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Internal Audit of Food Procurement in WFP

Office of the Inspector General
Internal Audit Report AR/19/05

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Internal Audit of Food Procurement in WFP

I. Executive Summary

Introduction and context

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of food procurement in WFP that focused on the period 1 September 2017 to 31 August 2018. The audit fieldwork took place from 29 October to 30 November 2018. This included: work at WFP headquarters; visits to the Regional Bureaux in Bangkok, Cairo, Dakar and Nairobi; and a review of related corporate processes that impact across WFP.
2. WFP's food procurement mission is to ensure that appropriate food commodities are available to WFP beneficiaries in a timely and cost-effective manner and through a fair and transparent process, adhering to the principle of competition. In 2018, WFP procured 3.5 million metric tonnes of food commodities for a total value of USD 1.6 billion, an increase of approximately 17 and 14 percent compared to 2017 volumes and values respectively.
3. Four main lines of enquiry were established for the audit:
 - (i) Do WFP's governance, organisational structure and resourcing mechanisms facilitate and support effective food procurement practices?
 - (ii) Are WFP's oversight mechanisms effective in mitigating risks related to food procurement?
 - (iii) Do WFP's procurement practices and procedures enable complete, timely, quality and cost-effective deliveries?
 - (iv) Do IT systems and tools in place support procurement processes at all levels?
4. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Audit conclusions

5. Over recent years, volumes and complexity of food procurement in WFP have increased, reflecting the evolution of humanitarian needs and of WFP's business model, with more than 20 percent of commodities procured in the audit period being special nutritious foods. Following several oversight reviews in 2017 and 2018, the WFP Supply Chain Division launched initiatives to assess and strengthen food procurement tools and practices. These included: a comprehensive review and update of normative guidance; an organizational-wide training needs survey to guide staff capacity development initiatives from 2019; and a review of vendor management business processes and tools.
6. The audit of resourcing for food procurement highlighted issues and inconsistencies in the set-up, skills, contracting and funding levels of sampled offices that could impair both delivery, particularly of non-transactional activities, and long-term sustainability. Limited stable funding, including for senior positions, without systematic capacity and skills assessments and training initiatives, may be indicative of food procurement not being perceived as a core function as the investment has not been made to professionalise food procurement roles. Opportunities for efficiency exist to streamline and simplify a heavily transactional process, integrate systems and data, and leverage technology for more effective transacting, monitoring, reporting and oversight.



7. In addition to resourcing issues, the audit noted gaps in key practices and procedures which could hinder quality and cost-effective delivery:

- *Food quality and safety:* The audit observed opportunities to improve the design and implementation of the food safety and quality management system, with an absence of structured selection criteria and standards for factory audits, and limited coordination, monitoring and controls over contracting and management of inspection companies.
- *Planning and market intelligence:* There were inconsistencies in planning noted across sampled regional bureaux, particularly outside the Global Commodity Management Facility, and in market intelligence activities, with market data not timely reflected in corporate systems. This resulted in a reactive planning approach and issues in availability, quality and use of data to inform decisions on where to procure. Instances of a limited number of suppliers in rosters and dependence on and exposure to vendors were noted, including for critical commodities.
- *Vendor management:* Due diligence, including verification of contractual requirements of vendor capacity, and vendor performance were not properly and consistently carried out or utilised to inform decision-making. Despite issues on vendor management already having been identified in the internal audit of WFP Goods and Services Procurement¹ in 2016, the vendor management business process requires major improvements.

8. Corporate food procurement objectives were not consistently articulated at field level, impacting the use of consistent measurement criteria. The methodology, planning, implementation, and coordination of food procurement oversight differed, without structured remote monitoring and awareness of fraud risks and scenarios developed in the 2017 fraud risk assessment initiative.

9. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **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 area would be achieved. Issues identified by the audit could negatively affect the achievement of the objectives of the audited area. Prompt management action is recommended to ensure that identified risks are adequately mitigated.

Actions agreed

10. The audit report contains four high and four medium priority observations, all of which have agreed actions directed at corporate level. All observations and agreed actions are summarized in Table 1. 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

¹ AR/16/06.



II. Context and Scope

Food Procurement in WFP

12. In 2018, WFP purchased 3.5 million metric tonnes (MT) of commodities, the largest volume since 2010, and spent USD 1.6 billion, more than any year since 2008. This volume of food procurement resulted from the exceptionally high levels of humanitarian needs arising from an unprecedented number of emergencies.

13. In 2017, approximately 55 percent of food procurement was carried out through the Global Commodity Management Facility (GCMF). This is a strategic financing platform, for the forward positioning of food in a region or corridor, based upon the anticipated demand of nearby Country Offices (COs), with the aim of reducing delivery lead-times (especially during emergencies) and enabling food procurement at the right time to increase value for money.

14. WFP's food procurement unit (OSCSF), which is part of the Supply Chain Division (OSC) created in 2015, integrated logistics and procurement functions into a single coordinated management structure. This was in recognition of the growing needs facing the organisation, as well as the complexity brought by demands for end-to-end delivery and greater cost efficiencies.

15. WFP's food procurement mission is to ensure that appropriate food commodities are available to WFP beneficiaries in a timely and cost-effective manner through a fair and transparent process and adhering to the principle of competition. This is consistent with the OSC Strategy 2017-2021, which, in alignment with WFP's strategic plan and the Sustainable Development Goals, identifies the following objectives: (i) deliver WFP food assistance with a special focus on emergencies; (ii) strengthen national supply chain capacities, local and regional markets; and (iii) support partners to achieve their own sustainable development goals. In articulation of the OSC strategy, OSCSF has developed sourcing strategies for the various commodities purchased by WFP, taking into account the states of markets, including WFP demand and supplier's capacity, seasonality of crops and market assessments.

16. Within the regulatory framework of the WFP General and Financial Regulations and WFP Financial Rules, OSC issued in September 2018 an updated version of the Food Procurement Manual as well as new operating guidance to provide procedures and methodologies for procurement actions.

17. Delegations of Authority (DoA) were reviewed in January 2018. Major changes included the increase of the delegated authority for senior level (D2) Country Directors, to a level equivalent to that of the Regional Directors; and the delegation of authorities to Level Three Corporate Response Directors and Emergency Coordinators at the level of Regional and Country Directors respectively.

