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Internal Audit of the Operating and Financial Models of the UN Humanitarian Response Depot

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I. Executive Summary

Introduction and context

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of the operating and financial models of the UN Humanitarian Response Depot. Since June 2000, WFP has been managing the UN Humanitarian Response Depot network (the network) with the mandate to pre-position relief and survival items and provide rapid mobilization services to countries affected by natural disasters or complex emergencies on behalf of the humanitarian community. The network is part of WFP's common services and service provision platforms and is core to WFP's emergency preparedness activities. The network, consisting of six hubs strategically located worldwide, provides: (a) standard services including warehousing at no cost; and (b) specific services such as procurement and transport at actual cost, plus seven percent management cost recovery. WFP is the manager as well as the main user of the network.
2. The network's revenue consists of contributions from host governments, donor funds, ad-hoc contributions to specific projects, and management cost recovery income generated from specific services provided to partners. Actual annual network operating costs from 2018 to 2020 averaged USD 8.6 million; the total value of stocks as of December 2020 amounted to USD 79 million. The network had 115 staff members at the end of 2020.
3. The audit focused on the period from 1 July 2019 to 31 August 2020 and on the following key areas: (a) strategy and performance; (b) operating model and services provided; and (c) funding model and financial management. Fieldwork took place from 3 November 2020 to 15 January 2021, with onsite visits to selected hubs in Accra and Dubai to review key processes and related controls, and with audit tests carried out remotely through conference calls for the Brindisi hub and the Network Coordinator's office in light of the COVID-19 provisions and restrictions at the time of the fieldwork. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Audit conclusions and key results

4. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory / some improvement needed**. The assessed governance arrangements, risk management and controls were generally established and functioning well but needed improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues 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.
5. The UN Humanitarian Response Depot has expanded over the years into a network of hubs and has evolved with the humanitarian operations landscape and the business requirements of its partners. These changes have introduced a range of operational and financial challenges, which, at the time of the audit, management was aware of and was proactively taking steps to address. The network, with its capacity, facilities and expertise, played an important role in expanding WFP's humanitarian common services during the COVID-19 emergency response.
6. The audit received positive feedback from selected key donors on their relationships and coordination with the network. Selected partners acknowledged the network's strengths in dealing with complex procurement and intra-agency relationships, while some WFP country offices expressed satisfaction with the hubs' support and services. Based on the on-site visits carried out, good practices were noted in the analysis of strengths, weaknesses, opportunities and threats, strategic procurement analytics, and client outreach; these are being replicated across the network.



7. A new strategy (2021-2025) was being formulated at the time of the audit, focusing on centralizing operations and capacity of some functions at the network level to enhance efficiency and harmonize procedures. It aimed to address some gaps in the previous strategy such as risks to strategy implementation, key performance indicators, and planned activities to resolve various operational issues. Critical components and analyses to support the formulation of the strategy had yet to be carried out, namely a partner needs assessment; a competition analysis; and a hub and network level assessment of strengths, weaknesses, opportunities, and threats. Such analyses should in turn inform a funding model review, a comprehensive staffing review and alignment of skillset to support the strategy implementation. Another key consideration was the alignment with WFP's vision and strategy for its service provision entities, which was under way, and WFP's emergency preparedness and response strategy.

8. The network received long-term recurring contributions as well as in-kind contributions¹ from host governments, other donor contributions and variable revenue stream from specific services, mainly management cost recovery. Fixed operating or running costs from 2018 to 2020 were funded by donor contributions and management cost recovery on average at a ratio of 60:40 respectively. Over the period, the network had increasingly relied on management cost recovery to finance its operations and compensate for host government donor contributions not covering running costs in specific hubs. This resulted in a misalignment of its funding and cost structures. A more sustainable funding model should aim to have fixed operating costs fully covered by host government contributions, and variable costs and operational growth funded by long-term recurring donor contributions and management cost recovery; this would require clarity on the direct and indirect costs of the activities of the network and its hubs and a determination of how each should be funded by the different revenue streams. There was also a need to clarify and strengthen divisional visibility and oversight on funding, budget, cash flow and financial reporting.

9. The audit noted that: (a) the network's staff costs represented around 81 percent of total operating costs – the network relied on short term consultant contracts given the funding model constraints; (b) the customer base for specific services was concentrated to two out of 42 active partners which accounted for 85 percent of the total internal funds for the last three years – the network provided a significant portion of specific services to WFP; (c) the management cost recovery rate had not been reassessed since 2011 to ensure the current rate allows for full cost recovery; and (d) monthly financial reporting did not clearly present its net financial surplus/deficit and cashflow position. The network was undertaking a comprehensive review of the funding model at the time of the audit.

10. Non-rotating stocks owned by WFP and external partners were limiting space availability for other stocks. Twenty-one percent of the network's total stocks as of December 2020 had been non-rotating for more than 24 months, impacting the operational efficiency of the network. WFP was the partner with the largest volume of stocks that had not rotated. Although service agreements provided for converting free warehousing services of non-rotating stocks into specific services and charging actual cost-plus seven percent management cost recovery, this was never enforced. There was no incentive for partners to free space of obsolete stocks. Space optimization and effective stock management are critical success factors for an emergency preparedness and response platform; as such there was a need for stricter enforcement of warehousing service fees for non-rotating stocks as an incentive to free space of obsolete items.

Actions agreed

11. The audit report contains two high and five medium priority observations. Management has agreed to address the reported observations and work to implement the agreed actions by their respective due dates. The Office of Internal Audit would like to thank managers and staff for their assistance and cooperation during the audit.

Anita Hirsch
Acting Inspector General

¹ One host government extended the use of additional facilities free of charge for WFP's COVID-19 operations.



II. Context and scope

UNHRD mandate, organizational structure and funding

12. The first Humanitarian Depot was established in Pisa, Italy and managed by the Office of Coordination of Humanitarian Affairs in line with UN General Assembly resolution 46/182 and the Secretary-General's objectives on the use of common premises. In June 2000, management of the Depot was passed on to WFP and the United Nations Humanitarian Response Depot (UNHRD) was established in Brindisi (replacing Pisa) to set up a new and robust logistics platform, available to all partners as a "shared resource", based on the decision of the Inter Agency Standing Committee and an agreement between the Government of Italy and the UN Secretary-General.

