



World Food Programme
Programme Alimentaire Mondial
Programa Mundial de Alimentos
برنامج الأغذية العالمي

Executive Board
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Resource, financial and budgetary matters

For information

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

Report of the FAO Finance Committee

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

- Audited annual accounts, 2022 (WFP/EB.A/2023/6-A/1)
- Report on the utilization of WFP's strategic financing mechanisms (1 January–31 December 2022) (WFP/EB.A/2023/6-B/1)
- Annual report of the Independent Oversight Advisory Committee (WFP/EB.A/2023/6-C/1)
- Annual report of the Inspector General (WFP/EB.A/2023/6-D/1) and note by the Executive Director (WFP/EB.A/2023/6-D/1/Add.1)
- Management review of significant risk and control issues, 2022 (WFP/EB.A/2023/6-E/1)
- Report of the External Auditor on support services (WFP/EB.A/2023/6-F/1) and WFP management response to the External Auditor's recommendations (WFP/EB.A/2023/6-F/1/Add.1)
- Report of the External Auditor on fuel management (WFP/EB.A/2023/6-G/1) and WFP management response to the External Auditor's recommendations (WFP/EB.A/2023/6-G/1/Add.1)
- Report on the implementation of the External Auditor's recommendations (WFP/EB.A/2023/6-H/1)
- Report of the Executive Director on contributions, reductions and waivers of costs under General Rule XIII.4 (f) in 2022 (WFP/EB.A/2023/6-I/1)
- Utilization of the Programme Support and Administrative Equalization Account reserve (WFP/EB.A/2023/6-J/1)



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منظمة
الغذية والزراعة
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COUNCIL

Hundred and Seventy-fourth Session

Rome, 4-8 December 2023

Report of the 196th Session of the Finance Committee (Rome, 5-7 June 2023)

Executive summary

At its 196th 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 2023.

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 2023.

Queries on the substantive content of 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 Ninety-sixth Session.
2. In addition to the Chairperson, Ms Imelda Smolčić Nijers (Uruguay), the following representatives of Members were present:
 - Ms Kristina Gill (Australia)
 - Mr Mina Rizk (Egypt)
 - Mr Kaba Urgessa Dinssa (Ethiopia)
 - Mr Kuraya Yoshihiro (Japan)
 - Mr Miguel Jorge García Winder (Mexico)
 - Mr Farid Moustapha M. Sanda (Niger)
 - Ms Any Lam Chong Leon (Panama)
 - Mr Vladimir V. Kuznetsov (Russian Federation)
 - Mr Mohammed Ahmed M. Alghamdi (Saudi Arabia)
 - Mr Petter Nilsson (Sweden)
 - Ms Ratchanok Sangpenchan (Thailand)
 - Ms Elizabeth Petrovski (United States of America))
3. The Chairperson informed the Committee that:
 - Ms Kristina Gill (Australia) had been designated to replace Ms Emma Hatcher as the representative of Australia for this session;
 - Mr Farid Moustapha M. Sanda (Niger) had been designated to replace Ms Tahirou Rahila Rabiou as the representative of Niger for this session;
 - Ms Any Lam Chong Leon (Panama) had been designated to replace Mr Tomás Duncan Jurado as the representative of Panama for this session;
 - Mr Petter Nilsson (Sweden) had been designated to replace Ms Pernilla Ivarsson as the representative of Sweden for this session;
 - Ms Elizabeth Petrovski (United States of America) had been designated to replace Mr Rodney Hunter as the representative of the United States of America for this session.
4. A summary of the qualifications of the substitute representatives can be downloaded from the Governing and Statutory Body website at: <http://www.fao.org/unfao/govbodies/gsbhome/finance-committee/substitute-representatives/en/>
5. The 196th Session of the Finance Committee was convened in a hybrid setting, with some representatives of Members participating in person at FAO headquarters and others participating virtually. The Finance Committee confirmed, pursuant to Rule VII of the rules of procedure of the Finance Committee, that it agreed to suspend the rules that may be incompatible with the hybrid session.

