SAVING
LIVES
CHANGING
LIVES

Internal Audit of WFP Djibouti corridor management

Office of the Inspector General
Internal Audit Report AR/19/12

June 2019

WFP
World Food Programme

Contents

Internal Audit of Djibouti corridor management

I. Executive Summary

WFP Djibouti Corridor Operations

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP Djibouti corridor operations that focused on the period 1 January 2017 to 31 December 2018. The audit team conducted the fieldwork from 1 April 2019 to 11 April 2019 at the Ethiopia country office premises in Addis Ababa and Djibouti Humanitarian Logistics Base premises in Djibouti city. The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

2. The Djibouti port is the principal transit port for cargo in and out of Ethiopia and a key link in commercial transport routes to and from the greater Horn of Africa. Due to the rapidly growing Ethiopian market, commercial throughput combined with continued high volumes of humanitarian assistance, generated significant strain on the Djibouti port and transport sectors, resulting in escalating logistics costs. To address these constraints a Special Operation of the WFP Ethiopia country office was approved by WFP HQ starting 2010, in agreement with the government of Djibouti, to establish a Humanitarian Logistics Base whose construction was completed in 2017 at a cost of USD 31.5 million. The facility offers 7,800 m^2 of covered, and some temperature-controlled warehouses with storage capacity of 65,000 MT, 600 m^2 of office space with a training centre, and four silos with a capacity of 10,000 MT each.

3. The Djibouti country office is in the process of preparing its Country Strategic Plan for the period 2020 to 2024 which incorporates corridor services with the aim of providing supply chain services to the humanitarian community in the region and development of a supply chain centre of excellence as one of the strategic outcomes.

Audit conclusions and key results

4. The business case for the development of the Humanitarian Logistics Base was based on the need to create silos as a buffer for Ethiopia bulk cargo. The aim was to save significant congestion-induced demurrage costs incurred at that time by WFP Ethiopia country office and other recipient countries, for example costs approximated a total USD 9 million between 2014 and 2018.

5. The project was envisioned to be delivered by August 2013 at approximate cost of USD 20 million but was delayed and completed in 2017 at total cost of 31.5 million USD. By the time the infrastructure was delivered, the conditions had significantly changed, challenging the relevance of the investment made as large scale private investments in Djibouti included a new modern port and a railway connection between Ethiopia and Djibouti, reducing the time to transport goods from 2 days to five hours. Recent changes in the geo-political relations between Ethiopia and Eritrea resulted in opening access to a new port of entry for goods destined for Ethiopia. Alternative delivery modalities and routes utilised by Ethiopia country office, such as direct delivery of containerised cargo and use of the Somalia, Berbera port; the opening of the Salalah corridor by the Yemen country office; and selection of Global Commodity Management Facility preposition in Nazareth, Ethiopia further contributed to a changed landscape, jeopardizing assumptions made in 2010 and were never reconsidered as the project took significantly longer than initially anticipated. As a result of these developments, the throughput of the Djibouti corridor decreased by over 50%, resulting in significant under-utilisation of the Humanitarian Logistics Base.

6. Annual fixed operating costs for the Base are approximately USD 2.5 million against a bilateral service provision income forecasted at USD 0.6 million, meaning the Base would be operating at a loss should it not be transferring all fixed cost to its client operations resulting in a very high fee per MT. Corridor staffing levels and headcount which constitute 61% of the corridor operational costs have not proportionally changed and have not been reviewed in light of the significant decrease in throughput between 2017 and 2019. This has resulted in an increase of corridor costs per metric tonne of 40%. At the time of the audit only 20% of the planned tonnage for 2019 had been received through the Djibouti corridor, causing an

underutilisation of the current corridor staffing capacity. In this view, the sustainability of the Humanitarian Logistics Base needs to be urgently re-assessed.

7. Operational efficiencies and effectiveness were limited due to the lack of a comprehensive strategy to guide the regional and cross-regional impact of the Djibouti corridor. No unit in WFP is tasked with the management of corridors from a corporate level or to guide the business model and structure of the corridor (cost recovery, governance, performance expectations and reporting, etc.).