13. In 2006, based on its own requirements and those of its partners, WFP replicated the Brindisi model by setting up further emergency preparedness and response facilities in strategic locations worldwide, with a network of humanitarian response depots. Each location was selected to provide easy access to a wide range of transportation methods available and allowing for consistently short emergency response times of 24-48 hours.

14. From the onset, the mandate of the UNHRD network has been to pre-position relief and survival items and provide rapid mobilization services to countries affected by natural disasters or complex emergencies. The relief and survival stocks may belong to UN agencies, governments, non-governmental organizations or to international organizations having technical agreements with WFP.

15. UNHRD is a service provision unit of WFP's Supply Chain Operations Division (SCO). The UNHRD Network Coordinator (with delegated Country Director authorities) is responsible for the overall management of the network, reporting to the Director, Logistics Services (SCOL). UNHRD falls within the administrative framework of WFP and all its operations (including administration, accounting and reporting procedures) are carried out in compliance with WFP's Rules and Regulations.

16. A support office was set-up within the UNHRD Brindisi hub to assist the entire UNHRD network. At the time of the audit, the Network Coordinator (NC) also held the role of the Brindisi hub manager². The UNHRD network has been set-up as a country office (CO) with single depots operating as "hub offices" of the UNHRD network. The hubs utilize the existing WFP office's administrative and financial arrangements (e.g. bank accounts) in the country where they operate. In terms of quality of service, key performance indicators and timelines were established related to the following services: receipt, inspection and handling of stocks in hubs; storage; preparation of import and export documentation; and stock reporting.

17. UNHRD's funding framework consists of contributions from government donors, ad-hoc contributions to specific projects, and funds generated from specific services provided to partners through management cost recovery (MCR). Income generated is credited to UNHRD's special account.

Hubs and services

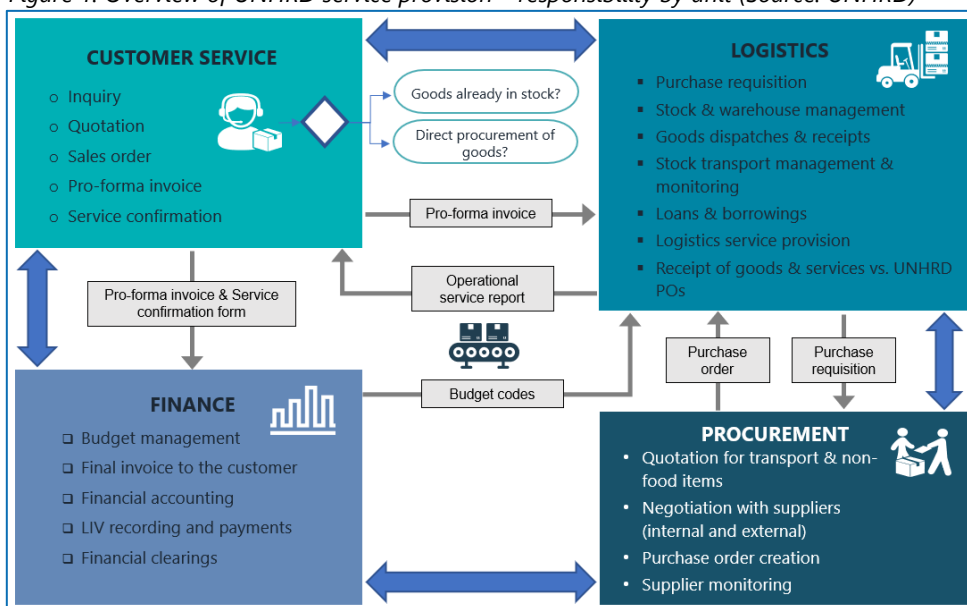
18. The UNHRD network consists of six hubs located in: (i) Brindisi, Italy; (ii) Accra, Ghana; (iii) Dubai, United Arab Emirates; (iv) Kuala Lumpur, Malaysia; (v) Panama City, Panama; and (vi) Las Palmas, Spain. At the time of the audit, the NC indicated that the hub in Las Palmas was no longer under UNHRD oversight but was considered in its Special Account for financial management purposes.

² Prior to July 2020, the roles of the Network Coordinator and the Brindisi hub manager were held by two separate WFP staff members, and the Brindisi hub manager was also the Deputy NC heading the support office. This role is now with the NC and as far as procurement is concerned, the segregation of duties is ensured with a procurement officer heading the procurement team.

19. The UNHRD network provides standard services of warehousing, inspection and handling of prepositioned relief items for its partners at no cost in any of the six hubs worldwide, as per an Executive Director (ED) Circular.³ The network stores emergency relief items such as medical kits, shelter items and operations support equipment that are ready for immediate dispatch upon request. Each hub offers covered and open storage as well as temperature-controlled storage. It is also set up to facilitate WFP’s capacity to respond to multiple large-scale emergencies at any given time.

20. Additionally, it offers a wide range of specific services at actual cost consisting of direct operational cost-plus MCR at seven percent. Specific services include procurement, transport, technical assistance, insurance, and repackaging. As an emergency preparedness and response tool, it provides supply chain solutions to its partners. Figure 1 presents the overview of the network’s service provision activities by responsible units.

Figure 1: Overview of UNHRD service provision – responsibility by unit (Source: UNHRD)



21. UNHRD contributed to the humanitarian common services established by WFP for the COVID-19 emergency response as outlined in the Global Humanitarian Response Plan. WFP moved cargo across the globe, at no cost to the humanitarian community, to support expanding partner needs for health and other essential humanitarian supplies, securing the continuity of supply chains and ensuring timely delivery of cargo⁴. WFP augmented its service capacity by establishing new global humanitarian hubs in strategic locations in China and Belgium – building upon the existing network where each hub was already a key support to the response efforts in their respective regions and with Brindisi providing global support. UNHRD hubs were used as part of various delivery routes to move crucial items to their destinations.

