accounts presented fairly, in all material aspects, the financial position of WFP as at 31 December 2013, its financial performance and the performance of its cash flows for the year ended 31 December 2013, in accordance with IPSAS. The External Auditor also outlined the 2013 audit recommendations.

11. The Committee requested clarification on several technical aspects of the 2013 Annual Accounts:

- *Continued strengthening of the internal control environment.* The Committee was informed that WFP remained committed to strengthen internal control initiatives. WFP had put the recommendations from all oversight organs into one platform to monitor holistically the progress in achieving WFP's corporate and project objectives;
- *Further development of enterprise risk management.* The Committee was informed that the current enterprise risk management policy would be updated in 2014 and be presented to the Executive Board in 2015, and that the roll-out of an integrated control performance and risk management system and information technology tool (PROMIS) was planned during 2014. The Committee was informed that ultimately, the objective was to embed risk management culture in all WFP operational processes;
- *Improved information disclosure on budgetary performance.* The Committee was informed that WFP intended to augment the Financial Statement V disclosures by including the resources available in addition to the currently disclosed needs-based requirements to improve the assessment of budgetary performance;
- *Accounting policy with regard to food commodities.* The Committee was informed that although the legal title of food commodities may have passed to the recipient country government at their point of first entry, in terms of IPSAS definitions, the control over the food commodities remained within WFP and therefore, the food commodities were included into WFP's inventories held at the end of reporting period;
- *Details on the disclosures related to the United Nations Joint Staff Pension Fund (UNJSPF).* The Committee was informed that the disclosures in paragraph 28 of the Notes to the Financial Statements provided the rationale for the accounting treatment of the UNJSPF and

that based on the latest assessment of the actuarial sufficiency of the UNJSPF there was currently no requirement for deficiency payments from participating organizations; and

- *The timeframe for the implementation of the External Auditor recommendations.* The Committee was informed that WFP welcomed and accepted all External Auditor recommendations and that the implementation timeframe for each recommendation was included in the *Report on the Implementation of the External Auditor Recommendations*.

## 12. The Committee:

- a) **examined WFP's 2013 Audited Annual Accounts including the opinion of the External Auditor;**
- b) **noted that for the third consecutive year the 2013 Audited Annual Accounts were accompanied by the Statement on Internal Control;**
- c) **welcomed the level of assurance provided by the Executive Director with regards to the internal controls in place;**
- d) **congratulated the Secretariat on the quality of the 2013 Audited Annual Accounts on which the External Auditor gave an unqualified audit opinion;**
- e) **welcomed the efforts made by the Secretariat to strengthen transparency and risk management initiatives;**
- f) **noted the five recommendations of the External Auditor in their Report on the 2013 Audited Annual Accounts and management 's assurances to follow-up on them;**
- g) **welcomed the statement by the External Auditor on the positive and professional relationship with WFP management;**
- h) **noted the progress on improvement areas in the Statement on Internal Control and specifically:**
  - **noted the activities planned by WFP in 2014 to support successful implementation of risk assessments and risk registers in middle-income countries;**
  - **noted WFP's progress in the roll out of emergency preparedness and encouraged the Executive Board to support these efforts;**
  - **encouraged the Secretariat to present practical results on WFP's Country Office Monitoring and Evaluation Tool (COMET) implementation during a Committee session in 2015;**
  - **noted progress in ensuring timely staff performance appraisals and encouraged the Secretariat to continue to pursue quality improvements within the performance appraisal process;**
  - **acknowledged the Secretariat's efforts to date in implementing strengthened segregation of duties in the corporate IT systems and encouraged the full implementation of these measures;**
- i) **recommended that the Executive Board approve the Audited Annual Accounts, 2013.**

### Appointment of Two Members to the Audit Committee

13. The Committee reviewed the request for the renewal of the terms of two Audit Committee members, as follows: Ms Irena Petruškevičienė (Lithuania) from 30 July 2014 to 29 July 2017; and Mr James A. Rose III (United States of America) from 30 July 2014 to 29 July 2017.

## 14. The Committee:

- a) **noted the competence of the candidates recommended by the Executive Director; and**
- b) **recommended that their appointment be approved by the Executive Board.**

## **Appointment of Two Executive Board Members to the Selection Panel for the Appointment of Three Audit Committee Members**

15. The Committee reviewed the request for the nomination of two Board members to sit on the selection panel for the selection of Audit Committee members, as follows: Dr Kayoya Masuhwa, Alternate Permanent Representative of Zambia and Mr Otmar Greiff, Alternate Permanent Representative of Germany.

