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Programme
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World
Food
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de Alimentos

**Executive Board
Second Regular Session**

Rome, 10–13 November 2014

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 5



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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:

- WFP Management Plan (2015–2017)
(WFP/EB.2/2014/5-A/1)
- Increased Fee for the External Auditor
(WFP/EB.2/2014/5-B/1)
- Process for the Selection and Appointment of the
WFP External Auditor for the term from 1 July 2016
to 30 June 2022 (WFP/EB.2/2014/5-C/1)
- Method for Determining the Indirect Support Cost
Rate for WFP (WFP/EB.2/2014/5-D/1)
- Work Plan of the External Auditor for the Period July
2014 to June 2015 (WFP/EB.2/2014/5-E/1)



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COUNCIL

Hundred and Fiftieth Session

Rome, 1-5 December 2014

Report of the 155th Session of the Finance Committee (27-28 October 2014)

Executive Summary

At its 155th 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 Second Regular Session of the WFP Executive Board in November 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 Second Regular Session of the WFP Executive Board in November 2014.

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 Fifty-fifth 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 Manuel Furtwaengler (Germany)
 - Mr Abdoulaye Traore (Guinea)
 - Mr Osamu Kubota (Japan)
 - Mr Benito Jiménez Sauma (Mexico)
 - Mr Mohamed Lemghari (Morocco)
 - 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 Manuel Furtwaengler (Germany) had been designated to replace Mr Georg Friedel Cramer for this session;
 - Mr Osamu Kubota had been designated to replace Mr Hideya Yamada as the representative of Japan for the remainder of its term of office;
 - Her Excellency Perla Carvalho had been designated to replace Ms Emma María José Rodríguez Sifuentes as the representative of Mexico for the remainder of its term of office;
 - Mr Benito Jiménez Sauma (Mexico) had been designated to replace Her Excellency Perla Carvalho for this session;
 - Mr Mohamed Lemghari (Morocco) had been designated to replace Mr Faouzi Lekjaa for this session; and
 - Ms Elizabeth Petrovski (USA) had been designated to replace Ms Natalie Brown 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 Member Nations attended the 155th Session of the Committee:
 - European Union
 - Netherlands
 - Norway

World Food Programme Matters

WFP Management Plan (2015-2017)

6. The Committee considered the *WFP Management Plan 2015-2017* which included: i) a conservative forecast of USD 4,400 million for 2015 used as the basis for setting the PSA budget and the provisional prioritized plan of work; ii) operational requirements of USD 7,446 million; iii) Programme Support and Administrative (PSA) budget of USD 281.8 million; iv) critical corporate initiatives of USD 9.2 million; and v) USD 0.75 million of internal investment management costs to be paid from the General Fund.

7. The Committee commended the Secretariat for the excellent quality of the document which included substantive improvements which clarified WFP's budgeting practices. It highlighted in particular the new section on funding context and resourcing assumptions, along with the refined approach for the provisional prioritized plan of work and the utilization of investment cases for the purposes of prioritizing PSA allocations. The Committee also appreciated the extensive dialogue through four informal consultations and asked the Secretariat to explore ways to simplify and reduce the size of the core document.

8. The Committee noted the funding forecast of USD 4,400 million as a conservative but realistic estimate of income for 2015. It encouraged the Secretariat to continue to expand the donor base, and to work closely with existing donors to limit restrictions that hinder WFP's flexibility, especially as it related to utilizing funds for advance financing.

9. The Committee noted the operational requirements of USD 7,446 million and encouraged the Secretariat to provide regular updates taking into account further needs due to civil unrest, natural disasters and other emergencies such as the Ebola crisis. The Committee commended the efforts of WFP and other organizations to tackle the Ebola crisis and encouraged continued efforts in this area.

