

Internal Audit of the Integrated Road Map Pilot Phase in WFP

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I. Executive Summary

Introduction and context

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of the Integrated Road Map pilot phase in WFP that focused on the period 1 July 2016 to 31 January 2018. The audit team conducted the fieldwork from 23 October 2017 to 31 January 2018 at WFP's Rome headquarters and visited four of the 14 pilot countries for the Integrated Road Map transition: Bangladesh, Colombia, Cameroon and Sudan. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

2. In November 2016, the WFP Executive Board approved the Integrated Road Map, a package of corporate processes or actions designed to achieve the organization's most significant transformation in decades and strengthen its contribution to the 2030 Agenda. The road map strategically aligns WFP to achieving the Sustainable Development Goals, particularly the goals of zero hunger and enhanced partnerships. It aims to ensure that WFP continues to operate as a transparent, results-oriented and cost-efficient partner of choice. It is also intended to better equip country offices to design and deliver coherent portfolios, instead of the previous project-based approach, and to maximize impact for beneficiaries.

3. The Integrated Road Map links four inter-related corporate pillars which will determine WFP policy and operating frameworks: the Strategic Plan 2017-2021, the policy on Country Strategic Plans, the Financial Framework Review and the Corporate Results Framework. It introduces a Line-of-Sight which links strategy, planning and budgeting, implementation, and resources obtained, to results achieved at activity level. The Line-of-Sight is the cornerstone of WFP's transparency commitment to donors. The approved timeline for transition to the Integrated Road Map, originally by the end of 2018, was amended for a phased go-live up to 2019.

4. The audit was based upon three primary lines of enquiry:

- a) Are key risks related to the Integrated Road Map pilot phase adequately managed to ensure achievement of the intended objectives?
- b) Is the process for formulating and approving Country Strategic Plans effective?
- c) Does the new financial framework provide for effective and sound management of budgets and costs?

Audit conclusions and key results

5. The audit found the pilot countries to be contributing significantly to corporate learning on the Integrated Road Map, highlighting risks, establishing new procedures and tools, and informing draft corporate guidance. Importantly, the Financial Framework Review provides visibility for the first time on overall country office budgets, which was not easily captured under the previous project budget structure. At field level, the Line-of-Sight has improved visibility on cross-cutting themes such as gender and climate change, and on activities overlapping with other United Nations mandates. This provides an opportunity for better collaboration and complementarity of work between agencies. Governance arrangements in the Regional Bureaux supported the Integrated Road Map pilot phase, and engagement with the Integrated Road Map Operations team was reported as positive by the field and external stakeholders. In addition, training was effectively being delivered to regional and country teams in the pilot phase.

6. The Zero Hunger Strategic Reviews and Country Strategic Plans have enabled WFP to re-assess its strategic interventions in some instances, and to better engage with national counterparts. Alignment of planning cycles to those of the government, sister agencies and other key strategic frameworks in countries has provided opportunities for joint work. Support from the Programme and Policy Division was highly rated by the pilot countries reviewed during the audit. In addition, there were improvements in tools and guidance on partnership engagement in 2017.

7. Many issues raised in the audit report originate from the initial decision to complete the Integrated Road Map transition in a very tight timeframe, despite the complexity of the transformation and delayed participation of certain parts of the business. Within the pilot phase, a flexible implementation approach resulted in a variety of structures, roles and responsibilities assigned, and activity aggregations in Country Strategic Plans, while tools, processes and guidance were in development. This level of variety may prove challenging in the longer run for second line monitoring and oversight functions, as well as for achieving efficiencies through more standard country environments.

8. The flexible implementation timeline introduced in 2017 allowed more time to identify and resolve issues prior to the transition of some of WFP's most complex operations, scheduled to transition in the second half of 2018 and in 2019, but it did not allow sufficient time for the validation of underlying assumptions, course correction, and identification of potential design issues before the second wave roll-out of 53 country offices in January 2018. Management has highlighted that, to be successful in WFP, changes must be made quickly and rolled out with a focus on action rather than employing a long, overly formal process. While appreciating the merits of this chosen approach, the audit observed that there is room to address several of the challenges identified while limiting its impact on the day-to-day delivery of country office activities.

9. The audit found that in the short-term, the Integrated Road Map objective of maximizing operational effectiveness is challenged by actual high levels of earmarking, the complexity and reduced flexibility of the pilot budget structures, and by some actual practices of charging costs and aggregating programmatic activities, which compromised in some cases the objective of transparency and Line-of-Sight on the use of resources and linkages to results.

10. In addition to these challenges, the audit considers that there are three other major issues requiring management's attention for resolution:

a. Capacities for Integrated Road Map implementation

Pilot country office capacities to support the transition to the Integrated Road Map were overestimated, because there was not enough clarity on workload changes introduced in the pilot phase and beyond, and also due to misalignment between transition and implementation resource requirements and actual allocations. In practice, capacity constraints impacted areas of normal operations and country offices adopted adaptive behaviours to simplify activity budget management.

b. Demonstrating ability to deliver on newly-designed activities

In practice, lack of available seed funding for newly-designed activities resulted in some pilot country offices taking a conservative approach when formulating their Country Strategic Plans, and may constrain the ability of WFP to demonstrate competence in such areas of expected programmatic shifts.

c. Controls and flexibility in budget management

Processes associated with the budgeting and cost reporting structures reviewed in pilot countries were observed to be more complex, time-consuming and less flexible, and to have

resulted in transactional increases and offline work. In addition, key controls and oversight arrangements over budget management and decisions required further clarification and strengthening for the later roll-out. Efforts are under way to simplify the budget structure, maintaining budget flexibility as well as disciplined financial cost reporting.

11. The Integrated Road Map transition gives WFP an opportunity to revisit several pre-existing organizational issues that have not been adequately addressed. These have been raised in previous internal audit reports, and include misalignment of workforce structures to strategies; variations in structures; programmatic skills gaps in development and resilience activities; and lack of clarity on applying the requirements for the needs-based and resource-based budgeting models.

12. Additional resources and learning are therefore needed to strengthen and standardize the corporate framework; to assess the impact of changes introduced; to further build and align organizational capacities and readiness to the “new way of working”; to simplify and adapt tools and guidelines; and to clarify and further refine several aspects of the Integrated Road Map model. Furthermore, a number of aspects of the transition and model require senior management engagement and corporate agreement on the approaches to be adopted.

13. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory with major efforts still needed**. The assessed governance arrangements, risk management and controls were generally established and functioning. However, major effort and attention continue to be needed to address gaps remaining, and to promptly manage risks identified during the audit, to ensure that the Integrated Road Map delivers on its intended objectives. The audit acknowledges management’s positive engagement throughout the audit process, and efforts to proactively address issues as they arose.

14. The audit report contains four high priority and eight medium priority observations, all of which have agreed actions directed at a corporate level. An overview of all observations and agreed actions are summarized in Table 1.

Actions agreed

15. Management has agreed to address the reported observations and efforts are already well under way to implement the agreed actions by their respective due dates.

16. The Office of Internal Audit would like to thank external stakeholders, managers and staff for their assistance and cooperation during the audit.

Kiko Harvey
Inspector General

II. Context and Scope

The audit area

Integrated Road Map pillars and objectives

17. To strengthen WFP's contribution to the 2030 Agenda, the WFP Executive Board approved, in November 2016, an integrated package of corporate processes or actions that make up the Integrated Road Map (IRM), the means by which WFP will achieve its most significant transformation in decades. The IRM strategically aligns WFP to the 2030 Agenda and achieving the Sustainable Development Goals (SDGs), especially the goals of zero hunger (SDG2) and enhanced partnerships (SDG17).

