



COUNCIL

Hundred and Seventy-first Session

Rome, 5-9 December 2022

Report of the 192nd Session of the Finance Committee Rome, 1-3 June 2022

Executive summary

At its 192nd 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 2022.

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 2022.

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-second Session.
2. In addition to the Chairperson, Ms Imelda Smolčić Nijers (Uruguay), the following representatives of Members were present:
 - 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 Bettina Carbone (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:
 - Mr Farid Moustapha M. Sanda (Niger) had been designated to replace Ms Tahirou Rahila Rabiou as the representative of Niger for this session;
 - Ms Bettina Carbone (Panama) had been designated to replace Mr Tomás Alberto 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 Ratchanok Sangpenchan (Thailand) had been designated to replace Mr Thanawat Tiensin as the representative of Thailand for this session;
 - Ms Elizabeth Petrovski (United States of America) had been designated to replace Ms Jennifer Harhigh 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 Web site at: <http://www.fao.org/unfao/govbodies/gsbhome/finance-committee/substitute-representatives/en/>
5. The 192nd 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 on an exceptional basis due to the COVID-19 pandemic. 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 192nd Session of the Committee:
 - Algeria
 - Argentina
 - Bangladesh
 - Belgium
 - Brazil
 - Burkina Faso
 - Colombia
 - Congo
 - Cuba
 - Democratic Republic of the Congo
 - Dominican Republic
 - Germany
 - Ghana
 - Italy
 - Mauritania
 - Morocco
 - Senegal
 - Syrian Arab Republic
 - Türkiye
 - United Kingdom of Great Britain and Northern Ireland

World Food Programme Matters

Audited annual accounts, 2021

7. The Committee reviewed WFP's *Audited annual accounts, 2021*.
8. The Committee was informed that, in 2021, WFP's revenue of USD 9.8 billion and recognized expenses of USD 8.9 billion grew by 10 percent, resulting in a surplus of USD 0.9 billion. WFP's net assets at the end of 2021 stood at USD 7.9 billion. The final needs-based budget amounted to USD 14.4 billion, representing a 20 percent increase compared to the original budget.
9. The Committee expressed appreciation for the Audited Annual Accounts and unqualified audit opinion, as well as WFP's strong financial position and performance. The Committee sought clarifications on the internal controls and fraud risks, WFP's corporate digital beneficiary information and transfer management platform (SCOPE) implementation coverage, employee benefits funding, and increases in supply chain costs. The Committee was informed that WFP was implementing key actions to improve internal controls and reduce fraud risks, and that SCOPE was a key part of the ecosystem that supported business' beneficiary management needs. Management informed the Committee that details on the SCOPE ecosystem would be provided to the WFP Executive Board by the Programme and Policy Development Department in due course. Moreover, the Committee was informed that WFP's operations would be significantly impacted by price increases despite efforts such as inventory pre-positioning through Global Commodity Management Facility (GCMF), cooperation with private sector, and other efficiency measures.
10. The Committee was provided information on Management's plans to implement audit recommendations and underlined the importance of implementing prioritized recommendations in contributions management. The Committee was informed of the broader efforts underway to address management of contribution agreements. While expressing concern at the incorrect application of the Indirect Support Cost (ISC) rate in three grants, the Committee welcomed the immediate actions taken by WFP to strengthen its decision-making processes, and underscored the need for approval of all ISC waivers by the Chief Financial Officer and overall improvement in the management and application of WFP's internal controls. The Committee noted that all recommendations would be implemented in one year.

11. The Committee:

- a) **examined WFP's 2021 Audited Financial Statements together with the Audit Opinion and the Report of the External Auditor;**
- b) **noted that the External Auditor had completed the audit in accordance with the International Standards on Auditing, and had provided an unqualified audit opinion;**
- c) **welcomed the recommendations presented in the Report of the External Auditor and encouraged WFP Management to take action to address these recommendations within the timelines set out in the report;**
- d) **expressed its appreciation for the work of the outgoing external auditor, the Cour des Comptes of France; and**
- e) **recommended that the WFP Executive Board approves the 2021 Annual Financial Statements of WFP, together with the Report of the External Auditor.**

Report on the utilization of WFP's advance financing mechanisms

12. The Committee reviewed the *Report on the utilization of WFP's advance financing mechanisms (1 January - 31 December 2021)*.
13. The Committee supported WFP's use of advance financing mechanisms as an important means to increase flexibility, responsiveness, and efficiency of WFP's operations. It commended WFP's use of these innovative financing mechanisms and risk management associated with them.

14. The Committee endorsed WFP's growing use of the GCMF to support local and regional purchases as well as purchases from small-holder farmers.

15. The Committee noted that the effective use of advance financing mechanisms required flexibility in certain donor conditions and encouraged WFP to engage with donors to increase the flexibility of their funding.

