Internal Audit
of Landside Transport

Office of the Inspector General
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Contents

Internal Audit of Landside Transport

I. Executive Summary

Introduction and context

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of landside transport that focused on the period from 1 January 2017 to 31 March 2018. The audit team conducted the fieldwork from 12 March to 4 May 2018. This included work at WFP headquarters in Rome; specific audit visits to the Chad, South Sudan, and Tanzania country offices; a desk review of landside transport in the Yemen country office; and a review of related corporate processes that impact across WFP.

2. Supply chain is one of WFP's core functions, building on decades of experience in challenging environments; supply chain activities support food assistance delivery and serve as a platform for partners to save lives and deliver on the Sustainable Development Goals. Alongside procurement, shipping and aviation, landside transport is one of the key supply chain components. Related expenditures totalled USD 602 million in 2017, representing around 10 percent of WFP's total direct expenses for that year.

3. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Audit conclusions

4. The audit observed that significant attention and resources have been and continue to be directed towards the development of capabilities and tools enabling country offices to set up the most appropriate transport modalities for managing food deliveries to beneficiaries, whether to use WFP's fleet or external transporters, and to determine the appropriate contracting mechanisms. The audit noted that analyses at country level supporting choices of transport modes and contracting modalities were generally carried out; however, these analyses were not systematically and/or comprehensively documented. Consolidated results of existing assessments often do not enable country offices' management to make an informed decision for the set-up of their logistics operations, increasing potential for inefficiency in the downstream supply chain. The audit found that country offices use a variety of approaches to analyse transport infrastructure, existing transporters and capacity, market segmentation and competition; in addition, there is no corporate guidance for minimum standard requirements for transport market assessment.

5. The audit found that procurement processes for establishing transporters' contracts were generally carried out appropriately and did not identify any major cases of pipeline breaks or notable delays due to poor planning of delivery activities. However, it was noted that specific risks associated with transporters assessment and performance evaluation, WFP's management of its own fleet, and the repeated use of the tariff system, were not properly mitigated due to outdated corporate guidance and control mechanisms. Gaps were also noted in key controls such as due diligence checks, due to stretched resources in country offices' Supply Chain units. The headquarters-based logistics and field support unit, which provides logistics capacity augmentation, would benefit from a review of its role and responsibilities and related resourcing requirements to be sustainable and deliver on its core functions.

6. The audit noted that coordination of organizational units and committees in the first and second lines of defence could be enhanced to avoid duplication of efforts and potential gaps in controls. The transactional roles of these committees and the oversight functions of regional bureaux would also benefit from review and clarification.

7. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **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. Issues identified by the audit could negatively affect the achievement of the objectives of the audited entity/area. Management action is required to ensure that identified risks are adequately mitigated.

Key results of the audit

8. The audit report contains one high priority and five medium priority observations. The high priority observation is:

9. **Informed decision-making on transport mode and contracting modalities**: Supply Chain units in country offices undertake local transport market assessments in their respective geographical areas of coverage; the results of these assessments inform the country office's management decisions regarding transport modalities. Analyses underlying the assessments were not always systematically and/or comprehensively documented to allow for a holistic review of all relevant information; competition pressure was not always comprehensively documented; and transport costs were not always included although subject to constant change and competitive pressure. Country offices adopted a variety of approaches to conduct and document transport market assessments; minimum standard requirements were not defined in corporate guidance.

Actions agreed

10. Management has agreed to address the reported observations and work to implement the agreed actions by their respective due dates.

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

Kiko Harvey

Inspector General

II. Context and Scope

Landside transport in WFP

12. Supply chain is one of WFP's core functions, leveraging on decades of experience in challenging environments. Alongside procurement, shipping and aviation, landside transport is one of its key components.

13. Landside transport comprises of two elements: overland transport and inland transport. Overland transport represents any landside transport between two countries, which occurs fully or in part outside the borders of the receiving country; inland transport is any transport undertaken within the borders of the recipient country after the delivery point of the external or overland transport.

14. Landside transport expenditures totalled USD 602 million in 2017, or around 10 percent of WFP's total direct expenses for that year, including USD 138 million for overland transport. WFP's largest operations incurred the bulk of transport expenses, with the top three countries accounting for 43 percent (South Sudan, Yemen and Ethiopia), and the next 15 for 46 percent.