Use of UNHRD by WFP and partner organizations

22. Recognized humanitarian partners, and governmental or non-governmental organizations whose activities are in line with UNHRD’s mission may become participating organization/authorized users by signing a Technical Agreement with WFP. In 2020, UNHRD had 94 participating organizations, of which 35 availed UNHRD services in 2018, 41 in 2019 and 35 as of August 2020. Other humanitarian organizations/entities wishing to use UNHRD

³ Executive Director’s Circular: Revised policies for the management of UNHRD network; Circular number EDD2011/008 dated 16 May 2011

⁴ UNHRD indicated that it managed 559 shipments/legs as part of WFP’s global response; moved more than 2,073 metric tons (14, 500 cubic meters) of cargo to 129 countries with a total value of USD 62 million.



facilities and specific services may request services at cost on an ad-hoc basis, if not registered as an authorized user, but are required to pay for services in advance.

23. All WFP COs are required to procure 7 WFP strategic relief items⁵ exclusively through UNHRD in line with the 2011 ED circular (footnote 2). In a memo approved by the Deputy Executive Director⁶ on WFP corporate response stocks dated May 2012, UNHRD was designated as the custodian of all WFP corporate response stock items (including the 7 WFP strategic relief items).

24. The UNHRD Partner Portal⁷, officially launched in March 2019, facilitates the monitoring and analysis of stocks and operations. The portal is an interactive tool, where partners can access their stock report and analytics and review past shipments by hub, partner, date, destinations, and other parameters.

Objective and scope of the audit

25. The objective of the audit was to provide assurance on the effectiveness of governance, risk management and internal control processes related to UNHRD's strategy, performance and operating and financial models. Such audits are part of the process of providing an annual and overall assurance statement to the Executive Director on governance, risk management and internal control processes.

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

27. The audit scope covered a review of selected high and medium priority-rated key process areas and associated key controls focusing on UNHRD's: (a) governance, strategy and performance; (b) operating model; and (c) funding model and financial management. The audit covered the period from 1 July 2019 to 31 August 2020. Where necessary, transactions and events pertaining to other periods were reviewed.

28. The audit fieldwork took place from 3 November 2020 to 15 January 2021. Considering COVID-19 restrictions and working arrangements at WFP headquarters (HQ), the audit team performed tests related to the Network Coordinator's office and Brindisi hub⁸ including the Support Office remotely and through conference calls. The audit team also carried out onsite visits to selected hubs in Accra and Dubai to review actual processes, procedures and controls related to the management, operations, and oversight of selected activities. The audit focused on existing hubs comprising the UNHRD network and did not cover the operations of the three strategic consolidations hubs set-up to support the COVID-19 emergency response.

⁵ Includes: (i) prefabricated office/living/conference accommodation units and ancillaries (hard wall); (ii) prefabricated ablution units and water bladders (toilet/shower-hard wall); (iii) prefabricated storage tents (soft wall); (iv) tool and electrical kits for prefabricated buildings; (v) individual rapid response kits for staff; (vi) generators and lighting sets to supply prefabricated buildings/storage perimeters; and (vii) light boats and associated engines (fiberglass, aluminum, inflatable).

⁶ WFP Corporate Response Stocks (CRS) and the UNHRD Network, dated 14 May 2012.

⁷ <https://partners.unhrd.org/page/partner-portal>

⁸ At the time of audit fieldwork, Brindisi was under restrictions for travel and for staff to work from home.

III. Results of the audit

Audit work and conclusions

29. The audit was tailored to the process objectives of UNHRD in line with its mandate, taking into account SCO’s divisional risk register; findings from internal and external compliance reviews; as well as the independent audit risk assessment.

30. Based on the results of the audit, the Office of Internal Audit (OIGA) has come to an overall conclusion of **partially satisfactory / some improvement needed**.⁹ The assessed governance arrangements, risk management and controls were generally established and functioning well but needed improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues 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.

Observations and actions agreed

31. 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 (as applicable); 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: Governance, strategy and performance		
1 Strategy development process		High
2 Reporting line and delegation of authority		Medium
3 Lessons learning and continuous improvement		Medium
B: Operating model		
4 Customer relations, vendor selection and procurement activities		Medium
5 Stock management		Medium
C: Funding model and financial management		
6 Funding sources, MCR and revenue reporting		Medium
7 Staffing structure and development		High

32. The seven observations of this audit are presented in detail below. Management has agreed to take measures to address the reported observations.¹⁰ 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.

⁹ See Annex B for definitions of audit terms.

¹⁰ Implementation will be verified through the Office of Internal Audit’s standard system for monitoring agreed actions.



A: Governance, strategy and performance

33. The audit reviewed the network's strategy formulation and implementation as well as performance management activities including: (a) key strategic analyses supporting the formulation of a robust strategy; (b) alignment of the network's strategy with SCO's divisional goals; and (c) strategy approval processes and mechanisms for monitoring and assessing the network's performance against strategic objectives. The audit also reviewed SCO's oversight mechanisms and risk management for UNHRD; authorities delegated to the NC and hub managers for procurement activities; and the network's reporting line within SCO.

34. UNHRD, with its capacity, facilities and expertise, played an important role in expanding WFP's humanitarian common services during the COVID-19 emergency response. The audit received positive feedback from key donors on their relationship and coordination with the network as well as its established service delivery systems and procedures. Selected partner organizations also acknowledged the network's strengths in dealing with complex procurement and in intra-agency relationships while selected WFP COs expressed satisfaction with the support and services of the hubs.

Observation 1: Strategy development process

35. The following issues were noted with respect to the 2017-2020 UNHRD strategy:

- Objectives supporting the three strategic pillars were high-level and risks associated with the strategy implementation and key performance indicators were not identified, hence performance could not be precisely assessed.
- Key analyses underlying the strategy's formulation were unclear or had not been carried out, for example: (a) analysis of strengths, weaknesses, opportunities and threats (SWOT) taking into consideration location, operations and performance at hub but also consolidated at network level; (b) lessons learned from previous strategies; (c) formal partner needs assessments; (d) operational budget; and (e) market competition analysis covering private sector and other emergency preparedness platforms.
- The process for approval by SCOL and SCO management was informal.

36. The new UNHRD Strategy 2021-2025 was in draft at the time of the audit and was to be presented to SCO management and partner organizations, with (a) three pillars building upon the old strategy; (b) focusing on centralizing operations and capacity of some functions (such as procurement and customer service) at network level to enhance the network's efficiency and harmonize procedures. It included elements that addressed some gaps noted in the previous strategy such as risks to strategy implementation, key performance indicators and activities to resolve operational issues.