16. The Committee was informed that while there was no immediate risk of the proposed ceilings being reached, food and transportation costs and commodity volumes as well as WFP's funding forecasts could surge quickly and raise the prospect of increasing the ceiling. WFP was therefore looking into a more dynamic method to adjust the ceilings of its advance financing mechanisms and the safety nets required to support them.

17. The Committee:

- a) **welcomed** the *Report on the utilization of WFP's advance financing mechanisms (1 January - 31 December 2021)*;
- b) **noted with satisfaction** the comprehensive presentation of information on the use of WFP's advance financing mechanisms during 2021;
- c) **recommended** that the WFP Executive Board approves: maintenance of the Immediate Response Account (IRA) target at USD 200 million for 2022; the proposed increase to the internal project lending ceiling from USD 760 million to USD 950 million; and the proposed increase to the GCMF from USD 800 million to USD 950 million; and
- d) **encouraged** further efforts to engage with donors on the benefits of providing flexible and predictable funding to effectively use WFP's advance financing mechanisms.

**Classification of private sector donors as non-traditional donors under
General Rule XIII.4 (c)**

18. The Committee reviewed the document *Classification of private sector donors as non-traditional donors under General Rule XIII.4 (c)*.

19. The Committee congratulated WFP on the continued success of its private sector partnerships and fundraising strategy.

20. The Committee was informed that private sector partnerships worth approximately USD 20 million plus in-kind support to Ukraine were compromised due to a lack of proper classification. The Committee was informed that cash contributions were enthusiastically offered by the private sector for Ukraine.

21. The Committee appreciated the proposal's contribution towards donor expansion with its safeguards against monetization and recourse to the WFP Fund. It was informed of the measures in place to secure the cash component, and in line with the principle of full cost recovery, the indirect support cost rate of 6.5 percent would be applied to the cash contribution on the entire grant to complement in kind contributions. In most cases, cash would be available from the twinned contribution before funds are disbursed by WFP, with no credit risk to the organization.

22. The Committee:

- a) **recommended** that the WFP Executive Board approves the proposal to classify private sector donors as non-traditional donors for the purposes of application of WFP General Rule XIII.4 (c), except that no resort to the WFP Fund nor to monetization shall be made;
- b) **noted** that such an arrangement would fulfil the principle of full cost recovery by allowing for the full operational and support costs of private sector contributions to be covered through contributions by another donor or donors.

Update on the WFP management plan (2022-2024)

23. The Committee reviewed the *Update on the WFP management plan (2022-2024)*. It was informed that the contribution forecast for 2022 continued to be under review by Management and was now expected to exceed the stated forecast of USD 9.5 billion in 2022 and 2023.
24. The Committee requested further information on developments in the share of flexible funding in the updated contribution forecast.
25. The Committee welcomed and supported most of the draft decisions outlined in the document to be approved by the WFP Executive Board.
26. The Committee considered the proposed allocation of USD 55 million to establish a changing lives transformation fund.
27. The Committee raised questions on: how the size of the proposed changing lives transformation fund was determined and how many countries would benefit; the criteria for country selection and allocation mechanism; clearer articulation of why WFP was best placed to engage in the proposed work; collaboration with other agencies; timing of a changing lives transformation fund at a time of unprecedented humanitarian need; evidence of impact of previous related investments; alignment to country strategic plans' theory of change; how progress and impact would be measured; and sustainability of the fund.
28. **The Committee:**
- a) **noted that document WFP/EB.A/2022/6-D/1 provided the first update on the WFP's Management Plan for 2022-2024 that had been approved by the WFP Executive Board at its 2021 second regular session;**
 - b) **noted that the 2022 needs-based plan as of 31 March 2022 of USD 17.1 billion represented an increase of USD 4.2 billion compared with the projected operational requirements for 2022 in the original WFP Management Plan (2022-2024);**
 - c) **noted the contribution forecast for 2022 of USD 9.5 billion, in the document, which represented an increase from the USD 8.4 billion reported in the original WFP Management Plan (2022-2024) and that the Executive Director was considering releasing additional funding for programme support and administrative costs of up to 2 percent of the increase in the contribution forecast;**
 - d) **supported the proposed revisions of the application of the 4 percent ISC rate to specific cases and recommended that WFP requests the Joint Inspection Unit (JIU) to perform a review of the application of ISC rates by United Nations Agencies to contributions from international financial institutions (IFIs);**
 - e) **supported the proposed allocation of USD 23.4 million from the programme support and administrative equalization account to cover: i) USD 8 million for costs related to the joint United Nations COVID-19 response framework; and ii) USD 15.4 million for a new critical corporate initiative aimed at aligning planning and reporting tools and platforms with the strategic plan and corporate results framework for 2022-2025;**
 - f) **supported the proposed transfers from the unearmarked portion of the General Fund of: i) USD 100 million to strengthen the IRA; and ii) USD 30 million to replenish the Emerging Donor Matching Fund;**
 - g) **requested Management to provide further information on the proposed transfer of USD 55 million to establish a changing lives transformation fund prior to its consideration by the Annual Session of the WFP Executive Board; and**
 - h) **appreciated the updates provided on the bottom up strategic budgeting exercise (BUSBE) and requested that WFP provide information on corporate priorities that would guide programme support and administrative resource allocation in 2023 to be presented in the WFP management plan (2023-2025) as well as priorities guiding budget allocations under the BUSBE overall.**