18. The four pillars of the IRM are described below:

- i. The Strategic Plan 2017-2021 aligns with the 2030 Agenda by focusing on ending hunger and building revitalized partnerships with national governments, donors, the private sector and others to achieve the SDGs. It sets out WFP's vision to lift the most vulnerable and marginalized people out of hunger.
- ii. The Country Strategic Plan (CSP) policy, informed by a comprehensive analysis with a broad range of stakeholders to identify the country-specific needs and priorities to eliminate hunger and malnutrition, will operationalize the Strategic Plan at country level and support countries to achieve national results.
- iii. The Financial Framework Review (FFR) introduces a new financial architecture, the Country Portfolio Budget (CPB) structure with activity-based budgeting. This demonstrates the relevance, performance and impact of WFP's work by creating a 'Line-of-Sight', linking strategy, planning and budgeting, implementation, and resources obtained, to results achieved.
- iv. The Corporate Results Framework (CRF) lays out results and indicators to help WFP plan, implement, monitor and report on WFP's programmes and measure management performance. The framework builds on detailed theories of change and links WFP's activities to nationally-defined SDG targets, as defined in CSPs. In turn, the CRF allows WFP to assess progress made towards achieving the Strategic Plan and the SDGs.

19. Increased transparency to donors on costs, use of resources, and how these link to results, is an overall commitment of the IRM. In addition, the main objective of the IRM is to maximize operational effectiveness through realistic financial planning, enhanced accountability, streamlined processes and harmonized programmatic, financial and results frameworks. At its core, the framework is expected to allow WFP to demonstrate value for money, cost effectiveness and efficiency in achieving outcomes. It aims to be simpler to manage and more flexible in supporting the achievement of strategic outcomes.

Risks and timeline

20. Since 2016, WFP's quarterly Global Risk Profile Reports have acknowledged the increased complexity and alignment risks emerging from combining the different inter-related pillars of the IRM which have been initiated at different points in time and are moving at different paces. The pillars, especially the Strategic Plan and the CSP policy, began independently of the FFR, while the CRF is currently under development with significant changes expected to the framework in 2018.

21. The IRM transition schedule was adjusted in the first half of 2017 with the introduction of a flexible timeline as a mitigating measure to the corporate risk of insufficient organizational readiness. It addressed a repeated concern from the Executive Board on the pace with which the IRM started, the complexity of the reform, and the ability of the field network to absorb the transition given the multiple Level 2 and 3 emergencies. In 2017, the pilot phase for the IRM was launched with 14 country office pilots. With respect to the FFR, the approach has been to define business requirements with a set of prototype countries during 2016, and then to pilot within 12 countries during 2017 to validate, and where necessary adjust and finalize, the required solutions, before implementing the solution more widely.

Status

22. At the time of the audit, 15 country offices (COs) had adopted the flexible timing, choosing to delay transition to the IRM (see Figure 1). Sixty-five COs were live on the new budget structure, representing 66 percent of WFP’s annual estimated programme of work, with 23 having CSPs, 5 interim CSPs (ICSP) and 37 transitional CSPs approved in 2018. Furthermore, a new corporate Budget Planning Tool (Tagetik) was being rolled out and 14 countries had migrated to the system. In the 2017 pilot phase, 12 countries were on the new budget architecture, and 25 had their CSPs and ICSPs approved.

Figure 1. Status on the IRM transition in WFP as of January 2018



Managing the IRM transition

23. The FFR was initiated in recognition of inherent problems with WFP’s project budget structure which had multiple budget pots managed and controlled at different levels of the organization. Since the inception of the FFR, and throughout 2016 and 2017, the IRM has been discussed extensively with board members through formal and informal consultations. The governance structure for the transition consists of the IRM Steering Committee, chaired by the Executive Director or Deputy Executive Director, and an IRM Operations team (IRMO). The total budget for

the IRM transition in 2017-2018 is USD 49 million; fifty-five percent of the total budget has been secured through the prioritization of existing resources.

24. Deputy Regional Directors (DRDs) are the 'IRM Champions' for their regions with Regional Bureaux (RBx) expected to be the first port of call for support to COs. Lessons learned are gathered through support missions, regional workshops, surveys and regular exchanges between IRM teams at headquarters, RBx and COs on challenges and best practices. These provide essential feedback on what is working well and what can be improved - although the ability to assimilate lessons learned was constrained by the tight timeline in 2017 for pilot countries. There are approximately 35 people currently working in the IRMO team.

Objective and scope of the audit

25. The objective of the audit was to evaluate and test the adequacy and effectiveness of the processes associated with the internal control components of the IRM pilot phase in WFP. Such audits are part of the process of providing an annual and overall assurance statement to the Executive Director on governance, risk-management and internal control processes.

26. The audit was carried out in conformance with the *Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing*. It was completed according to an approved engagement plan and took into consideration the risk assessment exercise carried out prior to the audit.

27. The audit focused on the period from 1 July 2016 to 31 January 2018. Where necessary, transactions and events pertaining to other periods were reviewed. During the planning process, and in consultation with relevant stakeholders, three primary lines of enquiry were established:

1. Are key risks related to the IRM pilot phase adequately managed to ensure achievement of the intended objectives?
2. Is the process for formulating and approving CSPs effective?
3. Does the new financial framework provide for effective and sound management of budgets and costs?

28. The CRF was not reviewed as part of the audit as it is still a work-in-progress¹. The advance financing work stream and the donor information portal were also not in scope. In addition, board approval of CSPs, and internal streamlining of the ICSP to CSP process were not in scope, as these areas are currently under informal consultations with the Executive Board.

29. The audit relied on the internal CSP strategic and technical review processes, which were already in place, for approval of previous projects. Change management aspects have been covered as and when they arose but were not a specific area of audit focus.

30. The audit field work took place from 23 October 2017 to 31 January 2018 in WFP headquarters and via onsite visits to COs in Bangladesh (August 2017), Cameroon (November 2017), Colombia (November 2017) and Sudan (December 2017). The Sudan CO was the most significant operation visited by the audit in terms of size; it was also under a dual budget structure with its Protracted Relief and Recovery Operation (PPRO) project budget running parallel to its ICSP budget. The audit missions observed a snapshot of the situation in pilot COs at a point in time.

¹ The CRF was in part covered by the recent Internal Audit of Management Performance Indicators and Supporting Information Systems report (AR-17-12) issued on 30 June 2017.

31. The Office of Evaluation (OEV) began the inception phase for a strategic evaluation of the IRM CSP pilots in January 2018. Throughout the audit process, the Office of Internal Audit (OIGA) and OEV have collaborated and regularly shared information to ensure minimal duplication of work, and to identify areas of joint effort and where complementarities of scope can be achieved. OEV may be able to rely on OIGA's audit work where necessary and/or appropriate. The Sudan and Bangladesh COs will be covered by both the internal audit and the evaluation engagements.

32. An interim audit briefing note was produced in November 2017 to update management on the emerging issues from the audit, and to provide an opportunity for possible actions required in advance of completion of the entire audit process.

III. Results of the Audit

Audit work and conclusions

33. Based on the results of the audit, OIGA has come to an overall conclusion of partially satisfactory with major efforts still needed². The assessed governance arrangements, risk management and controls were generally established and functioning. However major effort and attention continue to be needed to address gaps remaining, and to promptly manage risks identified during the audit, to ensure that the IRM delivers on its intended objectives.

34. OIGA, in supporting WFP's management's efforts in the areas of risk management and data quality, separately reports its assessments or gaps identified in both areas.

Risk management maturity

35. Some COs and RBx participating in the audit have already mainstreamed IRM-related risks into their risk management processes, and the quarterly DRD workshops provided a good forum for institutionalizing risk discussions from the field perspective. Risks to the resource migration process prior to the roll-out were well managed. Furthermore, in light of the emerging challenges highlighted by the Sudan CO management in implementing the FFR in the third quarter of 2017, IRMO fielded a mission in January 2018 and has since outlined an action plan for further support and learning at corporate level.

36. The corporate IRM risk log was improved in December 2017 by ranking and prioritizing risks, and introducing FFR-related risks and updates from various fora, including the interim audit briefing. However, the process would be improved if it assigned clear ownership, timelines, and required resources for mitigating measures, and was better aligned with issues identified in the audit report, in view of strengthening the accountability for risks to the organization.

Data quality

37. It was not possible to carry out a comparative analysis on earmarking pre- and post-IRM using data from corporate systems. Furthermore, system data accuracy and completeness were challenged by CO practices in charging and allocating some costs, although the materiality of the impact of these instances has not been assessed.

Observations and actions agreed

38. Table 1 outlines the extent to which audit work resulted in observations and agreed actions. These are rated as of low, medium or high priority; observations that resulted in low priority actions are not included in this report.

² As adapted from Annex B.