16. **The Committee:**

- a) **noted the proposed nominations of two Board representatives to the selection panel, recommended by the Executive Board Bureau; and**
- b) **recommended that their appointment to the selection panel be approved by the Executive Board.**

### **Financial Framework Review**

17. The Committee reviewed the document on the *Financial Framework Review* presented by the WFP Secretariat. The document provided a comprehensive approach to WFP's Financial Framework Review, outlining three components that sought to: i) increase predictability of resources; ii) improve flexibility through a review of WFP's funds management structure; and iii) improve accountability of planning and cost management. The focus of the document was on the first component of predictability and maximizing use of WFP's resources through a review of the Working Capital Financing Facility.

18. Currently the Working Capital Financing Facility had three financing mechanisms, each with different risk profiles. The three financing mechanisms comprised i) Internal Project Lending, ii) Global Commodity Management through Forward Purchase Facility, and iii) Corporate Services. All three mechanisms were currently under one facility backed by an Operational Reserve of USD 101.2 million with a financing ceiling of USD 607 million, with a leverage factor of six to one.

19. The Committee was informed of the analysis and conclusions of the Boston Consulting Group's (BCG) review of the Working Capital Financing Facility, demonstrating the track record of each of the three financing mechanisms and the overall low risk profile due to sound risk management practices. This analysis demonstrated that WFP's three financing mechanisms should be managed separately for better governance, transparency and accountability. The analysis also underlined that both Forward Purchase Facility and Corporate Services would not require to be backed by the Operational Reserve and recommended a ceiling of USD 600 million for Internal Project Lending for which an increased leverage factor of ten would be suitable.

20. Given the identification of the three distinct financing mechanisms within the Working Capital Financing Facility and taking into consideration the analysis conducted by the BCG, the Secretariat proposed the following:

- i) separation of the Forward Purchase Facility (renamed Global Commodity Management Facility) and Corporate Services advances from the Working Capital Financing Facility;
- ii) establishment of a reserve for the Global Commodity Management Facility and the transfer of USD 6 million from the Operational Reserve to the newly established Global Commodity Management Facility Reserve;
- iii) establishment of a ceiling of USD 570 million for the Working Capital Financing Facility to be used for internal lending for project operations;
- iv) maintenance of the ceiling of USD 350 million for the Global Commodity Management Facility;
- v) establishment of a ceiling of USD 70 million for Corporate Services advances for 2014 and regularly reviewing its level as part of future Management Plans; and
- vi) use of the Programme Support and Administrative Equalization Account as a reserve of last resort for Corporate Services advances.

21. The Committee thanked the Secretariat for the document and the thoroughness of the consultative process. The Committee also appreciated the detailed analysis conducted by the Boston Consulting Group on WFP's Working Capital Financing Facility.

22. In response to questions raised by the Committee regarding the basis for the large increase of Internal Project Lending, the Secretariat explained that raising the ceiling would allow WFP to maximize benefits through increased predictability. The amount of USD 570 million was more conservative than the BCG recommendation; would be a ceiling and not a target; and would allow WFP to better respond in the event where there would be three or four Level-3 emergencies at one time. The Committee was informed by the Secretariat that the ceiling of the Working Capital Financing Facility was USD 407 million in 2010; therefore the increase was less substantial if compared to that level.

23. The Committee enquired about the possibility of decreased flexibility due to the separation of the three financing instruments. The Committee was informed by the Secretariat that there could be some loss of managerial flexibility which was mitigated by having appropriate ceilings for each financing instrument. Moreover, increased transparency and accountability would take precedence and provide for better reporting and overall improved governance.

24. With regards to the use of the Programme Support and Administrative Equalization Account (PSAEA) as a reserve of last resort, the Committee underlined the linkages with the review of the indirect support costs (ISC) rate and the Management Plan. The Committee was informed by the Secretariat of the interdependencies and that the proposed changes were backed by detailed analysis on risks and benefits and that the three new facilities would continue to be reviewed, together with the Immediate Response Account, when the need arose.

