



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

Executive Board
Annual session
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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, 2023 (WFP/EB.A/2024/6-A/1)
- Update to the WFP management plan (2024–2026) (WFP/EB.A/2024/6-B/1/Rev.1)
- Annual report of the Independent Oversight Advisory Committee (WFP/EB.A/2024/6-C/1)
- Annual report of the Inspector General (WFP/EB.A/2024/6-D/1) and Note by the Executive Director (WFP/EB.A/2024/6-D/1/Add.1)
- Management review of significant risk and control issues, 2023 (WFP/EB.A/2024/6-E/1)
- Report on the utilization of WFP's strategic financing mechanisms (1 January–31 December 2023) (WFP/EB.A/2024/6-F/1)
- Report of the Executive Director on contributions, reductions and waivers of costs under General Rule XIII.4 (f) in 2023 (WFP/EB.A/2024/6-G/1)
- Workplan of the External Auditor (WFP/EB.A/2024/6-H/1)



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COUNCIL

Hundred and Seventy-fifth Session

Rome, 10-14 June 2024

Report of the 200th Session of the Finance Committee (Rome, 29-31 May 2024)

Executive summary

At its 200th 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 2024.

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 2024.

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 Two hundredth Session.
2. In addition to the Chairperson, Mr Mina Rizk (Egypt), the following representatives of Members were present:
 - Ms Kristina Gill (Australia)
 - Mr Li Bo (China)
 - Mr Bienvenu Ntsouanva (Congo)
 - Ms Berioska Morrison González (Dominican Republic)
 - Mr Jujjavarapu Balaji (India)
 - Mr Sultan Alotaibi (Kuwait)
 - Ms Sandra Paola Ramírez Valenzuela (Mexico)
 - Mr Abdellah Larhmaid (Morocco)
 - Ms Fadia Aljamal (Oman)
 - Mr Petter Nilsson (Sweden)
 - Mr Christopher Mace (United Kingdom of Great Britain and Northern Ireland)
 - 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;
 - Ms WANG Xiaoling (China) had been designated to replace Mr Li Bo as the representative of China for part of this session;
 - Mr Massimo Ziad Ammar (Kuwait) had been designated to replace Mr Sultan Alotaibi as the representative of Kuwait for part of this session;
 - Ms Sandra Paola Ramírez Valenzuela (Mexico) had been designated to replace Mr Miguel Jorge García Winder as the representative of Mexico for this session;
 - Mr Petter Nilsson (Sweden) had been designated to replace Ms Pernilla Ivarsson as the representative of Sweden for this session;
 - Mr Luke Thomas (United Kingdom of Great Britain and Northern Ireland) had been designated to replace Mr Christopher Mace as the representative of the United Kingdom of Great Britain and Northern Ireland for part of this session;
 - Ms Elizabeth Petrovski (United States of America) had been designated to replace Mr Rodney M. 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. In addition, silent observers from the following Member Nations attended the 200th Session of the Committee:
 - Algeria
 - Brazil
 - Burkina Faso
 - Cabo Verde
 - Colombia
 - France
 - Gabon
 - Germany
 - Guatemala
 - Iceland
 - Iraq
 - Russian Federation
 - Slovakia
 - Sri Lanka
 - Sudan

World Food Programme Matters

Audited annual accounts, 2023

6. The Committee reviewed WFP's *Audited annual accounts, 2023*.
7. The Committee was informed that WFP had implemented International Public Sector Accounting Standard (IPSAS) 41, *Financial Instruments* in 2023 without restating prior periods as permitted by the standard. The impact was on the classification of financial assets and presentation of their fair value changes in either surplus/deficit or net assets/equity.
8. WFP's revenue had sharply decreased, after seven consecutive years of growth, by USD 5.3 billion or 37 percent to reach USD 9.1 billion. The expenses recognized were USD 10.9 billion, a decrease of 5 percent. The resulting deficit was USD 1.7 billion. WFP's net assets at the end of 2023 stood at USD 9.9 billion, while noting the assessed operational requirement was USD 22.1 billion. An additional disclosure on the composition of food commodities was included in the notes and an updated implementation plan in Statement V as recommended by the External Auditor. The Committee expressed appreciation for the adjustments made to the presentation of the accounts in line with the suggestions of the External Auditor.
9. The Committee welcomed the audited annual accounts and unmodified audit opinion. It noted the decrease in funding during 2023 and expressed concern over the impact this would have on the implementation of the budget, achieving country strategic plan outcomes and how funds are prioritized. The Committee requested clarifications on the composition of expenses, the relationship between the decrease in cash-based transfers (CBT) and food commodities distributed, and the increase in other expense lines, in particular staff costs. The Committee was informed that other expense lines, in addition to expenses related to CBT and food commodities delivered, also include costs related to capacity strengthening and service delivery modalities. The Committee was further informed that the continued increase in staff costs was partially explained by the change in contract modalities from short-term to long-term, and partially by the time lag in measures taken to adjust the workforce to the new funding levels, as the decrease in operations only became evident in the second half of 2023.
10. The Committee expressed appreciation for the comprehensive report of the External Auditor, as well as the enhancements made to the presentation of the audit and supported its findings and recommendations. The Committee, in particular, discussed the recommendations related to cooperating partner management, reliability of funding forecasts, presentation of the programme support and administrative equalization account in the Management Plan, increased post factum procurements and the internal control framework. The Committee appreciated the response provided by Management to the recommendations of the External Auditor and requested more information from Management on how they planned to implement the recommendations, inquiring on the reasons for recurring recommendations from the audit of the 2022 financial statements, revision of the implementation timelines and the prioritization of the recommendations.
11. The Committee was informed that 35 out of 82 recommendations outstanding since the June 2023 WFP Executive Board annual session were closed, with a 43 percent implementation rate, while four recommendations were closed as overtaken by events and 43 recommendations remained outstanding.