- Benchmarking among WFP corridor operations and against commercial operations; potential consolidation of logistics capacities of countries in the region; and assessing potential operational synergies with the Global Commodity Management Facility, UN Humanitarian Response Depot and the Yemen country office logistics cluster should inform a corridor management strategy that would be the basis for its governance framework and service delivery model.
- Lack of governance structures and accountability mechanisms for the end-to-end management, coordination and oversight of the Djibouti corridor have contributed to inconsistent decision making, fragmentation of accountability and a service delivery that is not transparent.
- The prevailing delegation of authorities between the Ethiopia and Djibouti country offices and the regional bureau in Nairobi has also led to misalignments and misunderstandings.
- Operations would benefit from the development of guidelines that define the minimum structures, standardised costing approach and performance standards.

8. Opportunities for improvement of the design and implementation of the corridor costing model were identified with regard to apportioning and allocating corridor costs across recipient countries. Currently, there is no standardized corporate cost sharing model. The regional corridor costing methodology used by Djibouti country office uses multiple cost drivers, increasing complexity and risk of computational errors, and excluding pertinent costs, such as depreciation and insurance. Operational effectiveness and transparency could be increased by timely preparing cost sharing reconciliations and effecting necessary and timely cost adjustments, integrating corporate operational and financial systems for real-time recoding of corridor costs, and adjusting for the income from bilateral service provision into the cost sharing matrix.

9. The audit noted that the co-ordination and efficiency of corridor operations were impeded by the lack of definition of performance and related standard indicators and automated systems to track cargo status and report on performance. Additionally, there was limited consolidation of the logistics capacity assessments carried out independently for serving and recipient country offices to inform corridor strategy.

10. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **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 should be achieved. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity. Urgent management action is required to ensure that identified risks are adequately mitigated.

11. The audit report contains four high priority observations, including actions directed at the corporate level.

Actions agreed

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

13. 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

Djibouti Corridor

14. The strategic location of Djibouti makes it possible for cargo to reach Ethiopia, Somalia, North and South Sudan, and Kenya by road and Yemen by sea, all within eight to ten days. Over five million metric tonnes of cargo pass through Djibouti in a year. The Djibouti port is therefore critical for the efficient flow of humanitarian goods in and out of Ethiopia and the countries along the Horn of Africa.

15. Large-scale strategic infrastructure has been completed in Djibouti in the last few years, including a new port and container terminal with modern facilities for all types of cargo, including bulk grain, break-bulk and containerised cargo and fertiliser. The old Djibouti port is dedicated to bulk and conventional cargo. The construction has increased the uptake capacity of Djibouti as a major regional port and has reduced congestion and delays in the movement of cargo. A new railway line connecting Djibouti and Ethiopia in 2018 complements the limited overland trucking capacity between Ethiopia and Djibouti, also limiting the time to move cargo between Djibouti and Ethiopia to approximately five hours as compared to the road transport which takes more than two days. This ensures that the Djibouti ports remain central to Ethiopia's maritime trade and continue to act as an important strategic international trading hub in the region.

WFP Djibouti Corridor Operations

16. The Djibouti corridor actual throughput and operational costs for WFP for the period 2017 to 2019 (forecast) are illustrated in the table below:

Year	Total throughput MT	Total operational Cost	Cost per MT
2017	249,000	3.7 million	USD 15.05
2018	156,000	4.0 million	USD 22.00
2019[1]	121,000	2.5 million	USD 21.02

17. The decline in throughput between 2017 and 2019 transhipped through Djibouti averaged 43%, resulting in 40% increase in cost per MT as shown in the table above. The increase in cost is mostly attributable to staffing levels and related costs that remained the same in that period. Ethiopia country office's (ETCO) throughput constituted an average of 73% of total corridor throughput and therefore absorbed the largest part of the corridor operational costs.

18. The draft concept note of the Djibouti Country Strategic Plan (CSP) 2020 – 2024 seeks to gradually move towards supporting the government's development initiatives through facilitating and enabling activities. The draft concept note recognises that the governments' strategy for development and the path to zero hunger depend on Djibouti's integration into the global economy. The country office aims to continue providing common services to agencies responding to nearby emergency situations while providing support to the government and other relevant actors through the infrastructure of the Humanitarian Logistics Base (HLB) as a national logistics centre of excellence.

Objective and scope of the audit

19. The objective of the audit was to provide assurance on the effectiveness of internal controls, governance and risk management processes related to the management of the WFP Djibouti Corridor. Such audits are

[1] The 2019 throughput figures represent planned forecast at the time of audit in March 2019.

part of the process of providing an annual and overall assurance statement to the Executive Director on governance, risk-management and internal control processes.