10. The Committee considered the request to raise the target level of the Immediate Response Account (IRA) from its current level of USD 70 million to USD 200 million, a level which had not been reviewed since 2004. It recognized the role the IRA played in ensuring that WFP could respond quickly to save lives in emergencies. The Committee supported the proposed three-fold increase to the target level of the IRA after receiving further clarification on the rationale, including a trebling of operational requirements since 2004. The Committee recognized that while the proposed target did not constitute a commitment by donors, its approval by the Board would serve as a means of advocating for additional flexible funding through the IRA. This would be supported through the promulgation to Member States of criteria on the use of the IRA as well as periodic reporting.

11. The Committee welcomed the new ration cost metric to enable WFP to improve performance measurement and requested that the Secretariat continue to refine the definition of the 'ration' as a basis for measurement, taking into account best practices and lessons learned. The Committee also encouraged the Secretariat to continue its work on beneficiary categorization and to report on beneficiary numbers, an important metric for advocacy, communications, and reporting.

12. The Committee considered the process of setting the PSA budget including: the stronger link between the budgeting process and performance; the forced savings to generate greater efficiencies; the use of investment cases for strategic reallocations and critical corporate investments, supported by a process of top-down prioritization. The Committee was informed that investments in PSA may lead to efficiency gains in other cost categories throughout WFP. It requested further reporting on efficiency gains in the Annual Performance Report and future Management Plans and requested that the reporting include quantitative as well as qualitative performance. The Committee considered whether the forced savings used for reallocations within the Zero Nominal Growth PSA budget might have a negative impact on WFP's key functions at a time of increased demand due to the number of level 3 emergencies.

13. The Committee requested that as part of the ongoing Indirect Support Cost (ISC) review process, the Secretariat should include further review on how to fund United Nations Department of Safety and Security (UNDSS) and Security Emergency Fund investments as well as the definitions included under the PSA.

14. The Committee recognized the proposed adjustments to the management structure as key steps in the continued journey of fit for purpose and received a number of clarifications in response to concerns it raised, including *inter alia*: (a) that the transfer of the Deputy Executive Director (DED) post to New York in connection with the UN reform post 2015 Development Agenda and the Humanitarian Summit would be temporary for 2015 and 2016; (b) that the upgrading of the Chief of Staff post to the rank of Assistant Secretary-General would not extend beyond December 2016; (c) that the changes would not result in additional PSA costs; and (d) that the proposed reorganization would not impact negatively on the operations of WFP, including WFP's ability to address level 3 emergencies. The Committee, while insisting on the temporary nature of the two positions mentioned above, requested the Secretariat to report on their implementation and conclusion.

15. The Committee supported the draft decisions included in the Management Plan. With regard to Draft Decision VIII concerning the Executive Director's (ED) authority to adjust the PSA, it recalled earlier discussions during the informal consultations with the Board. It noted that the current decision, which was based on operational requirements, had been fundamentally the same since 1996 and did not provide a clear limit on the extent to which the PSA may be increased. The Committee underlined the need to consider an alternative formulation for the Management Plan 2016-2018 and requested the Secretariat to engage informally with the Board during 2015 to explore an alternative formulation.

16. **The Committee:**

- a) **commended the excellent quality of the document which included substantive improvements which clarified WFP's budgeting practices and congratulated the Secretariat on the work performed;**
- b) **supported the new methodology of utilizing rations as a metric for measuring and reporting on the cost of assistance, and requested the Secretariat to refine it and also continue to report on exact and real beneficiary numbers;**
- c) **supported the increased target level of the IRA;**
- d) **concurred with the rationale for setting the amount of PSA and was satisfied with the overall changes in the PSA budget as presented;**
- e) **recognized the rationale behind the revision of the organizational structure;**
- f) **requested that future reporting through the Annual Performance Report should provide detail on the actual efficiency gains; and**
- g) **supported the draft decisions included in the Management Plan but requested the Secretariat to engage informally with the Board during 2015 to explore an alternative formulation of Draft Decision VIII for the Management Plan 2016–2018.**

Increased Fee for the External Auditor

17. The Committee discussed the *Increased Fee for the External Auditor*, supported by a briefing by the External Auditor that explained the basis for the request. The Committee was informed that the increase in staff costs was in line with increases in India national civil servants salaries since 2009, and that the increase in travel costs was calculated on the basis of increases in airfares and the rates of Daily Subsistence Allowance.