Table 1: Overview of areas in scope, observations and priority of agreed actions
Priority of issues/agreed actions

A: LoE1 – Are key risks related to the IRM pilot phase adequately managed to ensure achievement of the intended objectives?	
<p>The flexible implementation timeline introduced in 2017 has allowed time to identify and resolve issues prior to the transition of 15 COs in the second half of 2018 and in 2019, which include some of the most complex WFP operations. However, more time would have enabled a more comprehensive assessment of the impact of changes introduced in pilot countries, to make all necessary adjustments and course corrections in a timely manner. In the short-term, the objective of maximizing operational effectiveness was challenged by actual high levels of earmarking, process complexity and reduced flexibility of the pilot budget structures, as well as by some practices in charging costs and aggregating programmatic activities. These compromised in some cases the objective of transparency and Line-of-Sight on the use of resources and linkages to results. There was a lack of standardization among COs in how structures and governance set-ups have changed, and how new roles and responsibilities were assigned. A corporate view on the structural changes in financial and budgeting functions needed to support the IRM environment was not yet agreed. Importantly, CO capacities to support IRM implementation were overestimated; capacity constraints resulted in areas of normal operations being impacted and adaptive behaviours in COs to simplify activity budget management.</p> <p>Pre-existing organizational issues were highlighted which, although not a direct consequence of the move to the IRM, represent risks to a successful transition. These are included primarily within observations 3 and 4, and in summary are: (i) misalignment of workforce and structures to strategies; and (ii) variations in CO structures.</p>	
<i>1 Timeline, scope and assessment of pilots</i>	<i>High</i>
<i>2 Trade-offs between IRM objectives in the short-term</i>	<i>Medium</i>
<i>3 Changes to organizational structures</i>	<i>Medium</i>
<i>4 Capacities for IRM implementation</i>	<i>High</i>
<i>5 Activity aggregation in the CSP</i>	<i>Medium</i>
B: LoE2 – Is the process for formulating and approving CSPs effective?	
<p>CSP design and formulation was challenged by tools and guidance in development in the pilot phase, especially with respect to internal and external stakeholder engagement, partner analysis and comparative strengths assessments. Partner level engagement varied significantly between COs, highlighting the need for further CSP communication and advocacy training. A lack of seed funding for newly-designed activities was observed to constrain the ability of WFP to demonstrate competence in such areas of expected programmatic shifts. In practice it resulted in a conservative approach by some pilot COs in formulating their CSPs. In addition, CO management was unclear when to deactivate unfunded activities.</p> <p>Pre-existing organizational issues are included within observation 7, and are: (i) skills gaps in development and resilience activities; and (ii) lack of clarity on how to put guidelines into practice on the CPB formulation.</p>	
<i>6 Designing and advocating for the CSP</i>	<i>Medium</i>
<i>7 Needs and resource-based budgeting</i>	<i>Medium</i>
<i>8 Demonstrating ability to deliver on newly-designed activities</i>	<i>High</i>
C: LoE3 – Does the new financial framework provide for effective and sound management of budgets and costs?	
<p>Committee set-ups and responsibilities for internal controls and oversight varied between pilot COs, and were not always clearly defined or established in the pilot phase. This was in part because of insufficient guidance and a lack of clarity on key system reports needed and/or available to control and monitor budgets and costs. Furthermore, movement of funds within the budget structure required multiple transactions in the system. Planning and calculating allocations for some costs took place offline with different practices between CO pilots. Tools and process for planning budgets and prioritizing activities were complex, resulting in delays in CO submission of implementation plans. Allocation of costs, especially those related to staff and overheads, required further guidance, especially in the case of unfunded or less well-funded activities. In addition, a corporate position on the management of common and on-demand services within the CSP framework has not yet been assessed and agreed.</p>	
<i>9 Controls and flexibility in budget management</i>	<i>High</i>
<i>10 Activity cost management</i>	<i>Medium</i>
<i>11 Tools for prioritizing activities</i>	<i>Medium</i>
<i>12 Common and on-demand services</i>	<i>Medium</i>

39. The 12 observations of this audit are presented in detail below.

40. Management has already taken measures to address the reported observations³. An overview of the actions to be tracked by internal audit for implementation, their due dates and their categorization by WFP's risk and control frameworks can be found in Annex A.

³ Implementation will be verified through the OIGA's standard system for monitoring agreed actions.

Line of enquiry 1: Are key risks related to the IRM pilot phase adequately managed to ensure achievement of the intended objectives?

The audit performed tests and reviews of: risk registers at field and headquarter levels; meeting records of DRDs' workshops as well as those of Divisional Directors; data on funding levels post-CSP for pilot countries; structure and committee set-up changes; IRM time commitments of staff; and capacities/skills assessments in the COs in the audit sample. In addition, the audit also reviewed the formulation of activities, lessons learned documents, and interviewed key internal and external stakeholders.

Pilot countries contributed significant learning to the IRM corporately, establishing new business processes and informing draft corporate guidance and processes such as budget revision guidance and Level 3 emergency guidance under the CSP framework.

Governance arrangements in the RBx supported the IRM transition, with the creation of cross-functional task forces (strategic, operational and technical) and DRDs leading the process. Furthermore, regional IRM workshops and boot camps were organized to build capacity. Collaboration and engagement with the IRMO team was reported as positive from the field and external stakeholders.

An IRM training strategy and delivery plan has been established with a "train-the-trainer" model, designated focal points at CO and RB levels, and a mix of training approaches and channels for accessing material covering overview, fundamentals and more technical aspects. RB training material was observed to be of high quality and to involve all parts of the business.

There was positive feedback from the field on the provision by the Line-of-Sight of a more holistic view of the work a CO does, and the improved visibility provided on cross-cutting themes such as gender and climate change. The Line-of-Sight was also reported to make activities overlapping with other UN agency mandates more explicit, providing an opportunity for better collaboration and complementarity of work between agencies.

Observation 1

Agreed Actions *[High priority]*

Timeline, scope and assessment of pilots

As a mitigating measure to the corporate risk of insufficient organizational readiness, the IRM transition schedule was adjusted in the first half of 2017 to introduce a more flexible timeline. Despite this adjustment and lessons learned from pilots to improve specific guidance and tools, more time would have enabled a more comprehensive assessment of the impact of changes introduced in pilot countries (for example in such areas as partnerships, donor behaviour, organizational flexibility, structures and capacities) to make all necessary adjustments and course corrections in a timely manner.

Stakeholders reported to the audit that the IRM continues to be rolled out according to time-pressured deadlines, despite several important aspects of the transformation remaining inadequately defined. The audit notes that pilots are still learning while implementing and adapting to the new model, at the same time as fixes to issues are being identified and developed.

All pilot COs visited by the audit worked with the challenging timeline, complexity and in some cases limited guidance, relying upon staff to work additional hours to accommodate significant increases in workload. Some COs reported areas of normal operations were being impacted. In the most complex CO

The IRM Steering Committee will ensure sufficient investments and time are factored into the IRM transition process, including a) continuing steering committee arrangements for more comprehensive assessments of the impact of changes introduced in pilot and go live countries over appropriate longer timeframes, and b) for development of actions resulting from such assessments (including from this audit report) and corporate decision making.

pilot, actual IRM progress was challenging. CO management noted that the scope and complexity of change will require more learning, especially on the FFR, and significant time before stabilizing. In the absence of clear guidance for COs, pilots were left some flexibility to experiment and adapt their implementation of the IRM.

Underlying cause(s):

- Initial tight deadline and decision for COs to assimilate the IRM transition with their existing capacities.
- Adjusted timeline not allowing for an action plan to comprehensively assess the impacts of changes introduced in the pilot countries.
- Dual PRRO /ICSP structure and use of the PRRO which acted as a buffer for solutions not yet finalized under the new model, resulting in delays in ICSP implementation in the complex CO pilot. Initial lessons learned exercise not effective in independently capturing and reporting on the challenges under the dual structure.

Observation 2

Trade-offs between IRM objectives in the short-term

The audit observed that IRM objectives were not all being achieved in pilot countries in the short-term, and the achievement of some objectives inhibited the achievement of others. The absence of clear performance measures means that such trade-offs between objectives may not be effectively managed.