20. 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.

21. The scope of the audit covered the period from 1 January 2017 to 31 December 2018. Where necessary, transactions and events pertaining to other periods were reviewed. Considering the coverage in the OIGA audit of landside transport in 2018 (AR/18/10), this audit did not cover the transport area in detail in relation to the Djibouti corridor management.

22. The audit field work took place from 1 April 2019 to 11 April 2019 at the Ethiopia country office premises in Addis Ababa and the HLB in Djibouti city.

III. Results of the Audit

Audit work and conclusions

23. Taking into account the CO's risk register specific to the corridor operations, findings of WFP's second line of defence functions, as well as the independent audit risk assessment, the audit work was tailored to the corridor context in the country and to the objectives set for the corridor operations.

24. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **ineffective / unsatisfactory**[2]. 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. Urgent management action is required to ensure that identified risks are adequately mitigated.

Gender maturity

25. The Office of Internal Audit, in supporting WFP's management's efforts in the areas of gender, separately reports its assessments or gaps identified in both areas.

26. Given the specific scope of the audit focusing on corridor operations, the gender dimension was not addressed by the audit.

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

Observations and actions agreed

27. Table 1 outlines the extent to which audit work resulted in observations and agreed actions. These are classified according to the areas in scope established for the audit and are rated as 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
A: Does the corridor management strategy, organisational structures, frameworks and resourcing mechanism facilitate effective management of the corridor?	
1. Sustainability of the Humanitarian Logistics Base	*High*
2. Corridor management strategy and governance framework	*High*
3. Bilateral Service provision strategy	*Medium*
B: Is the corridor cost sharing model, effective, fair and sustainable?	
4. Cost sharing model	*High*
C: Are the port operations and the Humanitarian Logistics Base managed efficiently and effectively?	
5. Corridor management tools and co-ordination mechanisms	*High*

28. The 5 observations of this audit are presented in detail below.

29. 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.

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

A: Line of Enquiry 1
Does the corridor management strategy, organisational structures, frameworks and resourcing mechanism facilitate effective management of the corridor?

30. The audit performed tests and reviews of the strategy and guidelines guiding the management of the Djibouti corridor, including the coordination mechanisms between the various stakeholders of the corridor and its effect on operational efficiencies and sustainability; the delegation of authority between the regional bureau in Nairobi (RBN), ETCO and Djibouti country office (DJICO) and how it facilitates effective decision making; staffing and resourcing of corridor activities; and oversight and support from HQ and RBN.

31. A review conducted by RBN in 2018 for the corridors within the region already highlighted operational challenges arising from the lack of governance and accountability framework and the absence of service management standards. With the goal to address these challenges, an Integrated Corridor Management (ICM) solution has been conceptualised in consultation with the Supply Chain Division (OSC) and the country offices in the region. The business case proposal was not finalised at the time of the audit.

Observation 1 : Sustainability of the Humanitarian Logistics Base

32. The business case for the HLB and the investment in the four silos with a total capacity of 40,000 MT was developed in 2010, and the construction was planned for completion in August 2013 at a cost of USD 20 million. Due to technical challenges, the construction faced significant delays and was completed seven years later, in 2017, for a total cost of USD 31.5 million. The investment foresaw the creation of a buffer for Ethiopia bulk cargo in transit. The initial assumptions made for the justification of the investment included:

(i) Congestion at the port facility in Djibouti resulting in significant demurrage, shunting and storage/detention charges for ETCO. These costs amounted to over USD 9 million dollars between 2014 and 2018;

(ii) Limited silo capacity in the Djibouti port and inadequate truck capacity; and

(iii) Government of Ethiopia's plan to increase the strategic grain reserve from 400,000 to 3 million MT.

33. Over a period of seven years, the conditions have, understandably, changed since the business case for the HLB was made, making these no longer valid: large-scale investments in a new port; railway connection between Djibouti and Ethiopia inaugurated in 2018; resumption of relations between Ethiopia and Eritrea creating the opportunity for re-opening the port of Massawa; and other alternative routes and transport modalities introduced by ETCO, Yemen country office (YEMCO) and the Global Commodity Management Facility (GCMF), discussed as a potential silo user. In 2018, YEMCO opened a new corridor to serve its operations and therefore was no longer using the Djibouti corridor.

