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World  
Food  
Programme

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Executive Board  
Annual Session

Rome, 3–6 June 2014

## RESOURCE, FINANCIAL AND BUDGETARY MATTERS

### Agenda item 6



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## REPORT OF THE ADVISORY COMMITTEE ON ADMINISTRATIVE AND BUDGETARY QUESTIONS (ACABQ)

The Executive Director is pleased to submit herewith the report of the ACABQ 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)

## COPY OF LETTER RECEIVED FROM THE UNITED NATIONS — NEW YORK

Reference: AC/1862

Advisory Committee on Administrative  
and Budgetary Questions

29 May 2014

Dear Ms. Cousin,

Please find attached a copy of the report of the Advisory Committee on your submissions including the Audited annual accounts for 2013 (WFP/EB.A/2014/6-A/1) and Financial framework review (WFP/EB.A/2014/6-D/1). A list of the documents before the Advisory Committee is contained in the annex to the report of the Committee.

I should be grateful if you could arrange for the Committee's report to be placed before the Executive Board at its forthcoming session, as a complete and separate document. I would appreciate it if a printed version of the document could be provided to the Advisory Committee at the earliest possible opportunity.

Yours sincerely,

Carlos G. Ruiz Massieu  
Chairman

Ms. Ertharin Cousin  
Executive Director  
World Food Programme  
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Encl.

## WORLD FOOD PROGRAMME

### Resource, Financial and Budgetary Matters

#### Report of the Advisory Committee on Administrative and Budgetary Questions

## I. Introduction

1. The Advisory Committee has considered the following four reports of the World Food Programme (WFP), presented to the Executive Board for approval:
  - a) Audited annual accounts, 2013 (WFP/EB.A/2014/6-A/1);
  - b) Appointment of two members to the Audit Committee (WFP/EB.A/2014/6-B/1);
  - c) 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); and
  - d) Financial framework review (WFP/EB.A/2014/6-D/1).
2. The Advisory Committee also had before it other documents presented to the Executive Board for consideration (8) and for information (2) (see the annex below). The comments and recommendations of the Committee are presented below. During its consideration of the reports, the Committee met with the Acting Director for Finance and Treasury of WFP, who provided additional information and clarification, concluding with written responses received on 23 May 2014.

## II. Documentation Submitted to the Executive Board for Approval

### Audited Annual Accounts for 2013

3. The document on the audited annual accounts for 2013 has two sections, including (a) the Executive Director's statement, statement on internal control, financial statements I-V and notes to the financial statements in section I; and (b) the opinion of the External Auditor on the financial statements and the long-form report of the External Auditor in section II (WFP/EB.A/2014/6-A/1).
4. The Advisory Committee notes that the External Auditor has rendered an unqualified audit opinion on the financial statements for the financial period ended 31 December 2013, as the audit of the financial statements revealed no weakness or errors which the Auditor considered material to the accuracy, completeness and validity of the statements as a whole (*ibid.*, sect. II, para. 14).
5. The Advisory Committee further notes that the External Auditor has made a total of five recommendations related to the budget, expenditure recognition, inventory, property and trust funds (*ibid.*, sect. II, p. 86 and paras. 36-72). The report on the implementation of the External Auditor recommendations (WFP/EB.A/2014/6-I/1) contains WFP's management response to the five recommendations, which have all been accepted by the management and are to be implemented by December 2014 (*ibid.* p. 39 and 40). The report by the WFP management also contains status on the progress made in implementing the External Auditor's previous recommendations since the Annual Session of the Executive Board in 2013, as well as comments made by the External Auditor on all recommendations that WFP has implemented (*ibid.*, p. 4-38). **The Advisory Committee recommends that WFP implement the recommendations of the External Auditor as soon as possible.**