18. Procurement in WFP is organised in a decentralised way. Food purchases are undertaken at headquarters (HQ), Regional Bureaux (RB) and CO levels. OSCSF at HQ level undertakes: all international procurement for all WFP operations; provides technical expertise and guidance to RBs/COs to ensure food procurement is undertaken in a cost effective, timely and transparent manner; and reviews and authorises food procurement actions above Regional Directors and Country Directors DoA. OSCSF also develops corporate processes, tools and guidance materials and supports the implementation of divisional strategies, policies and plans. RBs administer regional procurement, provide support and oversight of the food procurement activities undertaken at CO level and authorize purchases above CO DoA levels, when not led by D2 Country Directors. COs manage procurement of food available on the local market and required for in-country activities.



19. Multiple IT systems and applications support the implementation and execution of end-to-end food procurement activities, the most important being In-tend for electronic tendering, WINGS (WFP's enterprise resource planning system), and the Supply Chain Import Parity System (SCIPS).

Objective and scope of the audit

20. The objective of the audit was to evaluate and test the adequacy and effectiveness of the processes associated with the internal control components of food procurement 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.

21. 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.

22. The scope of the audit covered food procurement in WFP from 1 September 2017 to 31 August 2018. Where necessary, transactions and events pertaining to other periods were reviewed.

23. At the time of planning the audit, the Office of Internal Audit had reviewed food procurement as part of 11 CO audits conducted in 2017 and 2018, and as part of the thematic audits on: Food Quality and Safety in Syria Operations²; Food Quality and Safety in the WFP Jordan and Lebanon Operations³; and Smallholder Agricultural and Market Support Activities in Colombia⁴. Building on these elements, the audit focused testing of compliance aspects on regional transactions as well as on the review of food quality and safety and smallholder farmers (SHF) procurement, and on specific aspects relating to target achievement monitoring and oversight.

24. An oversight review of vendor information management was conducted in 2018, and the IT systems supporting OSC processes and activities were reviewed as part of the internal audit of WFP's Supply Chain Division IT-Based Applications⁵. These areas were not reviewed during this audit.

25. The audit fieldwork took place from 29 October to 30 November 2018 in HQ and via visits to four RBs, in Bangkok, Cairo, Dakar and Nairobi.

² AR/17/09

³ AR/17/05

⁴ AR/18/13

⁵ AR/18/01



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 / Major improvement needed**⁶. 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 would 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.

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. OSCSF's risk register, which fed into OSC's annual performance plan for 2018, covered risks relevant to food procurement management processes. Five of the eight risks identified in the audit were partly included in the risk register.

29. The Corporate Risk Register identifies three risks relating to food procurement:

- Risk of fraud and corruption affecting WFP operations, rated as medium and including the risk of food diversion or misappropriation of food/cash-based transfers or resulting in unduly high costs of service and goods.
- Volatility of a commodity, rated as medium, which may adversely affect WFP purchasing power, possibly diminishing the number of beneficiaries reached.
- Weak food safety and quality assurance mechanisms, rated as high, deriving from food fraud, inadequate knowledge of quality management across the organization and poor quality of food purchased from suppliers as well as misalignment with regulatory requirements.

30. Food procurement was one of the pilot areas for the fraud risk assessment initiative, carried out within WFP in 2018. This exercise identified 20 medium residual fraud risks relevant for Food Procurement, but no high residual risks.

31. Risk management maturity was assessed as part of the audit; observation three (noted in the table below) describes the audit findings in this regard.

Data quality

32. The audit identified a range of data quality issues in the main IT systems supporting food procurement, particularly SCIPS, as described in observation six; and WINGS and In-tend, as described in observation eight. These issues were rooted in some limitations in the infrastructure and systems set-up, as well as in the availability of resources and subsequent prioritization of activities.

⁶ See Annex B for definitions of audit terms.



Observations and actions agreed

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

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

Line of Enquiry 1. Do WFP's governance, organisational structure and resourcing mechanisms facilitate and support effective food procurement practices?	
<p>OSC objectives and activities set-out in the 2017-2021 Strategy, are reflected in key commodity-sourcing strategies. However, there was not consistent articulation at field level, with RBs: not having formally developed strategies and annual performance plans aligned to the broader OSC priority areas; nor having a clear and consistent role in the development and review of COs' food procurement strategies. This also impaired the use of consistent Key Performance Indicators (KPIs), potentially affecting the identification of needs or performance issues and inhibiting prompt responses with actions or increased oversight. Despite recent efforts to develop mechanisms for SHF procurement, there was no clear framework and strategy steering this initiative.</p> <p>There were issues and inconsistencies in the set-up, skills and contracting, as well as funding levels of reviewed procurement units, for example: (i) no systematic capacity assessments or skills gap analysis and training initiatives, including to support new CO DoAs; (ii) increasing volumes of food procurement coupled with generally static staffing levels; and (iii) a significant proportion of staff, some of which were senior positions, on short term contracts despite having been with the organization for multiple years. In all sampled locations, budgets for procurement units were based on funding availability, with almost half of the staff in HQ and two RBs, including two commodity specialists, on non-core funding. At the time of the audit fieldwork, the most recent HQ funding forecast ensured coverage of costs up to April 2019, while one RB had constraints in renewing non-fixed term contracts. While some opportunities for efficiency exist through better use and integration of systems and data, and simplification of processes that remain heavily transactional, food procurement funding methodologies should ensure better alignment of resources to workload, taking into account entities for which food is procured, and strengthen accountability for results.</p>	
<i>1 Strategy for food procurement, including from SHFs, and KPI metrics</i>	<i>Medium</i>
<i>2 Resourcing – staff capacity and funding</i>	<i>High</i>

