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FINANCE COMMITTEE

Hundred and Ninety-sixth Session

Rome, 5-7 June 2023

**WFP management response to the recommendations in the report of the
External Auditor on fuel management**

Queries on the substantive content of this document may be addressed to:

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EXECUTIVE SUMMARY

- Management welcomes the External Auditor's observations and is pleased to note that many of the issues noted in the audit and the resulting recommendations will assist management in achieving economy, efficiency and effectiveness in the area of fuel management.
- Management agrees with the recommendations and the document sets out planned actions for implementing the recommendations, and the timelines for their completion.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to review the "WFP management response to the recommendations in the report of the External Auditor on fuel management" and to endorse it for consideration by the Executive Board.

Draft Advice

- **In accordance with Article XIV of the General Regulations of WFP, the FAO Finance Committee advises the WFP Executive Board to approve the draft decision as outlined in the document "WFP management response to the recommendations in the report of the External Auditor on fuel management".**



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Resource, financial and budgetary matters

For consideration

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

WFP management response to the recommendations in the report of the External Auditor on fuel management

Background

1. Management welcomes the recommendations made in the report of the External Auditor on the performance audit of fuel management.¹
2. The External Auditor conducted two performance audits in 2022, on fuel management and support services, focusing on economy, efficiency and effectiveness in line with the International Standards of Supreme Auditing Institutions on performance and compliance audits and the WFP Financial Regulations and their annex. A separate audit report was issued for each subject. This document deals only with management responses to the audit report on fuel management.
3. The external audit of fuel management involved audit visits to WFP headquarters between 11 and 20 October 2022 and to the Regional Bureau for the Middle East, Northern Africa and Eastern Europe, the Regional Bureau for Southern Africa and the country offices for Egypt, Jordan, Lebanon, Malawi, Mozambique, the United Republic of Tanzania and Zimbabwe between 7 and 17 February 2023 and between August 2022 and January 2023.
4. In addition, the External Auditor requested the country offices for Algeria, the Congo, the Democratic Republic of the Congo, the Islamic Republic of Iran, Lesotho, Libya, Madagascar, the State of Palestine, the Syrian Arab Republic and Yemen to provide information about their fuel management.

¹ "Report of the External Auditor on fuel management" (WFP/EB.A/2023/6-G/1).

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5. Management is pleased to note that many of the issues noted in the audit and the resulting recommendations relating to fuel procurement, the quality of fleet management system data, fuel utilization and reporting, including accounting for fuel and related capitalization, will assist management in achieving economy, efficiency and effectiveness in the area of fuel management.
6. Management acknowledges the recommendation on extending the duration of long-term agreements instead of issuing new tenders. It is WFP's standard practice to extend the duration of long-term agreements upon agreement with the contracting parties with regard to extension in time and pricing.
7. Management also agrees with the recommendations of the External Auditor on WFP's renewable power supply and appreciates its acknowledgement that WFP's environmental policy² outlines its commitment to a transition from fossil fuels to clean renewable power sources such as wind and solar energy.
8. Management thanks the External Auditor for the constructive approach it has taken in the conduct of the audit and for sharing its draft report at an early stage, thus affording management an opportunity to further articulate its points on certain recommendations.
9. Management will endeavour to implement the audit recommendations on or before the target implementation dates, ensuring that systematic and robust follow-up procedures are put in place.
10. The following matrix sets out management's responses to the audit recommendations, including the actions to be taken to implement the recommendations and the timelines for their implementation.

Draft decision*

The Board takes note of the WFP management response to the recommendations in the report of the External Auditor on fuel management (WFP/EB.A/2023/6-G/1/Add.1).

² "Environmental Policy" (WFP/EB.1/2017/4-B/Rev.1).

* This is a draft decision. For the final decision adopted by the Board, please refer to the decisions and recommendations document issued at the end of the session.