37. The following critical components and analyses to support the formulation of a robust strategy had yet to be carried out:

- Partner needs assessment;
- Competition analysis;
- A hub and network level SWOT assessment;
- A review of the funding model informed by WFP's decision on what role UNHRD will play moving forward as a service provision platform of SCO (see Observation 6); and
- A comprehensive staffing review and alignment of skillset to support the strategy implementation (see Observation 7).

38. A key consideration for UNHRD is also its alignment with WFP's vision and strategy for its service provision entities. SCO indicated that: (i) it was currently working on its divisional strategy on its service provision and Common Services entities, and that the network's new strategy could only be approved and endorsed once this higher level exercise was completed; and (ii) UNHRD should ultimately also align with WFP's emergency preparedness and response strategy.

39. Audit interviews indicated that WFP COs had limited awareness of UNHRD's services and the Partner Portal's functionalities highlighting an opportunity to enhance visibility on the services and tools UNHRD offers across



WFP operations. One of the objectives of the new strategy is to further develop internal and external outreach campaigns, although at the time of the audit further detailed communication plans had not been developed.

Underlying cause(s): Strategy development expertise needs have not been assessed with the changes in the operational context and central relevance of WFP's service provision and the network's limited time for this comprehensive undertaking. Levels of accountability and approval for UNHRD's strategy have not been established. WFP's COVID-19 global emergency response, which actively involved the UNHRD network provided very limited time for its management to develop the new strategy and its key elements. There was turnover of key management positions in UNHRD and SCO. There was a lack of awareness in WFP of UNHRD's mandate, services and the Partner Portal as well as absence of a network-wide communication plan.

Agreed Actions [High priority]

1. UNHRD will:
 - i) Assess the need for external expertise to support and finalize strategy analysis (especially as it relates to partner needs, competition and SWOT analyses) and development, and define and introduce relevant tools, key analyses, key performance metrics and monitoring activities to strengthen the various phases of the strategy management process (formulation, implementation, evaluation and control).
 - ii) Establish a review and monitoring framework for the mid-term review of the interim strategy to evaluate bottlenecks in its implementation as well as to update the preliminary assumptions used based on completed components and analyses.
 - iii) Complete a communication plan advocating UNHRD's mandate, services, and the Partner Portal.
2. SCO will provide a written endorsement of UNHRD's strategy upon the completion of the external assessment.

Timeline for implementation

1. 30 June 2022
2. 30 June 2022

Observation 2: Reporting line and delegation of authority

40. In 2016, the reporting line for the UNHRD network was changed from the SCO Director to SCOL. This was in line with plans to restructure the supply chain service provision platforms under Logistics. However, UNHRD's special mandate and its operations extend beyond the provision of logistics services to also include procurement, customer service and donor relations.

41. The current levels of SCO's delegation of authority (DoA)¹¹ for UNHRD procurement activities for the NC (authorized to approve up to USD200K in line with the DOA for Country Directors) and hub managers (up to USD 30K) represent constraints and operational bottlenecks. From the audit analysis of purchase orders (POs) from 2018 to 2020 with a total value of USD129 million (2,230 POs): (a) an average of 28 percent of the total PO value (USD36 million, 449 POs) were above hub managers' DoA which required approval escalation to the NC; and (b) 65 percent of the total PO value (USD84 million, 131 POs) were above the NC's DoA which required approval escalation to the SCO Director, but were not visible to the SCOL Director¹² who oversees the network.

¹¹ Executive Director's Circular no. OED 2018/006 dated 18 January 2018. The circular has a provision for an increase in delegation levels in specific cases.

¹² The SCOL Director does not have any delegated authority for procurement because HQ procurement is centralised in the Procurement Division.



42. Transport POs¹³ were only approved by the NC in line with the 2018 ED Circular (footnote 10). The circular allows the SCO Director to sub-delegate transport and associated services on an ad hoc basis to the NC through a memo. However, the last memo issued by SCO to UNHRD sub-delegating the authority to contract transport and logistics services was in April 2013 and has not been updated. At the time of the audit, SCO's review of the DoA for procurement, contracting and transport activities in supply chain functions including UNHRD was ongoing.

Underlying cause(s): In 2016, UNHRD's reporting line was moved from the SCO Director to the Head of Logistics following the NC's reassignment as Head of Logistics, which does not comply with the 2011 ED circular (footnote 2) that establishes the reporting line to the SCO Director. DoA for CO was applied to UNHRD¹⁴ and, since 2018, DoA levels (including sub-delegations) have not been reassessed against the operations, procurement contexts and other activities.

Agreed Actions [Medium priority]

SCO will:

- (i) Review and reassess UNHRD's reporting line against the provisions of the 2011 ED circular.
- (ii) Ensure that UNHRD's procurement contexts including transport and logistics are reviewed at the network and hub levels as part of its ongoing review of the DoA for procurement and contracting activities.
- (iii) Regularize the sub-delegation of transport and logistics contracting to UNHRD.

Timeline for implementation

30 June 2022

Observation 3: Lessons learning and continuous improvement

43. The UNHRD network received various external and internal reviews including a staffing structure review from the Human Resource Division, an examination of UNHRD as a Humanitarian Procurement Center by the European Commission (ECHO) in 2015 and 2020; compliance missions of the Brindisi and Dubai hubs from SCO; as well as the network's internal supervision and compliance missions to selected hubs.

44. These reviews raised multiple and important recommendations and presented opportunities for the network to continuously improve its processes which had not been followed up and/or implemented at the time of the audit. These included a network organizational alignment exercise, systems improvement and the establishment of a Vendor Management unit.

45. There was no process in place to support systematic lessons learning and continuous improvement from these reviews and ensure there was continuity in their follow up through assignment of a focal point/owner, considering staff reassignment/turnover; prioritize implementation of suggestions/recommendations; and effectively monitor and track implementation or escalate issues to UNHRD/SCO management. In addition, the absence of a defined framework for partner management limited lessons learning and continuous improvement in this area.