25. **The Committee:**

- a) **welcomed the document on the Financial Framework Review;**
- b) **appreciated the comprehensive review comprising of the three components predictability, flexibility and accountability;**
- c) **acknowledged the importance of the review conducted pro bono by the BCG on the Working Capital Financing Facility;**
- d) **accepted the proposal to separate the three financing instruments of Internal Project Lending, Global Commodities Management Facility and Corporate Services each with the specific ceilings and related safety net mechanisms in order to enhance transparency and predictability of funding at the country level, as presented in the Draft Decision;**
- e) **noted that future documents on the other two components of Financial Framework Review would be provided and requested the corresponding timeframe;**
- f) **requested future reporting on benefits realized from the implementation of the new financing mechanisms; and**
- g) **invited the Executive Board to approve the proposals presented in this document.**

### Annual Report of the Audit Committee

26. The Audit Committee Chairperson presented the *Annual Report of the Audit Committee* by teleconference as he was unable to attend the session in person due to a previous commitment. The report covered the period from 1 April 2013 to 31 March 2014, 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 (TORs); sessions with the Executive Director and the Executive Board Bureau had helped the Audit Committee identify the most important issues for its consideration.

27. The Finance Committee considered the highlights of the report presented by the Audit Committee Chairperson including the Audit Committee's view on the initiatives by the Inspector General, the statement of internal control, the Financial Statements, the two performance audits and the internal justice process review.



28. The Audit Committee had discussed the various methods for determining indirect support cost (ISC) rates with management and had recommended that a single ISC rate was the best approach. The Committee noted the Audit Committee's explicit support and general consensus for a single ISC rate and supported the suggested pilot project to explore better ways to measure costs. The Committee noted Audit Committee support for increased analysis on which costs were covered by ISC income.

29. The Audit Committee noted that the Working Capital Financing Facility (WCFF): i) provided immediate funding without prior confirmation of donor contributions; and ii) allowed pre-positioning of food. The Audit Committee opined that providing immediate funding posed much greater risk than pre-positioning food commodities through the Forward Purchase Facility where investment in inventory became a WFP asset. WFP had contracted external experts to provide advice on expanding working capital, and the Audit Committee was to discuss the issue further after the Executive Board session in June 2014.

30. On behalf of the Audit Committee, the Audit Committee Chairperson thanked the Executive Director and senior management for their collaboration, and commended the work of WFP's other oversight bodies.

31. The Committee expressed appreciation for the Audit Committee's work, and noted the Audit Committee's positive opinion of WFP's work. The Audit Committee was urged to include in its meeting notes suggestions for oversight issues on which the Board could focus. The Committee requested more specific recommendations on how to manage commodity pricing risks and suggested that management track savings achieved through the revised facility. The Committee welcomed the work being done to identify cases of fraud and implementation of the corporate risk management.

32. The Audit Committee would in the future provide a brief summary in its meeting minutes of decisions and recommendations for each agenda item. The Audit Committee had discussed with management a future review of both internal and external coordination in the case of multiple Level 3 emergency events. With respect to commodity price risk management, the Audit Committee had discussed the issue with management and did not consider it appropriate to contract external expertise on hedging and trading. Excellent progress was noted on implementing outstanding high-risk internal audit recommendations. The work of the Audit Committee was in line with its revised TORs approved by the Executive Board two years previously.

33. The Audit Committee Chairperson offered to share the views of Audit Committee Members on the External Audit reports if the reports were received in advance of the Board meeting. Management recalled the logistical difficulty of such review being undertaken at the March 2014 session of the Audit Committee, before the financial statements and performance audits were finalized, and offered to make the final performance audits of the External Auditor available to the Audit Committee as soon as they were received by Management.

34. The Committee was also informed by WFP management that current work on commodity price risk management focused on demand planning and forecasting, and, as indicated by the Audit Committee Chairperson, prepositioning stocks; more sophisticated hedging and trading approaches were being given lower priority.

35. **The Committee:**

- a) **considered the Annual Report of the Audit Committee for the period 1 April 2013—31 March 2014, and was pleased with the work of the Audit Committee as a management and oversight tool;**
- b) **took note of all recommendations relevant to the work of the Audit Committee, including its analysis of financial statements, accounting, and audit activities; and**
- c) **approved the submission of the report to the Executive Board at its June 2014 meeting for its consideration.**