15. The Supply Chain Governance unit (OSCN) is responsible for advising the management and business units in developing the guidelines and providing technical support to country offices (COs) and business units in headquarters (HQ). The Logistics and Field Support unit (OSCL) provides logistics capacity augmentation through field support, alongside external service provision to the humanitarian community. Country Directors (CDs) have full authority to contract inland transport services, regardless of contract value.

16. The prime objective of WFP, in respect of its transport activities, is to ensure that commodities are transported in the most efficient, timely and cost-effective manner. Contracts should be made in a competitive manner, on market terms, and negotiations undertaken in an open and transparent fashion, thus ensuring cost effectiveness and equal opportunities for the appropriate commercial entities. The transport manual covers the general framework of WFP transport activities and provides generic guidelines and best practices. The need for any deviations from these guidelines can first be discussed with OSCN on a case-by-case basis, and must then be reported to the Committee on Commodities and Transport (CCTI).

17. There are two main methods used to contract for internal and overland transport and associated services: the traditional method of an award to the lowest bidder(s), which are often used for consignment specific agreements, and tariff system agreements, more often used for time-based agreements. Tariff system contracting establishes a transport rate, or tariff, that is proposed to all bidders on respective request for quotation (RFQ) who, following acceptance, are then paid the same rate. This contracting modality is utilized in instances where no single transporter has enough capacity; where governments establish controlled tariffs; or where cartels control prices. In 2017, 14 COs implemented a tariff system[1] for above USD 250 million.

18. At CO and Regional Bureau (RB) level (latter when overland transport is delegated to regional directors (RDs)), transport contracting activities and other logistics-related decisions are reviewed by a Local Transport Committee (LTC) which makes recommendations to the CD/RD before approval. At the corporate level, the

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[1] Based on data reported by COs to the CCTI.

CCTI reviews on a post factum basis all transport activities through, inter alia, random sampling and an analytical review.

19. In order to fill critical gaps in local transport capacities, WFP owns and operates 754 trucks in 27 countries to be used as a last resort in the most challenging environments. Out of the 754 WFP-owned trucks, the Global Fleet unit manages 293 centrally from HQ. These are positioned in COs and hubs in Accra, Ghana and Kampala, Uganda. The remainder of the fleet is CO-owned.

Lines of enquiry

20. Audit planning activities and risk assessment of landside transport processes and activities led to the formulation of the following lines of enquiry:

   a. Has WFP put in place a system to enable CO management to make informed decisions regarding the appropriate transport modalities and contracting mechanisms?

   b. Has WFP identified and defined all guidelines and steps to establish the framework for setting up effective and efficient transport modalities for operations?

   c. Has WFP put in place corporate tools and processes to enable efficient delivery planning and transport management?

   d. Are performance management and oversight activities effective?

21. The audit did not review agency agreements that generally include multiple back-to-back services including transport such as customs clearance, shunting, and intermediate storage. Aspects of fleet management, including capital investment and workforce, fuel, spare parts, and workshop management, were also not covered by the audit.

Objective and scope of the audit

22. The objective of the audit was to evaluate and test the adequacy and effectiveness of the processes associated with the internal control components of WFP's landside transport activities. 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.

23. 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.

24. The scope of the audit covered the period from 1 January 2017 to 31 March 2018. Where necessary, transactions and events pertaining to other periods were reviewed.

25. The audit field work took place from 12 March to 4 May 2018 at WFP headquarters in Italy and through field visits to Chad, South Sudan, and Tanzania. The Yemen CO was covered through a desk review.

III. Results of the Audit

Audit work and conclusions

26. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **Partially satisfactory / Some improvement needed** [2]. 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. Issues identified by the audit could negatively affect the achievement of the objectives of the audited entity/area. Management action is required to ensure that identified risks are adequately mitigated.

27. The Office of Internal Audit, 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

28. OSCN and OSCL do not maintain separate risk registers; risks relevant to the units and to landside transport processes form part of the overall Supply Chain Division (OSC) risk register. As the audit was completed, the 2018 risk register was still in draft. OSC would benefit from analysis of the audit observations as appropriate and from finalizing the risk register.