Transparency and flexibility of funding

The IRM is designed to increase transparency on the use of resources and linkage to results, in order to build trust and encourage donors to commit funds at the higher strategic outcome or CSP level. This would provide the organization with more flexible funding and maximize operational effectiveness.

At the end of January 2018, 88 percent of new contributions to the 2017 CPB pilots were earmarked at the activity level, as per the recent trend for high earmarking in WFP.

During the audit work, two pilot COs reported that the transparency gained with greater granularity around the Line-of-Sight has encouraged donors to further earmark their contributions and to request more detailed reporting. In one CO, the high level of earmarking was beyond activity level to specific locations, modalities and types of beneficiaries. This had reduced the ability to move funds, consume funds of short duration and prioritize the CO's programme of work. However, meaningful interpretation of the data and comparison to pre-CSP statistics is not feasible given system data limitations and the early stage of implementation, and ultimately requires further detailed analysis of grant information and monitoring by management.

Agreed Actions [Medium priority]

- (1) The IRM Steering Committee will:
 - (a) define success factors and key performance indicators, and regularly measure progress on the achievement of IRM objectives in the short, medium and longer term; and
 - (b) based on a review of the impact of the new model on earmarking, engage further with donors on short duration grants and donor restrictions.
- (2) The Emergency Preparedness and Support Response Division (OSE) will establish a process for responsible and accountable parties to use systems and procedures for emergencies, regardless of programmatic vehicle.

Transparency and operational efficiencies

The new budget and cost reporting structure has increased transparency on CO budgets and aims, with the accurate allocation of costs, in order to make WFP more accountable for how it spends donor monies. However, as further detailed in observations 9, 10 and 11, the processes associated with the budgeting and cost reporting structure in pilot countries were more complex, time consuming and less flexible. Whilst the IRM implementation has significantly improved the Line-of-Sight on the use of resources and linkages to results, some actual CO practices impacted on full transparency on costs. IRMO efforts to simplify the budget structure have been ongoing since November 2017.

Increased transactional workload in systems and offline is a risk considered in the December 2017 IRM risk log. The audit acknowledges that transparency on costs is a challenge for WFP, as traditionally it has not been exposed to a high level of scrutiny on cost information and accounts. As such, adaption of organizational culture to the new framework will take time.

Responsiveness and operational decision-making in emergencies

With respect to the Level 3 emergency response in one pilot CO, the first under a CSP framework, involvement of strategic, technical and functional expertise in HQ for the emergency response was not proactively sought from the field.

Underlying cause(s):

- Mechanism for regular performance assessments on achieving IRM objectives not established.
- Increased system visibility on actual levels of earmarking. Inability to change donor behaviour in the short-term.
- Absence of a process to ensure that emergency response directors use existing systems and procedures for emergencies.

Observation 3
Changes to organizational structures

WFP's decentralized model relies on significant delegation to Country Directors (CDs), including on CO structures, which is ultimately reflected in reporting lines, roles and responsibilities, and business processes. With the IRM, a change to existing structures is anticipated to align to new country strategies, and as a result of the new and/or amended processes introduced by the FFR. The IRM transition applies the same full delegation of authority and flexibility to CDs as provided in the Fit for Purpose model.

A high-level preliminary analysis conducted by the Human Resource Division (HRM) in December 2017 on 20 CO structures highlighted that, while recognizing that "no one size fits all", most COs have adopted an

Agreed Actions [Medium priority]

The IRM Steering Committee will:

- (a) ensure appropriate resources for HRM to complete an assessment of pilot office structures to inform a comprehensive, standardized and strategic approach to support COs in organizational alignment; and
 - (b) assess and agree corporately on the structural changes in financial and budgeting management needed to support the IRM environment.
-

intermediary set-up⁴ with some structural changes. The audit noted however that even within the intermediary set-up choice, variations persist in how roles and responsibilities have been assigned in the pilot COs reviewed. In one instance, reconciling an activity-based funds management structure with the traditional functional and decentralized structure in WFP was complicated and lacked corporate guidance. Furthermore, only one pilot CO reviewed had merged budget and finance roles within the same unit, and previous Pipeline and Resource Management committees into one committee. This approach has been advocated by the Inclusive Resource Management Working Group for the past two years but remains voluntary for COs.

Fifty-three countries are transitioning to the new financial architecture in 2018. The approach to allow full flexibility to CO management on their operational design, structure and committee set-ups requires further consideration, as this may have long-term implications. Understanding and implementing such variations in structures and decision making is time consuming, not straightforward and may challenge the organization from a control and efficiency perspective (standardization of controls, monitoring and oversight, efficiency of support and advisory functions). As a result, there is a need for a more standardized approach and HRM support in strategic alignment and applying principles of organizational design, while allowing CO management a certain level of flexibility.

Underlying cause(s):

- WFP culture not to be prescriptive regarding CO structures.
- New and amended processes introduced by the IRM not yet standardized at the time of the HRM/IRMO reviews in the pilot phase.
- Lack of resources for an assessment of pilot office structures and workflows to inform a comprehensive, standardized and strategic approach to support COs alignment to strategies.
- Level of fragmentation between financial and budgeting functions and absence of a corporate view on what structural changes are required corporately under the IRM environment.

Observation 4

Capacities for IRM implementation

Resulting from WFP's decentralized model, and with corporate responsibility for guidance and support, CO management is accountable for ensuring staffing is adequate to deliver on country strategies. As such in the pilot phase CO management was required to ensure organizational readiness with regard to CSP implementation capacity, while not having full visibility and understanding of its capacity implications.

Agreed Actions [High priority]

- (1) The IRM Steering Committee, in consultation with RBx, will ensure appropriate support and capacities are provided to COs for the IRM transition and implementation by closely monitoring workload levels and capacity requirements of COs already in the process of implementation as well as COs on the flexible implementation timeline.

⁴ Initial HRM/IRMO country office structure options proposed ranged from no change to mirroring the Line-of-Sight with assigning Activity and Strategic Outcome manager roles to an intermediary set-up.

HRM and IRMO coordinated and prioritized organizational readiness missions and staffing reviews based on inputs received from RBx and COs, as well as criteria such as timing of go live dates, complexity of offices, or specific needs. The audit noted the following issues:

- All pilot COs had CSPs approved prior to adjustments to their workforce and capacities, and were at different stages in the process. One pilot CO had undergone a workforce restructuring exercise after its CSP approval;
- In practice at the time of the audit field missions, activity budget management had increased the reliance on and the workload of finance and programming roles. In the case of one CO, a preliminary analysis of capacities required for budget management beyond the transitional phase indicated that additional resources were needed. Some positions would be needed to support the new budget responsibilities of programme staff. The audit notes that this is currently being re-assessed with IRMO support; and
- The transition from old to new strategies has in some cases been difficult because existing CO structures and staffing complements were already not adequately aligned. The new CSPs made such misalignment even more visible. As highlighted previously by OIGA, WFP's Staff Structure Reviews have often not constituted a strategic review of the CO workforce but were an exercise driven by funding availability.

Programmatic skills gaps identified during the audit are addressed in observation 8.

Underlying cause(s):

- Misalignment between IRM transition and implementation resource requirements and actual allocations.
- New and amended processes introduced by the IRM not yet standardized at the time of the HRM/IRMO reviews in the pilot phase.
- Lack of comprehensive frameworks, tools and guidance for strategic workforce planning (although the audit notes that at the time of the report these are currently being finalized).
- Limited time for COs in the pilot phase to self-assess their CO organizational readiness for which a toolkit was issued in March 2017.

- (2) HRM will expedite the updating and expansion of the necessary frameworks, tools and guidance to support COs and RBx in self-assessment of their organizational readiness and in strategic workforce planning.

Observation 5

Activity aggregation in the CSP

Three pilot COs reviewed in the audit reported that a high number of activities at the CSP design stage were in practice challenging to manage. Challenges included complexity of preparing and managing multiple fragmented budgets when considering existing workload and capacity constraints, and lack of clarity on activities that could be aggregated while maintaining clear linkages to results.

Agreed Actions [Medium priority]

- (1) OSZ, in consultation with IRMO and RMBP, will review the challenges of pilot countries in managing and implementing multiple activities from the design stage, in order to clarify and standardize guidance on activity aggregation and formulation.