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

36. In accordance with the WFP General Regulations, the *Annual Report of the WFP Inspector General* was presented to the Finance Committee for its consideration. The Inspector General presented the 2013 report.
37. The Committee welcomed and appreciated both the Annual Report of the WFP Inspector General and the Note by the Executive Director on the Annual Report of the WFP Inspector General. The Committee noted with satisfaction that WFP had a stable internal control environment.
38. The Inspector General identified the opportunities provided by public disclosure of internal audit reports and inspection reports including enhanced interaction with Management; improved audit evidence and reporting; and improved transparency and accountability.
39. The Committee appreciated that the Inspector General, in collaboration with Executive Management and the Audit Committee was reviewing the preconditions necessary to move towards positive assurance of risk management, governance and the control environment and would report on this in December 2014.
40. The Committee was informed by the Inspector General that the Internal Justice Review had been recently completed with positive results and that the Inspector General's review of the investigative processes would result in a significant investigative focus on risk posed by vendors as well as a focus on internal justice. The Committee was notified that the Inspector General was enhancing the effectiveness of investigations through the increasing use of forensics and data analytics in evidence. In response to the Committee's concerns that fraud committed by vendors and others had risen four-fold, the Inspector General shared the perspective that this was a relatively small amount when one considered that this number was only 0.01 percent of the whole WFP budget. Further, this reflected more focused investigations and reporting on vendor fraud. This was not a significant material loss taking into account the risks of the environments in which WFP operated and the internal control environment.
41. The Committee requested clarification on the 18-month timeframe for closure of high risk audit recommendations and received assurance that 18 months was reasonable. The Committee was informed that management proactively managed risks and had closed a number of recommendations in the past year.
42. The Committee discussed Cash and Vouchers (C&V) and was informed that the risk inherent in C&V was due to the expansion of this programme since WFP moved up 20% of product line in C&V in the past three years. Audits found WFP needed to institutionalise findings as the number of different systems in place did not allow WFP to adequately address every issue in every country. One of the challenges noted was scaling up to effectively deliver. The Committee heard that Management recognized this challenge and was addressing it. The Inspector General was assisting management assurance via a large scale Advisory Assignment and two major C&V-focused audits planned for 2014.
43. The Committee raised questions on the decreased budget of the Office of Inspector General in 2013 and the choice of actions behind this decision. The Inspector General identified this as efficiency gains and stated that funds were returned to management since the Inspector General was able to deliver effectively within the revised budget. The Inspector General was appropriately funded and had effectively forecasted the office needs to meet the assurance commitment. The Inspector General noted that 2014 would bring a further budget reduction through a recently completed structure and staffing review, which would substantially change the staffing profiles. This would result in a more efficient utilisation of resources to deliver on targets in 2014.
44. The Committee was informed that the Inspector General intended to revisit the financial regulations and would request a change at the November 2014 Executive Board focusing on making audit and investigation work more effective.

45. Overall, the Committee commended the Inspector General for the report and was pleased by the expansion into vendor activity investigation, a request for changes to the financial regulations, and the general forward-looking philosophy of the audit function in WFP.

46. **The Committee:**

- a) **considered the Annual Report of the WFP Inspector General along with the Note by the Executive Director on this annual report;**
- b) **noted the favourable assurance opinion issued by the Inspector General on internal processes governance issues and on risk management by WFP;**
- c) **welcomed the assurance given by the Inspector General on the Independence of the Office of the Inspector General and the declaration on the assurance which he issued.**
- d) **took note of this report; and**
- e) **invited the Executive Board to endorse the Annual Report of the WFP Inspector General and Note by the Executive Director on the Annual Report of the WFP Inspector General.**

### **Report of the External Auditor on Food Procurement in WFP and Management Response**

47. The Committee discussed the *Report of the External Auditor on Food Procurement in WFP* supported by a briefing from the External Auditor, who explained that the main objective of the performance audit was to broadly seek an assurance that the food procurement by WFP fulfilled the policy objective of cost effective, efficient and timely purchases in a transparent manner, as efficient food procurement was critical to WFP's mission. The period covered was August 2011 to July 2013 and the audit spanned the WFP Headquarters (HQ) in Rome, 6 Country Offices (COs) and 3 Regional Bureaux (RBs).

48. The Committee was informed by the External Auditor that nine recommendations, covering nine themes had been submitted to the Secretariat and that they were linked to: weaknesses in procurement planning; addressing the risks of new initiatives in food procurement within the Forward Purchase Facility and Purchase for Progress; ensuring compliance with regulatory framework; efficiency of the procurement process and timeliness of purchases; meeting the gaps in use of Information Technology (IT) tools and vendor management; addressing food safety and quality issues; and having effective oversight mechanisms at various levels of Headquarters/Regional Bureaux/Country Offices. The Committee noted that the procurement function in WFP demonstrated commitment to achieving the objectives but there were critical areas where WFP needed to strengthen and build on current approaches to optimise procurement performance.