⇒ *Financial performance*

6. Statement II on financial performance showed total revenue of \$4,535.8 million against total expenses of \$4,514.8 million for 2013, representing a surplus of \$21 million (compared with deficits of \$280.7 million for 2011 and \$184.3 million for 2012). The net surplus of \$21 million reflects the following: (a) increase in contribution revenue by \$335.3 million, or 8.3 per cent; and (b) an overall increase in spending by \$119.1 million, or 2.7 per cent (*ibid.*, sect. II., para. 20). WFP revenue, expenses, surplus and/or deficit for the period from 2008 to 2013 are shown below (in millions of US dollars):

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Total revenue	5,115	4,373	4,266	3,736	4,211	4,535.8
Total expenses	<u>3,725</u>	<u>4,228</u>	<u>4,238</u>	<u>4,017</u>	<u>4,396</u>	<u>4,514.8</u>
Surplus (deficit)	1,390	145	29	(281)	(184)	21

7. The Executive Director of WFP has provided information on the financial performance for 2013 in paragraphs 6 to 8 of her statement (*ibid.*, sect. I). The Executive Director explains that WFP's financial reporting in line with International Public Sector Accounting Standards (IPSAS) recognizes contribution revenue when confirmed in writing and expenses when goods and services are received or when food commodities or cash and vouchers are delivered. Consequently, there is an inherent time-lag between the recognition of revenue and the recognition of expense. Resources available for use in 2013 therefore consisted of the fund balances at the end of 2012 and new contributions confirmed by donors during 2013. As a result, expenses in any one year may be higher or lower than the revenue in that year as WFP utilizes or replenishes its fund balances (*ibid.*, sect. I. para. 5). In this connection, the Advisory Committee notes from Statement I on financial position that the fund balances and reserves as at 31 December amounted to \$3,624.3 million for 2012 and \$3,672.7 million for 2013.
8. The External Auditor has observed that during the two years 2011 and 2012, WFP operations had registered high levels of deficits and the restoration of balance between expenses and revenue in 2013 was a welcome development (*ibid.*, sect. II, para. 22). **The Advisory Committee welcomes the improvement in WFP financial performance for 2013 and trusts that WFP will continue to closely monitor its financial performance and financial position** (WFP/EB.A/2013/6(A,B,C,D,E,F,G,H,I,J,K)/2 WFP/EB.A/2013/5-A/2, para. 12).

⇒ *Utilization of the budget*

9. Financial Statement V provides a comparison of the budget (original and final), actual amounts on a comparable basis and differences between the final budget and actual amounts for 2013. The Advisory Committee understands that WFP's budget and financial statements are prepared on a different basis and explanations for the differences (material, basis, timing, entity and presentation) are provided in Note 6 to Financial Statement V. It is indicated in the Executive Director's statement that budgetary utilization within the year is constrained by the amount, timing and predictability of contributions, as well as inherent operational constraints, and that utilization of the final direct project cost budget was 62 per cent for 2013, reflecting these constraints (*ibid.*, sect. I, para. 15).