As an adaptation, the audit observed a drive to reduce the number of activities to achieve a manageable CSP portfolio size, aggregating programmatically distinct activities or interventions into a single activity budget. This, however, also increased the complexity within activity budgets.

RBx acknowledged that pilot COs received inconsistent advice on activity aggregation in the pilot phase, resulting in differing approaches to constructing the Line-of-Sight. For example, the audit observed that in a particular region one CO had opted to include 13 individual activities in its CSP in an effort to afford maximum visibility to all, while another CO had chosen to consolidate a number of interventions into broader and less descriptive activity categories. In this instance the RB noted that, aside from the lack of standardization, the first CO had faced greater complexity in CPB preparation and funds management. In contrast, the general activity statements for the second CO had triggered donor queries on the real nature of what WFP intended to implement.

When consulted during the audit, donors raised concerns on variations in the formulation of activities in CSPs, with some highly specific to the level of modality, refugee type and location, and others broad and fairly nondescript, combining multiple different programmatic interventions such as nutrition, Food Assistance for Assets and capacity strengthening. For some interventions, where donor funds are within such an activity budget, aggregation dilutes donor visibility on use of their funds and how they contribute to results. In addition, some external stakeholders in the field reported being unclear about the CSP activities and Line-of-Sight, and in some instances were still looking for old project structures.

Underlying cause(s):

- Limited understanding and analysis of practical challenges in managing activity budgets in the pilot phase, resulting in inconsistent advice on aggregation and a lack of standardization between CSPs.
- Inconsistent information flow to external stakeholders in the field, capital and board on CSP activities and the Line-of-Sight.

-
- (2) The Government Partnerships Divisions (PGG), in consultation with IRMO and the Communications Division, will establish tools and processes to strengthen communication and information sharing by COs to external stakeholders on the new CSP model.

Line of enquiry 2: Is the process for formulating and approving Country Strategic Plans effective?

The audit performed tests on and reviews of the processes and assumptions underlying the formulation of Zero Hunger Strategic Reviews (ZHSRs) and CSPs, and analysed CSP funding levels, as well as financing mechanisms for the pilot countries. In addition, the audit performed inquiries of internal and external stakeholders, the latter covering a range of partners – including governments, donors in capital and in the field, UN agencies, and key cooperating partners.

At country level, ZHSRs (the only mandatory requirement for CSPs and a key country assessment on food security and nutrition) have enabled WFP to better engage with governments, and to better position itself in some countries as a lead on the SDG 2. The choice of the lead conveners and a comprehensive coverage in technical and government-related areas were contributing factors to effective and impactful ZHSRs.

Positive developments noted in the audit include:

- Broad consultations with stakeholders beyond existing traditional partners, resulting in opportunities for further partnerships. In one instance, CO engagement has been successful in securing multi-year funding on development activities in its ICSP formulation phase.
- In one pilot CO, alignment of CSP planning processes to the processes of governments and the UN community over three years resulted in joint activities and collaboration. Alignment of the ICSP to the United Nations Development Assistance Framework (UNDAF) and the Humanitarian Response Plan (HRP) was also noted in another instance where the pilot CO took a lead role in the formulation of these frameworks and documents.
- A strong and stable project management team led by CO heads with clear roadmaps, milestones for the CSP formulation and effective linking to the ZHSR was key to a successful process. Cross-functional alignment was established at headquarters level to support and manage the four pillars of the IRM.
- Examples were noted of donor engagement in the CSP/ICSP formulation, resulting in multi-year funding on development activities.

There have been improvements in corporate tools and guidance for partnership engagement in 2017, with minimum benchmarks for external partner engagement, key corporate requirements and core tools including the Partnership Action Plan (PAP), and a dedicated IRM support team on partnership activities. There has also been the roll-out of Salesforce in WFP's 85 COs as the corporate knowledge management tool for collecting donor intelligence both at global and field levels and for managing relationships with all resource mobilization partners.

Observation 6

Agreed Actions *[Medium priority]*

Designing and advocating for the CSP

For a successful CSP design, the following strategic, functional and technical inputs are necessary:

- Consultations with a broad range of partners during the ZHSR and CSP formulation process;
- Involvement of WFP technical and functional expertise at the design phase to ensure due consideration is given to important programmatic areas included in WFP's strategic plan, and functional areas where WFP's strengths are well established; and
- A strategic assessment at the CO level of its partners to determine comparative strengths and activities the CO is best placed to deliver, and where delivery is best served through strategic

- (1) HRM, in consultation with other relevant entities, will develop face-to-face or group learning for CD/DCD management training, focusing on CSP advocacy, communication and further strengthening strategic planning skills.
- (2) The IRM Steering Committee, with the support of PGG and IRMO, will assess the impact and effectiveness of the PAP with

partnerships. The latter requires a mapping of who partners are and what they do in a country.

From the audit field work, the following issues were noted:

- Key partners⁵ reported to the audit that pilot CO engagement levels had been inconsistent at the different levels of the organization and in the field, and depended upon CO management styles, approaches and existing individual relationships. The review of sampled COs highlighted gaps in training for CO management to better communicate on and advocate for their CSP with their different partners;
- Workshops and consultations based on the CO's preferred approaches were carried out for CO strategic assessments⁶. However, CO management acknowledged that skills and tools for such assessments did not always exist in-country;
- Partner analysis was either not carried out or efforts were observed to be underway post-CSP approval, especially with respect to donor mapping at CO level. The PAP tool is highly encouraged by PGG and three RBx have made it a requirement in their regions, although it is not a corporate requirement; and
- The level of HQ technical expertise involvement in CSP designs varied, driven by CO management decisions, preferences, internal networks and knowledge of where technical skills exist in the organization. A gap was observed in functional expertise involvement across the COs as frameworks were being developed during 2017. OSZ, together with the relevant units, finalized in late 2017 cross-functional guidance to address this issue and to make technical and functional expertise involvement in the design phase more systematic.

Underlying cause(s):

- Gaps in CO management training on CSP communication, advocacy as well as strategic planning skills.
- Delays in tools and guidance. Workload increases on COs from the use of the PAP tool considered during the transition.
- Insufficient guidance on more systematic local stakeholder engagement prior to CSP review and approval corporately.

a view to further streamlining the tool and informing whether it should be made a corporate requirement.

- (3) PGG will update guidance for systematic engagement of local stakeholders by COs, to facilitate the CSP review process corporately and promote a "whole of society approach".

⁵ Government counterparts, cooperating partners and donors in the field, and board members.

⁶ Two pilot countries had OSZ HQ/RB-led formulation workshops, which are not mandatory, with a mix of tools (e.g. SWOT, systems and conceptual thinking etc.). Another CO pilot, with the support of the RB, carried out an analysis of gaps, opportunities and challenges resulting from the ZHSR.

Observation 7**Agreed Actions** *[Medium priority]***Needs and resource-based budgeting**

While the CPB guidelines clarify the different planning requirements for the various focus areas - crisis response and resilience building should be budgeted using the needs-based planning (NBP) approach taking into account WFP's capacity to implement, while root causes should use the resource-based planning (RBP) approach – the audit observed that these were not systematically applied in practice and continued to be confusing for both internal and external stakeholders. Specific issues identified were:

- Approved CSPs for the pilot countries reviewed assumed that the capacity to deliver was in place, when in fact capacity assessments had not been undertaken. Capacity gaps were noted in livelihoods, capacity strengthening, climate change, resilience and small-holder farming - skills gaps acknowledged to be an organizational issue predating the IRM. While some mitigating measures have been adopted in the COs reviewed, such gaps pose a CSP implementation risk. Furthermore, donors are not keen to fund activities where technical capacities are not present in WFP, and WFP cannot make a convincing case for its involvement.
- CPBs were developed inconsistently using varying approaches, with some COs using NBP adjusted for historical funding levels, while others did not adjust the NBP. While the use of the adjusted NBP approach is reinforced through WFP's internal technical review process, it prevents visibility on total needs, which questions its suitability as a tool for advocating for funding of full needs; and
- The General Rule X.8 of WFP's Blue Book requires a reasonable funding outlook for root cause activities, which has not been systematically applied, a longstanding issue also highlighted in the 2016 internal audit of Country Capacity Strengthening (Report No. AR/16/14).