Annual report of the Independent Oversight Advisory Committee

29. The Committee reviewed the *Annual report of the Independent Oversight Advisory Committee* (IOAC) for the period 1 April 2021 to 31 March 2022.

30. The Committee noted that the root causes of fraud identified at WFP were often related to a weak first line of defense, which arose from not embedding controls sufficiently, inexperienced staff, resource constraints, and limited oversight. The Committee was informed that resources available for investigations had been increased recently and that outsourcing of some functions was completed; the number of reported fraud cases had grown significantly over time, principally as a result of increased training, awareness, and availability of reporting channels. The Committee noted that, while things were moving in the right direction, further efforts were needed to reinforce the internal control system currently in place and further embed controls within WFP's daily operations, particularly in the key areas of supply chain, cooperating partners, beneficiary management, and cash-based transfers. The Committee noted that it would receive further information on the timeline for implementing recommendations from the external assessment of the enterprise risk management function.

31. 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: enterprise risk management and internal controls; internal audit and investigations; the independent evaluation office; people policy and strategic workforce planning; and ethics activities and ethics culture; and**
- c) **recommended the WFP Executive Board to take note of the *Annual report of the Independent Oversight Advisory Committee*.**

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

32. 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*.

33. The Committee welcomed the favourable opinion issued by the Office of the Inspector General (OIG) and the conclusion that no material weaknesses were identified. It appreciated the new approach to Country Office audits, focusing on five main risk-prone areas: i) beneficiary management, ii) cash-based transfers, iii) supply chain (comprising procurement, logistics, commodity management), iv) monitoring, and v) finance. The Committee raised concerns over the recurrence of findings in cash-based transfers, beneficiary management, cooperating partner management and programme monitoring. WFP Management noted the concerns and emphasized its continued efforts to address the findings in the report and ensure action was taken throughout the organization.

34. The Committee also noted the continued increase in complaints and the investigation caseload. It heard that the current caseload per investigator was unsustainable, and that building more investigator capacity to mitigate the associated risks was needed. The Committee urged Management to ensure that the OIG continued to receive additional funding while also strengthening preventative measures, including addressing areas of weakness in the first line of defense.

35. The Committee:

- a) **considered the *Annual report of the Inspector General* together with the *Note by the Executive Director on the annual report of the Inspector General*;**
- b) **noted the assurance opinion issued by the Inspector General that the oversight work performed did not disclose any significant weaknesses in the governance, risk management and control processes in place across WFP that would seriously compromise the achievement of WFP's strategic and operational objectives; and**

- c) **advised** the WFP Executive Board to take note of the *Annual report of the Inspector General* and to encourage Management to take advantage of the opportunities for further improvement in the areas highlighted in the report.

Management review of significant risk and control issues, 2021

36. The Committee reviewed the *Management review of significant risk and control issues, 2021*.

37. The Committee noted that the Executive Director's Assurance Exercise resulted in timely engagement from WFP's 130 senior managers and was provided with quotes to provide insights received, especially from the field. The Committee was informed that the four key control areas from 2019 still required continued attention, despite progress in all areas; and was also apprised of material events escalated to Management during the period.

38. The Committee welcomed the Management Review and expressed appreciation for the work involved in preparing the report, and noted that the process helped with planning and prioritizing efforts to address weaknesses and in strengthening the culture of risk management. The Committee received clarifications on key technical matters, including: the competitiveness of WFP's employment offer; upskilling for the changing lives agenda; gender parity and the promotion of women staff; funding of long-term liabilities related to staff; the Service Contract conversion exercise; breaking the culture of silence regarding reporting of harassment, sexual harassment, abuse of authority and discrimination and training to prevent abusive conduct; protection against retaliation; lessons learned from material incidents; the important contributions of the offices of the Ombudsman and Ethics to improving WFP's workplace culture; the linkage between Partner Connect and the Logistics Execution Support System (LESS); non-standard beneficiary management solutions; and the specificity of goals to track progress.