49. The Committee was informed that all the recommendations had been accepted and that the report's recommendations would assist WFP in achieving a more strategic procurement service. The increased usage of the Forward Purchase Facility enabled strategic procurement decisions based on market intelligence and seasonality.

50. The Committee underlined the importance of having a sound procurement planning framework and noted that this framework should be developed with the involvement of other relevant divisions. The Committee was reassured that the framework would be integrated with other divisions in line with the move towards an integrated supply chain approach.

51. The Committee emphasised that the Forward Purchase Facility (FPF) be considered as part of the Financial Framework Review and that the impact assessment of the Forward Purchase Facility be expedited. The Committee also requested that WFP expedite the implementation of the recommendation on Purchase for Progress governance guidance.

52. The Committee discussed the importance of local procurement and encouraged WFP to continue its efforts in this area. The Secretariat confirmed that 50 percent of what WFP currently purchased was procured in the countries and regions where WFP had food assistance programs. The Committee urged WFP to ensure that there was proper training of all procurement staff in advance of increased delegation of authority in the field.

53. The Committee stressed the need to increase the vendor base and identify those potential vendors who had the capacity to respond to WFP's requirements. The Committee urged the Secretariat to resolve the potential conflict of interest, when the same inspector was involved in both the vendor prequalification and selection processes. The Committee also discussed the need to accord high priority to food quality along the supply chain, as highlighted by the External Auditor, which the Secretariat conveyed would be addressed.

54. The Committee discussed the timelines for the implementation of the recommendations with a view to expedite their implementation. The Committee was informed by the Secretariat that these timelines were set in consultation with relevant business units, but would work to accelerate the process, wherever feasible.

55. **The Committee:**

- a) **reviewed the External Auditor's Report and the Management Response and took note of the recommendations;**
- b) **appreciated the work of the External Auditor and the preparation of the detailed and comprehensive report containing nine recommendations;**
- c) **noted that aspects covered in this Report were key to the procurement process and represented sensitive areas that needed to be addressed by the Secretariat;**
- d) **suggested that the stated implementation timeframes remain indicative and that they be shortened, where feasible, with particular attention to recommendations related to the Forward Purchase Facility and Purchase for Progress;**
- e) **noted its satisfaction with the recommendation on the need to formulate an integrated procurement planning framework;**
- f) **emphasized the importance of increasing the capacity of smallholder farmers under Purchase for Progress;**
- g) **noted that all of the recommendations had been accepted, and recommended that the Executive Board urge the Secretariat to fully implement the recommendations;**
- h) **indicated its satisfaction with WFP activities on local procurement and emphasized that these activities should continue in developing countries; and**
- i) **looked forward to the report on implementation via the progress report on implementation of external auditor recommendations.**

### **Report of the External Auditor on United Nations Humanitarian Response Depot and WFP Management Response**

56. The Committee discussed the *Report of the External Auditor on United Nations Humanitarian Response Depot* supported by a briefing from the External Auditor, who explained that the main objective of the performance audit was to assess the achievement of the UNHRD's stated objective of strengthening the capacity and response to emergencies and promoting inter-agency co-operation. The audit spanned the UNHRD hubs in Dubai and Brindisi (including Support Office) and WFP Headquarters, Rome and covered the period 2011 to July 2013.

57. The Committee was informed by the External Auditor that twelve recommendations had been submitted to the Secretariat and that they were linked to: institutional framework and emergency response; financial management; warehouse and inventory management; human resources management; control and oversight mechanisms; and engagement with users/partners. The Committee heard that UNHRD was a unique concept of co-operation among humanitarian agencies and that it should leverage its critical position to improve service provision to users and partners.

58. The Committee was informed that all of the reports' recommendations had been accepted and that their implementation was expected to enhance the efficiency, effectiveness, and long-term sustainability of the UNHRD network. Out of the reports' twelve recommendations, ten were expected to be implemented within one year, and two in the third quarter of 2015. The report was considered to be timely in light of the growth of the network from a single hub to a global network over a thirteen year period.

59. The Committee requested and received clarification on specific issues from Management related to WFP and inter-agency responsibility for oversight of the UNHRD; the move toward a more strategic approach to emergencies in consultation with UNHRD users; the decision criteria underpinning geographic locations of hubs; the structure and staffing review that took place in March 2014 at the Brindisi location; vendor screening; enhancing transparency in the procurement function; the use and inventory management for high-energy biscuits; partnerships with the private sector; and the protocol arrangements for external experts wishing to learn from the UNHRD experience through site visits.