While the issues described existed prior to the IRM, their continuation impact on the ability to design realistic and deliverable CSPs and CPBs. In practice, as highlighted by one CO pilot reviewed and some RBx consulted during the audit, COs with low historical funding levels may have designed ambitious CSPs that were approved.

Underlying cause(s):

- Lack of clarity on the application of General Rule X.8 and what a reasonable funding outlook and related timeframe is for development activities approved as part of the CSP.
- Lack of clarity in existing guidance between the NBP budgeting approaches (adjusted and unadjusted) and their use as advocacy and fundraising tools; on how capacity to deliver is factored in the NBP budgets; and how to develop realistic funding forecasts for the CSP.

The IRM Steering Committee, in consultation with the relevant divisions in RM, OS and PG, will review more comprehensively the assumptions of approved CSPs and CPBs against existing guidelines to further clarify:

- (a) the criteria, including the reasonable funding outlook and related timelines, for the approval of root cause activities under the CSP framework;
- (b) how capacity of a CO to deliver is factored into the NBP budgets;
- (c) to what extent historical levels of funding should influence needs-based budgeting; and
- (d) how accurate or realistic the forecasts established for the CSPs were for the first year of implementation.

Observation 8**Agreed Actions** *[High priority]***Demonstrating ability to deliver on newly-designed activities**

Some institutional donors highlighted during audit consultations their intention to fund in traditional ways and as such, with their strict mandates, may not be able to ensure the funding flexibility needed by WFP, and expected in the IRM, as a counterparty to increased transparency. Changes in donor behaviour are anticipated over time when the CRF implementation will enable WFP to report on results and performance; however, in the immediate term, and especially for smaller underfunded operations, funding is necessary to build evidence and demonstrate 'proof of concept' for the strategic and programmatic shifts expected to be introduced through CSPs. The issue of knowledge sharing and generation for replicable and scalable results was already raised by OIGA in 2016⁷ and remains relevant.

The audit review of pilot COs indicated that:

- Two COs had adopted a conservative approach in their CSP formulation, essentially continuing with pre-CSP activities, noting that the absence of seed money discouraged new activities;
- Two COs had received some Strategic Resource Allocation Committee (SRAC) funding in support of their capacity-strengthening activities;
- Three COs reviewed had some unfunded activities in their CSP, and one pilot had introduced new activities but had no funding to date. CO management were not clear how to manage unfunded activities and how long to retain them within the CSP timeframe; and
- In all COs reviewed there were gaps in skills for proposal writing to raise development funds, noting that this key area requires organizational support when corporate capacities, systems and tools are still largely geared towards humanitarian fundraising.

In some cases, the audit observed that private partnership funding and non-traditional donors had not been sufficiently explored⁸. The CSP provides an opportunity to further engage not only traditional donors but also non-traditional donors including the private sector.

Underlying cause(s):

- Insufficient availability of seed funding within WFP for new activities.
- Absence of criteria to guide management decisions on unfunded activities within the CSP timeframe and when or whether to deactivate them.
- Absence of skillsets and capacities, and of corporate tools and systems, for engaging in resource mobilization for development activities.

- (1) The IRM Steering Committee will:
 - (a) assess the availability for seed funding to initiate and implement new activities that have been approved; and
 - (b) establish criteria to guide management decisions on unfunded activities within the CSP timeframe.

- (2) PGG will, in consultation with OSZ, update tools, processes and capacity for engaging in resource mobilization for development activities within WFP's mandate.

⁷ Internal Audit of WFP's Country Capacity Strengthening (A/16/14) – Observation 3.

⁸ Acknowledged in the recent internal audit of WFP operations in Bangladesh (Report No. AR/17/19) – Observation 4.

Line of enquiry 3: Does the new financial framework provide for effective and sound management of budgets and costs?

The audit performed tests and reviews on the main guidance and procedures, tools and processes linked to the FFR, and held interviews with relevant internal and external stakeholders. This work included reviews of CPBs, implementation plans, the functioning of newly-created committees, interim funds management guidance, and procedures developed at CO level.

The CPB provides full visibility on CO budgets, which was not easily captured under the project budget structure. The inclusion of trust funds in the CPB framework offers the potential to request advance financing for such activities subject to risk considerations, as these are now approved by the Executive Board.

CO pilots have contributed to the FFR through the development of corporate guidance, procedures and tools such as non-standard CSP financial analysis and reporting templates, as well as interim procedures on staff cost management and cost allocation. In addition, the CO pilots were key in informing guidance on CSP budget revisions and emergency responses.

The resource migration process improved significantly in advance of the roll-out in early January 2018, with guidance updates and adoption of risk mitigating measures to streamline transfers for the next waves, and establishment of regional and country level Resource Migration Committees and strong support from HQ. At the end of January 2018, 83 percent of resources had been successfully migrated.

Observation 9

Agreed Actions *[High priority]*

Controls and flexibility in budget management

Responsibilities for internal controls and oversight related to budgetary management were not always clearly defined or established in the CO pilots at the time of the audit field missions. For instance, it was not clear which roles in CO pilots should perform oversight of activity budgets in the new framework or how to assign oversight roles on cost elements.

System reports for cost analyses and controls were not established at the time of the audit missions to the pilot COs; for example, the aggregation of individual cost elements such as staff and travel costs across activities is a reporting system limitation which further constrains the ability of the pilot COs to perform cost monitoring controls.

The audit identified some weaknesses in budget and cost controls in the pilot COs (including unassigned responsibility to monitor food transfer costs in one pilot CO, and duplication of controls with both finance and programming roles certifying budget requests in another). Potential non-performance of some controls and oversight checks increases the risk of mismanagement of funds.

The audit notes that the interim funds management guidance has been recently issued by IRMO in January 2018. The guidance provides a high-level overview but contains insufficient detail on the corporate framework for accountabilities, key controls, and oversight in support of budgetary decisions. For instance, it is still unclear from the guidance whether the new committees introduced should be merged with or replace existing ones. In addition, variations in CO approaches also complicate the provision of effective support and oversight

(1) RMBP will:

- (a) with the support of OSC and IRMO, and based upon a review of actual practices and gaps in pilot countries, further clarify and strengthen the corporate standards for the governance, internal controls and oversight of the budgetary management process; and
- (b) in the transitional phase with 53 COs going live, strengthen and communicate key reports for internal controls and oversight to ensure funds are appropriately managed at CO level.

(2) IRMO, in consultation with RMB, RMF and RMT, will review and assess flexibility in the use of funds and system requirements for changes to the new budget structure, and clarify how the process can be streamlined.

The guidance also highlights that COs have a degree of flexibility in moving funds between activities and strategic outcomes, donor conditions permitting. In practice however, any movement of funds from one area to another within the budget structure, or any changes to it as it is currently designed, requires multiple transactions in the system to enable the Programme Budget and Programming Service (RMBP) to reprogramme the funds. It is therefore unclear how flexibility materializes in the new budget and cost structure. In practice, the audit observed that movements of funds from different activities or strategic outcomes were initially carried out offline by some CO pilots.

Underlying cause(s):

- Initial tight timeline not allowing for updating corporate standards for governance, internal controls and oversight arrangements for budget management prior to piloting.
- Lack of clarity at field level on and delays in key reports needed and available for internal controls and oversight. Complexity of actual versus planned costs monitoring report.
- Lack of assessment of flexibility in the current budget structure design, and how to manage and control it.

Observation 10

Agreed Actions [*Medium priority*]

Activity cost management

The audit observed significant complexity in allocating and charging costs, especially staff and administrative or fixed costs, across cost categories⁹ and multiple activities. This was in part because the CPB guidance on cost allocation was not always found to be clear or logical for complex CO operations and decentralized structures, and also because it required a significant amount of manual offline processing and time in allocating costs to the multiple activities. An additional factor has been the multiple criteria which can be used to split some costs, such as administration or monitoring costs, across activities; COs may choose headcount, metric tonnes, budget size or other criteria, but there is no guidance driving the choice. The discipline required for an effective cost accounting system was not yet in place.

In the sample of pilot COs for the audit, there were different practices observed in the allocation of field office support staff costs, which some assigned to implementation costs as per the CPB. As such, diverging CO approaches will hinder comparisons between COs' adjusted DSC levels.