6. In addition, silent observers from the following Member Nations attended the 196th Session of the Committee:
- Algeria
 - Burkina Faso
 - Cabo Verde
 - China
 - Congo
 - Cuba
 - Djibouti
 - Dominican Republic
 - El Salvador
 - Equatorial Guinea
 - Kuwait
 - Libya
 - Monaco
 - Romania
 - United Kingdom of Great Britain and Northern Ireland
 - Venezuela (Bolivarian Republic of)
 - Zambia

World Food Programme Matters

Audited annual accounts, 2022

7. The Committee reviewed WFP's *Audited annual accounts, 2022*.
8. The Committee was informed that in 2022 WFP made changes to the accounts presentation in line with International Public Sector Accounting Standards (IPSAS) requirements. WFP's revenue (USD 14.4 billion) and expenses recognized (USD 11.4 billion) grew by 50 and 29 percent, respectively, resulting in a surplus of USD 3.0 billion. WFP's net assets at the end of 2022 stood at USD 11.6 billion, while the final needs-based budget amounted to USD 20.8 billion. In 2022, in consultation with the External Auditor, WFP changed its accounting policy for revenue recognition in line with IPSAS 23, restating the 2021 comparative figures with an impact on opening net assets of USD 0.8 billion, and changed the classification and presentation of expenses to provide additional information. The Committee recommended that WFP continue to make adjustments to the presentation of the accounts in line with the suggestions of the External Auditor.
9. The Committee expressed appreciation for the audited annual accounts and unqualified audit opinion. It noted WFP's strong financial position and performance, and that the high reliance on a few key donors exposed WFP to funding risks, and recommended further diversification of the donor base. The Committee appreciated the clarifications provided that the unusually high surplus reported was mainly due to timing differences between revenue received in the fourth quarter and expense recognition. It welcomed the changes in the presentation of the accounts while expressing concern that the new revenue recognition policy could create a discrepancy between donors' intentions and the accounting treatment of contributions. The Committee was informed of WFP's intention to ensure multi-year contributions were spent over the years specified by donors, while noting that in some instances revenue would be recognized upfront in the financial statements.
10. The Committee expressed appreciation for the report of the External Auditor, took note of its findings and recommendations, and requested information from Management on its plans to implement the recommendations. It urged WFP to address the recommendations in a timely manner, while taking note of the complexities of implementation of some of the recommendations. Recommendations related to financial management of cash-based transfer reconciliations, expense recognition policy for food commodities, the payroll process and staff entitlements and liabilities, and property, plant and equipment disposal practices were highlighted in particular to ensure proper financial controls. The Committee

was informed that implementation of some recommendations would require new system solutions, time, and the need to be prioritized considering the capacities of the Organization.

11. **With the observations and recommendations above, the Committee recommended that the Executive Board approve the 2022 annual financial statements of WFP, together with the report of the External Auditor.**

Report of the External Auditor on support services

12. The Committee reviewed the *Report of the External Auditor on support services* and the Management response to the recommendations.
13. The Committee urged WFP to implement the External Auditor's recommendations in a timely manner to mitigate risk and ensure transparency and good governance. WFP Management confirmed acceptance of the recommendations, noting that some would require further assessment to determine the cost of implementation in light of the operational climate. The WFP Management Plan (2024-2026) provided an opportunity to consider funding to address oversight and control weaknesses noted in the report.
14. The Committee was informed that WFP complied with United Nations standards and reform efforts in implementing the business operations strategy, and was an active participant in inter-agency working groups, such as category management, having volunteered to pilot two out of four chosen categories. With goods and services procurement having reached USD 1.2 billion in 2022, the Committee was assured of WFP's commitment to implement robust procedures including exploring sustainable approaches, such as finalizing an environmental, social and governance strategy in which supplier management was included.
15. The Committee was informed that WFP adhered to strict processes following United Nations Global Marketplace (UNGM) standards for both food and goods and services procurement, with three levels of supplier registration based on the estimated spend amount, each with an increasing level of review and documentation, with specific documentation required for international procurement such as export documentation, and for local procurement.
16. The Committee urged WFP to ensure that all policies and related guidance were carried out at regional bureau and country office level, as well as headquarters. The Committee was assured that the Supply Chain Operations Division (SCO) would work closely with WFP compliance functions at all levels, as well as with the Committee on Supply Chain to ensure sound oversight of support services.
17. The Committee recommended that, given changes to supplier registration, updates of the procurement manual and related guidance would be required. The Committee was informed that through the ongoing Procurement Business Process Review (PBPR), SCO was developing lean processes in the service of the broader Organization, and a forthcoming consolidated manual would cover food and goods and services.
18. The Committee requested clarification on how WFP would centralize procurement services, while segregating some activities based on specialization, and was informed that procurement of certain specialized services, such as aviation or shipping, required technical expertise, and a feasibility review would be performed through the PBPR to determine centralization and maintain integrity. The Committee was assured that uniformity would be maintained, as these services report to the Director of SCO.
19. The Committee welcomed WFP's efforts to implement the new staffing framework and appreciated WFP's prioritization of issuing corporate guidance on record keeping for employee files. The Committee urged WFP to ensure adoption and implementation by regional bureaux. The Committee was informed that WFP was still undertaking contract conversion work in different business units, particularly for affiliate contract types, but was committed to reducing the overall proportion of the workforce on affiliate contracts. The