Line of Enquiry 2. Are WFP's oversight mechanisms effective in mitigating risks related to food procurement?	
<p>Planning, implementation and coordination of food procurement oversight was inconsistent across the different levels of the organization. This included: varying triggers/criteria for oversight; limited numbers of oversight missions, with none from HQ, and limited coordination with other oversight providers; unsystematic trend analysis and follow-up of actions without proper escalation of findings; and unstructured remote monitoring. OSC had developed a consolidated risk register and a risk management committee deals with procurement risks. However, procurement units at HQ and RB levels had no visibility of risks identified at lower levels, as risk escalation was through the Enterprise Risk Management Division (RMR). There was no awareness of the 2017 fraud risk assessment initiative within the procurement units sampled during the audit; no systematic risk assessments were carried out at the transactional level.</p> <p>Issues were noted that limited the effectiveness of the Purchase Contracts Committee (PCC). These included: non-systematic dissemination of Terms of Reference and of key documents before meetings; inconsistent training of members on their roles; and challenges in member availability for setting up PCC meetings at all levels, with one RB holding most of them without appointing a chairperson.</p>	
<i>3 Oversight and risk management</i>	<i>Medium</i>
<i>4 Capacity and functioning of the Purchase Contracts Committee</i>	<i>Medium</i>



Line of Enquiry 3. Do WFP’s procurement practices and procedures enable complete, timely, quality and cost-effective deliveries?

There were issues regarding the design and implementation of the food safety and quality management system. These related to the absence of: a structured process for comprehensive trend analysis of inspection companies’ laboratory tests; approved criteria for selecting factories to audit and minimum standards for audits; and structured follow-up of recommendations. Coordination and controls over contracting, management, and costs of inspection companies were not systematic. Relevant documentation for sampled inspection companies’ due diligence and performance assessments was not available, and verification of contractual requirements related to vendor capacity was not carried out. There was no corporate requirement for inspection standards and rotation of inspection companies.

Procurement planning (particularly non-GCMF) and market intelligence activities were not consistently carried out, resulting in a reactive planning approach and issues in the availability of updated information on market prices. The tool in place to determine where to procure mainly considered prices from the latest tenders rather than updated information on market conditions. It was not utilized for the GCMF purchases reviewed by the audit. Moreover, data quality issues impacted the effectiveness of its use. Gaps in market intelligence resulted in instances of a limited number of suppliers in rosters and vendor dependence and exposure, in one case further challenging the management of vendors of a critical commodity.

The audit confirmed issues noted in a recent review by OSC of the vendor management business process, including: unclear sets of vendor management data; limited automation of processes and tools; and limited strategic analysis and remote monitoring. The recommendations made in the review report are yet to be implemented. Further issues noted by the audit comprise: desk-based due diligence reviews inconsistently carried out without systematic validity checks; unclear ownership of execution and timeframes for reperforming due diligence; and transaction-based vendor performance, not consistently carried out or utilised to inform decision-making, and without visibility and escalation of issues including suspensions.

5 Coordination on food safety and quality practices	High
6 Procurement planning and market intelligence	High
7 Vendor management, including performance assessment	High

Line of Enquiry 4. Do IT systems and tools in place, support procurement processes at all levels?

The main IT systems supporting food procurement, WINGS and In-tend, are not interfaced, with instances of data quality issues and no structured periodic review or reconciliation of data for trend analysis and/or identification of anomalies and errors. Some of these were highlighted by the audit review including instances of a duplication of invited vendors and vendors invited to multiple tenders yet never responding. In-tend set-up, system functionalities and cumbersome data extraction do not facilitate oversight nor ensure appropriate segregation of duties at field level.

8 Use of supporting IT systems and quality of data	Medium
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34. The eight observations of this audit are presented in detail below.

35. Management has agreed to take measures to address the reported observations⁷. An overview of the actions to be tracked by internal audit for implementation, their due dates and their categorisation by WFP’s risk and control frameworks can be found in Annex A.

⁷ Implementation will be verified through the Office of Internal Audit’s standard system for monitoring agreed actions.



Line of enquiry 1: Do WFP’s governance, organisational structure and resourcing mechanisms facilitate and support effective food procurement practices?

The audit reviewed WFP’s corporate guidance including the corporate supply chain, SHFs and sourcing strategies, policies, procedures, tools, templates and guidelines, and assessed their suitability to define a clear framework, articulated along and aligned with organizational priorities, and the extent and effectiveness of their implementation. Furthermore, the audit reviewed the organizational structures of procurement units, organization-wide roles and responsibilities, and reporting lines and communication flows and how these supported implementation of procurement processes, including accountability.

The audit reviewed the processes and considerations for preparation of food procurement budgets, including processes in place for assessment of workloads and staff capacities and skills; and how their results have been considered to inform organizational structures and training and prioritization of procurement activities. A workforce assessment exercise, encompassing workload analysis, is ongoing in one RB to align activities and supporting structure.

During the audit period, a number of corporate policies and procedures were updated, including the Food Procurement Manual which was released in October 2018. Some RBs have developed specific standard operating procedures (SOPs) to guide aspects of their and/or their regions’ activities. These included the use of an inspection long-term agreement in one region, and a “step-by-step” procurement practice in another region. One RB implemented a consultative process for the preparation of the annual sourcing strategy.

The HQ Sourcing Unit has recently launched an organizational-wide training needs survey, to guide corporate training starting in 2019. A workshop with HQ and RB officers was held in November 2018, also to discuss needs and ways forward. There have been proactive initiatives for procurement staff to attend anti-fraud trainings.

Some mechanisms and enablers have been implemented at corporate level to support procurement from SHFs such as: GCMF financing for specific procurement from SHF; a Corporate Results Framework target set for SHFs; contract modalities developed and piloted for procurement from SHF; and 49 Country Strategic Plans (CSPs) including SHF support activities.

Observation 1	Agreed Actions [Medium priority]
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Strategy for food procurement, including from SHFs, and KPI metrics

Regional Food Procurement Strategies and performance measurement tracking

OSCSF has developed commodity and tactical sourcing strategies, which outline procurement strategies for key WFP commodities and for major emergency operations respectively. The four RBs reviewed during the audit had not formally developed regional food procurement strategies aligned to those of OSCSF. The role of RBs in the development and review of COs’ food procurement strategies was not clearly defined and different practices were noted across regions and offices.