Underlying cause(s): The follow-up on suggestions/recommendations from reviews was inconsistent. Staff turnover and capacity/workload as a result of the COVID-19 emergency limited lessons learning and continuous improvement. There was no defined framework for partner management.

¹³ An average of 69 percent of the networks transport POs from 2018 to 2020 were contracted by the Dubai hub.

¹⁴ The UNHRD main hub in Brindisi has been set-up as a CO with single depots operating as "hub offices" of the network. This implies that the DoA of the NC is the same as that of a CD.



Agreed Actions [Medium priority]

UNHRD will:

- i) Define criteria to prioritize functional oversight and compliance reviews recommendations (based for example on criticality).
- ii) Formalize a process to designate focal points to monitor implementation of recommendations from oversight reviews including escalation protocols (to the NC and SCO management) when these recommendations cannot be fully implemented.
- iii) Assess its current partners and their value to the network, opportunities for potential partner engagement and develop a framework for strategic partner management.

Timeline for implementation

i) and ii) 31 December 2021

iii) 30 June 2022



B: Operating model

46. The audit reviewed services provided by the network including procurement of non-food items and transport services as well as customer service management. Key areas in vendor management were also reviewed: (a) vendor selection process considering that some goods were sourced from suppliers contracted with long term agreements; (b) maintenance and update of vendor rosters to ensure wider vendor base and a competitive process; and (c) vendor performance assessments. The audit also reviewed key processes and decisions related to non-rotating partner stocks including the management of WFP corporate response stocks.

47. During the audit period, SCO carried out oversight and compliance missions to the Brindisi and Dubai hubs on procurement and logistics activities including contracting of services, warehouse management and commodity accounting. Good practices were noted in one hub that could be replicated across the network: visits to strategic partners and engagement for special projects providing a channel for outreach and understanding partner needs; strategic sourcing analysis; procurement tracking and analytics; and process flow optimization through flow charting of all key processes.

Observation 4: Customer relations, vendor selection and procurement activities

Customer relations

48. In addition to free warehousing services, UNHRD offers specific services including procurement and transport upon customer requests. However, data analysis on requests and customer profiling were limited and did not inform customer management activities. To address this issue and in addition to the use of DOTS, SCO was mainstreaming the Emergency Service Marketplace (ESM) platform which was developed for the COVID-19 emergency response. However, preliminary analysis by UNHRD highlighted that the system may help with some partner servicing activities and customer analysis but would not allow for comprehensive customer profiling.

Procurement and vendor management

49. On behalf of WFP, UNHRD procures seven strategic relief items listed in the 2011 ED circular (footnote 2). Customers can also procure and replenish their emergency relief items, support equipment and assets through UNHRD. To facilitate recurring procurements, the network had established long-term agreements with vendors. For other items, UNHRD procured through a tender process which included market solicitation, evaluation of technical and financial offers and contract awarding. The average value of POs from 2018 to 2020 (as of October) was around USD42 million per year and total procurement value was equivalent to USD129 million.

50. The audit noted the following gaps: (i) supplier rosters, as highlighted in SCO's oversight and compliance mission report, had not been updated systematically; (ii) vendor performance evaluations were either not done or carried out with significant delays (up to 2 years and 5 months) impacting the capacity to regularly re-assess the vendors in the roster and timely document issues faced by UNHRD or its customers; (iii) some customers were unable to provide adequate specifications resulting in limited number of respondents and valid offers to solicitations; and (iv) market intelligence for prefabs (which is managed by SCO's Goods and Services Procurement unit in coordination with UNHRD) had not been effective. The development of appropriate specifications and market intelligence to widen vendor base were key factors ensuring competitive procurement.

51. Procurement actions were being carried out by the hubs in Brindisi and Dubai. The former network management established a division of work between the two hubs based on existing technical expertise, market diversity and logistics supporting delivery to customers. However, the roles and responsibilities between hubs had not been clarified and formalized. At the time of the audit, a review of UNHRD procurement process focusing on the network needs rather than specific hub activities, was ongoing. There is an opportunity to replicate good practices noted by the audit in one hub throughout the network – for example, the development of strategic risk matrix for items procured and the implementation of Procurement Tracking System¹⁵. End to end data analyses and reporting on transport services were limited because a transport tracking system was not in place.

¹⁵ At the time of audit reporting, UNHRD indicated that the procurement tracking system was already implemented across the network.

Underlying cause(s): There is an opportunity to assess and align ESM features as part of ongoing discussions within SCO. There was limited systematic market research for strategic relief items. There were challenges in obtaining adequate specifications for procurement of specific and complex items. Sourcing strategy for high-value categories was not established.

Agreed Actions [Medium priority]

UNHRD will:

- i) In coordination with SCO, complete a gap assessment on the ESM features against UNHRD’s customer management needs and formulate an action plan to address the gaps.
- ii) In coordination with SCO, assess the ownership of the contracting process and expand and systematically update market intelligence of vendors in the roster for WFP strategic relief items.
- iii) For specialized equipment, introduce a process to ensure that customers provide and accept/endorse specifications before procurement is undertaken.
- iv) Define the sourcing strategy for high value categories.
- v) Finalize the restructuring of UNHRD procurement and related reviews.

Timeline for implementation

31 December 2021

Observation 5: Stock Management

Non-rotating stocks

52. Space optimization and effective stock management are critical success factors for an emergency preparedness and response platform like UNHRD. The network however faces challenges in its management of stocks for WFP and external partners.

53. Of UNHRD’s stocks totaling approximately USD 79 million as of December 2020, the audit noted that: (a) 21 percent (USD 17 million) had been non-rotating for more than 24 months; (b) 9 percent (USD 7 million) had had no movement for more than 60 months (see Table 1 below); and (c) 13 percent (USD 10 million) represented WFP corporate response stocks (CRS) of which USD 4 million (40 percent) were stocks non-rotating for more than 24 months. These non-rotating stocks, owned by WFP¹⁶ and external partners¹⁷, limited the network’s warehousing capacity which is critical during emergency operations.