60. **The Committee:**

- a) **reviewed the External Auditor's Report on the UNHRD and the Management Response and noted that the report would enhance the visibility of UNHRD stock management activities, which were not fully understood by WFP stakeholders;**
- b) **supported the twelve recommendations made by the External Auditor and welcomed the fact that management had accepted all recommendations and established a process for their implementation;**
- c) **requested that a detailed review be conducted prior to the creation of new hubs;**
- d) **emphasized the need for WFP to recruit the most appropriate and qualified staff with necessary specialisation to ensure the functioning of the UNHRD hubs;**
- e) **expressed concern about the destruction of high-energy biscuits and encouraged WFP to review carefully the distribution possibilities for pre-positioned stocks to avoid destruction of stocks in the future; and**
- f) **noted that many issues highlighted by the External Auditor had been long-standing and encouraged regular appraisal to ensure that similar issues were addressed as quickly as possible.**

### **Report on the Implementation of the External Auditor Recommendations**

61. The Committee discussed the *Report on the Implementation of the External Auditor Recommendations*, which provided a progress update on the recommendations outstanding from the previous reporting periods.

62. The Committee was informed that out of 56 recommendations outstanding from the previous External Auditor reports, 31 recommendations had been implemented since the issuance of the last year's report. Of the 25 recommendations outstanding, one was from 2010, three from 2011, eight from 2012 and 13 from 2013.

63. The Committee was informed of the additional 26 recommendations made by the External Auditor during the course of the two performance audits and 2013 financial statements audit performed during 2013-2014.

64. The Committee was informed that WFP had put a significant effort into implementing outstanding recommendations within the indicated time frame, specifically highlighting progress made in implementing recommendations from the *Report of the External Auditor on Working with Cooperating Partners* (60 percent implementation rate). The Committee was also informed on the efforts made to expedite implementation of the recommendations from the *Report of the External Auditor on the Use of Cash and Vouchers*, highlighting that the current implementation rate of 18 percent did not take into account the fact that many sub –parts of the outstanding recommendations had been implemented.

65. The Committee noted that the External Auditor had given her views on all recommendations that the Secretariat deemed complete. The External Auditor was also pleased to inform the Committee on the overall satisfaction with WFP's efforts in implementing the recommendations and encouraged WFP to continue addressing remaining outstanding recommendations in the *Report of the External Auditor on Management of Human Resources* and the *Report of the External Auditor on the Use of Cash and Vouchers* within the indicated time frame.

66. The Committee requested clarification on several aspects of the *Report on the Implementation of the External Auditor Recommendations*:

- *Further suggestions made by the External Auditor in her response to implemented recommendations.* The Committee was informed that WFP would consider and follow up on all further suggestions provided by the External Auditor;
- *Time frame for the implementation of the outstanding recommendations from the Report of the External Auditor on Management of Human Resources.* The Committee was informed that strengthening of the management of human resources was a key corporate priority and that WFP would continue to progress in implementing the outstanding recommendations, taking into account WFP's People Strategy review that would be presented to the Board in November 2014;
- *Scale up of the use of Cash and Vouchers modalities.* The Committee was informed that the key recommendations from the *Report of the External Auditor on the Use of Cash and Vouchers* would be addressed during 2014 and that the capacities of partners and the contextual environment were taken into account in the programme design of the Cash and Voucher modalities.

67. **The Committee:**

- a) **considered the Report on the Implementation of the External Auditor Recommendations which was regularly presented to the Board;**
- b) **noted the implementation rate of the outstanding recommendations of the External Auditor and noted the new recommendations made by the External Auditor in reports issued in 2014;**
- c) **encouraged the Secretariat to expedite the implementation of the outstanding recommendations within the timeline indicated in the report;**
- d) **considered the comments made by the External Auditor on the extent of implementation of each of the recommendations and requested WFP to take into account these additional comments during the implementation;**
- e) **considered the possibility of readjusting implementation deadlines of some recommendations in light of the ongoing work within the Board and the organization as a whole;**
- f) **looked forward to further updates on the progress of implementation; and**
- g) **recommended that the Executive Board take note of the Report on the Implementation of the External Auditor Recommendations.**

#### **Date and Place of the Hundred and Fifty-fourth Session**

68. The Committee was informed that the 154<sup>th</sup> Session was scheduled to be held in Rome from 26 to 30 May 2014.

### **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))
- Report on the Utilization of WFP's Advance Financing Mechanisms (1 January–31 December 2013)