34. This resulted in the under-utilisation of the HLB which has seen throughput decreasing by 53% between 2017 and 2019. The silos have only been used once, at 15% of their capacity, since they were commissioned in 2017. The total operating fixed cost of the HLB and the silos is estimated at USD 2.5 million per year. Part of this, the silos' annual running cost, is estimated at a total of USD 400,000 with additional investment of over USD 1 million required to bring them to full operational functionality. WFP relied on a contracted party to operate the silos at the times they were utilized in 2018 and currently as there is no capacity internally. The audit also noted that two warehouses at the old Djibouti port, donated by the Djibouti government, were significantly under- utilised at the time of audit.

35. Due to the absence of an effective governance structure (see observation 3) RBN did not have control over the decisions made by recipient countries that have an impact on the Djibouti corridor activity and sustainability. ETCO decided on the use of direct delivery transport and alternative ports outside of Djibouti based on a cost benefit analysis, impacting the Djibouti corridor and DJICO. YEMCO reduced its throughput through Djibouti by 99% in 2018 and has not planned any throughput via DJICO in 2019 unless on an exigencies basis. In as much as the development of the HLB was relying on assumptions of other country offices using it, the pure cost benefit analysis by these country offices, without considering the corporate investment in the HLB, resulted in an inaccurate assessment of the costs from a corporate perspective and an absence of corporate-led discussions on what this meant for the viability of the HLB and loss of the corporate level investment in the HLB. Other cost benefits analysis performed by RBN and DJICO negated the benefits outlined by ETCO, and the need to reconsider reasonable cost if a model is not effective and efficient.

36. In consideration of the above factors, the sustainability of the HLB needed to be re-assessed, taking into consideration reputational risk, return on investment, and donor perceptions. At the time of the audit, a draft proposal

on potential options for the use of the HLB had been developed by RBN in consultation with OSC for corporate consideration and decision.

Underlying cause(s): Lack of a corporate view and ownership for the management of WFP corridors, as well as consideration of cost-benefits from a corporate perspective. Limited corporate prioritisation and assessment of return on investment in the HLB. Absence of a governance framework to enforce accountability. Significant delays between the decision to set-up the HLB and finalisation of the construction.

Agreed Actions [High priority]

OSC will:

(a) Finalize the review and confirm the corporate decision on the silos and HLB sustainability taking into consideration the MoU signed with the Government of Djibouti and expectations of the donors who funded the investment.

(b) Conduct a comprehensive cost benefit analysis and make a decision on the most efficient and effective delivery routes and transport modality, taking into account the impact on the Djibouti corridor.

Timeline for implementation

31 December 2019

Observation 2 : Corridor management strategy and governance framework

37. From inception, the following constraints in defining the corridor strategy, governance approach and guidelines contributed to operational challenges and inefficiencies of the Djibouti corridor activities.

38. *Corridor strategy*: A comprehensive strategy that would inform the management of the Djibouti corridor had not been developed corporately or regionally by RBN, in consultation with all possible stakeholder in the model ("client" country offices, GCMF, etc.). The following preparatory steps were yet to be undertaken to inform a corporate corridor management strategy:

- *Benchmarking:* Corporately, a benchmarking exercise among WFP corridor operations and against commercial corridor operations detailing good practices, possible operational modalities, infrastructure investment, management and costing models had not been performed to guide WFP's approach to corridors.
- *Capacity assessments:* Logistics capacity assessments and capacity strengthening activities by the serving and recipient countries had not been consolidated to inform a corridor management strategy in the region and guide decision making on the conditions required for a fully operational and functioning HLB.
- *Operational synergies:* Potential operational synergies with the GCMF, UN Humanitarian Response Depot (UNHRD) and the YEMCO logistics cluster based in and operating from the Djibouti HLB have not been formally identified to inform and streamline the management of the Djibouti corridor.

36. Governance: The audit noted that governance structures and accountability mechanisms for end-to-end management coordination and oversight for the Djibouti corridor had not been defined. Roles of RBN, ETCO and DJICO were not clear and comprehensively articulated. The Delegation of Authority (DoA) for overland transport given to ETCO, but executed in coordination with DJICO, required support and oversight from RBN and resulted in fragmentation of accountabilities and decision making. RBN did not have control over significant decisions undertaken by recipient countries and impacting the HLB operations, including the use of alternative modalities and routes based on operational demand and efficiency. (see observation 1).