12. The Committee requested and received clarifications on:
- a) outstanding recommendations and the main factors affecting the recommendation implementation timelines, including system enhancements, organizational realignment, the establishment of Executive Director Circulars, and budgetary requirements, and the process for validating the status of recommendations;
 - b) Management's plans to implement the recommendations aimed at enhancing accountability and oversight;
 - c) timelines and funding requirements for implementing the outstanding recommendations;
 - d) cooperating partners management and actions being taken to strengthen and digitize processes, capacity assessments, spot checks and partner standards; and
 - e) implications of implementation of the staffing framework, including cost increases and the use of consultants including retirees.
13. **With the observations and recommendations above, the Committee:**
- a) **recommended that the WFP Executive Board approve the 2023 annual financial statements of WFP, and take note of the report of the External Auditor;**
 - b) **recommended the WFP Executive Board to establish criteria within the WFP regulatory framework with regard to management plan revisions in case of variances in the funding projections that may arise subsequent to approval of the Management Plan by the WFP Executive Board as observed by the External Auditor; and**
 - c) **urged Management to implement the External Auditor's recommendations in a timely manner.**

Update to the WFP management plan (2024-2026)

14. The Committee reviewed the *Update to the WFP management plan (2024-2026)* and expressed its appreciation to Management for the presentation and its continued engagement with the WFP Executive Board.
15. The Committee acknowledged the difficult situation that WFP was facing in terms of funding constraints and commended WFP for maintaining humanitarian assistance under its mandate of saving lives and changing lives to the largest extent possible, but at the same time expressed its concern on the funding forecast which was originally projected at USD 10 billion and later revised to USD 8 billion. This significant drop in the forecast led the Committee to question the accuracy of WFP's forecasting models and it was informed of the difficulties of predicting funding in an unstable global situation. Notwithstanding these difficulties, Management clarified that the process of forecasting was very structured and had been improved through the establishment of a partnership coordination office, close collaboration with global offices and country offices, and a series of checks and balances. Management acknowledged that 2022 was an outlier year for funding and that WFP was moving to more conservative outlooks for future years.
16. The Committee expressed concern on the increased reliance on a smaller number of donors and the decrease in flexible funding. It was informed of the efforts to increase the diversification of the funding base, and Management highlighted that while flexible funding had decreased in terms of absolute value, the number of partners who have contributed to flexible funding had increased.