RBs’ annual performance plans were not formally and consistently developed to align priorities and performance measurement criteria to those of OSC, including co-ordination with GCMF and its contribution to one of the OSCSF KPIs on timeliness. Some food procurement priority activities, such as capacity strengthening and performance optimization, were not defined in a sample of RBs’ annual performance plans and performance indicators.

There were inconsistencies in the compendium of KPIs tracked by OSCSF and RBs to monitor food procurement performance, which may lead to a failure to accurately reflect and detect food procurement performance issues, and to provide insight in areas requiring corporate support or oversight. These inconsistencies included: (i) the absence of defined minimum standard KPIs at OSCSF level, resulting in RBs and COs tracking different KPIs; (ii) inconsistent tracking mechanisms and fragmented tracking of KPIs across all levels, with some RBs not tracking

(1) OSC will:

- (i) Clarify the need for the preparation and review of regional and CO procurement strategies, in co-ordination with RB supply chain units and programme units as relevant, including procurement from SHFs, in alignment with the broader OSC strategy key priorities and considering regional and local contexts and programmatic priorities.
- (ii) Provide standard guidelines to RB and CO food procurement units for the development of performance management metrics for inclusion in annual performance plans, that are in-line with OSC key priorities.
- (iii) Periodically review RBs’ annual performance management indicators and clarify the RB role in reviewing COs’ indicators in their regions.
- (iv) Define a minimum compendium of KPIs to be tracked at HQ, RB and CO levels and relevant calculation methodologies, and assess the need for periodic reporting of performance.

any and only receiving GCMF KPIs quarterly reporting; and (iii) no formal requirement or expectation for RBs and COs to report KPIs to OSCSF from a monitoring and oversight perspective.

Some data quality challenges were noted with respect to some of the KPIs reviewed. For example, computation of the food quality severity score was based on consolidation of potentially incomplete manual data; and savings by OSCSF and GCMF were calculated based on SCIPS data that was not consistently updated.

Strategy for procurement from Small-Holder Farmers

A procurement target of ten percent from SHFs is referenced in various strategic documentation and corporate briefing notes, but has not been defined in terms of measurement criteria (tonnage or value based); all commodity sourcing strategies have set a blanket SHF target with no articulation of strategy execution and funding of activities. There was no accountability mechanism to monitor attainment of the corporate target at all levels.

The Purchase for Progress (P4P) pilot in 2014, did not result in a pro-smallholder procurement strategy and no clear guidance was issued to RBs and COs on the way forward, nor were appropriate management structures, budgetary support mechanisms and defined roles and responsibilities between OSC and the Programme Division (OSZ) set-up.

There was no awareness across the organisation of the definition of an SHF as per the Smallholder Agricultural Market Support guidelines.

Underlying causes: Focus on transactional activities instead of strategy development and alignment of KPIs. Unclear requirements for the development of food procurement strategies at field level, as well as for the development of a corporate pro-SHF Procurement Strategy. Limited coordination with programme units to define objectives at the different levels of the organization. Absence of a WFP framework for the SHF strategy post-P4P implementation, and of a formalised and structured co-ordination mechanism with OSZ in implementation of an SHF procurement strategy. A manual process for KPI calculation and OSC focus on logistics performance measurement.

(v) Reassess and ensure accuracy of data used for KPI calculations and opportunities to automatize the process.

(vi) Provide training to RBs and CO's procurement staff, on tools and data used for computation of KPIs.

(2) OSZ, jointly with OSC, will develop and seek approval for:

(i) A framework which defines corporate principles, rules, accountabilities and guidelines related to procurement from SHFs.

(ii) Measurement criteria (value or tonnage based) of the procurement target from SHFs.

(iii) An SHF operational strategy with defined roles and responsibilities between OSZ and OSC, implementation structures, resourcing, guidelines and targets per commodity or CO in contribution to the overall agreed corporate target.

Due date: 31 March 2020

Observation 2

Resourcing – staff capacity and funding

The audit noted issues and inconsistencies in the set-up, skills and contracting of procurement units which may impact their capacity to deliver, particularly for non-transactional activities, and may impair long term sustainability. This is also true in the context of a very transactional process, where opportunities to simplify, streamline, and leverage on technology exist. Concerns about resourcing for food procurement units at the different levels of the organization were raised by all stakeholders met at HQ and RB levels during the audit.

Workforce assessment

Staff capacity assessments and skills gap analyses had not been consistently carried out to determine the set-up and structure of food procurement units reviewed by the audit. In 2017, OSC conducted a process review exercise which aimed to find efficiencies in transaction-oriented supply chain processes, and which included a workload assessment. This exercise highlighted that staff were focused on transactional activities more than strategic ones.

Agreed Actions [High priority]

OSC will, in coordination with RBs and COs:

(i) Carry out a staff capacity assessment, including workload and skills gap analysis, of the procurement units at different levels of the organization, with consideration of the potential impact of increased use and integration of systems. This will include the opportunity to clarify the roles of procurement units to avoid overlapping and to ensure presence only where required.

(ii) Based on the results of the action point above, re-assess existing structures and funding methodologies, prepare a budget for procurement units and determine adequate funding required.

Some actions arising from the exercise were indicated as having been implemented. However, there was no structured monitoring of progress status to assess actual efficiency gains.

Staff composition and capacity strengthening

A review of staff compositions for sampled locations, highlighted that over the last three years volumes of food procurement have increased and staffing levels have remained stable. Coupled with a leaner structure, introduced by the 2015 supply chain restructuring, this factor contributed to an increased focus on transactional activities at the expense of strategic ones.

The composition of CO procurement units was not consistent across the organization. In some cases this resulted in RBs increasingly supporting COs at a transactional level, limiting their time for oversight and entailing the risk of reviewing actions in which they had been actively involved. A recent increase in the procurement DoA level to COs was based on the assumption that COs, led by D2-level Country Directors, had adequate structures to support procurement decisions. However, no specific analysis of the required capacity and skills had been conducted, and an audit review of relevant COs indicated that some did not have sufficient capacity and skills; this was confirmed by the relevant RBs.

Staff training initiatives of the reviewed locations were not systematically planned, undertaken or tracked.