In addition, whilst acknowledging the reality of needing to deal with interim funding gaps and as highlighted by OIGA in previous audit reports, there were instances where staff and overhead costs from unfunded activities were charged to those with funding, highlighting the need for a disciplined and transparent practice, providing visibility, accountability and tracking. Staffing was observed to be one of the cost categories most prone to this practice, with pilot COs overcharging funded activities where there was no activity ceiling. Offline tracking was required to maintain a record for eventual accounting reversals, if and when funds were

IRMO will:

- based on a review of actual practices in pilot countries, further clarify and simplify the CPB guidance for splitting costs, especially staff and administrative costs, across multiple activities; and
- clarify practices for charging costs of unfunded or less well-funded activities in the short, medium and longer term, and establish formal mechanisms to address such funding gaps.

⁹ High level cost categories include transfer, implementation, adjusted DSC and ISC.

secured for the unfunded activities. Until such reversals take place, the transparency on costs afforded through the Line-of-Sight is temporarily compromised. The interim funds management guidance allows temporary funding through adjusted DSC to cover staff costs for underfunded activities, but does not define the acceptable duration of this interim solution.

Underlying cause(s):

- Complexity of the CPB guidance and difficulty of applying guidance on staff and administrative or fixed costs. Delays in involvement of relevant division responsible for administrative costs in the IRM transition.
- Lack of guidance on charging costs from unfunded or less funded activities and absence of clear mechanisms to address such funding gaps.

Observation 11

Tools for prioritizing activities

COs used various tools and fora for capturing prioritization discussions (for example, management plan submissions and implementation plans), with some COs developing more accurate and timely plans than others.

The annual implementation plan, as part of the CPB pipeline tool, was identified to harmonize approaches for detailed prioritization within the IRM context. It is derived from the needs-based plan or CPB, and is adjusted based on available resources, funding forecasts and operational challenges. It provides an environment where CDs can prioritize their programme of work, and requires an integration of all functional areas in a CO. The implementation plan, and any amendment in the case of a budget revision, are prepared by the CO, and reviewed by the RB prior to submission to RMBP for upload into the WINGS system. The plan is a key tool as it determines programming rates and impacts full cost recovery calculations.

The following issues regarding prioritization were observed during audit field missions:

- Delays were observed in the preparation and revision of implementation plans. As a result, COs in some cases were using outdated programming rates which led to full cost recovery shortfalls.
- Activities were observed to be costed on manual spreadsheets for subsequent consolidation into implementation plans. However, the manual submission and consolidation exercise for the costing of activities from area and sub-offices was observed to be time consuming and complex.
- The Country Operations Management Plan (COMP) was initially found to be too complex. It had been introduced to complement the CSP by providing operational details on beneficiaries and linkage of resources to results, mainly for external visibility on the prioritization exercise, but overlapped with other corporate tools. It has subsequently been simplified by the IRMO team.

Agreed Actions [Medium priority]

- (1) RMBP will review actual practices and challenges of COs which have gone live, to identify opportunities for simplifying the implementation planning and review process.
- (2) IRMO will, in consultation with RMT and relevant entities, assess the feasibility of system support for operational cost planning.

Underlying cause(s):

- Complexity of tools and processes for implementation planning.
- Absence of system support for operational cost planning.

Observation 12**Common and on-demand services**

WFP is mandated to provide specific services such as United Nations Humanitarian Air Service (UNHAS) and United Nations Humanitarian Response Depot (UNHRD) logistics. It is also the lead for emergency cluster services to the humanitarian community, with an official accountability to the rest of that community. Within the CSP, such services are captured under SDG 17 on strengthening partnerships under the service delivery modality, having been previously provided under the Special Operations framework.

While discussions between relevant functional units have been taking place since 2016 on the management of common and on-demand services under the IRM framework, the audit observed that COs were still unclear on the corporate position. In addition, the criteria set out in HQ guidance for splitting costs across various cost categories and activities were not practical for every CO context. The audit noted examples resulting from this lack of clarity during field missions. For instance:

- In one pilot CO under the dual structure, management was using the PRRO project to manage multiple areas (for example, provision of guesthouses, office space, fuel and vehicles to other partners) for which solutions under the CSP framework are interim, and where clarity is lacking on issues of revenue recognition and charging of costs under the ICSP budget structure; and
- In another pilot CO, in an effort to keep the number of the activities in the CSP manageable, logistics common services and corridor management were aggregated with a capacity-strengthening activity; this complicated the management of budgets and costs for such services, which have their own specificity and complexity.

Board members interviewed during the audit also highlighted the need to protect and preserve WFP's logistical capacity to serve the humanitarian community at large. Maintaining the independence of such services is a critical part of the WFP's service portfolio, and is reflected in one pilot CO approach to ring fence management of UNHAS service provision from the rest of the portfolio. This was also reconfirmed by the Board in November 2016¹⁰ within the structure of the CSP framework.

Underlying cause(s):

- Diverse engagement and buy-in of relevant divisions in the management of common and on-demand services within the CSP framework.

Agreed Actions [Medium priority]

The IRM Steering Committee will agree upon a corporate approach with the relevant divisions to operationalize the decision to manage common and on-demand services within the CSP framework.

¹⁰ WFP/EB.2/2016/4-C/1/Rev.1* para 118

Annex A – Summary of observations

The following tables shows the categorization, ownership and due date agreed with the auditee for all the audit observations raised during the audit. This data is used for macro analysis of audit findings and monitoring the implementation of agreed actions.

Categories for aggregation and analysis						
High priority observations	WFP's Internal Control Framework	WFP's Enterprise Risk Management Framework	WFP's Internal Audit Universe	Owner	Due date	
1	Timeline, scope and assessment of pilots	Risk Assessment	Governance and oversight	Change, reform & innovation	IRM Steering Committee	30.06.19
4	Capacities for IRM implementation	Control Enviroment	Governance and oversight	Human resources management	IRM Steering Committee	(1) 31.03.19
					HRM	(2) 31.05.18
8	Demonstrating ability to deliver on newly-designed activities	Control Activities	Programme	Strategic management & objective setting	IRM Steering Committee	(1a) 31.12.18 (1b) 30.09.18
					PGG	(2) 30.06.19
9	Controls and flexibility in budget management	Control Activities	Business process	Budget management	RMBP	(1) 30.06.18
					IRMO	(2) 31.12.18

Categories for aggregation and analysis					
Medium priority observations	WFP's Internal Control Framework	WFP's Enterprise Risk Management Framework	WFP's Internal Audit Universe	Owner	Due date
2 Trade-offs between IRM objectives in the short-term	Control Environment	Governance and oversight	Strategic management & objective setting	IRM Steering Committee	(1a) 30.09.18 (1b) 31.12.19
				OSE	(2) 31.05.18
3 Changes to organizational structures	Control Activities	Governance and oversight	Governance	IRM Steering Committee	(a) Completed (b) 30.06.19
5 Activity aggregation in the CSP	Control Activities	Programme	Activity/project management	OSZ	(1) 31.05.18
				PGG	(2) 31.12.18
6 Designing and advocating for the CSP	Control Activities	Programme	Strategic management & objective setting	HRM	(1) 31.12.18
				IRM Steering Committee	(2) 30.09.18
				PGG	(3) 31.12.18
7 Needs and resource-based budgeting	Control Activities	Business process	Budget management	IRM Steering Committee	30.06.19
10 Activity cost management	Control Activities	Business process	Financial management	IRMO	31.12.18
11 Tools for prioritizing activities	Control Activities	Business process	Resources allocation & financing	RMBP	(1) 30.06.18
				IRMO	(2) 31.12.18
12 Common and on-demand services	Control Activities	Business process	Service provision & platform activities	IRM Steering Committee	31.12.18

Annex B – Definitions of audit terms: ratings & priority

1 Rating system

1. The internal audit services of UNDP, UNFPA, UNICEF, UNOPS and WFP adopted harmonized audit rating definitions, as described below:

Table B.1: Rating system

Rating	Definition
Effective / Satisfactory	The assessed governance arrangements, risk management and controls were adequately established and functioning well to provide reasonable assurance that issues identified by the audit were unlikely to affect the achievement of the objectives of the audited entity/area.
Partially satisfactory / Some improvement needed	The assessed governance arrangements, risk management and controls were generally established and functioning well, but needed improvement to provide reasonable assurance that the objective of the audited entity/area should be achieved. Issue(s) identified by the audit were unlikely to significantly affect the achievement of the objectives of the audited entity/area. Management action is recommended to ensure that identified risks are adequately mitigated.
Partially satisfactory / Major improvement needed	The assessed governance arrangements, risk management and controls were generally established and functioning, but need major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues identified by the audit could negatively affect the achievement of the objectives of the audited entity/area. Prompt management action is required to ensure that identified risks are adequately mitigated.
Ineffective / Unsatisfactory	The assessed governance arrangements, risk management and controls were not adequately established and not functioning well to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area. Urgent management action is required to ensure that the identified risks are adequately mitigated.