Data quality

29. The organization rolled out the corporate Logistics Execution Support System (LESS) in 2016. Data quality for commodity accounting and transport management benefited from this integrated system, and functional units are able to leverage enhanced data quality and pilot new initiatives. The issue of transporter performance reports issued automatically from LESS was raised at the beginning of the LESS implementation project, but was not considered as a priority; however, some COs have since requested that quantitative analyses on key performance indicators (KPIs) are enabled in an easier way involving less manual handling of data from LESS (see observation 2).

30. Although not within the scope of the audit, data quality issues were noted within the FleetWave Fleet Management System (FMS), such as the operational status of trucks, and the exhaustiveness and accuracy of fleet management costs.

Observations and actions agreed

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

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[2] See Annex B for definitions of audit terms.

Table 2: Overview of areas in scope, observations and priority of agreed actions

Priority of issues/agreed actions

A: Has WFP put in place a system to enable CO management to make informed decisions regarding appropriate transport modalities and contracting mechanisms?	
The audit noted that analyses at country-level leading to choices of transport modes and contracting modalities were generally carried out. However, these analyses were not systematically and/or comprehensively documented. Consolidated results of existing assessments often did not enable CO's management to make informed decisions for the set-up of their operations, increasing potential for inefficiency in the downstream supply chain. COs adopted a variety of approaches to conduct and document transport market assessments, and minimum standard requirements for transport market assessments are not defined in corporate guidance. Gaps were also noted in key controls such as due diligence checks and performance evaluations.	
1 Informed decision-making on transport mode and contracting modalities	*High*
2 Due diligence and performance evaluations	*Medium*
B: Has WFP identified and defined all guidelines and steps to establish the framework for setting up effective and efficient transport modalities for the operations?	
Procurement processes for establishing transporters' contracts were generally found to have been carried out properly. Transporters shortlists were established to obtain a selection of qualified and reliable transporters which logistics units of contracting offices had found suitable for providing services to WFP. The tariff system has been demonstrated to be a cost-efficient tool in some large operations, as some COs achieved substantial savings using the system by leveraging on competition and on good market understanding. However, the system, while allowing for more capacity and flexibility in some situations, remains a complex contracting modality with specific risks, including fraud, for which consideration is not always demonstrated.	
WFP operates its own fleet owned either centrally in HQ or in COs. The audit noted there is no clear strategy for WFP's fleet and that there are challenges in implementing the Global Fleet Business Model given that managing a fleet is not a core business function for WFP.	
3 Management of WFP owned fleet	*Medium*
4 Risks associated with the repeated use of the tariff system	*Medium*
C: Has WFP put in place corporate tools and processes to enable efficient delivery planning and transport management?	
Commodity dispatches were generally found to have been planned and carried out properly and the audit did not identify major cases of pipeline breaks or notable delays which resulted from poor planning of delivery activities. The HQ-based field support unit, OSCL, which provides logistics capacity augmentation through field support, would benefit from a review of its role and responsibilities and related resourcing requirements to deliver on its core functions.	
5 Role of OSCL	*Medium*
D: Are performance management and oversight activities effective?	
The coordination of organizational units and committees in charge of the first and second line of defence should be enhanced to avoid duplication of efforts, and potential gaps in controls. Transactional role of these committees and the oversight function of RBs. should be reviewed as well.	
6 Coordination of the first and second line of defence	*Medium*

32. The six observations of this audit are presented in detail below.

33. Management has agreed to take measures to address the reported observations[3]. 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.

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[3] Implementation will be verified through the Office of Internal Audit's standard system for monitoring agreed actions.

Has WFP put in place a system to enable CO management to make informed decisions regarding the appropriate transport modalities and contracting mechanisms?

Key decisions in WFP's logistics management include the selection of transportation modes, contracting modalities, and transporters to move cargo. Supply Chain units in COs undertake local transport market assessments in their respective geographical areas of coverage. The results of these assessments inform the CO's decisions regarding appropriate transport modalities, whether to use WFP's fleet or external transporters, and the appropriate contracting mechanisms (either the traditional method of an award to the lowest bidder(s), tariff system agreements, directly negotiated contracts, or a combination of all of these). A transport market assessment and transporters' assessments are instrumental to these decisions.