10. The Advisory Committee recalls that the External Auditor had earlier commented on the difficulty to accurately assess the impact of the funding shortfalls on the achievement of WFP project goals within the current framework and WFP, as follows:
- a) In reviewing statement V of comparison of budget and actual amounts for 2011, the External Auditor pointed out that the variance between the final budget (\$5,988.4 million) and the actual expenditure (\$3,753.4 million) was larger, but the comparative analysis did not lend itself for use as a parameter to assess the performance of WFP in utilizing the authorized resources, due to WFP's voluntary funding model and the fact that WFP's budget was essentially a work plan based on identified needs, while implementation of projects depended on the availability of resources. Consequently, the External Auditor was of the opinion (recommendation 2) that a resource plan must be prepared along with the work plan to make the budgetary exercise comprehensive and more meaningful (WFP/EB.A/2013/6(A,B,C,D,E,F,G,H,I,J,K)/2 WFP/EB.A/2013/5-A/2, para. 16); and
  - b) WFP indicates that it has implemented the recommendation of the External Auditor (the outcome of the planning prioritization exercise is reflected in the Management Plan (2014-2016)) and that the External Auditor has acknowledged the steps taken by WFP management in this regard and urged the management to ensure utilization of the tool by regional bureaux and country offices to improve project planning (WFP/EB.A/2014/6-I/1, p.11). The Advisory Committee recalls that, in its review of the WFP Management Plan (2014-2016), it welcomed the progress made by WFP in forecasting anticipated funding levels (WFP/EB.2/2013/5(A,B)/2, para. 7).
11. In the audit of the annual accounts for 2013, the External Auditor has made further comments on WFP's budget, funds available and utilization in paragraphs 33 to 41 of its report, with the recommendation that the information on actual funds available during the year may be suitably disclosed to improve understanding and usability of the Budget (recommendation 1) (WFP/EB.A/2014/6-A/1, sect. II). Concerning Financial Statement V, the External Auditor has observed that WFP Original Budget is prepared on needs-based requirements and is subsequently adjusted during the course of the year based on new projects, revisions to approved projects and changes to programme support, administrative and capital costs to arrive at the Final Budget figures. The External Auditor has also noted the following: (a) the final budget figures, as shown in Statement V, do not reflect the actual amount of funds available with WFP for carrying out the activities identified in the Budget; (b) comparison between final budget figures and actual expenditure on a comparable basis as depicted in Statement V does not reflect reality as this comparison is made with the need-based requirements, and not with funds actually available for spending; (c) the budget utilisation calculated and reported in the Executive Director's statement, which is a part of the Financial Statements package, also does not reflect the actual utilisation of resources. According to the External Auditor, although the financial statements of WFP are IPSAS compliant, there is scope for further disclosure regarding the availability of funds against the budgeted amounts as shown in Statement V.
12. WFP management has agreed that it would be of value to provide additional information in Statement V on the amount of confirmed contributions in the budget year available for WFP to implement its projects (*ibid.*, sect. II, paras. 39 and 40). By providing such information, the reasons for any material differences between actual amounts and the budget amounts would fall in two main areas: (a) funding performance vis-à-vis budget requirements; and (b) operational performance vis-à-vis available resources. This breakdown of material differences between actual amounts and the budget amounts would better enable users of the financial statement to identify whether resources were obtained

and used in accordance with the approved budget. WFP Management further informed the External Auditor that it was reviewing how to improve the disclosure of the relationship between the needs-based budget and the actual revenue and expenditure, including in particular, potentially adding the confirmed contributions in a new column in Statement V. WFP indicated in March 2013 that the earliest implementation date would be for the 2014 reporting year. **The Advisory Committee looks forward to the implementation of the External Auditor's recommendation by WFP. The Advisory Committee reiterates its support for WFP's efforts to develop a more viable mechanism with a view to improving its budgetary planning process and performance evaluation** (WFP/EB.A/2013/6(A,B,C,D,E,F,G,H,I,J,K)/2 WFP/EB.A/2013/5-A/2, para. 18).