Budgeting and contracting

For all sampled locations, procurement unit budgets were based on funding availability rather than assessed needs. Consequences of funding constraints included sustainability and capacity issues, for example:

- Almost half of the staff positions in HQ and two RBs, including two commodity specialists, were non-core funded positions.
- A significant number of staff were on short term contracts, even though some had worked for the organization for several years, with one RB indicating that there are funding constraints to renewing short term contracts in 2019 (OSCS has recently launched an exercise to stabilize some of these positions).
- In two RBs, short-term staff occupied senior positions, bridging the gap between the head of the unit and operational staff. One RB indicated a possible further contraction due to insufficient funding.

At the time of the audit fieldwork, HQ funding forecast ensured coverage of costs up to April 2019. A proposal for establishing a cost recovery mechanism had been considered but not pursued.

Underlying causes: Business process review assumptions of efficiency gains not fully materialized. Food procurement not perceived as core to the WFP business model and instrumental to achieve corporate objectives, and not prioritized in Programme Support and Administrative funding allocations. Lack of recognition of procurement as a professional role. No minimum requirements for staffing of procurement units, taking into account contexts, volumes and types of operations. Criteria for definition of DoA, not taking into account experience and staffing of procurement units. Limited training. Involvement of procurement officers at HQ or RB levels in the reassignment process, and in COs' recruitment processes, perceived as insufficient to ensure adequate profile/experience of selected candidates. Lack of capacity at CO level and unclear/overlapping roles amongst different levels of the organization.

- (iii) Assess and define procurement units' minimum staff requirements and set-ups, considering the contexts, volumes and types of operations and DoAs, as well as opportunities for professionalization of units.
- (iv) Finalize training plans, leveraging e-learning where possible.
- (v) Re-assess and finalize a proposal for direct involvement of procurement officers in the recruitment/reassignment of procurement staff for lower level offices and decision of required experience/grade.

Due date: 30 June 2020



Line of enquiry 2: Are WFP's oversight mechanisms effective in mitigation of food procurement related risks?

The audit reviewed how risk management is embedded and utilized to inform strategic and operational procurement practices at different levels of the organization, as well as the effective implementation of oversight mechanisms and tools, including for fraud prevention. This encompassed the functioning of the PCCs at HQ and RB levels, oversight missions, and remote monitoring practices in place.

The audit review highlighted that one RB had prepared an SOP to guide the functioning of the PCC, including the timely advance sharing of supporting documentation with the committee meeting. With regard to RB oversight missions, the audit noted that: in two RBs, missions were coordinated with other units; another two leveraged COs' risk and complexity mapping frameworks to drive their risk-based oversight planning; and one RB had carried out detailed desk reviews in preparation of the oversight missions.

Observation 3

Agreed Actions [Medium priority]

Oversight and risk management

Oversight missions and remote oversight

The audit observed an inconsistent approach to food procurement oversight:

- Planning and criteria/triggers for oversight, including analysis of risk levels, data analytics and dashboards, varied across the different levels of the organization.
- The methodology for conducting oversight was inconsistent, with an absence of corporate guidance. Utilization and leverage on existing tools for remote monitoring was limited.
- The audit noted a limited number of oversight missions by some of the RBs compared to support missions, with one RB conducting only one mission in the audit period upon CO request. One RB did not have an oversight mission plan, whilst another had a plan but did not fully implement it. Coordination with other oversight providers was limited in all but one RB. There were no HQ oversight missions in the audit period.

Trend analysis and follow-up of actions were unsystematic, with limited escalation of findings. This resulted in limited visibility at HQ level and the inability of RBs to enforce the implementation of actions arising from oversight missions.

Risk management

At HQ level, OSC had developed a consolidated risk register and there was a risk management committee dealing with procurement risks. HQ and RB procurement units had no visibility of procurement risks identified at lower levels, as risk escalation was through RMR. Risk assessment at the transactional level, to identify and address risks affecting purchases, was not performed. A fraud risk assessment with a focus on procurement, and concluded in early 2018, had not been disseminated across the organisation, nor had it been followed by testing of controls' operating effectiveness.

Underlying causes: Limited resources, including capacity and travel budget, to perform oversight missions with a focus on transactional work. Limited corporate guidance on prioritization of oversight missions. Lack of an accountability framework to enforce oversight findings and actions. Development of a procurement oversight mission checklist in progress. Lack of corporate guidance on, and awareness of, remote monitoring. No requirement for COs to share risk registers with HQ technical units. No dissemination of the fraud risk assessment.

OSC, in coordination with RBs, will:

- Clarify the appropriate balance between transactional, support and oversight work, as part of the workload assessment (refer to observation 2).
- Finalise the development of a methodology for procurement oversight, including remote monitoring, key risk indicators and criteria for selection of oversight missions and necessary skills.
- Budget for and implement an oversight plan at all appropriate levels.
- Clarify with RMR and other relevant units the opportunity and criteria for joint oversight missions.
- Define an accountability framework to enforce follow-up and implementation of actions, including coordination with Risk and Compliance Advisers where in post.
- Determine, in consultation with RMR, an optimal way to share the risk information and disseminate the fraud risk assessment for articulation and utilization at field level.

Due date: 31 March 2020

**Observation 4****Agreed Actions [Medium priority]****Capacity and functioning of the Purchase Contracts Committee**

The PCC reviews food procurement actions above a certain threshold to provide advice to the relevant procurement authority. Members of the committee must understand procurement processes and ensure that there is no conflict of interest with prospective vendors. The audit identified the following issues related to the functioning of the PCC in HQ and RBs:

- Some PCC members did not demonstrate a clear understanding of their role and their duty to challenge, where necessary, proposals and presentations made by procurement staff. There was limited dissemination of PCC terms of reference, and of key documents prior to meetings. In the majority of cases reviewed, PCC members had not been trained on their roles and were not provided with tender documents systematically and/or with adequate notice.
- Food procurement decision notes did not capture additional requests and clarifications provided during PCC meetings.
- Previous vendor performance evaluations were not shared before meetings with PCC members, although PCC members considered these to be of key importance. Such information was reported as being verbally communicated during meetings.
- The importance of disclosing potential conflicts of interest had not been adequately emphasised. However, HQ had recently released a new Food Decision Note form requiring formal declaration of any potential conflict of interest by signatories of the document.
- The attendance of technical units, such as Programme and/or Nutrition, at PCC meetings is not mandatory. Some PCC members indicated that more robust discussions had taken place when members of such units attended meetings.
- Member availability is a challenge for setting up PCC meetings. Only HQ and one RB had a fixed calendar for PCC meetings; one RB had held most PCC meetings without a chairperson.