Table 1: Non-rotating stocks in major hubs and ratio of WFP slow moving stocks as of December 2020

% of non-rotating stocks (>24 months) to total stocks	Accra	Dubai	Panama	All Hubs
		18%	16%	8%
<i>Aging: 2-5 years</i>	8%	8%	6%	12%
<i>Aging: > 5 years</i>	10%	8%	2%	9%
<i>WFP (including CRS)</i>	33%	13%	20%	25%
<i>Other partners</i>	67%	87%	80%	75%

54. At the time of the audit, management was aware of this issue and had initiated steps in coordination with partners to have a disciplined approach in managing non-rotating stocks. Management had drafted a Stock Revalidation proposal in line with the clean-up plan but its agreement with partners was delayed by the COVID-

¹⁶ Included old/obsolete generators and prefabs that may no longer be used/requested by COs or partners

¹⁷ Stocks owned by ECHO represented a significant portion of the non-rotating partner stocks.



19 global pandemic. UNHRD management had re-set the target of the clean-up exercise for 2021. In the meantime, this issue continued to impact the efficiency, effectiveness, and overall capacity of the network's hubs.

Management of WFP CRS

55. At the time of the audit, UNHRD management in coordination with other WFP divisions was drafting a new memo revising the management, oversight, and release authority procedures for the CRS to update the May 2012 memo. The proposed procedures aimed to address the following gaps noted by the audit, however, finalization of the draft memo had been significantly delayed:

- While UNHRD was the custodian of the CRS, it did not have the decision-making authority regarding their management, release authority and composition¹⁸ which limited their role to maintaining and storing these stocks.
- The composition of the 7 strategic relief items and their ceilings had not been re-assessed since 2011 to ascertain if these items were still: (a) relevant to the needs and specificities of the different regions in which WFP operates and of COs working in emergency contexts; and (b) needed to be pre-positioned considering changes in global markets and needs. Also, the minimum stock level for these strategic relief items for each hub had not been re-assessed based on stock movements and demand.
- Based on the current workflow, the strategic relief items on stock in the hubs were replenished whenever items were shipped out by UNHRD to maintain the minimum stock levels. This was done automatically without considering the historic demand and relevance of such items. As a custodian, UNHRD management did not have the authority to change the minimum stock levels set by the WFP stock owners.

Underlying causes: Right to convert free warehousing services of non-rotating stocks into specific services after 24 months as per agreements had never been exercised¹⁹. The global pandemic shifted UNHRD's and its partners' priority in 2020 from cleaning-up non-rotating stocks to emergency response. UNHRD's lack of authority to manage and decide on WFP's CRS. Changes in: (a) WFP's operational needs as well as product upgrades (availability of new products with better quality in the case of prefabs for example); and (b) global markets across geographic locations (availability of certain stocks in local markets), make pre-positioning of certain stocks unnecessary. The May 2012 memo approved by the DED did not include monitoring, review and update provisions for the management, ownership, and release authority procedures of these CRS items.

Agreed Actions [Medium priority]

UNHRD will:

- (i) Implement an action plan in coordination with its partners to enforce the charging of warehousing service fees for stocks non-rotating more than 24 months.
- (ii) Finalize and agree with all partners the Stock Revalidation proposal with clear timeline and responsibilities; and regularly monitor implementation of activities to ensure the clean-up exercise is completed as soon as possible.
- (iii) Mainstream the Stock Revalidation exercise by incorporating a section in the SOP to ensure non-rotating stocks are kept at minimum levels.
- (iv) In coordination with relevant divisions including the Legal Department, finalize the new joint directive revising the management and oversight procedures of WFP CRS and consider adding provisions allowing for periodic review and update of the new arrangements. In line with the previous memo, the new one should be approved by the Deputy Executive Director.

Timeline for implementation

30 June 2022

¹⁸ This authority is currently decentralized to various WFP units (Emergency, MSDA, Security and SCO).

¹⁹ Some new charging methods are indicated in the Stock Revalidation proposals.

C: Funding model and financial management

56. The audit reviewed key processes and decisions related to UNHRD’s funding model and financial management including analyses of: (a) funding sources (donor contributions and MCR revenue) and their movements from 2018 to 2020; (b) operating costs and significant cost categories at hub and network levels and related funding coverage; (c) MCR sources from specific services (procurement versus other activities); (d) customer concentration; (e) reporting of the network’s financial (net surplus/deficit) and cashflow positions. The audit also reviewed how the funding model was linked to the strategy and whether management was taking steps to address the challenges.

57. UNHRD had effectively managed its funds to fully cover operating costs and historically did not have a major financial deficit – slight funding gaps had been compensated from prior years’ surpluses and other sources. Managers at the hub and network levels were closely monitoring their respective running costs against the budget. Financial management within the network is centralized at the support office with close supervision by the NC which: (a) ensured adequate financial management support was available and provided to all hubs; and (b) supported the NC’s vision of ensuring a “one network” approach for efficient service delivery. Hubs had developed coordination mechanisms with country offices especially finance units for day to day operational support.

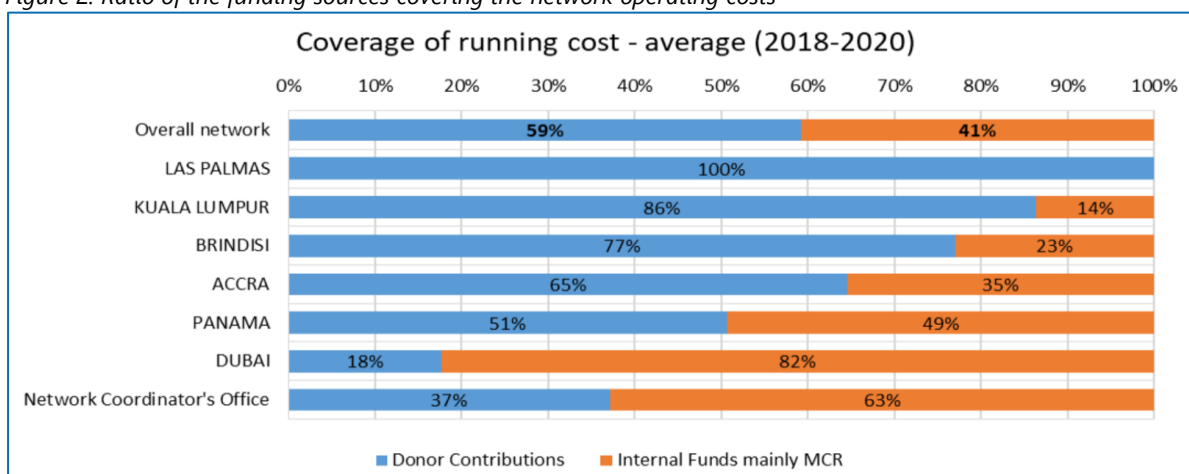
Observation 6: Funding sources, MCR and revenue reporting

Funding sources

58. The UNHRD network had long-term recurring contributions from host governments, donor contributions and variable revenue stream from specific services, mainly MCR (internal funds). These financed the network’s operating or running costs which averaged about USD 8.6 million per year from 2018 to 2020. Funds were centrally managed at the network level and allocated to the hubs. Over the years, UNHRD had compensated for small gaps in funding²⁰ through reserves²¹, multi-year funding or alternative strategies (such as sending staff on temporary assignments or other sales).