17. The Committee sought clarification on the decrease in the projected operational requirements for 2024 from USD 22.7 billion to USD 18.0 billion and how this could be such a dynamic figure. The Committee was informed on how Management conducted beneficiary targeting given the financial constraints, and were reassured of WFP's commitment to prioritize the most food-insecure and ensure quality and quantity of food rations. The Committee was also provided with clarifications that the new approach of country aligned plans for calculating operational requirements took into consideration operational and access constraints and potential funding, while the implementation plan was capped at the level of projected available resources.
18. The Committee noted that the increase in implementation costs and direct support costs was attributable to improving assessment, targeting, monitoring and evaluation in line with the Global Assurance Project. The Committee was provided with an update on the Project's implementation in 31 high-risk countries to enforce minimum monitoring requirements and was informed of improvements to transparency on resource allocations for monitoring, assessments and evaluation within country strategic plans.
19. The Committee was provided with additional information on the replanned programme support and administrative (PSA) budget and the consequences of the budget reductions, specifically on the reduction in WFP staff numbers. The Committee was informed of the utilization plan of USD 483 million, based on the prioritization of activities that specifically have a beneficial impact on country offices, activities related to control and oversight functions and non-discretionary expenditures. Managers were able to reduce costs via unencumbered positions, as well as by reducing travel and training costs.
20. The Committee expressed its concern on reductions to the control and oversight functions, their abilities to fulfil their respective mandates, and requested more information on potential consequences and how this would affect the 2025 management plan budget, and signalled its intention to remain seized on the matter. Management informed the Committee that oversight offices were protected from the 2024 budget reductions; however, a possible reduction in budgetary allotments was under review as part of the 2025 budget planning process during the upcoming months. The Committee was informed that, while the budget exercise was performed with the USD 483 million target in mind, WFP was proposing a PSA budget of USD 528 million with additional cost saving measures to be taken, as feasible, up to USD 45 million. This was done to ensure that costs such as oversight office costs could be prioritized.
21. The Committee inquired about the use of the indirect support cost (ISC) income generated from contributions confirmed in prior years and how this was used in relation to the programme support and administrative equalization account (PSAEA) presented in the document. The Committee was informed that the account represented an accumulation of ISC income generated in each calendar year less PSA expenditures and other uses as approved by the WFP Executive Board. The ISC income related to the operational fund balances to be used in 2024 had been recorded in previous years and was part of the balance in the PSAEA at the beginning of 2024.
22. The Committee inquired about Financial Regulation 9.8 and whether WFP was in breach of that regulation. WFP clarified that this regulation allowed for a revision of the budget during the year and was now being brought to its Executive Board. Further, the decision in the original management plan allowed for the Executive Director to adjust the PSA budget by up to 2 percent of the change in contribution revenue, which in the current circumstances would be USD 40 million. The Committee was reassured that, while a reduction of PSA budget by more than USD 40 million was desired and might be achieved by year end, a reduction of more than USD 40 million would not have occurred prior to the presentation of the document to the WFP Executive Board at its annual session in June 2024.

23. **With the observations and recommendations above, the Committee recommended that the WFP Executive Board approve the draft decision as outlined in the document *Update to the WFP management plan (2024-2026)*.**

Annual report of the Independent Oversight Advisory Committee

24. The Committee reviewed the *Annual report of the Independent Oversight Advisory Committee* (IOAC) for the period 1 April 2023 to 31 March 2024.
25. The Committee noted the good progress that the IOAC observed in key areas such as risk management, internal audit, management of cooperating partners and ethics. The Committee was informed that the IOAC also found that satisfactory developments had been made in the coordination of the activities of oversight functions, with the implementation of joint assessments, where applicable. On the observations made by the IOAC that some roles resulting from the organizational restructuring were broad, the Committee noted that the IOAC was referring to the position of the Deputy Executive Director and Chief Operating Officer (DED & COO) and the need to have a senior manager in his office to allow the DED & COO time to focus on strategic priorities.
26. The Committee agreed with the IOAC recommendation that the Office of the Inspector General should receive sufficient level of funding to implement its activities. Regarding the follow-up actions to the advice provided by the IOAC, the Committee was informed that this was captured as part of the workplan that the IOAC updated at each of its meetings, with a review of actions taken by Management. The Committee also noted that Management would provide an update on the guidance being prepared for the management of cooperating partners.
27. The Committee acknowledged the important role of the IOAC and appreciated the guidance provided by the IOAC in the areas under its mandate.
28. **With the observations and recommendations above, the Committee recommended that the WFP Executive Board take note of the *Annual report of the Independent Oversight Advisory Committee*.**

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

29. 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*.
30. The Committee welcomed the opinion issued by the Office of the Inspector General (OIG) and the conclusion that in 2023 no material weaknesses were identified in WFP governance, risk management or control processes which would significantly compromise the overall achievement of WFP's strategic and operational objectives. Notwithstanding the above, OIG had identified significant governance, risk management and control issues in WFP that required Management's attention and follow-up. The Committee reiterated its concerns over the increased number of agreed actions not implemented, and encouraged Management to implement them, while recommending the need to strengthen the second line of defence capacity to support and oversee country office partnership units.
31. The Committee noted the concerns of the Executive Director on the continuous year-on-year increases in allegations of fraud, harassment, abuse of authority, discrimination, sexual abuse and exploitation committed by WFP partners, vendors and employees, and took note of her determination to address these issues.
32. The Committee expressed concern that a 10 percent budget decrease, as informed by the OIG, would impact quality, timeliness and possibly the volume of work of the OIG, and limit field audits and investigations, forcing more work to be done remotely.