Underlying causes: Second line of defence role of the PCC not adequately understood, emphasized and prioritized. Limited time and resources available for training. Lack of set calendars for PCC meetings and procurement units focusing on timeliness of transactions, for example to mitigate market price volatility risks. Lack of a requirement for sharing vendor past performance evaluations with PCC.

OSC will:

- (i) Establish and implement guidance on PCC member induction at different levels of the organization, in coordination with RBs, including adequate emphasis on the risk of potential conflicts of interest and dissemination of terms of reference (e-learning may be considered as an option).
- (ii) Clarify requirements for providing documents to PCC members before meetings, including minimum advance periods and key information to be provided such as relevant past performance evaluation.
- (iii) Re-emphasize that membership of the PCC carries the expectation of attendance and advise RBs and COs on possible ways to improve PCC meeting participation, for example by setting fixed long-term agendas shared with members.
- (iv) Assess and define criteria for allowing exceptional composition of PCC meetings and if attendance can be extended to include virtual participation.

Due date: 31 March 2020



Line of enquiry 3: Do WFP's procurement practices and procedures enable timely, quality and cost-effective deliveries?

The audit performed tests on the end-to-end procurement process, including a sample of each RB's purchase orders (POs) representing different types of purchases, highest amounts and top vendors. This allowed for the assessment of the effectiveness of procurement planning mechanisms, market assessment practices, and the vendor management process (qualification, decision making, appropriate application of delegation, awarding, contracting, delivery and performance evaluation). The review also encompassed targets and performance measurement mechanisms used to monitor the achievement of the objectives of quality, timeliness and cost-efficiency, including an assessment of their effective tracking, utilization and related data quality (issues noted in this area are reported under observation 1).

The audit noted that one RB coordinated a weekly price market intelligence exercise involving all COs in the region; another RB carried out two market assessment missions in support of CO local procurement activities. One RB had recently introduced a worksheet for tracking and visualizing vendor performance, including inspection companies, and lab tests results to be used for future trend analysis.

Observation 5

Agreed Actions [High priority]

Coordination on food safety and quality practices

Food safety and quality (FSQ) activities are designed to support WFP in ensuring distributed food is safe and of the procured quality through enhanced product specifications, supplier audits, product testing and development of effective incident management systems.

The audit identified the following issues related to the design and operational effectiveness of FSQ management systems across sampled RBs:

- There was no structured process to capture, consolidate and analyse trends of laboratory test results carried out by inspection companies across the organization. This impeded a comprehensive view of issues arising. One out of the four sampled RBs had started tracking laboratory results and performance per transaction and vendor.
- A corporate SOP on food incident escalation was recently developed but there was no evidence of effective implementation, as it is based upon voluntary disclosure.
- The criteria for selecting factories/vendors to audit, which incorporate the minimum standards for audits and for follow-up of related recommendations, were yet to be finalized and approved.

WFP FSQ practices are centred around the appointment of third-party inspection companies to carry out laboratory tests. An audit review of relevant contracts identified the following:

- There was a lack of coordination and systematic control over the management of contracted inspection companies. Contracts with service providers were awarded and managed at different levels of the organization and related scope of works were not harmonized.
- Due diligence, the contracting process and performance assessments of selected inspection companies were indicated as having been performed at HQ in 2015; however, no supporting documentation was available. The capacity required from vendors to execute contracts (for example qualifications of inspectors), as defined in agreements, was not verified. Concerns about the capacity of inspection companies at field level were raised by various stakeholders met during the audit.
- There was no corporate requirement on inspection standards and rotation of inspection companies. Instances of WFP using the same inspection companies as the food supplier were noted in one RB and HQ.

OSC will:

- Re-assess and implement a system for tracking, consolidating and analysing laboratory test results across the different levels of the organization. This will include follow-up on the business case developed for the implementation of an automated system to capture laboratory test results.
- Formally approve and disseminate an SOP and that defines the criteria for identifying factories and vendors to audit, roles, responsibilities, and methodologies for carrying out the audits, and subsequent follow-up of recommendations.
- Define mandatory requirements for the escalation of food incidents and issues related to poor vendor quality performance.
- Evaluate the opportunity for centralized contracting and management of the contracts of inspection companies and re-assess effectiveness of inspection contract management and quality controls. This may include: (i) the execution of checks over inspectors' experience; and that the inspection company used by the food supplier is different from WFP's; (ii) additional independent sample testing to corroborate inspection company test results; and (iii) of rotation of vendors.

Due date: 30 June 2020



There was no coordination of contracts at the corporate level which challenged the management of vendors of a high-risk commodity; and no structured spending analysis on inspections services at global level.

Underlying causes: Resource constraints impacting prioritization and capacity to implement quality controls. Absence of corporate guidance on factory audits. A manual process for the management and performance evaluation of food vendors as well as of inspection companies. Lack of mandatory requirements related to food incident escalation. Lack of harmonization of contract management and quality controls over vendors.

Observation 6

Procurement planning and market intelligence

Procurement planning

Planning is a critical step to ensure the optimal use of resources to achieve procurement objectives and targets, particularly scheduling purchases, considering relevant risks and market conditions, and determining the appropriate selection process for vendors and commodities. The audit observed that food procurement planning and market intelligence were not consistently carried out across the organization, resulting in reactive procurement activities, nor utilized to update data (prices) in corporate tools potentially impacting the effectiveness of the decision-making process.

The review indicated that:

- For non-GCMF funded procurement, there was limited coordination on planning among different levels of the organization.
- At CO level, food procurement planning is carried out as part of the pipeline forecasting process, which is mainly resource-based and not systematically used to drive proactive market intelligence activities.
- A more structured process for planning is in place for GCMF funded procurement, which accounts for approximately 55 percent of global purchases; although one RB was not involved in the process for its region.