37. Guidelines: No corporate guidelines on corridor management informed key aspects of corridor management such as minimum structures, methodology for capacity assessment of country offices to provide corridor services, standard cost sharing models, frequency and methodology of assessments to inform corridor operations, and SOPs between serving and recipient countries to strengthen co-ordination and to establish performance standards.

38. Staffing: No staffing structure review (SSR) had been conducted to assess and justify the staffing level of the current DJICO corridor management staff. In the draft 2018 and 2019 cost sharing matrix, staff cost represent 43% and 61% respectively of the total corridor costs, constituting the most significant cost factor, with its share increasing as the staffing level has remained at a head count of 36 since 2017 despite a significant reduction of the volumes handled by the corridor of over 50% from 2017 to 2019. The CO re-classified and re-apportioned staff costs in the 2019 cost sharing matrix corridor to CO and BSP budget in May 2019 after the audit fieldwork, and therefore was not reviewed as part of the audit. This reapportionment has increased the costs per tonnage charged to the recipient countries, which complained that the corridor costs are high compared to alternative routes. Note that 24 of the staff are fixed term contracts holders, some of which had been transformed to fixed term in the last two years.

Underlying cause(s): Lack of prioritization for the development of a corporate corridor management strategy. Focus has been given to decentralised operational management, which may be attributable to the lack of corporate ownership for defining the strategy, governance framework and guidelines. Limited corporate ownership on the decision to fund and later support the operation of the Djibouti HLB. Fragmented accountability across corridor multi-stakeholders as a result of existing DoA operational structures. Lack of transparency on decisions, especially those with cost implications, leading to mis-trust and tension among corridor users.

Agreed Actions [High priority]

OSC will:

(a) Clarify ownership and develop a corporate corridor strategy incorporating governance and staffing structures, with guidelines that support corridor management and relevant resource requirements;

(b) In consultation with RBN, DJICO and ETCO, reassess the effectiveness of the current Delegation of Authority arrangements for the Djibouti corridor.

DJICO will:

(c) In consultation with HR, RBN and OSC and, based on the corridor strategy and the assessment of the sustainability of the HLB once finalized (see observations 1), perform a review on the staffing level required for the Djibouti corridor management.

Timeline for implementation

a) 30 September 2020

b) 31 December 2019

c) 31 May 2020

Observation 3 : Bilateral service provision strategy

39. In support of activities proposed in the CSP, DJICO has developed a Bilateral Service Provision (BSP) draft strategy which foresees the provision of supply chain services to the humanitarian community (on a full-cost-recovery basis) and the development of a supply chain centre of excellence through partnerships. The draft strategy had not been finalised for corporate review and approval at the time of the audit. Its implementation and service delivery mechanisms had not been clearly articulated and informed by a market intelligence analysis to determine economic viability. Also, a formal collaboration with GCMF as a potential key client of the BSP had not been agreed.

Underlying cause(s): Limited capacity at DJICO to develop and implement the BSP, and insufficient consultation with internal stakeholders. Unclear arrangements for reconsideration of the value for money of corridors.

Agreed Actions [Medium priority]

DJICO will in consultation with OSC, RBN and other relevant units, finalise the BSP strategy and business case, supported by a viability and feasibility assessment for OSC approval.

Timeline for implementation

31 December 2019

B: Line of Enquiry 2
Is the corridor cost sharing model, effective, fair and sustainable?

40. The audit performed tests and reviews of the design and operational effectiveness of the cost sharing model including: components and related cost drivers included in the cost sharing matrix; criteria of apportionment of costs between the corridor and recipient countries; the process for sharing and reviewing the annual cost sharing matrix; the periodic reconciliations of the cost sharing and the payment process. Service Level Agreements (SLAs) signed annually between DJICO and recipient countries outline the expected corridor services and operational fixed costs based on planned throughput.

41. During the audit period, RBN carried out oversight and support missions, some of which were triggered by potential issues regarding transparency, fairness and accuracy of the 2018 and 2019 cost sharing matrixes prepared by DJICO and shared with the five recipient countries. As detailed in line of enquiry one, the proposed ICM solution linked to the cost sharing model aims to comprehensively define and standardise the costing methodology and set guidelines on allocation of corridor costs to recipient countries.