59. Overall, the network’s operating or running costs from 2018 to 2020 were funded by donor contributions and MCR at an average ratio of 60:40 respectively²², with significant variations between the different hubs (see figure 2 below). Some hubs were funded by host governments’ contributions (earmarked in full or in part for the specific hub) like Las Palmas, Kuala Lumpur and Brindisi, while some hubs like Dubai and Panama needed MCR revenue to compensate limited host government contributions in order to cover the hubs’ running costs. The NC’s office in Rome also relied on MCR.

Figure 2: Ratio of the funding sources covering the network operating costs



²⁰ In accounting year.

²¹ Accumulated net earnings from prior years under UNHRD’s special account.

²² Over the period, the network increasingly relied on MCR to finance its running costs in specific hubs



60. MCR generated is directly proportional to UNHRD's business volume (which is not a key performance indicator of the network) and is entirely dependent on the needs and requests of partners. The audit noted that UNHRD's customer base (for specific services) was concentrated to two partners (of a total of 42 active partners) whereby WFP and UNDP accounted for 85 percent of the total MCR revenue (2018 to 2020). WFP was the main client for UNHRD services. Most of the partners did not actively avail of the network's specific services. Although MCR revenue had been increasing since 2018 (USD2 million in 2018, USD4 million in 2019 and 2020), its volatility continued to have a significant impact on the network's sustainability.

61. Donor contributions have been steady (averaging USD5 million per year from 2018 to 2020) driven by long term donor agreements. Although these contributions generated Indirect Support Costs (ISC)²³ for headquarters, WFP did not fund the network and this despite UNHRD principally serving WFP as its main client. In addition, contributions from donors and host governments did not sufficiently cover the network's fixed operating costs at the hub and network levels. Also, the irregular timing of contribution inflows every year added pressure to UNHRD's cashflow management.

62. Staff costs represented a significant portion of the network's total operating costs at around 81 percent, followed by facilities and maintenance-related costs at eight percent. However, the direct and indirect cost structures of the different entities within the network and how these contributed to the cost of services provided (consistent with applying the Costing and Pricing Principles for external clients) were unclear.

63. A comprehensive review of the funding model was a priority for both UNHRD and SCO, and detailed work was ongoing to feed into key decisions to be incorporated into the new strategy. SCO had further indicated that for a more sustainable funding model, host government donor contributions should be able to fully cover fixed operating costs while the more variable internal funds (long-term recurring donor contributions and MCR) should be funding variable costs and operational growth. Key considerations for this exercise were the alignment of the funding model with the strategy for UNHRD as a service provision platform (Observation 1) as well as the planned review of the internal cost recovery models in WFP.

MCR and revenue reporting

64. The audit was not able to establish the basis for the MCR rate of seven percent and noted that the only reference document establishing this rate was a 2011 ED circular (footnote 2)²⁴. The MCR had not been reassessed since 2011 to: (a) validate the assumptions made in establishing the new rate; (b) ensure full cost recovery taking into account inflation and other factors; and (c) offer a competitive service charge rate to its partners. UNHRD indicated that SCO is currently reviewing the MCR rate with inputs from all stakeholders.

65. UNHRD's monthly financial reports focused on monitoring and reporting of the network's expenditures. It did not fully report the revenues (earned, received and any reconciliation)²⁵ in the associated period, and how these compared to expenditure. This impaired UNHRD and SCO managements' complete and timely visibility over the financial performance (surplus/deficit) and cashflow position of the network. A proper matching of revenues and expenses in each period would provide a comprehensive picture of whether and where the network is generating surpluses or deficits, triggering discussion and decision on the need to adapt the financial model. With the upcoming reviews of the funding model and MCR rate, there is a need to strengthen divisional oversight and visibility on funding, budget and financial reporting.

Underlying causes: Direct and indirect costs of the network as well as costing/pricing of services provided have not been clarified. UNHRD's funding model and requirements have not been regularly reviewed and are delinked from strategy. Monthly financial reporting focused on unused/remaining donor contributions and MCR but did not provide an accurate and complete picture of financial position and performance. There was insufficient

²³ At 6.5 percent.

²⁴ One of the circular's objectives was for UNHRD to move progressively towards a reliable cost-recovery mechanism in view of a long-term financial sustainability. To achieve this, it increased the MCR rate from 4.5 percent to 7 percent but there was no analysis or assessment supporting the increase.

²⁵ Accounting for and reporting the network's revenue (including multi-year donor contributions) required various analyses and reconciliations.



visibility and an absence of systematic/regular review of UNHRD's funding and financial positions as well as a lack of clarity on who within SCO is responsible for the review.

Agreed Actions [Medium priority]

1. UNHRD will:
 - i) In consultation with the Resource Management Department (RM), prioritize completion and approval of UNHRD's funding model review. The review should clarify the direct and indirect cost structures of the different entities within the network and how these are covered by the different funding streams.
 - ii) Reassess the funding model during the mid-term review of the new strategy.
 - iii) In consultation with RM, assess the network's full cost recovery against the existing seven percent MCR rate.
 - iv) Clarify, in coordination with SCO, its role and responsibilities in reviewing and updating the MCR rate.
 - v) Revise monthly financial reporting presentation to: (a) include detailed analysis of revenue for each revenue stream; (b) analyse proportions of various revenue streams funding recurring costs; and (c) clearly present net surplus/deficit for the period.
2. SCO will:
 - i) Establish a systematic and regular (as needed) divisional review of and visibility on the network's funding, budget and financial reporting.
 - ii) Review and determine internal mechanisms for sustainable funding to support the network's operations in serving WFP as its main partner; and
 - iii) With the support of UNHRD, lead negotiations of long-term agreements with host governments to increase contribution levels covering the network's running costs.