The audit reviewed the corporate guidance available for COs to conduct these assessments and considered whether the guidance was sufficient. The audit reviewed how COs were performing assessments (including aspects of timeliness, quality and completeness) and how COs were using the results of these assessments to make informed decisions regarding appropriate transport modalities and contracting mechanisms.

Transport market assessments and transporter assessments were generally found to have been carried out. WFP's transport manual provides guidelines for the assessment of transporters, including criteria for their selection and retention. The corporate tool for the assessment of potential transporters, WFP's transport questionnaire, was generally found to be implemented and documented at CO-level. Most COs rely upon experienced logistics staff helped by decades of WFP's experience in contracting with commercial transporters. However, the organization would benefit from more comprehensively documented transport market assessments, as well as from reinforcing the role of the LTC in the entire decision-making process.

Observation 1	Agreed Actions [High priority]
Informed decision-making on transport mode and contracting modalities The audit noted that analyses at CO-level leading to choices of transport modes and contracting modalities were not always systematically and/or comprehensively documented. Such analyses should be based on in-depth knowledge of the transport infrastructure (including access and security constraints), existing transporters and capacity, market segmentation (including segmentation by regions within a country, and regional corridors, as relevant) and competition pressures. Analyses covering relevant factors should be presented to the LTC to enable members to provide recommendations to management. Reviews undertaken by the audit indicated that COs rely upon comprehensive Logistics Capacity Assessments (LCAs), which provide standardized information on infrastructure, such as roads and local transportation resources. Consolidated analyses of various other assessments result in detailed lists of transporters and information on their respective capacities. However, the manner in which the results of these assessments are documented does not allow for a holistic review of all relevant information. For example, one CO visited would benefit from a regional transport market assessment including neighbouring countries, since the share of foreign transport providers is relatively high with approximately 75 percent of primary transporters being from neighbouring countries. Some COs visited could not always justify that the market segmentation used for RfQs was based on a sound analysis. Competition pressure was not always comprehensively documented. Market rates were collected by those COs reviewed during the audit, but transport costs were not always included or updated in transport market assessments, although they are subject to constant change and competitive pressure.	OSC will: (i) Identify the minimum standard requirements for a transport market assessment including: the frequency with which, or special circumstances under which, such minimum required information must be documented; recommend format(s) in which such information is to be kept on record. Update related guidelines accordingly. (ii) Clarify roles and responsibilities (for example for COs, RBs and HQ) to perform and review transport market assessments, with a focus on instances when multiple WFP offices may be contracting capacities from the same markets; and (iii) Develop and provide a basic training available to LTC members on their role in the decision-making process. This will include basic information on the importance and key elements of the market assessment.

Underlying causes: COs adopt a variety of approaches to conduct and document transport market assessments (for example, some COs may have developed consolidated transport market assessment documents and some COs may rely on various other ways of documenting the results of the assessments including LTC minutes). Minimum standard requirements for transport market assessment have not been set in corporate guidance.

Observation 2	Agreed Actions [Medium priority]

Due diligence and performance evaluations

As part of transport sector assessments, logistics staff undertake specific assessments of prospective transport contractors in their area of operation. This includes due diligence processes to assess detailed information on a company's health, capacity and ability to deliver effective and efficient services. Thereafter, performance evaluations of all contractors should be carried out and the information used to review and update shortlists annually, in order to ensure the inclusion only of companies suited to prevailing operational needs. The audit noted that COs did not always approach transporters' assessments proactively, and in a number of COs there was no evidence of transporters' performance being systematically tracked.

Due diligence activities – Applicants to WFP shortlists should submit required documents (for example, registration permits to operate, bank statements, financial statements) and may be subject to on-site visits. The audit noted gaps in the completeness and accuracy of information provided by transporters. In some COs records of the due diligence process including transporter's site visits were well-documented, whereas in some other offices that was not the case.

The audit also noted that, following initial due diligence process at the shortlisting stage, transporters were not always reassessed periodically to consider changes and emerging potential risks. As a result, COs may not be able to conduct a thorough evaluation of current financial and operational risks.