Market intelligence

For all but one RB there was no structured process for market intelligence to ensure updated information on market prices. WFP decisions on where to procure (international, regional or local procurement) are based on market prices and transport cost comparisons through the import parity form (IPF) in SCIPS. Review of the IPF process highlighted that it mainly considers prices from the latest tenders manually entered by a commodity specialist - rather than from updated information on market conditions - and that tender prices and transport costs are not timely and consistently updated. Some IPFs were not properly prepared, without all the relevant available alternatives or prices, and prices entered manually differed from the ones in SCIPS. The above was particularly relevant for GCMF IPFs.

The limited market intelligence and availability of suppliers in rosters, resulted in instances of vendor dependence, further challenging the management of vendors of a critical commodity. This impaired replacing non-performing vendors without incurring pipeline breaks. OSCSF indicated that they were not able to further expand the vendor roster because vendors required a minimum commitment to invest in a new production line. A new initiative

Agreed Actions [High priority]

OSC will:

- (i) Reassess and clarify guidance on procurement planning procedures for different levels of the organization (HQ, RB, CO), establishing a coordination mechanism between them and a systematic consolidation process.
- (ii) Reassess and clarify minimum requirements for market intelligence, including periodic updates of information on market conditions, in HQ, RBs and COs. This will include coordination with the OSZ to assess the opportunity of minimum commitments for high risk commodities and in cases of limited numbers of vendors.
- (iii) Reassess the IPF process, including roles, responsibilities and tools, to ensure timely and accurate preparation considering updated market prices for effective comparison of prices. Evaluate the possibility to set-up an automatic interface between SCIPS and WINGS.
- (iv) Review, in coordination with the Budget and Programming Division, the current involvement of RBs in GCMF procurement, in countries within their regions.

Due date: 31 March 2020



aimed at identifying new suppliers began recently after some FSQ issues were identified in the commodity provided by a sole vendor.

One RB relied entirely on CO vendors lists and information, while another had recently expanded the regional vendor list.

Underlying causes: De-prioritization of planning activities, because of resource constraints and staff focused on operational activities. Unclear role for RBs and HQ in supporting and coordinating CO planning, with HQ and RBs having no visibility of, and not being consistently involved in, lower level planning. Limited coordination with programme units in pre-determining a minimum demand for critical commodities. Gaps in market intelligence and definition of the purchasing group upon IPF completion. SCIPS and WINGS not interfaced and manual updating of price data and transport cost in SCIPS.

Observation 7 **Agreed Actions [High priority]**

Vendor management, including performance assessment

Issues concerning vendor management had already been identified by the Office of the Inspector General in 2016⁸ and 2017. The vendor management business process was reviewed from February to April 2018 with the support of external experts. The review focused on five main areas: due diligence; vendor performance evaluation; central repository; automation of processes and tools; and segregation of duties. It highlighted multiple issues which were confirmed by the audit. These included: non-standardized templates; unclear sets of data for vendor management; limited automation of processes and tools; different systems not interfaced, impairing aggregation of data, strategic analysis and remote monitoring; and lack of some roles (for example a data management role). The recommendations made in the external report are yet to be implemented by OSC.

In addition to the above issues the audit also highlighted that:

- Vendor due diligence is mainly based on desk reviews of documents provided by vendors without systematic checks of references and factory/site visits. The timeframe for renewal/validity of due diligence is not defined, and the process is generally carried out only the first time a vendor is registered in the roster.
- The opportunity for a procurement unit in one region to rely on due diligence carried out by other regional or CO procurement units is unclear, and different practices were identified across RBs. One RB indicated that they do not rely on CO due diligences, but may rely on HQ ones, another RB only used CO vendor lists and was not involved in CO vendor assessments, and a third RB was unclear about the possibility of using vendors vetted by HQ and other RBs.
- Vendor performance evaluation is paper based, carried out per transaction/purchase order, and there is no process for escalation of issues, or for comprehensive view on vendor performance and sharing of information across different offices and/or levels. One RB did not timely carry out a vendor performance assessment for seven out of the eight purchases reviewed.
- Vendor contract management issues were not always considered and utilized to inform shortlists.

OSC will:

- (i) Implement effective knowledge management processes across the different organisational levels, leveraging the recommendations made in the report following the external vendor management process review. This will include an adequate vendor management tool for escalation of information, leveraging existing systems as is possible.
- (ii) Clarify timeframes and controls to be carried out for vendor due diligence at all levels of the organization, addressing the issue of reliance on due diligence processes conducted by other offices. This will include minimum standards for due diligence at all levels.
- (iii) Revise the vendor performance evaluation process to achieve a more comprehensive assessment and clear and harmonized suspension management across the organisation.
- (iv) Clarify and establish controls over payment of vendors based in countries under non-UN sanctions in coordination with the Treasury Unit, and disseminate related guidance to RBs.

Due date: 30 June 2020

⁸ Internal Audit of Goods and Services Procurement (AR-16-06).



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- Suspensions of vendors were mainly linked to past performance. As there is no structured escalation system, there was a lack of visibility and there may be limited dissemination of vendor suspension.

Underlying causes: Limited resources for implementation of structural changes or actions. Lack of clear corporate guidance and unstructured knowledge management process related to vendor due diligence and follow-up. Manual process for performance assessment. Lack of clarity about limitations and risks relating to suppliers in countries under non-UN sanctions.



Line of enquiry 4: Do IT systems and tools in place support procurement processes at all levels?

The audit tested the utilization of corporate systems, specifically In-tend, WINGS and SCIPS, to assess how they support procurement units in managing procurement activities, including data and trend analysis, decision making, oversight and fraud prevention. The review also covered checks performed on data registered to ensure accuracy and integrity of information.

The use of In-tend for competitive tenders has increased in recent years and is currently implemented in almost all of WFP operations, with some exceptions due to international sanctions or immateriality of food procurement. One RB, in coordination with the HQ Planning Unit, had started developing a dashboard to visualize procurement data by COs in the region including implementation plans, top vendors, sourcing countries, PO types, volumes etc. It is envisaged that this will facilitate risk-based oversight planning and remote monitoring of CO food procurement activities.