WFP MANAGEMENT RESPONSE TO THE RECOMMENDATIONS IN THE REPORT OF THE EXTERNAL AUDITOR ON FUEL MANAGEMENT			
External audit recommendation	Action by	WFP management response	Timeframe
<p>Recommendation 1</p> <p>The External Auditor recommends that WFP evaluate the contract duration of the long-term agreements for the provision of aviation fuel and consider using the option to extend their duration instead of starting a new tender.</p>	Supply Chain Operations Division (SCO)	<p>Agreed.</p> <p>The evaluation of contract duration is in progress and will be completed by December 2023.</p> <p>Where possible, the extension of long-term agreements is more suitable than the issuance of new tenders. Such extensions, however, are based on mutual agreement between WFP and its suppliers. The second part of the recommendation has been implemented and is considered closed.</p>	31 December 2023
<p>Recommendation 2</p> <p>The External Auditor recommends that WFP explore how to attract more suppliers for aviation fuel, for example by going to market with other United Nations entities or by creating suitable baskets to cover as many required airfields as possible.</p>	SCO	<p>Agreed.</p> <p>The year 2022 was an exceptional one, with the effects of the global lockdown stemming from the coronavirus disease 2019 pandemic and the conflict in Ukraine severely affecting fuel, food and transport costs. Most fuel providers had already requested reviews of ongoing agreements prior to contract expiry. Others expressed concern about their ability to maintain contractual prices. Market fluctuations made it increasingly challenging to forecast costs and maintain offers for extended periods of time. Against this backdrop, WFP had no other option than to proceed with a new tender.</p> <p>In 2022, within the framework of the One UN initiative and United Nations development system reform, WFP initiated discussion with the United Nations Secretariat to start cooperation on the procurement of Jet A-1 fuel, as the United Nations Secretariat is the only other United Nations entity procuring large quantities of this type of fuel. In late 2022, WFP issued the first tender including quantities and locations provided by the United Nations Secretariat.</p> <p>While operational requirements may often differ, opportunities to consolidate volumes in certain locations and the use of infrastructure are being considered. The tender currently under way already includes the concept of baskets – meaning the location and type of service required based on location – to ensure that WFP selects the most appropriate suppliers based on the specifics of the services required.</p>	Implemented

WFP MANAGEMENT RESPONSE TO THE RECOMMENDATIONS IN THE REPORT OF THE EXTERNAL AUDITOR ON FUEL MANAGEMENT			
External audit recommendation	Action by	WFP management response	Timeframe
<p>Recommendation 3</p> <p>The External Auditor recommends that WFP ensure that a long-term agreement for the provision of aviation fuel be signed before it calls-off fuel under its terms.</p>	SCO	<p>Agreed.</p> <p>It is indeed a standard practice to call-off fuel only through signed long-term agreements. Notwithstanding the standard practice, it should be noted that long-term agreements are non-committal agreements and that a purchase order is required to effect a legally binding commitment between WFP and a fuel supplier. To allow for business continuity in exceptional cases, however, SCO management has approved the use of awarded vendors on a case-by-case basis. In 2022, due to exceptional circumstances, SCO management granted exceptional approvals on three occasions to retrieve fuel under unsigned long-term agreements. In all three cases purchase orders were issued as the basis for executing the orders.</p>	Implemented
<p>Recommendation 4</p> <p>The External Auditor recommends that WFP review and update the supplier roster at least once per year.</p>	SCO	<p>Agreed.</p> <p>Management takes note of this recommendation and will implement it provided the supplier management review project is funded and necessary digital solutions are in place. Detailed roster information will be updated by December 2023. In the meantime, manual reviews of the rosters will continue.</p>	31 December 2023
<p>Recommendation 5</p> <p>The External Auditor recommends that WFP monitor how country offices and regional bureaux manage fuel provision for vehicles; evaluate the reasons for the lack of long-term agreements; and support offices by sharing best practice.</p>	Management Services Division (MSD)	<p>Agreed.</p> <p>Management recognizes the importance of developing cross-divisional guidance that outlines the procedures and responsibilities of the various business units in country offices to ensure that fuel management (fuel procurement and fuel provision) for vehicles (including trucks and armoured vehicles) is effective and efficient. In addition, the oversight checklist being used by headquarters and regional bureaux will be revised to include questions to determine the fuel management controls that should be in place, including best practices to be adopted by WFP offices. MSD will also develop fuel management training materials, in coordination with relevant units at headquarters, to provide comprehensive training to concerned staff.</p> <p>In the interim, management will conduct a long-term agreement inventory exercise in all WFP offices to determine the reasons why such agreements are not being used routinely in the purchase of vehicle fuel. In addition, the fuel management assessment criteria that are being used during the fleet optimization exercise will be reinforced by providing more focus on fuel management strategies and fuel contract management at the country office level.</p>	30 June 2024