Performance evaluations – Evaluations are based on a set of comprehensive criteria (including tonnage uplifted against that requested; uplift and delivery timeliness; and losses), and their preparation is carried out manually by logistics staff using a heavy and cumbersome process. In one CO, minor discrepancies were noted between the final evaluations and corporate systems data; these errors were the result of heavy data extraction, formatting and analysis required for the evaluations. The issue of transporter performance reports issued automatically from LESS was raised at the beginning of the LESS implementation project, but was not considered as a priority; however, some COs have since requested that quantitative analyses on key performance indicators (KPIs) are enabled in an easier way involving less manual handling of data from LESS.

The audit noted that in some COs shortlisted transporters were not subject to systemic evaluations, risking failure to detect poor performance in time to take appropriate actions.

Proactive management of transporters shortlists - The audit noted that some COs maintained a substantial number of transporters in their shortlists, which may be oversized. Without addressing operational objectives more effectively than would be achieved with shortlists of fewer transporters, this practice may limit internal controls effectiveness due to stretched capacity, while increasing the administrative burden on logistics units.

Underlying causes: Lack of guidelines on transporter desk reviews and periodic re-assessment of shortlisted transporters. Limited skills and/or resources. Limited reporting functionalities to use data from LESS.

OSC will:

(i) Update and enhance performance evaluation and due diligence guidelines to assist COs in: identifying pre-selection/shortlisting criteria; optimizing shortlist sizes; and balancing between operational requirements and the need to adhere to the principles of fair competition and transparency;

(ii) Set minimum requirements for the due diligence of already shortlisted/contracted transporters for periodic shortlist reviews; and

(iii) Assess the potential for more automated reporting functionalities for performance evaluations using relevant data from LESS, including the possibility of automating the extraction of data for quantitative KPIs.

Has WFP identified and defined all guidelines and steps to establish the framework for setting up effective and efficient transport modalities for the operations?

The audit reviewed the steps that a CO must undertake to establish the framework for setting up appropriate transport modalities. It tested procurement of transport services and WFP's management of its own fleet.

Procurement processes for establishing transporters' contracts were generally found to have been carried out properly. Transporter shortlists were established to obtain a selection of qualified and reliable transporters which logistics units of contracting offices had found suitable for providing services to WFP. The general transporter agreement was recently updated to include a clause to address operational risks associated with the existence of brokers/subcontractors in the market. A more comprehensive subcontracting clause was introduced in 2018 in the RfQ template, re-affirming that contractors shall be solely and fully responsible for all services and obligations performed by subcontractors.

The tariff system has proved to be a cost-efficient tool in some large operations; some COs achieved substantial savings using the system by leveraging on competition and on good market understanding. However, the tariff system, while allowing for more capacity and flexibility in some situations, remains a complex contracting modality with specific risks, consideration of which (including fraud) are not always duly demonstrated (for example, needs and risks analyses).

WFP operates its own fleet, owned either centrally in HQ or in COs. The audit noted that a clear strategy for WFP's fleet is missing, and that there were some challenges in implementing the Global Fleet Business Model given that managing a fleet is not a core business function for the organization.

Observation 3	Agreed Actions [Medium priority]
Management of WFP-owned fleet	

Management of WFP-owned fleet

WFP currently owns and operates 754 trucks in 27 countries. Corporate guidance requires that these trucks should be used as a last resort for land transportation. Examples include in the most difficult environments to fill critical gaps in local transport capacities; to stabilize transport rates in cases of monopolies in local transport markets; or to pioneer new routes that, due to prevailing insecurities, would remain inaccessible to local transporters.

The Global Fleet unit owns 293 of these trucks, managed centrally from HQ and positioned in COs and fleet hubs in Accra, Ghana and Kampala, Uganda. The Global Fleet Business Model aims to reduce fleets owned by individual COs, by encouraging COs to dispose of their old fleet and at the same time giving them access to new Global Fleet trucks and services with the right specifications for required time periods.