⇒ *Losses of food commodities and other assets*

13. As Note 9 shows, food commodity losses amounted to \$18.7 million in 2013, compared with \$12.3 million in 2012 (*ibid.*, sect. I, para. 212-214). The Advisory Committee notes that the food commodity losses doubled in 2013, if compared with the losses of \$9 million in 2011 (WFP/EB.A/2013/6-A/1, sect.I, para. 202). Note 9 also shows that fraud in 2013 comprised of vendor fraud, theft and misappropriation of food and non-food items, and that \$4,382 has been recovered to date of the losses valued at \$444,349. In this connection, the Advisory Committee notes from the report of the WFP Inspector General that the identification of losses totalling of \$444,349, which is more than four times the \$99,533 in losses identified in 2012, was due to the increased focus by the Office on identification and recovery of third party/vendor fraud, while the number of fraud cases in 2013 (23) did not change significantly compared with that of 2012 (25) (WFP/EB.A/2014/6-F/1, para. 42). Upon enquiry, the Committee was informed that the Office of Inspector General had reviewed its investigative processes, which had resulted in a significantly increased investigative focus on risks posed by vendors and enhancement of applicable investigative capacity and efficacy. Further, the increase in the total losses related to two incidents of higher dollar value, without which the losses related to fraud would be approximately \$85,000 for 2013, compared with \$99,533 for 2012. The Committee was also informed that tighter controls had been put in place in the country offices concerned, and that WFP did not see the increase in 2013 as a systematic problem, but isolated cases.
14. The Advisory Committee recalls that WFP maintains a zero tolerance policy towards all instances of fraud and corruption. **The Committee reiterates its expectation that WFP will implement relevant recommendations of external and internal audits and investigations in this regard** (WFP/EB.A/2013/6(A,B,C,D,E,F,G,H,I,J,K)/2 WFP/EB.A/2013/5-A/2, para. 14).
15. **The Advisory Committee recommends that the Executive Board approve the audited annual statements for 2013.**

## Financial Framework Review

16. Background information with respect to the previous and next phases of the WFP financial framework review is contained in paragraphs 1 to 5 of document WFP/EB.A/2014/6-D/1. It is indicated therein that the next phase of the review is comprised of the following three components: (a) component 1: increasing predictability in resources for country offices; (b) component 2: improving flexibility by reviewing and refining WFP's funds management structure; and (c) component 3: Improving accountability of planning and cost management through the development of a country office cost benchmarking framework and tool kit. WFP indicates that under component 1 (predictability), the review of WFP's Working Capital Financing Facility (WCFF) will seek to ensure that the WCFF is adapted

and utilized efficiently and effectively to support WFP's operations. WFP also indicates that additional components of the financial framework review outlined above will be presented at a later stage, subject to availability of resources.

⇒ *Restructuring of Working Capital Financing Facility*

17. According to WFP, the Working Capital Financing Facility, which was established in 2005 to advance funds to operations on the basis of forecasted contributions, is used to reduce the time for food assistance to reach beneficiaries. The current ceiling of the WCFF is \$607 million, backed by the operational reserve of \$101.2 million to mitigate risks (reflecting a leverage factor of 6 to 1) (*ibid.*, paras. 6,7 and 14). The scope of the WCFF has been expanded since its establishment and WCFF currently supports the following:
  - a) Traditional Advance Financing (ceiling of \$207 million);
  - b) Forward Purchase Facility (ceiling of \$350 million); and
  - c) Corporate Services Financing (ceiling of \$50 million).
18. WFP is proposing changes to the Working Capital Financing Facility which would become three facilities, as illustrated in Figure 5 and explained in paragraph 10 of the document. A summary of the proposed changes to the WCFF is as follows, *inter alia*:
  - a) Traditional Advance Financing would be renamed Internal Project Lending and would be the only component remaining under WCFF, with the proposed ceiling from the current \$207 million to \$570 million, backed by the operational reserve of \$95.2 million (maintaining the current leverage factor of 6 to 1) (see also sub-para. (b) below);
  - b) Forward Purchase Facility would be separated from the WFCC to become Global Commodity Management Facility, with the same ceiling of \$350 million, backed by its own reserve of \$6 million which would be re-allocated from the current operational reserve of \$101.2 million;
  - c) Corporate Services Financing would also be separated from the WFCC to become Corporate Services Facility, with the proposed ceiling from the current \$50 million to \$70 million, consisting of three types of financing: (i) the Global Vehicle Leasing Programme, which is essentially a revolving credit line; (ii) the Capital Budgeting Facility that provides for large long-term investments such as the Logistics Execution Support System; and (iii) fee-for-service activities, including advances paid for information technology services and staff security, which are normally recovered within the year (*ibid.*, para. 40).
19. Upon enquiry, the Advisory Committee was informed that, within the ceiling of a total of \$70 million for Corporate Services, there were two sub-ceilings: (a) \$30 million for the Global Vehicle Leasing Programme and (b) \$20 million for the Capital Budgeting Facility. The Committee was also informed that the two sub-ceilings implied that the outstanding amounts within the two categories could not exceed their specific sub-ceilings, even if the overall ceiling would not be exceeded.
20. Figures 2 and 5 in the WFP document illustrate the current internal financing framework and the proposed restructuring of the Working Capital Financing Facility into the three facilities. Upon request, the Advisory Committee received the following table, reflecting the new internal financing framework proposed by WFP (as compared with Figure 2 in the WFP document).