Committee cautioned on the need to adopt a balanced and phased approach in this regard, taking into account the emergency-based and cyclical nature of WFP activities in the field and reliance on extrabudgetary resources as well as additional costs related to contract conversions.

20. The Committee recalled the importance of strengthening the information technology policy and related guidance, and strongly encouraged WFP to implement the related recommendations calling for a review of the information technology (IT) landscape to rationalize systems use and to strengthen the authority of the technology division to oversee IT system procurement and development. It was informed that, following approval of the new Information and Technology Strategy (2023-2026) in April 2023, WFP was working to establish foundational aspects, including strengthened governance and an enterprise architecture.
21. **With the observations and recommendations above, the Committee urged WFP Management to implement the recommendations within the timeline outlined in the document.**

Report of the External Auditor on fuel management

22. The Committee reviewed the *Report of the External Auditor on fuel management* and the Management response to the recommendations.
23. The Committee supported the recommendations presented in the report. It welcomed the confirmation provided that 3 of the 17 recommendations were implemented and looked forward to implementation of the remaining recommendations by the end of 2024.
24. The Committee underlined the importance of effective management of fuel with a standardized process, prioritizing long-term agreements, reduced cash payments, and data analysis with robust data collection on the energy production of WFP's solar power systems.
25. Management clarified that the rationale for indicating that some recommendations were subject to further review reflected the need to undertake a more detailed assessment of the costs of implementation and to prioritize them against other demands on staff time and resources.
26. The Committee received clarifications on:
 - a) the visibility and management of fuel supply shortage which was reflected in some country office risk registers and monitored regularly to mitigate risks; and
 - b) WFP's environmental management systems (EMS), which aligned with ISO 14001 standards, where the key performance indicator on the percentage of WFP country offices implementing EMS (27 percent) was below the 2022 target (40 percent).
27. **With the observations and recommendations above, the Committee urged WFP Management to implement the recommendations within the timeline outlined in the document.**

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

28. The Committee reviewed the Annual report of the Inspector General and the Note by the Executive Director on the annual report of the Inspector General.
29. The Committee welcomed the favourable opinion issued by the Office of the Inspector General (OIG) and the conclusion that no material weaknesses were identified based on the risk-based oversight activities performed in 2022. It appreciated the more positive results of audits in 2022, with a large majority that were partially satisfactory with some improvements needed. The Committee again raised strong concerns over the recurrence of findings in

cash-based transfers, beneficiary management, lack of sufficient corporate guidance on the application of full cost recovery principles for supply chain, cooperating partner management and programme monitoring. WFP Management acknowledged these concerns and noted that there would be a measurable and costed workplan for these areas, with stronger implementation monitoring to achieve a successful outcome. The Committee shared OIG's and Management's concern that staff at the D-1 level and above represented approximately 5 percent of all subjects under investigation.

30. The Committee also noted its concern at the continued increase in complaints and the investigation caseload. It was informed that the current caseload per investigator continued to be unsustainable if there was an expectation of quality work and completion in a timely manner. The Committee expressed its support to ensuring that if the investigation trend continued, additional resources would be provided as needed, and urged WFP Management to strengthen, in particular, preventive efforts, with support from OIG, to stabilize or reverse the trend of allegations.
31. **With the observations and recommendations above, the Committee recommended the WFP Executive Board to take note of the *Annual report of the Inspector General* and urged WFP Management to take advantage of the opportunities for further improvement in various areas highlighted in the report, paying particular attention to the recurring issues cited by the Inspector General.**