33. The Committee also noted the continued increase in the investigation caseload and was informed that the increase in number of cases was beyond OIG's control. The Committee was informed that the aim was to close the oldest part of the portfolio by December 2024, and that this had been supported by additional funding provided by Management. The Office of Inspections and Investigations would also undergo an external review starting in September 2024 and this would provide an opportunity to streamline business processes.
34. **With the observations and recommendations above, the Committee recommended the WFP Executive Board take note of the *Annual report of the Inspector General* and urge Management to address the significant governance, risk management and control issues highlighted in the report.**

Management review of significant risk and control issues, 2023

35. The Committee reviewed the *Management review of significant risk and control issues, 2023*.
36. The Committee was informed that the Executive Director's Assurance Exercise resulted in constructive engagement from 135 senior managers in WFP, whose insights were triangulated with evidence from internal and external oversight findings to prepare the management review. The Committee was also informed that the four key control areas from 2022 still required continued attention: workplace culture and conduct; talent management and workforce planning; non-governmental organization management; and beneficiary management and information technology solutions. The Committee was also provided with information on four emerging risk and control challenges: monitoring and assessment; programmatic partnerships and host government engagement; supply chain and procurement; and resource mobilization and donor relations.
37. The Committee welcomed the management review, and expressed appreciation for the transparency it provided on Management's perspective. The Committee further noted that the document complemented and aligned with findings from the independent oversight mechanisms and reinforced strong oversight and risk management as critical enablers for WFP to remain a leader in the humanitarian space.
38. The Committee requested and received clarifications on key administrative and operational matters, including:
- a) the impact of restructuring and reduced funding on workplace culture and employee well-being and the need for inclusive and transparent communication during critical moments of organizational change;
 - b) the need for improvements in tone at the top through measures, such as a policy on high-level appointments and perceptions around the uneven application of disciplinary measures;
 - c) efforts to reduce WFP's recruitment timeline through the launch of a new human resources platform, as well as the use of rosters, communications and campaigns;
 - d) enhanced WFP corporate messaging and internal communication around sexual exploitation and abuse and sexual harassment, the former of which was covered by a recent evaluation report, and related risk reporting measures;
 - e) maintaining humanitarian independence through advocacy with government partners and measures to ensure access to beneficiaries through the finalization of draft guidance on engagement with governments as implementing partners;
 - f) cooperating partner management, including decreased maturity ratings in 2023, long-term funding for non-governmental organizations, and efforts to improve digitalization and normative standards;

- g) ongoing standardization and ensuring consistency in addressing issues across all countries in view of the Global Assurance Project;
 - h) ongoing measures and frameworks to strengthen monitoring capacity across WFP;
 - i) material incident reporting rates over recent years, risk escalation procedures and the establishment of an overarching incident escalation protocol recently endorsed by senior management that covered health, safety, security, reputational and other risks; and
 - j) enhancing supply chain and warehouse management, including sourcing strategies and tools.
39. **With the observations and recommendations above, the Committee recommended the WFP Executive Board take note of the *Management review of significant risk and control issues, 2023*.**

Report on the utilization of WFP's strategic financing mechanisms (1 January–31 December 2023)

40. The Committee reviewed the *Report on the utilization of WFP's strategic financing mechanisms (1 January–31 December 2023)*.
41. The Committee supported WFP's use of strategic financing mechanisms as an important means to increase flexibility, efficiency and effectiveness for WFP's operations, and commended the use of these mechanisms and the management of the associated risks.
42. The Committee acknowledged that the effectiveness of the mechanisms increased when contributions had a greater level of flexibility and encouraged WFP to advocate to donors to provide more flexible funding.
43. The Committee requested clarifications on the risk of non-repayment of outstanding advances made through internal project lending (IPL) and the Immediate Response Account (IRA) at the end of the year and was informed that such risks were minimal given that these advances were made against specific forecasts with robust review processes. Furthermore, in the case that any deficit could not be recovered, the Committee was informed that an operational reserve of USD 130 million could be used as a safety net, noting that that there had not been any write-off since 2011. The Committee was also informed that since the IRA is funded by donor contributions, any outstanding payment could be converted to grants when the country strategic plan was closed.
44. The Committee also noted the clarifications provided on the differences between the IPL, which provided spending authority against forecasted contributions, and the IRA, which enabled WFP to provide immediate assistance in life-threatening situations in the absence of forecast contributions.
45. 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 the global contribution forecast), the ceilings of the IPL and Global Commodity Management Facility had been aligned with the new global contribution forecast for 2024 and revised from USD 1.0 billion to USD 0.8 billion.
46. **With the observations and recommendations above, the Committee recommended that the WFP Executive Board take note of the report on the utilization of WFP's strategic financing mechanisms for the period 1 January–31 December 2023.**

Other Matters

Date and Place of the Two hundred and first Session

47. The Committee was informed that the next session was scheduled to be held in Rome from 4 to 5 November 2024.

Documents for information

- Report of the Executive Director on contributions, reductions and waivers of costs under General Rule XIII.4 (f) in 2023 (doc. FC 200/INF/2)
- Workplan of the External Auditor (doc. FC 200/INF/3)