Figure 2b: WFP's new internal financing framework

Mechanisms		Benefits	Ceiling	Leverage factor	Reserve
Project Lending	<b>Immediate Response Account (IRA)</b> <ul style="list-style-type: none"> <li>Loans to provide immediate assistance in life-saving emergencies</li> </ul>	<ul style="list-style-type: none"> <li>Ability to react in life-saving emergencies</li> <li>Accelerated impact</li> </ul>	\$70M	1:1	\$70M
	<b>Working Capital Financing Facility (WCFF)</b> <ul style="list-style-type: none"> <li>Loans to projects with forecasted contributions as collateral</li> </ul>	<ul style="list-style-type: none"> <li>Increased stabilization of funding for COs</li> <li>Avoidance of pipeline breaks</li> </ul>	\$570M	6:1	\$95.2M
Mechanism		Benefits	Ceiling	Safety net mechanism	
Pipeline Management	<b>Global Commodity Management Facility (GCM)</b> <ul style="list-style-type: none"> <li>Food purchasing in advance of requests from projects</li> </ul>	<ul style="list-style-type: none"> <li>Reduced food delivery lead times</li> <li>Efficiency gains thanks to timing and scale effects</li> </ul>	\$350M	Global Commodity Management Reserve of USD 6 million	
Mechanism		Benefits	Ceiling	Safety net mechanism	
Capital Financing	<b>Corporate Services (CS)</b> <ul style="list-style-type: none"> <li>Advanced financing for corporate services such as vehicle purchases</li> </ul>	<ul style="list-style-type: none"> <li>Increased efficiency of corporate services</li> </ul>	\$70M	PSA Equalization Account as safety net of last resort	

⇒ *Risk management*

21. WFP indicates that an external assessment of the WCFF was conducted by the Boston Consulting Group on a pro-bono basis, which has underscored that the current advance financing model serves three distinct financing requirements (internal project lending, global commodity management and corporate services financing) with distinct and unrelated risks (*ibid.*, para. 9 and Fig. 2).
22. The risk management measures undertaken by WFP for the three financing requirements are summarized below (*ibid.*, paras. 16-19, 29-38 and 41-47):
  - a) Traditional Advance Financing: the key risk is the reduction in value or the non-realization of a forecasted contribution. However, WFP has a thorough approval process for project lending to ensure financial risks are minimized. In the case where a forecasted contribution did not materialize or is only partially realized, the following lines of defence are in place: (i) new materialized forecasts can be used to recover the advance to the project; and (ii) as a last resort, funds can be drawn from the operational reserve in order to repay an operational advance. Only one default of \$5.9 million has been registered since the start of the programme (see para. 27 below);
  - b) Forward Purchase Facility (FPF): the external review has identified two key risks as (i) risk of purchased quantities exceeding demand and (ii) other operational factors, including risk of damage/expiry, adverse weather conditions, infestation and inadequate quality. Regarding operational risks, the Boston Consulting Group found that minimal operational losses could be achieved as a result of good warehouse conditions, comprehensive transport guidelines and quality assurances embedded in food

procurement contracts. The external review has concluded that the FPF entails negligible issues as a result of sufficient risk mitigation mechanisms in place. However, as WFP's self-insurance does not yet cover all potential food losses, the WFP Secretariat proposes to separate the FPF from the WCFE and to create a dedicated Global Commodity Management Facility reserve of \$6 million to serve as an additional safety net for losses that may fall outside the insurance coverage (see paras. 29 and 30 below).