Observation 4 : Cost sharing model

42. The following shortcomings were noted with regard to the cost sharing model that is used to apportion and allocate corridor costs to the five recipient countries that are served by the Djibouti corridor:

Design and implementation of the cost sharing matrix

43. The current cost sharing matrix is composed of non-standardised, multiple costs drivers that increase its complexity. The matrix apportions fixed costs using forecasted throughput and variable costs based on charges for services rendered against existing contracts with service providers. Other costs such as depreciation provisions and insurance costs are not included, noting that the HLB is not insured against potential risks of fire, theft and destruction. DJICO has not performed relevant analysis to determine an applicable tariff per metric tonne that would be charged to recipient countries for throughput discharged through the corridor. The audit noted errors in the draft 2019 costing matrix shared with recipient countries as a result of inadequate controls to ensure its accuracy and completeness.

44. Recipient countries perceive this model as unreliable for budget planning purposes. They also have limited visibility on income generated through bilateral service provisions by DJICO and their impact on the cost sharing matrix. The current governance arrangements of the corridor do not adequately provide for advance notification on costs or reporting on the activity from a transparency and accountability perspective.

Recording of corridor costs

45. Lack of integration of operational and financial data in systems (WINGs and LESS) has posed challenges on timely recording of actual corridor costs and impacted the reconciliation process. Further, payments by recipient countries require DJICO to process multiple fund reservations which causes inefficiencies as it is not possible to match corridor expenditure on a one-to-one basis for each recipient country.

Reconciliation

46. The audit noted cost sharing reconciliations were not performed on a quarterly basis as stipulated in the SLAs signed between DJICO and the recipient countries. The 2018 reconciliations were only finalised in May 2019, after the audit fieldwork, and were not reviewed by the auditors, including necessary adjustments for the corridor capital loan repayments. Changes in throughput in the past financial periods resulted in e-adjustments, reapportionment and redistribution of unforeseen costs across the recipient countries, which in turn had to find the extra resources to cover these unexpected cost increases.

47. The forecasted BSP income for 2019 of USD 600K against total costs of USD 582K (65% being staff costs) provides limited flexibility in case the income is not realised and may result in adjustments of the cost matrix at the end the year and additional, unexpected costs being re-allocated to the recipient countries.

<u>Underlying cause(s):</u> Absence of corporate guidelines on a standardised costing methodology for WFP corridors and bilateral service provisions. Limited management accounting and costing analysis capacity at DJICO, and in WINGS.

Limited controls of the cost sharing matrix by DJICO. Pressure by recipient countries to maintain minimal rates in the corridor cost sharing matrix. Non-compliance with WFP asset management guidelines on insurance. Complex manual process of extracting expenditure information from WINGS and matching data with LESS. Non-compliance with SLA mandatory requirements.

Agreed Actions [High priority]

OSC will:

(a) Based on the corridor strategy adopted (see observation 2) develop a standard corporate model for integrated corridor management (ICM).

(b) Assess feasibility of incorporating depreciation costs in the cost sharing matrix for the HLB and silos (contingent upon the decision taken under observation 1), to provide for replacement costs for specialised equipment which may require major long-term repairs and overhaul.

(c) Consult with the WINGS team to determine a simplified way to record and manage corridor costs, without having to obtain multiple fund reservations from all the recipient countries.

DJICO in liaison with RMMA, RBN and OSC will:

(d) Review the potential risk exposure of the HLB in terms of losses through theft, fire or other damages and obtain appropriate insurance coverage.

DJICO will:

(e) Finalize the cost sharing reconciliation for 2018 and make adjustments for the loan repayment balance.

(f) Finalize the 2019 cost sharing matrix, address the data quality issues noted and ensure timely performance of quarterly reconciliations.

Timeline for implementation

a), b) and c) 31 December 2020

d) 31 December 2019

e) Finalized at the time of the issuance of the report

f) 31 December 2019

C: Line of Enquiry 3
Are the port operations and the Humanitarian Logistics Base managed efficiently and effectively?

48. The audit performed tests and reviews of the design and operational effectiveness of systems, processes and tools used to support the HLB operations, including transport allocations, transporter contracting and assessments, co-ordination mechanisms and tools supporting the end-to-end processes. For sampled vessels, the audit reviewed the detailed process steps for arrivals, discharge, clearance, tracking and monitoring of cargo status and coordination mechanisms between DJICO and ETCO.