The audit noted the following challenges in implementing the Global Fleet Business Model:

- The model is not described in a directive or strategy document defining the main objectives for WFP maintaining its own fleet at a global level and the next steps to achieve to reduce WFP's fleet owned by COs;

- Managing a fleet is not a core business for WFP, and skills and capacities are missing in HQ and COs to manage and operate fleets (including managing and monitoring operational risks associated with truck purchases, and workshop and spare parts management). In some COs, operation and maintenance of the WFP fleet has been managed by a succession of temporarily assigned fleet and workshop managers provided by standby partners or consultants. Lack of dedicated long-serving fleet manager positions has caused discontinuity in fleet management and has impacted the overall efficiency of operations;

OSC will:

(i) Prepare a directive to define the main objectives for WFP to maintain its own global fleet and the next steps required to achieve global reduction of CO-owned trucks;

(ii) Formulate a clear strategy to gradually transition from CO-owned fleet schemes to the Global Fleet Business Model;

(iii) Provide materials and support for training and sensitization of WFP field staff on managing fleets in COs; and

(iv) Review and augment KPIs used for fleet monitoring.

▪ Some COs are maintaining fleets that were acquired during past emergency operations, and are not using them only as a last resort after exhausting options for contracting commercially;

▪ CO-owned fleets are often composed of old trucks (in some cases more than 15 years old) which require a lot of maintenance and which are in some cases not operational. Globally, 20 percent of WFP-owned trucks – mostly those owned by COs - were not operational as of May 2017, according to data extracted from the corporate fleet management system FleetWave; and

▪ There are shortcomings in fleet monitoring. The reference KPI for measuring fleet use is utilization rate, based on the percentage of the utilized days out of total available days. In 2017, the yearly global average utilization rate was 42 percent, which may suggest WFP fleet is oversized. However, using just the utilization rate to assess the effective use and appropriateness of the size of fleets may mislead the decision-making process.

Underlying causes: Lack of a corporate document defining the main objectives for WFP to maintain its own global fleet and the manner in which it will be managed. COs lack skills and capacities to properly manage fleets. Lack of a comprehensive set of criteria to assess fleet use.

Observation 4	Agreed Actions [Medium priority]

Risks associated with the repeated use of the tariff system

Tariff system contracting establishes a pool of contractors who simultaneously or interchangeably provide services under the same conditions including price, for example, the transport rate or tariff. The tariff is set by WFP, based on understanding of pertinent market and other requirements, and including analyses of responses to the standard RfQ used to solicit competitive offers. All bidders are offered the tariff and all who accept are awarded contracts. This type of contracting mechanism is utilized in instances where no single transporter has enough capacity to satisfy needs, or where governments or cartels control prices. It is also utilized to distribute risk across multiple service providers to ensure agility and operability in case of operational picks or temporary market shocks that may, for example, result in non-performance of an individual transporter due to shortage of capacity. It is often implemented in WFP's largest and most complex operations; in 2017 estimated expenditure under tariff system contracting amounted to USD 250 million.

The tariff system, while allowing for more capacity and flexibility in some situations, is a complex contracting modality with specific risks. The audit noted an instance of an unreliable methodology to establish tariffs, and to allocate cargo between the different transporters.

As highlighted in the WFP transport manual, the tariff system is regarded as an exceptional contracting procedure and there are risks associated with its repeated use, as it may lead to expectations of companies being offered a tariff each time they bid on an RfQ. This may lessen the incentive to bid low, and so may increase transport rates over time.

The audit noted that some COs had been using the tariff system for long periods (up to 15 years), and did not have consistent methodologies for estimation of transport rates. Current and historical rates used under tariff system agreements were sometimes examined with insufficient consideration to prevailing market conditions. For instance, one CO had recently significantly reduced its transport rates by opting out of the tariff system;

OSC will:

(i) Publish materials such as best practices and specific examples of typical risks associated with the repeated use of the tariff system;

(ii) Include tariff system agreements in training materials; and

(iii) Strengthen monitoring and analysis of the use of tariff system contracting by COs by introducing processes to keep track of current tariff system agreements and to develop subsequent action plans as necessary.

another CO noted inconsistencies in rates for the dry and rainy seasons, most likely due to transporters understanding how to influence WFP's methodology for establishing tariffs.

Monitoring of the management of tariff system agreements in COs is done on an ex-post basis, through mandatory disclosure at corporate level to the CCTI; however, instances of non-disclosure were noted by the audit.

Underlying causes: Inadequate monitoring framework at corporate level on the use of the tariff system. Lack of understanding of risks associated with the tariff system in COs. Limited relevant corporate guidance or training.

Has WFP put in place corporate tools and processes to enable efficient delivery planning and transport management?