- c) Corporate Services Financing: the identified risks include loss of assets; long-term benefits fail to materialize; and limited funding at project level results in inability to satisfy cost-recovery schemes. According to WFP, the risk factor of corporate service projects is low as all current uses have cost-recovery schemes in place (the Global Vehicle Leasing Programme through a Self-Insurance Scheme, a cost-recovery methodology for the Capital Budgeting Facility and advances given to other special accounts repaid through quarterly and annual cost-recovery schemes). In the unlikely event that expenditures incurred for corporate services cannot be repaid, the Programme Support and Administrative Equalization Account (PSAEA), which is the reserve available to fund activities as directed by the Board, is proposed by WFP as a safety net of the last resort. WFP indicates that this would be considered an extraordinary case and the Secretariat would seek the authorization of the Board for this type of repayment.

⇒ *Internal project lending and reserve leverage ratio*

23. An evaluation of the approach taken by WFP on the internal project lending is provided in paragraphs 21 to 26 of the WFP document. The Advisory Committee notes from the document that an analysis of 2013 forecasted contributions was undertaken to better understand the rate and value of materialized contributions and that most forecasted contributions materialize at a rate above 80 per cent as shown in Figure 3, irrespective of whether they are high, medium or low probability forecasts. However, the analysis also reveals that 2-7 per cent of all forecasted contributions materialize at a value of less than 80 per cent of the original forecast value, while 3-7 per cent of all forecasted contributions do not materialize. The Advisory Committee requested an analysis of the forecasted contributions for the period from 2010 to 2012 on the basis of the same methodology applied for the analysis for 2013, as well as the percentages and timing of the forecasts and the levels of probabilities. The Committee was informed that the requested information was not available, as such analysis was beyond the scope of the data analysed and presented in the document. **The Advisory Committee notes that the document does not present sufficient and detailed analysis on the level of materialization of forecasted contributions, including aggregated figures/percentages. The Advisory Committee, therefore, recommends that detailed information on the materialization of forecasted contributions, including the aggregated figures/percentages, be provided to the Executive Board at the time of the Board's consideration of the WFP document on the restructuring of the Working Capital Financing Facility.**
24. WFP further indicates in the document that, of the total contributions in 2013, 57 per cent were not forecasted (such as in-kind contributions and others), while some 43 per cent were forecasted as high-(20 per cent), medium-(15 per cent) and low-probability (8 per cent). With 75 per cent and 50 per cent of the high- and medium-probability forecasts available for project lending, respectively (low-probability forecasts were not available for advances), an approximate 22 per cent of the 2013 contributions were available for advances ahead of formal confirmation of donor contributions. WFP management is of the view that, given the nature of low, medium and high probability forecasts as described in the document and the recommendations of the external review, the project lending could be further extended by

initially increasing lending against forecasts up to an average of 80 percent of all categories of forecasted contributions. While the external review recommended an internal lending ceiling of \$600 million with a leverage factor of 10 to 1, the WFP management proposes a more conservative ceiling of \$570 million to be backed by an operational reserve of \$95.2 million with the current leverage factor of 6 to 1. WFP also indicates that it will continue to pursue more dynamic risk management measures and improved forecasting mechanisms to expand the scope and amount of the internal project lending to the recommended levels of the Boston Consulting Group.