Management review of significant risk and control issues, 2022

32. The Committee reviewed the Management review of significant risk and control issues, 2022.
33. The Committee heard that the Executive Director's Assurance Exercise resulted in constructive engagement from 133 senior managers in WFP, whose insights were triangulated with evidence from internal and external oversight findings to prepare the Management Review. The Committee was informed that the four key control areas from 2021 still required continued attention: workplace culture and conduct; talent management and workforce planning; non-governmental organization (NGO) management; and beneficiary management and IT solutions. The Committee was provided with anonymized quotes to demonstrate the rich insights received from WFP Management and given an overview of material events escalated during the period.
34. The Committee welcomed the Management Review, expressing appreciation for the useful document and WFP Management's attention to the top control risks in the Organization which aligned with similar issues raised in other documents reviewed during this session.
35. The Committee received clarification on key technical matters, including:
 - a) that the Executive Director's Assurance Exercise findings were shared worldwide;
 - b) the future evolution of emerging risk and control challenges included in the Statement on Internal Control to track progress from year to year and determine whether they moved up to a top control issue;
 - c) increasing field-based focal points for NGO management through capacity building efforts;
 - d) improvements in tone at the top through the prioritization of workplace culture by the senior leadership group and overcoming perceptions around uneven application of disciplinary measures, including through the issuance of the annual report on practice in disciplinary matters;
 - e) activities in progress to promote and retain national staff;
 - f) implementation of WFP's anti-racism action plan;

- g) the status of response to the March 2022 WFP employees' joint letter to Management on diversity and inclusion and corporate progress in these areas included the renewed attention to this issue by the new Executive Director;
 - h) efforts to reduce the recruitment time for consultants; and
 - i) ongoing local talent management initiatives.
36. **With the observations and recommendations above, the Committee:**
- a) **urged WFP Management to continue to take actions set out in the document to mitigate risks and ensure the most efficient and effective use of WFP's resources and the safeguarding of its assets; and**
 - b) **recommended the Executive Board to take note of the *Management review of significant risk and control issues, 2022*.**

Report on the implementation of the External Auditor's recommendations

37. The Committee reviewed the Report on the implementation of the External Auditor's recommendations.
38. The Committee was informed that 21 out of 46 recommendations outstanding since the June 2021 Executive Board Annual Session were closed, with a 46 percent implementation rate; and 52 recommendations remained outstanding including 27 new recommendations from the 2022 audited annual accounts.
39. The Committee received clarification about specific recommendations, including:
- a) overdue recommendations and deadline extension process were required due to internal policy or system changes that took time to implement;
 - b) the NGO management framework, including field-level agreement management processes such as the use of spot checks and performance evaluations to assess the performance of NGO partners and efforts to digitize data management such as through the launch of a ticketing system to track and respond to issues raised; and
 - c) the impact of the United Nations Booking Hub to the cost recovery efforts of WFP, and learned that the enhancements to the Hub were aimed at strengthening controls on verification and authorization of passengers and not directly related to the recovery of resources.
40. The Committee welcomed the report and the progress made to implement the External Auditor's recommendations and requested WFP Management to provide responses to technical questions in writing to the Members.
41. **The Committee:**
- a) **urged WFP Management to implement the remaining outstanding recommendations within the timelines indicated in the report; and**
 - b) **recommended that the Executive Board take note of the *Report on the implementation of the External Auditor's recommendations*.**

Annual report of the Independent Oversight Advisory Committee

42. The Committee reviewed the *Annual report of the Independent Oversight Advisory Committee* (IOAC) for the period 1 April 2022 to 31 March 2023.
43. The Committee welcomed the progress reported by the IOAC in areas such as risk management, cybersecurity, internal audit, and the management of cooperating partners and investigations. The Committee noted the key risk areas identified by the IOAC, including information technology security, beneficiary identity management, cash-based transfers and

fraud and corruption issues at the level of cooperating partners, and agreed with the IOAC that such areas should be prioritized by WFP Management.