2 Categorization of audit observations and priority of agreed actions

2.1 Priority

2. Audit observations are categorized according to the priority of the agreed actions, which serve as a guide to management in addressing the issues in a timely manner. The following categories of priorities are used:

Table B.2: Priority of agreed actions

High	Prompt action is required to ensure that WFP is not exposed to high/pervasive risks; failure to take action could result in critical or major consequences for the organization.
Medium	Action is required to ensure that WFP is not exposed to significant risks; failure to take action could result in adverse consequences for the audited entity.
Low	Action is recommended and should result in more effective governance arrangements, risk management or controls, including better value for money.

3. Low priority recommendations, if any, are dealt with by the audit team directly with management. Therefore, low priority actions are not included in this report.

4. Typically audit observations can be viewed on two levels: (1) observations that are specific to an office, unit or division; and (2) observations that may relate to a broader policy, process or corporate decision and may have broad impact.¹¹

5. To facilitate analysis and aggregation, observations are mapped to different categories:

2.2 Categorization by WFP's Internal Control Framework (ICF)

6. WFP's Internal Control Framework follows principles from the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Integrated Internal Control Framework, adapted to meet WFP's operational environment and structure. WFP defines internal control as: "a process, effected by WFP's Executive Board, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, compliance."¹² WFP recognises five interrelated components (ICF components) of internal control, all of which need to be in place and integrated for them to be effective across the above three areas of internal control objectives.

Table B.3: Interrelated Components of Internal Control recognized by WFP

1	Control Environment	The control environment sets the tone of the organization and shapes personnel's understanding of internal control
2	Risk Assessment	Identifies and analyses risks to the achievement of WFP's objectives through a dynamic and iterative process.
3	Control Activities	Ensure that necessary actions are taken to address risks to the achievement of WFP's objectives.
4	Information and Communication	Allows pertinent information on WFP's activities to be identified, captured and communicated in a form and timeframe that enables people to carry out their internal control responsibilities.
5	Monitoring Activities	Enable internal control systems to be monitored to assess the systems' performance over time and to ensure that internal control continues to operate effectively.

2.3 Categorization by WFP's Enterprise Risk Management Framework (ERM)

7. WFP is further developing its ERM tools and is in the process of introducing a new risk taxonomy to facilitate aggregation and analysis of risk information. The new taxonomy is being piloted in a selection of COs during 2018 to test for the roll-out of a database/system planned for 2019. As a means to facilitate the testing and roll-out, audit observations are mapped to the new risk taxonomy.

Table B.4: WFP's new Risk Taxonomy recognizes 4 risk categories and 15 types of risk

1	Strategic	1.1 Programme risks, 1.2 External Relationship risks, 1.3 Contextual risks, 1.4 Failure to innovate/adjust business model
2	Operational	2.1 Beneficiary health, safety & security risks, 2.2 Staff health, safety & security risks, 2.3 Partner & vendor risks, 2.4 Asset risks, 2.5 ICT failure/disruption/attack, 2.6 Business process risks, 2.7 Governance & oversight breakdown
3	Fiduciary	3.1 Breach of obligations, 3.2 Fraud & corruption
4	Financial	4.1 Adverse price/cost change, 4.2 Adverse asset outcome

¹¹ An audit observation of high risk to the audited entity may be of low risk to WFP as a whole; conversely, an observation of critical importance to WFP may have a low impact on a specific entity, but have a high impact globally.

¹² OED 2015/016 para.7

2.4 Categorization by WFP's Audit Universe

8. WFP's audit universe¹³ covers organizational entities and processes. Mapping audit observations to themes and process areas of WFP's audit universe helps prioritize thematic audits.

Table B.5: WFP's 2018 Audit Universe (themes & process areas)

1	Governance	Change, reform and innovation; Governance; Integrity and ethics; Legal support and advice; Management oversight; Performance management; Risk management; Strategic management and objective setting.
2	Programme	(Agricultural) Market support; Analysis, assessment and monitoring activities; Asset creation & livelihood support; Climate and disaster risk reduction; Emergencies and transitions; Emergency preparedness and support response; Malnutrition prevention; Nutrition treatment; School meals; Service provision and platform activities; Social protection and safety nets; South-south and triangular cooperation; Technical assistance & country capacity strengthening services.
3	Resource Management	Asset management; Budget management; Contributions and donor funding management; Facilities management and services; Financial management; Fundraising strategy; Human resources management; Payroll management; Protocol management; Resources allocation and financing; Staff wellness; Travel management; Treasury management.
4	Operations	Beneficiary management; CBT; Commodity management; Common services; Constructions; Food quality and standards management; Insurance; Operational risk; Overseas and landside transport; Procurement – Food; Procurement - Goods and services; Security and continuation of operations; Shipping - sea transport; Warehouse management.
5	External Relations, Partnerships & Advocacy	Board and external relations management; Cluster management; Communications & advocacy; Host government relations; Inter-agency coordination; NGO partnerships; Private sector (donor) relations; Public sector (donor) relations.
6	ICT	Information technology governance and strategic planning; IT Enterprise Architecture; Selection/development and implementation of IT projects; Cybersecurity; Security administration/controls over core application systems; Network and communication infrastructures; Non-expendable ICT assets; IT support services; IT disaster recovery; Support for Business Continuity Management.
7	Cross-cutting	Activity/project management; Knowledge and information management; Monitoring & Evaluation (M&E) framework; Gender; Protection; Environmental management.

5. Monitoring the implementation of agreed actions

9. The OIGA tracks all medium and high-risk observations. Implementation of agreed actions is verified through the OIGA's monitoring system. The purpose of this monitoring system is to ensure management actions are effectively implemented within the agreed timeframe to manage and mitigate the associated risks identified, thereby contributing to the improvement of WFP's operations.

¹³ A separate universe exists for information technology with 60 entities, processes and applications.

Annex C – Acronyms

CD	Country Director
CO	Country Office
CP	Cooperating Partner
COMP	Country Operations Management Plan
CPB	Country Portfolio Budget
CRF	Corporate Results Framework
CSP	Country Strategic Plan
DCD	Deputy Country Director
DRD	Deputy Regional Director
EMOP	Emergency Operation
FFR	Financial Framework Review
HQ	Headquarters
HRM	Human Resources Division
HRP	Humanitarian Response Plan
ICSP	Interim Country Strategic Plan
IRM	Integrated Road Map
IRMO	IRM Operations Team
OEV	Office of Evaluation
OIGA	Office of Internal Audit
OSC	Supply Chain Division
OSE	Emergency Preparedness and Support Response Division
OSZ	Policy and Programme Division
PAP	Partnership Action Plan
PG	Partnership, Governance and Advocacy Department
PGG	Government Partnerships Division
PRRO	Protracted Relief and Recovery Operation
RB	Regional Bureau
RBx	Regional Bureaux
RD	Regional Director
RM	Resource Management Department
RMBP	Programme Budget and Programming Service
RMT	Information Technology Division
SDGs	Sustainable Development Goals
SRAC	Strategic Resource Allocation Committee



UNDAF	United Nations Development Assistance Framework
UNHAS	United Nations Humanitarian Air Service
UNHRD	United Nations Humanitarian Response Depot
USD	United States Dollar
WFP	World Food Programme
WINGS	WFP Information Network and Global System, WFP's ERP system
ZHSR	Zero Hunger Strategic Review