25. Upon enquiry, the Advisory Committee was informed that the proposal to set the ceiling for the internal project lending at \$570 million reflected the maximum use of the mechanism at any point in time, and that it was not anticipated that WFP would immediately reach this ceiling in a sustained manner in the near future, as suitable forecasted contribution needed to be available to support the advances. However, according to WFP, the ceiling would allow for supporting large advance requests for emergencies such as one recent advance request for \$100 million for an emergency operation. The Committee was also informed that the Internal Project Lending would be the only facility that would be backed by an operational reserve with a leverage ratio of 6 to 1 and that both the Global Commodity Management Facility and the Corporate Services would no longer use a leverage ratio (see para. 22 (b) and (c) above).
26. WFP indicates that, in consultation and coordination with the Executive Board, it will seek to maintain a conservative approach to project lending (ibid, para. 49). Upon enquiry, the Advisory Committee was informed that an analysis conducted by the Boston Consulting Group had concluded that a leverage ratio of 10:1 would continue to be conservative as the underlying calculations used several assumptions: (a) all projects with forecasts would be fully advanced (while the WFP recommendation is to advance on average 80 per cent of forecasted amount); (b) forecasts that do not materialize at more than 80 per cent would be fully cancelled; and (c) no lines of defence would be utilized. As such, maintaining the 6 to 1 leverage ratio as proposed would be conservative in the view of WFP.
27. **The Advisory Committee is of the view that, given the proposed increase in advance project lending to 80 percent of all categories of forecasted contributions, the fact that the internal project lending had only one default of \$5.9 million of the \$3 billion advanced since 2005 under the current mechanism would not serve as the most appropriate indicator for potential risks. The Advisory Committee is of the view that WFP's proposal represents a significant policy change which would potentially affect risk management in advances for project lending. The Committee therefore recommends that this policy change be considered by the Executive Board and that the proposal only be implemented with the approval of the Board. The Committee notes that such an approval is not currently included in the draft decision for approval by the Board.**
28. On the levels of the operational reserve for the Internal Project Lending, the Advisory Committee notes that, to follow the recommendation of the external review for a leverage factor of 10 to 1, the operational reserve would amount to \$57 million for an internal project lending ceiling of \$570 million while the WFP management proposes an operational reserve of \$95.2 million (leverage factor of 6 to 1), thus leading to an additional amount of \$38.2 million for the operational reserve. The Committee further notes that the proposed ceiling of \$570 million proposed by WFP is close to the ceiling of \$600 million proposed by the external review. **The Advisory Committee, therefore, recommends that, subject to approval by the Board of the proposed ceiling and reserve for the Internal Project Lending, the Executive Board request WFP management to keep under review the**

**volume of the operational reserve required for the internal lending ceiling of \$570 million with a view to adjusting and potentially releasing part of the reserve for operational requirements.**

⇒ *Global commodity management facility reserve*

29. It is indicated in the WFP document (*ibid.*, para. 32, 34, 35, 37) that over the period from 2011 to 2014, total insured food losses within FPF have been less than 0.1 percent per year or 2,055 mt and uninsured losses are less than 0.3 percent or 6,033 mt. WFP currently uses a self-insurance scheme to protect against food losses from damaged, losses (spoiled food) or theft up to the point of entry into a country. Most FPF risks due to operational factors are therefore covered by self-insurance. Nevertheless, the external review has recommended that WFP's self-insurance for FPF stocks be extended, facilitating full coverage of commodities and mitigating all risk associated, which would ensure that commodities would be covered in all instances either through external (supplier, transporter) or self-insured schemes, thus obviating the need for any reserve to cover rendered losses. WFP is currently undergoing a global self-insurance policy review. As the self-insurance scheme does not yet cover all potential losses, WFP Secretariat proposes to create a dedicated Global Commodity Management Facility reserve of \$6 million to serve as an additional safety net for losses that may fall outside the insurance coverage. Upon enquiry, the Advisory Committee was informed that the self-insurance policy review underway would look at extending both the coverage period of self-insurance and the types of risks covered, and would assess costs and benefits of extending insurance on Global Commodity Management purchase versus the very low level of losses occurred to date at 0.3 per cent.
30. It is the understanding of the Advisory Committee that the \$6 million reserve is proposed by WFP for the Global Commodity Management Facility as its self-insurance policy does not yet cover all food losses, pending the outcome of the ongoing comprehensive review on the self-insurance scheme. **The Advisory Committee therefore recommends that, subject to approval of the \$6 million reserve by the Board, the Executive Board request the WFP Secretariat to review the need for the \$6 million reserve proposed for the Global Commodity Management Facility following the completion of the comprehensive self-insurance review, so as to avoid potential overlap with the future self-insurance coverage.**
31. **Subject to its comments and recommendations contained in paragraphs 23, 27, 28 and 30 above, the Advisory Committee does not object to the proposed restructuring of the Working Capital Financing Facility.**