WFP MANAGEMENT RESPONSE TO THE RECOMMENDATIONS IN THE REPORT OF THE EXTERNAL AUDITOR ON FUEL MANAGEMENT			
External audit recommendation	Action by	WFP management response	Timeframe
<p>Recommendation 6</p> <p>The External Auditor recommends that WFP reduce cash payments for vehicle fuel.</p>	MSD	<p>Agreed.</p> <p>While WFP country offices are responsible for the monitoring, management and control of all fuel activities, management will review (for the offices where fuel procurement was reviewed by the External Auditor) cash purchases and determine the reasons for them. Depending on the reasons and the prevalence of the practice appropriate guidance will be issued to ensure that cash purchases are made only when necessary.</p>	31 December 2023
<p>Recommendation 7</p> <p>The External Auditor recommends that WFP monitor the launch of the fuel application and evaluate its impact on the data quality in the Fleet Management System.</p>	MSD	<p>Agreed.</p> <p>Management will develop evaluation criteria and a methodology for measuring the fuel application's impact on data quality, completeness, accuracy and timeliness.</p>	31 March 2024
<p>Recommendation 8</p> <p>The External Auditor recommends that WFP explore further options on how to improve data quality in the Fleet Management System, e.g., by automated data transfers from the supplier's database or by uploading data reports.</p>	MSD; SCO	<p>Agreed.</p> <p>Management is committed to improving fleet management system data quality by rolling out the fuel application and thus reducing manual data input. Management will explore options for obtaining from fuel suppliers fuel data that can be used for reconciliation.</p> <p>In the case of the WFP Global Fleet Unit, it is continuously working to facilitate automated data entry, such as through the development of the fuel application and trip application. Regarding automated data transfer from fuel suppliers, the Global Fleet Unit sees limitations because odometer status is required for each fuel data entry for the fleet management system. Odometer information at the time of fuelling is required for the calculation of a vehicle's fuel consumption rate (km/litre). The supplier's digital database, however, does not contain such information and a transfer of its data is therefore not a suitable option. Nevertheless, data from suppliers can be utilized to reconcile data with the fleet management system (litres purchased/date/plate number/cost).</p>	31 March 2024

WFP MANAGEMENT RESPONSE TO THE RECOMMENDATIONS IN THE REPORT OF THE EXTERNAL AUDITOR ON FUEL MANAGEMENT			
External audit recommendation	Action by	WFP management response	Timeframe
<p>Recommendation 11</p> <p>The External Auditor recommends that headquarters track the implementation status of its "Fleet Optimization Mission" recommendations.</p>	MSD	<p>Agreed.</p> <p>Management will develop systematic follow-up and reporting procedures to track the implementation of the fleet optimization mission, in coordination with the regional bureaux.</p>	30 September 2023
<p>Recommendation 12</p> <p>The External Auditor recommends that WFP establish a process to record the provision and reversal of accruals under the same expense accounts as the actual expense postings.</p>	Corporate Finance Division (FIN)	<p>Agreed.</p> <p>WFP will further assess the feasibility of this proposal. This will primarily require an assessment of whether system-based internal controls associated with existing solutions can be retained if the External Auditor's recommendation is implemented. Should this be possible, accrual will be posted on actual expense accounts by the end of 2023.</p>	31 December 2023
<p>Recommendation 13</p> <p>The External Auditor recommends that WFP ensure that corrections for donor reporting purposes are not recorded in subsequent financial years.</p>	FIN	<p>Agreed.</p> <p>WFP will strengthen controls to ensure that any corrections of financial transactions necessary for donor reporting purposes are timely identified and processed in the same financial year. Should corrections be required after the relevant financial period is closed, they will be processed in the subsequent financial year at the report level rather than at the transaction level.</p>	31 December 2023
<p>Recommendation 14</p> <p>The External Auditor recommends that WFP capitalize fuel that is held on stock to improve oversight on fuel management.</p>	FIN	<p>Agreed.</p> <p>The need to capitalize fuel is driven by operational fuel management requirements rather than accounting and financial reporting requirements. The development of a new accounting model is in progress and its rollout is planned for 2023.</p>	31 December 2023
<p>Recommendation 15</p> <p>The External Auditor recommends that WFP establish a corporate guidance on the accounting processes of aviation, vehicle and facility fuel providing instructions on the consistent asset recognition and management of fuel.</p>	FIN	<p>Agreed.</p> <p>In parallel with the rollout of the new accounting model for fuel recording, WFP will also issue operating procedures and guidelines to ensure the successful implementation of the model across country offices.</p>	31 December 2023

WFP MANAGEMENT RESPONSE TO THE RECOMMENDATIONS IN THE REPORT OF THE EXTERNAL AUDITOR ON FUEL MANAGEMENT			
External audit recommendation	Action by	WFP management response	Timeframe
<p>Recommendation 16</p> <p>The External Auditor recommends that WFP record and regularly monitor the data on energy production of its solar power systems and analyse the reasons for low energy production.</p>	MSD	<p>Agreed.</p> <p>Management will undertake a global inventory of solar power systems and improve data quality by rolling out a new application that will reduce manual data input and by exploring other digital options for the automatic transfer of data from solar power systems.</p>	31 December 2023
<p>Recommendation 17</p> <p>The External Auditor recommends that WFP analyse the reasons for low energy production of its solar power systems and ensure that all systems are properly operated and maintained.</p>	MSD	<p>Agreed.</p> <p>Management will undertake the following to implement the audit recommendation:</p> <ol style="list-style-type: none"> 1. Develop operation and maintenance plans for the solar power systems in each location, with specific focus on solar panel cleaning, aimed at increasing energy production from WFP's solar power systems. 2. Develop training resources and guidelines to support country offices in proper operations and maintenance. 	<p>30 September 2023</p> <p>31 December 2023</p>