Observation 8

Agreed Actions [Medium priority]

Use of supporting IT systems and quality of data

The audit observed that the main IT systems supporting food procurement, WINGS and In-tend, were not interfaced. The only key reference code to link tenders (in In-tend) to POs (in WINGS) was the tender number manually entered in a text field in WINGS. This is prone to input errors and the audit identified instances of incorrect or missing data, potentially impairing effective data analysis.

There was no structured periodic review or reconciliation of data in the systems to identify trends, anomalies or errors. OIGA's review of data in the two systems identified: (i) several waived tenders registered as competitive; (ii) 34 tenders with duplicated invited vendors; (iii) 91 vendors invited to multiple tenders and never responding.

The In-tend set-up, and cumbersome data extraction, do not facilitate oversight:

- The system lacks functionalities for receiving confirmations from vendors of receipt of requests for offer, as well as for declining participation indicating reasons. Offices need to follow-up manually and this is inconsistently done.
- The system functionality for vendor performance and blacklisting is not utilized.
- The functionality for offer evaluation is cumbersome and requires manual processing before being presented to the PCCs.

Vendor lists are maintained in In-tend, however, system profiles are not segregated and allow procurement officers to add or remove vendors. At the time of the draft audit report OSC indicated that they had released some system upgrades to address the issue. There was no segregation between staff managing the system vendor roster and those managing procurement actions at RB and CO level.

For some POs, supporting documentation was not attached in WINGS as per internal rules.

There are opportunities to simplify the procurement process, and rely on further automation for transactional steps, monitoring and oversight, thereby allowing time to engage in more strategic activities. These opportunities are also described in observations 6 (SCIPS) and 8 (WINGS and In-tend).

Underlying causes: Lack of corporate guidance on possible data analysis. Limited resources requiring prioritisation of transactional activities. Funding constraints for the implementation of an integrated system.

OSC will:

- Re-assess In-tend functionalities and identify and implement suitable options to interface the e-tendering system and WINGS, and better support transactional activities (for example to track receipt of request for offers and declining participation).
- Define and implement roles, responsibilities and operating modalities for trend analysis, detection of anomalies and for data accuracy checks (including for example, the use of the e-tendering system, duplicated vendors, invited vendors consistently not responding, incorrect PO types, etc.).
- Finalize changes for segregation of vendor management and procurement profiles and introduce procedures to consistently reassess allocation of profiles at field level.
- Reinforce the need to upload contract supporting documentation in WINGS.

Due date: 30 June 2020



Annex A – Summary of observations

The following tables shows the categorisation, 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			Implementation lead	Due date
	WFP's Internal Control Framework	WFP's Enterprise Risk Management Framework	WFP's Internal Audit Universe		
2 Resourcing – staff capacity and funding	Control Environment	Governance and oversight	Human resources management	OSC	30 June 2020
5 Coordination on food safety and quality practices	Control Activities	Business process	Food quality and safety	OSC	30 June 2020
6 Procurement planning and market intelligence	Control Activities	Business process	Procurement - food	OSC	31 March 2020
7 Vendor management, including performance assessment	Control Activities	Business process	Procurement - food	OSC	30 June 2020



Medium priority observations	Categories for aggregation and analysis			Implementation lead	Due date
	WFP's Internal Control Framework	WFP's Enterprise Risk Management Framework	WFP's Internal Audit Universe		
1 Strategy for Food Procurement, including Smallholder Farmer Concept, and Key Performance Indicator Metrics	Control Environment	Governance and oversight	Governance	OSC	31 March 2020
				OSZ	31 March 2020
3 Oversight and risk management	Risk Assessment	Governance and oversight	Risk management	OSC	31 March 2020
4 Capacity and functioning of the Purchase Contracts Committee	Monitoring Activities	Governance and oversight	Procurement - food	OSC	31 March 2020
8 Use of supporting IT systems and quality of data	Information and Communication	IT and communications	IT Enterprise Architecture	OSC	30 June 2020

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 Categorisation 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 serves 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, incl. 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.⁹
5. To facilitate analysis and aggregation, observations are mapped to different categories:

2.2 Categorisation 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.”¹⁰ 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 analysis 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 Categorisation by WFP’s Enterprise Risk Management Framework (ERM)

7. WFP has developed a risk categorization framework to assist management at all levels as well as to improve risk analysis. The framework enables offices and operations to identify risks using a common language across WFP. Risks are classified into four primary categories: strategic, operational, fiduciary and financial. Reputational risk is defined as a consequential risk whereby risks occurring in any category could have a negative impact on WFP’s reputation. Within these four categories, 15 risk areas covering the scope of WFP’s enterprise risk management have been defined.

⁹ 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.

¹⁰ OED 2015/016 para.7

Table B.4: WFP’s new Risk Categorization 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

2.4 Categorisation by WFP’s Audit Universe

8. WFP’s audit universe¹¹ covers organizational entities and processes. Mapping audit observations to themes and process areas of WFP’s audit universe helps prioritise thematic audits.

Table B.5: WFP’s 2018 Audit Universe (themes & 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 & 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.
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 & Advocacy	Board and external relations management, Cluster management, Communications & advocacy, Host government relations, Inter-agency coordination, NGO partner-ships, Private sector (donor) relations, Public sector (donor) relations.
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, Monitoring & Evaluation (M&E) framework, Gender, Protection, Environmental management.

¹¹ A separate universe exists for information technology with 60 entities, processes and applications.



3. 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

CO	Country Office
CSP	Country Strategic Plan
D2	Director Level 2
DoA	Delegation of authority
FSQ	Food Safety and Quality
GCMF	Global Commodity Management Facility
HQ	Headquarters
IPF	Import Parity Form
KPI	Key Performance Indicator
MT	Metric Tonnes
OSC	Supply Chain Division
OSCSF	WFP HQ Food Procurement Unit
OSZ	Policy and Programme Division
PCC	Purchase Contracts Committee
PO	Purchase Order
RB	Regional Bureau
RMR	Enterprise Risk Management Division
SCIPS	Supply Chain Import Parity System
SHF	Smallholder Farmers
SOP	Standard operating procedure
UN	United Nations
USD	United States Dollar
WINGS	WFP Information Network and Global System, WFP's ERP system
WFP	World Food Programme