49. RBN carried out a number of oversight and support missions on the corridor management which have highlighted the necessity for improved coordination to increase efficient and effective service delivery.

Observation 5 : Corridor management tools and co-ordination mechanisms

50. The effectiveness and efficiency of the corridor operations depends on functioning co-ordination mechanisms, supporting systems and tools, as well as defined performance standards between DJICO and the recipient countries to guide service delivery and service orientation. The following weaknesses were noted that impact the delivery of services:

a) There were no systems, tools or platforms to process and monitor cargo status from the time the sailing advice is received to the moment cargo arrives at the recipient countries. Most of the processes were managed and coordinated via email. The audit noted on average 20 steps that were performed and communicated through emails between ETCO and DJICO when processing vessels. Information gaps were noted as communication over the phone was not recorded and confirmed in writing. As a result, the audit could not assess the level of effectiveness and efficiency of the operations, nor timeliness of the processing of the throughput.

b) There were no standard key performance indicators for the management of the corridor. Similarly, at process level there were no performance standards established to track and monitor performance across the end-to-end corridor processes. Recipient countries on multiple occasions complained about the non-performance of the Djibouti corridor, however there was no formal information to determine the nature of the claims.

c) Standard protocols for communication had not been established internally and with port officials. This resulted in weak coordination between the DJICO and ETCO and led to confusion in dealing with port officials. Since ETCO adopted the direct delivery option for containerised cargo, they have been dealing directly with Djibouti port officials, without DJICO in the loop.

d) Ratings of performance evaluations for corridor service providers were unusually high, with consistent and similar comments throughout the audit period, with limited evidence of an effective review process.

e) ETCO uses the DJICO storage plant in LESS for capturing containerised cargo that is received through direct delivery. Data capturing by ETCO in LESS has been delayed in most cases, negatively impacting on the data reliability score of DJICO, showing it as the lowest in the region.

Underlying cause(s): Insufficient audit trail maintained on the activities processed through the HLB. Lack of service orientation when various stakeholders contribute and benefit from the operations, including demonstrating and reporting on performance. Limited resources allocated for development of corridor management tools and systems. Fragmented corridor management accountability. Mis-trust and tension between DJICO and ETCO on corridor operations. LESS configuration allows access to logistics officers to storage plants globally.

Agreed Actions [High priority]

OSC will:

(a) Liaise with TEC and formally assess feasibility of adapting existing corporate tools or developing an automated tool for streamlining current process steps.

(b) Develop corridor KPIs and process level performance standards in the SLAs that can be used to track and monitor performance end-to-end.

DJICO will:

(c) Conduct a thorough and documented review of the performance of service providers.

(d) Consult the HQ LESS team to accurately reflect in the monthly reporting the ETCO usage of DJICO plant for the direct delivery of containerised cargo.

Timeline for implementation

a) and b) 31 December 2020

c) 31 December 2019

d) Finalised at the time of the issuance of the report

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: WFP's Internal Audit Universe	WFP's Governance, Risk & Control logic: Risks (ERM)	Processes (GRC)	Implementation lead	Due date(s)
1	*Sustainability of the Humanitarian Logistics Base*	Governance	Adverse asset/investment outcome	Services	OSC	(a) and (b) 31 Dec 2019
2	*Corridor management strategy and governance framework*	Governance	Business model risks	Services	OSC DJICO	(a) 30 Sep 2020 (b) 31 Dec 2019 (c) 31 May 2020
4	*Cost sharing model*	Financial management	Business process risks	Services	OSC DJICO	(a) 31 Dec 2020 (b) 31 Dec 2020 (c) 31 Dec 2020 (d) 31 Dec 2019 (e) Finalized (f) 31 Dec 2019
5	*Corridor management tools and coordination mechanisms*	Overseas & landside transport	Business process risks	Services	OSC DJICO	(a) 31 Dec 2020 (b) 31 Dec 2020 (c) 31 Dec 2019 (d) Finalized

Medium priority observation		Categories for aggregation and analysis: WFP's Internal Audit Universe	WFP's Governance, Risk & Control logic: Risks (ERM)	Processes (GRC)	Implementation lead	Due date(s)
3	*Bilateral service provision strategy*	Governance	Business model risks	Services	DJICO	(a) 31 Dec 2019

Annex B – Definitions of audit terms: ratings & priority

1 Rating system

The internal audit services of UNDP, UNPA, 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 Priority of agreed actions

Audit observations are categorized according to the priority of 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.