The audit reviewed tools and processes used by COs for delivery planning and transport management as well as the support received from RBs and OSCL.

Corporate tools and processes are in place to enable efficient delivery planning and transport management. The audit did not identify major cases of pipeline breaks or notable delays which resulted from poor planning of delivery activities. Transporter instructions and waybills were generally properly accounted for through a set of procedures designed in such a way as to process and record transactions efficiently. OSCL has been instrumental in supporting WFP field operations, primarily through addressing Supply Chain preparedness activities, as well as providing key operational support during emergencies. However, the audit identified a need for a review of roles and responsibilities of OSCL along with a clarification on the level of expertise needed.

Observation 5	**Agreed Actions** [Medium priority]
Role of OSCL	OSC will:
OSCL works closely with different HQ units, coordinating logistics preparedness activities, field support requests and managing the Global Fleet. While the organizational structure is currently under review, some risks were noted:	(i) Review roles and responsibilities of OSCL and address level of expertise needed;
▪ The organization is still seeking to establish a good balance of level of expertise between OSCL and RBs. This raises the question of centralizing expertise in situations where capacity and skills are not available in COs, or cannot be maintained;	(ii) Review the needs and related resourcing requirements to ensure delivery of OSCL core functions; and
▪ The unit is staffed by consultants with limited experience, acting mostly as focal points to RBs; and	(iii) Improve planning and formalization of reports relating to support and/or oversight missions.
▪ As the unit is partially funded by non-secured resources (including UNHRD and Health), the sustainability of field support activities may be at risk.	
Audit review of documentation provided by OSCL indicated that formalization of reports arising from support and/or oversight mission requires improvement; mission reports were not systematically prepared after each field visit and were not standardized. A lack of planning activities limited the possibility to ensure that missions addressed initially defined purposes/objectives.	
<u>Underlying causes</u>: Limited resources and staffing for support functions. Limited strategic vision for OSCL.	

Are performance management and oversight activities effective?

The audit performed tests and reviews on the internal control framework associated with the management of landside transport including a review of the first and second lines of defence. There is an effective oversight mechanism in place for primary road transport (from ports to Extended Delivery Points), because of the presence and work of experienced logistics staff, helped by decades of WFP's experience in contracting with commercial transporters. However, weaknesses were identified in the management of transporter contracting for medium/small operations and for secondary roads (from Extended Delivery Points to Final Delivery Points).

Observation 6	Agreed Actions [Medium priority]

Coordination of the first and second line of defence

Inherent fraud risks are present in transport contracting processes, including risks of collusion with vendors, or creation of shell companies by staff members. Few cases of impropriety related to transporter contracting and cases of conflict of interest were reported to WFP's Office of Inspections and Investigations during the last two years; most allegations concerned staff members who were involved in obtaining material benefits in exchange of allocation of cargo to contracted transporters under tariff system agreements.

The following organizational units and committees are involved to different degrees as the first and second line of defence in the landside transport contracting process. Gaps noted by the audit had an impact on the overall effectiveness of internal controls to provide reasonable assurance that most significant risks were mitigated.

Local Transport Committee – LTCs act as an advisory board to contracting/procurement authorities (for example CDs), reviewing proposals for shortlisting of transporters, contract awards, and making recommendations. In practice the composition, seniority and skills of members varies significantly between countries. The audit noted that LTC members did not, in some instances, have an understanding on their role and duty to challenge, where necessary, initial proposals and presentations by logistics experts.

Regional Bureaux – RBs' oversight work is largely transactional and was observed to focus on compliance-related matters. The results of RB oversight work were not systematically shared with HQ, nor consistently documented.

Logistics and Field Support unit – OSCL provides a mix of support and oversight. The audit noted that OSCL did not finalize an annual performance plan for 2017, and that mission reports were not standardized nor systematically available.

Committee on Commodities and Transport – The CCTI reviews on an ex-post basis contracting activities for certain contract categories as well as a random sample. The audit noted cases of non-disclosure to the CCTI, thus preventing effectiveness of the review process (for example, tariff system awards not declared to the CCTI by a few COs in 2017). Also, the scope of the CCTI review tends to be more transactional than strategic, not leveraging on the seniority of appointed members.