18. **The Committee:**

- a) **reviewed the *Increased Fee for the External Auditor* and the proposal presented in the document;**
- b) **acknowledged that the request was in line with Article 6 of the agreement with the External Auditor;**
- c) **recommended that the Executive Board approve the increase of 4% for the amount of USD 15,400, as detailed in the request presented by the External Auditor; and**
- d) **further recommended that the next contract with the External Auditor for the period 2016-22 should incorporate such conditions related to the provision for costs increases that would allow responsibility for their approval to be delegated by the Executive Board.**

Process for the Selection and Appointment of the WFP External Auditor for the Term from 1 July 2016 to 30 June 2022

19. The Committee discussed the *Process for the Selection and Appointment of the WFP External Auditor for the Term from 1 July 2016 to 30 June 2022*, which set out the timeframe of the process, the mandate and composition of the Evaluation Panel and arrangements for its continuity, the selection procedure and the criteria for evaluation, with relative rating weights.

20. The Committee recognized that the proposal was based on the process agreed in 2009 for the selection of the current External Auditor and that building upon that process, it sought to take into account the role of the Audit Committee, consistent with its terms of reference, that ‘the Audit Committee may provide, upon request of the Executive Board, advice on the selection of the External Auditor, including the costs and scope of the services to be provided’.

21. The Committee stressed the importance of the Evaluation Panel having access to technical expertise. The Committee was provided clarifications with regards to the provision of advice to the Evaluation Panel at the various stages of the proposed selection procedure, including from the Audit Committee and that the WFP Technical Group would consist of senior staff from finance, audit and procurement.

22. The Committee:

- a) **examined the *Process for the Selection and Appointment of the WFP External Auditor for the Term from 1 July 2016 to 30 June 2022*;**
- b) **recommended that the Executive Board approve the Process for the Selection and Appointment of the WFP External Auditor for the term 1 July 2016 to 30 June 2022; and**
- c) **invited the Board to consider whether the Evaluation Panel would need additional technical expertise when the short-listed candidates are interviewed by the Evaluation Panel.**

Method for determining the Indirect Support Cost Rate for WFP

23. The Committee reviewed the *Method for Determining the Indirect Support Cost Rate for WFP* which was presented as the second in a series of documents covering the review of the indirect support cost rate.

24. The Committee welcomed the document, noting that it drew on the guidance provided by earlier informal consultations with the Executive Board, which would review the final and most complex question in the review, in preparation of a paper for approval at the Annual Session in June 2015.

25. The Committee noted the specific proposal to simplify the indirect support cost model set out in the 2013 private-sector partnerships and fundraising strategy, by implementing a single private sector donor rate of 10% for all private sector donors as a means of increasing competitiveness, efficiency and transparency.

26. The Committee:

- a) **noted the three conclusions of the Secretariat pertaining to: the funding method of WFP; the use of a single indirect support cost recovery rate across programme categories; and maintenance of the status quo for south-south cooperation and host government contributions;**
- b) **endorsed the proposal to use a 10% single rate for all private sector contributions while noting that the rate was dynamic and capable of adjustment over time; and**
- c) **looked forward to a further paper in 2015 following an analysis of the issues relating to the last question of the review, and summing up the findings of the ISC review.**

Date and Place of the Hundred and Fifth-sixth Session

27. The Committee was informed that the 156th Session was scheduled to be held in Rome from 3 to 7 November 2014.

Documents for information

- Work Plan of the External Auditor for the period July 2014 to June 2015