39. The Committee:

- a) **welcomed** the document which provided further description and analysis of four risk and control matters identified as significant in the 2020 Statement of Internal Control and prioritized for further action along with progress achieved in 2021, namely: (i) Workplace culture and conduct; (ii) Talent management and workforce planning; (iii) Non-governmental organization management; and (iv) Beneficiary management and information technology solutions;
- b) **encouraged** WFP Management to continue to take actions to mitigate these risks to ensure the most efficient and effective use of WFP's resources and the safeguarding of its assets; and
- c) **recommended** the WFP Executive Board to take note of the *Management review of significant risk and control issues, 2021*.

Report of the External Auditor on the management of cooperating partners

40. The Committee reviewed the *Report of the External Auditor on the management of cooperating partners* and the Management response to the recommendations.

41. The Committee welcomed WFP's ongoing initiatives on streamlining the cooperating partnership (CP) management mechanisms and highlighted the need for WFP to address the issues related to WFP's management of cooperating partners identified in the report.

42. The Committee was informed of the NGO Partnership Unit's digital roadmap and supported the digitalization of CP management processes and the consequent improvement in CP data quality as a core mechanism for addressing multiple recommendations. The Committee noted the information provided on WFP's CP data management platforms:

- a) DOTS – an integrated data layer to connect WFP's different corporate data processing systems;
- b) United Nations Partner Portal (UNPP) – an interagency platform to facilitate NGO due diligence and partner selection; and

- c) Partner Connect – a reporting interface for directly engaging CPs in programme data entry.

43. The Committee underlined the need for capacity strengthening for both NGO partners and WFP Country Office staff in using the new digital tools. The Committee also encouraged WFP Management to continue strengthening the NGO Partnership Unit's function at headquarters level and to improve cooperation with UN partners regarding CP selection.

44. The Committee:

- a) **expressed its appreciation for the *Report of the External Auditor on the management of cooperating partners* and welcomed the recommendations presented in the report;**
- b) **noted the Management response to the recommendations, including clarifications on those which had been partially agreed; and**
- c) **encouraged WFP Management to implement the recommendations, including through ensuring appropriate resource allocation for strengthening CP management.**

Report of the External Auditor on oversight by management

45. The Committee reviewed the *Report of the External Auditor on oversight by management* and the Management response to the recommendations.

46. The Committee noted the implementation timeframes, ranging from 2022 to early 2024, and received clarification on the longer timeframe for updating the oversight framework due to the extensive consultations required with various stakeholders including the WFP Executive Board.

47. The Committee recognized the vital role risk management played in building stakeholder confidence and maximizing resources. It acknowledged concerns expressed by field offices that increasing risk management requirements affected operational performance. To optimize oversight functions, it encouraged Management to address the high priority recommendations as quickly as possible. The Committee received clarifications on the:

- a) valuable contribution of the Executive Director's Assurance Exercise, which formulated the Statement on Internal Control, to strengthen the culture of risk management;
- b) enhancement of regional bureau monitoring and oversight, including improved coordination with headquarters through a handbook expected to be formalized in an Executive Director's circular by end-2022;
- c) positioning, grading and structure of the Enterprise Risk Management Division in light of the related findings of the Office of Internal Audit's independent review that will be addressed in the Management Plan 2023-2025, and assessment of enterprise risk management maturity conducted by Baldwin Global; and
- d) continuous investment in the risk and compliance advisor network and tools such as the R2 risk and recommendation tracking tool to better manage risks and controls.

48. The Committee:

- a) **expressed its appreciation for the *Report of the External Auditor on oversight by management* and welcomed the recommendations presented in the report;**
- b) **noted Management's agreement with the recommendations and its planned actions for their implementation; and**
- c) **encouraged WFP Management to implement the recommendations within the timeline set by Management with due consideration to the assigned prioritization of the External Auditor.**

Report on the implementation of the External Auditor's recommendations

49. The Committee reviewed the *Report on the implementation of the External Auditor's recommendations*.

50. The Committee was informed that 39 out of 54 recommendations outstanding since the June 2021 WFP Executive Board session were closed, with a 72 percent implementation rate, the highest since 2006; and 19 recommendations remained outstanding, including four new recommendations from the 2021 audited annual accounts.

51. The Committee welcomed the report and the progress made to implement the External Auditor's recommendations, noting that Management would respond to any remaining questions bilaterally with Members of the Finance Committee.

52. The Committee:

- a) **noted the status of implementation of outstanding recommendations of the External Auditor;**
- b) **encouraged Management to implement the remaining outstanding recommendations within the timelines indicated in the report; and**
- c) **recommended that the WFP Executive Board takes note of the *Report on the implementation of the External Auditor's recommendations.***

Other Matters

Date and Place of the Hundred and Ninety-third Session

53. The Committee was informed that the next session was scheduled to be held from 27 to 28 October 2022. The arrangements for the session would be established in accordance with the evolving COVID-19 restrictions.