44. The Committee was informed that the IOAC had advised on the need for coordination of the activities of the oversight functions in order to avoid overlaps and oversight fatigue, which could reduce their impact and added value.
45. On strategic workforce planning, the Committee received clarification that, while the exercise was initially voluntary at the country office level, it involved almost all functions of WFP, and that efforts were being made to align this exercise with the preparation of country strategic plans.
46. In alignment with the recommendation of the IOAC with regard to the country office support model optimization and simplification (COSMOS) project, the Committee was informed that COSMOS was being piloted in the Regional Bureau for the Middle East, Northern Africa and Eastern Europe and was receiving attention at the highest level. The COSMOS secretariat was being converted into a project management office in order to closely supervise the pilot implementation and measure progress. The initial pilot, if successful, could be expanded to other regions to gain additional insight on the potential benefits, and robust change management processes would be put in place to operationalize any eventual solution.
47. The Committee was informed that the diversity of conditions applied by donors on their contributions and their associated costs were growing in complexity. Additional costs of non-standard reporting were normally covered by the donor through additional direct contributions, although a more harmonized approach was sought with respect to reporting requirements negotiated in country offices.
48. **The Committee:**
 - a) **acknowledged the important role of the Independent Oversight Advisory Committee (IOAC) and encouraged the IOAC in its ongoing work;**
 - b) **appreciated the guidance provided by the IOAC in the areas under its mandate, in particular on: encouraging WFP to continue its work on coordination between its various oversight functions; the implementation of evaluation recommendations; and misconduct prevention, particularly for cooperating partners; and**
 - c) **recommended the Executive Board to take note of the report.**

Report on the utilization of WFP's strategic financing mechanisms

49. The Committee reviewed the *Report on the utilization of WFP's strategic financing mechanisms (1 January–31 December 2022)*.
50. The Committee supported WFP's use of strategic financing mechanisms as an important means to increase efficiency and effectiveness for WFP's operations. It commended WFP's use of these financing mechanisms and the management of the associated risks.
51. The Committee acknowledged that the effectiveness of strategic financing mechanisms increased when contributions had a greater level of flexibility and encouraged WFP to advocate that donors increase the flexibility of their contributions to WFP. The Committee noted that the strategic financing mechanisms, in particular the Immediate Response Account (IRA), would benefit from a more diverse donor base as well as from donors' flexibility in allowing residual funding to replenish them.

52. In response to questions raised, the Committee received clarification on:
- a) efforts to “revitalize” the IRA including a new directive¹ sharpening the parameters for when strategic financing could be used and demand for allocations in 2023, projected to be USD 500 million and requiring a higher level of donor contributions;
 - b) the costs, opportunities and risks of implementing the Global Commodity Management Facility (GCMF) including the importance of segregation of demand planning and sourcing functions for strengthened controls; and
 - c) the benefits of the capital budgeting facility within the corporate services financing envelope, which was being utilized to pilot vehicle leasing as part of UN reform efforts.
53. The Committee welcomed WFP efforts to foster local purchases and procurement from smallholder farmers, which had increased by 21 percent.
54. The Committee was informed that in line with a dynamic ceiling approach approved by WFP’s Executive Board, i.e. a ceiling set at 10 percent of global contribution forecast, the ceilings of the GCMF and Internal Project Lending facility were aligned with the new global contribution forecast for 2023, revised from USD 11 billion to USD 10 billion.
55. **With the observations and recommendations above, the Committee recommended that the Executive Board take note of the report on the utilization of WFP’s strategic financing mechanisms for the period 1 January–31 December 2022.**

Utilization of the Programme Support and Administrative Equalization Account reserve

56. The Committee reviewed the report on the *Utilization of the Programme Support and Administrative Equalization Account (PSAEA) reserve*.
57. The Committee was informed that despite a reduction of the latest 2023 global contribution forecast from USD 11 billion to USD 10 billion, the projected balance in the Programme Support and Administrative (PSA) Equalization Account remained well above the target level equivalent to five months of PSA expenses and that this provided WFP Management room to propose a transfer of USD 100 million to the IRA. The Committee was informed that this transfer would not adversely impact the healthy balance in the PSAEA reserve.
58. The Committee noted the potential need for a future request to approve replenishment of the self-insurance special account due to the extraordinary situation in the Sudan.
59. **With the observations and recommendations above, the Committee:**
- a) **noted the information provided on the Programme Support and Administrative Equalization Account and the projections for the Account in 2023; and**
 - b) **recommended that the Executive Board approve a transfer of USD 100 million from the PSAEA to strengthen the Immediate Response Account.**

Other Matters

Date and Place of the Hundred and Ninety-seventh Session

60. The Committee was informed that the next session was scheduled to be held in Rome from 30 to 31 October 2023.

¹ Immediate Response Account – WFP’s Life-saving Emergency Reserve (June 2022).

Documents for information

- Report of the Executive Director on contributions, reductions and waivers of costs under General Rule XIII.4 (f) in 2022 (doc. FC 196/INF/2)