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.

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]

[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.

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

3 Categorization by WFP's audit universe

WFP's audit universe[5] covers organizational entities and processes. Mapping audit observations to themes and process areas of WFP's audit universe helps prioritize thematic audits.

Table B.3: WFP's 2019 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.
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.

4 Categorization by WFP's governance, risk & compliance (GRC) logic

As part of WFP's efforts to strengthen risk management and internal control, several corporate initiatives and investments are underway. In 2018, WFP updated it's Enterprise Risk Management Policy[6], and began preparations for the launch of a risk management system (Governance, Risk & Compliance – GRC – system solution).

As a means to facilitate the testing and roll-out of the GRC system, audit observations are mapped to the new risk and process categorisations to define and launch risk matrices, identify thresholds and parameters, and establish escalation/de-escalation protocols across business processes.

[5] A separately existing universe for information technology with 60 entities, processes and applications is currently under review, its content is summarised for categorisation purposes in section F of table B.3.
[6] WFP/EB.2/2018/5-C

Table B.4: WFP's new ERM Policy recognizes 4 risk categories and 15 risk types

1	Strategic	1.1 Programme risks, 1.2 External Relationship risks, 1.3 Contextual risks, 1.4 Business model risks
2	Operational	2.1 Beneficiary health, safety & security risks, 2.3 Partner & vendor risks, 2.3 Asset risks, 2.4 ICT failure/disruption/attack, 2.5 Business process risks, 2.6 Governance & oversight breakdown
3	Fiduciary	3.1 Employee health, safety & security risks, 3.2 Breach of obligations, 3.3 Fraud & corruption
4	Financial	4.1 Price volatility, 4.2 Adverse asset or investment outcomes

Table B.5: The GRC roll-out uses the following process categories to map risk and controls

1	Planning	Preparedness, Assessments, Interventions planning, Resource mobilisation and partnerships
2	Sourcing	Food, Non-food, Services
3	Logistics	Transportation, Warehousing
4	Delivery	Beneficiaries management, Partner management, Service provider management, Capacity strengthening, Service delivery, Engineering
5	Support	Finance, Technology, Administration, Human resources
6	Oversight	Risk management, Performance management, Evaluation, Audit and investigations

5 Monitoring the implementation of agreed actions

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.

OIGA monitors agreed action from the date of the issuance of the report with regular reporting to senior management, the Audit Committee and the Executive Board. Should action not be initiated within a reasonable timeframe, and in line with the due date as indicated by Management, OIGA may close the action as unaddressed in the audit database and such closure confirmed to the entity in charge of the oversight. The Risk Management Division is copied on such communication, with the right to comment and escalate should they consider the risk accepted is outside acceptable corporate levels, and senior management, the Audit Committee and the Executive Board are informed in regular reporting.

Annex C – Acronyms

BSP	Bilateral Service Provision
CO	Country Office
CSP	Country Strategic Plan
DJICO	Djibouti Country Office
DOA	Delegation of Authority
ETCO	Ethiopia Country Office
GCMF	Global Commodity Management Facility
GRC	Governance, Risk and Control
HR	WFP Human Resource Division
HQ	WFP Headquarters
HLB	Humanitarian Logistics Base
ICM	Integrated Corridor Management
IRM	Integrated Road Map
KPI	Key Performance Indicator
LESS	Logistics Execution Support System
MOU	Memorandum of Understanding
MT	Metric Tonne
OSC	WFP Supply chain division
OSCL	WFP logistics and field support unit
RBN	Regional Bureau Nairobi
RMMA	WFP administration and travel unit
RR	Risk Register
SLA	Service Level Agreement
SO	Strategic Objective
SOP	Standard Operating Procedure
SSR	Staffing Structure Review
TEC	WFP Technology Division
UN	United Nations
UNHRD	United Nations Humanitarian Response Depot
USD	United States Dollar
WFP	World Food Programme
WINGS	WFP Enterprise Resource Planning Systems
YEMCO	Yemen Country Office