### **Appointment of two Members to the Audit Committee and Appointment of Two Executive Board Members to the Selection Panel for the Appointment of three Audit Committee Members**

32. WFP document WFP/EB.A/2014/6-B/1 contains the recommendation by the Executive Director to the Executive Board that the two members of the Audit Committee with terms ending in 2014 be renewed for a second and final term. WFP document WFP/EB.A/2014/6-C/1 contains the proposal by the Bureau of the Executive Board for two of the Board members to be appointed to the selection panel for the appointment of three Audit Committee members (whose terms will come to an end in 2015).
33. The Advisory Committee recalls that, in accordance with paragraphs 19 to 21 of the terms of reference of the Audit Committee, actions required in this regard are as follows: (a) the process for selection of members of the Audit Committee shall involve a selection panel, which shall include two representatives of the Executive Board selected by the Board, a

sitting member of the Audit Committee selected by the Committee and two members of WFP Secretariat selected by the Executive Director; (b) the selection panel shall report its recommendations to the Executive Director and to the President of the Executive Board; and (c) the Executive Board shall consider candidates recommended for approval of appointment. **Taking into account the terms of reference of the Audit Committee, the Advisory Committee is of the view that the above-mentioned actions constitute matters to be decided by the Executive Board.**

### III. Documentation submitted to the Executive Board for consideration

#### Report of the External Auditor on Food Procurement in WFP

34. The External Auditor conducted a performance audit on food procurement in WFP, with a view to seeking an assurance that the food procurement by WFP fulfilled its policy objective of cost effective, efficient and timely purchases in a transparent manner (WFP/EB.A/2014/6-G/1, executive summary). The audit covered 6 country offices, 3 regional bureaux and WFP headquarters for the period from August 2011 to July 2013. The External Auditor has made 9 recommendations concerning the following: procurement planning, implementation of new initiatives in food procurement (FPF and P4P), compliance to regulatory framework, efficiency of procurement process, use of information technology tools, vendor management, timelines of purchases, food quality and monitoring and oversight.
35. WFP management has accepted all of the nine recommendations of the External Auditor (WFP/EB.A/2014/6-G/1/Add.1). WFP indicates that it will draw on the External Auditor's findings and recommendations to improve its food procurement model (*ibid.*, para.3). **The Advisory Committee trusts that WFP will implement the recommendations of the External Auditor in full and in a timely manner.**

**ANNEX****Documentation****For approval:**

- Audited annual accounts, 2013 (WFP/EB.A/2014/6-A/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)

**For consideration:**

- Annual report of the Audit Committee (WFP/EB.A/2014/6-E/1)
- Annual report of the WFP Inspector General (WFP/EB.A/2014/6-F/1)
- Note by the Executive Director on the annual report of the WFP Inspector General (WFP/EB.A/2014/6-F/1/Add.1)
- Report of the External Auditor on food procurement in WFP (WFP/EB.A/2014/6-G/1\*)
- WFP management response to the recommendations of the report of the External Auditor on food procurement in WFP (WFP/EB.A/2014/6-G/1/Add.1)
- Report of the External Auditor on United Nations humanitarian response depot (WFP/EB.A/2014/6-H/1)
- WFP management response to the recommendations of the report of the External Auditor on United Nations humanitarian response depot (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)

**For information:**

- 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)