Underlying causes: Inherent fraud risk because of non-rotation policy of national logistics staff in charge of transporter assessment, contracting and performance evaluation for many years. OSCL resources and staffing limits the achievement of its objectives. Transactional role of the CCTI and the oversight function of RBs.

OSC will:

(i)   Explore the need to clarify the LTC terms of reference to emphasize its potential authority regarding all aspects of the management of transporters across WFP operations, when relevant to the case under LTC's purview;

(ii)   In parallel with the ongoing CCTI review and assessment of RB oversight functions, initiate discussions with RBs and relevant HQ units regarding the scope and ownership of oversight of COs' management of landside transport, taking risk-based approach;

(iii)   Coordinate the development and deployment of support mechanisms directed at fraud prevention and detection relevant to working with transporters; such mechanisms will be linked where appropriate to existing guidance on transporter assessment and selection; and

(iv)   Explore the need to engage the CCTI in more strategic reviews.

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.

High priority observations	Categories for aggregation and analysis			Owner	Due date
	WFP's Internal Control Framework	WFP's Enterprise Risk Management Framework	WFP's Internal Audit Universe		
1 Informed decision-making on transport mode and contracting modalities.	Control Activities	Business process	Overseas & landside transport, and Analysis, assessment & monitoring activities	OSC	30 June 2019

Medium priority observations	Categories for aggregation and analysis			Owner	Due date
	WFP's Internal Control Framework	WFP's Enterprise Risk Management Framework	WFP's Internal Audit Universe		
2 Due diligence and performance evaluations	Control Activities	Business process	Governance, Analysis, assessment & monitoring activities	OSC	31 December 2019
3 Management of WFP owned fleet	Control Activities	Business process	Overseas & landside transport	OSC	31 December 2018
4 Risks associated with the repeated use of the tariff system	Control Activities	Business process	Overseas & landside transport	OSC	30 June 2019
5 Role of OSCL	Control Enviroment	Governance and oversight	Governance	OSC	31 December 2019
6 Coordination of the first and second line of defence	Control Enviroment	Governance and oversight	Governance	OSC	31 December 2019

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 or for the audited entity.
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.[4]

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 ICF 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."[5] WFP recognizes 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	Ensures 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 in 2019. As a means to facilitate the testing and roll-out, audit observations are mapped to the new risk taxonomy.

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[4] 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.

[5] OED 2015/016 para.7

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 Employee 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

2.4   Categorization by WFP's Audit Universe

8.   WFP's audit universe[6] 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 and process areas)

A	Governance	Change, reform and innovation; Governance; Integrity and ethics; Legal support and advice; Management oversight; Performance management; Risk management; Strategic management and objective setting.
B	Delivery	(Agricultural) Market support; Analysis, assessment and monitoring activities; Asset creation and 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 and country capacity strengthening services.
C	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.
D	Support Functions	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.
E	External Relations, Partnerships and Advocacy	Board and external relations management; Cluster management; Communications and advocacy; Host government relations; Inter-agency coordination; NGO partnerships; Private sector (donor) relations; Public sector (donor) relations.

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[6] A separate universe exists for information technology with 60 entities, processes and applications.

F	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.
G	Cross-cutting	Activity/project management; Knowledge and information management; M&E framework; Gender, Protection, Environmental management.

5. Monitoring the implementation of agreed actions

9.   The Office of Internal Audit tracks all medium and high-risk observations. Implementation of agreed actions is verified through the Office of Internal Audit's system for the monitoring of the implementation of agreed actions. 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.

Annex C – Acronyms

CCTI	Committee on Commodities, Transport and Insurance
CD	Country Director
CO	Country Office
COSO	Committee of Sponsoring Organizations of the Treadway Commission
FMS	FleetWave Fleet Management System
HQ	Headquarters
ICF	Internal Control Framework
KPI	Key Performance Indicator
LCA	Logistic Capacity Assessment
LESS	Logistics Execution Support System
LTC	Local Transport Committee
OSC	Supply Chain Division
OSCL	Logistics and Field Support unit
OSCN	Supply Chain Governance unit
RB	Regional Bureau
RFQ	Request for Quotation
UNHRD	United Nations Humanitarian Response Depot
WFP	World Food Programme