Timeline for implementation

1. 30 June 2022
2. 30 June 2022



Observation 7: Staffing structure and development

Staffing structure

66. At the time of the audit, the UNHRD network had a total of 115 staff members from across its six hubs. The last Staffing Review Exercise (SRE) carried out in 2014 (a) focused on the Brindisi hub and included field visits to two other hubs; and (b) recommended that the review be extended to cover the entire network. However, this has not been implemented, and the review of staffing profiles and structure was limited. The audit noted in one hub for example, that warehouse management, logistics and procurement were separate units with different reporting lines. It was unclear why the structure was inconsistent across the other hubs in the network.

67. The network structure is comparable to a CO with hub manager posts covered by international staff and reporting to the NC. Generic Supply Chain job profiles were used as job descriptions for the hub manager positions and did not capture key activities and functional competencies required for the position to guide candidates' assessment and selection. Candidates applying for this position needed to do extra work to understand the needs and expectations of the role.

68. Given the constraints of the funding model, some of the network's strategic positions were held by short-term consultants occupying the posts for several years and not subject to staff rotation. These included a position supervising logistics, customer management and special projects in one hub and another position in charge of the network's innovation, field support and technical advice for equipment specifications.

69. The network had no gender focal point. UNHRD management indicated that they are monitoring gender indicators informally and will be designating a focal point for the network. At the time of the audit, the ratio of female to male staff was 35:65.

Staff development

70. A training plan was maintained at network level; however, the audit noted some skills gap for staff supervising warehouse management and logistics in selected hubs. The COVID-19 emergency response delayed the plan: (a) to increase knowledge sharing and capacity building through secondment of network staff across hubs; and (b) for the network coordinator to visit hubs and initiate preliminary activities for a network-level organizational alignment exercise (Observation 1).

Underlying cause(s): Network organizational alignment exercise was not considered a priority considering that the number of staff and distribution to hubs remained steady over the years. There were no specific terms of reference for hub managers. UNHRD's funding model limited the use of fixed-term contracts resulting in temporary/short-term contracts.

Agreed Actions [High priority]

UNHRD will:

- (i) Complete a workforce and skills gap analyses as part of the network's planned staffing structure review.
- (ii) In coordination with SCO staffing coordinator and HR, develop specific terms of reference for hub managers taking into account key functional competencies required for the position.
- (iii) Designate a gender focal point and formalize the monitoring of gender indicators.

Timeline for implementation

(i) and (iii) 31 December 2021

(ii) 30 June 2022



Annex A – Summary of observations

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

Categories for aggregation and analysis:						
High priority observations	WFP's Internal Audit Universe	WFP's Governance, Risk & Control logic:		Implementation lead	Due date(s)	
		Risks (ERM)	Processes (GRC)			
1 Strategy development process	Strategic management & objective setting	Business model risks	Service delivery	UNHRD	30 June 2022	
				SCO	30 June 2022	
7 Staffing structure and development	Human resources management	Business model risks	Human resources	UNHRD (i) & (ii)	31 December 2021	
				(ii)	30 June 2022	
Categories for aggregation and analysis:						
Medium priority observations	WFP's Internal Audit Universe	WFP's Governance, Risk & Control logic:		Implementation lead	Due date(s)	
		Risks (ERM)	Processes (GRC)			
2 Reporting line and delegation of authority	Governance	Governance & oversight risks	Service delivery	SCO	30 June 2022	
3 Lessons learning and continuous improvement	Management oversight	Governance & oversight risks	Risk management	UNHRD (i) & (ii)	31 December 2021	
				(iii)	30 June 2022	
4 Customer relations, vendor selection and procurement activities	Emergency preparedness and support response	Partner and vendor risks	Service delivery	UNHRD	31 December 2021	
5 Stock management	Contributions & donor funding management	Breach of obligations	Resource mobilization and Partnerships	UNHRD	30 June 2022	
6 Funding sources, MCR and revenue reporting	Resources allocation & financing	Business model risks	Finance and budget	UNHRD	30 June 2022	
				SCO	30 June 2022	

Annex B – Definitions of audit terms: ratings and priority

1 Rating system

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 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.²⁶

²⁶ 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 universe²⁷ 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; Non-governmental organization (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 its Enterprise Risk Management Policy,²⁸ 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 categorizations as introduced by the Chief Risk Officer to define and launch risk matrices, identify thresholds and parameters, and establish escalation/de-escalation protocols across business processes.

²⁷ A separately existing universe for information technology with 60 entities, processes and applications is currently under review, its content is summarized for categorization purposes in section F of table B.3.

²⁸ 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 mobilization 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 actions 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 will issue a memorandum to Management informing them of the unmitigated risk due to the absence of management action after review. The overdue management action will then be closed in the audit database and such closure confirmed to the entity in charge of the oversight.

When using this option, OIGA continues to ensure that the office in charge of the supervision of the unit who owns the actions is informed. Transparency on accepting the risk is essential and 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. OIGA informs senior management, the Audit Committee and the Executive Board of actions closed without mitigating the risk on a regular basis.



Annex C – Acronyms

CO	Country Office
CRS	Corporate Response Stocks of WFP
DED	Deputy Executive Director, WFP
DoA	Delegation of Authority
ECHO	European Civil Protection and Humanitarian Aid Operations, European Commission
ED	Executive Director, WFP
ESM	Emergency Service Marketplace
HM	Hub Manager
HQ	WFP Headquarters
HR	Human Resources
MCR	Management Cost Recovery
MSDA	Administration and Travel Branch, Management Service Division
NC	Network Coordinator, UNHRD
OIG	Office of the Inspector General
OIGA	Office of Internal Audit
PO	Purchase Order
RM	Resource Management Department
SCO	Supply Chain Operations Division
SCOL	Logistics and Field Support Unit, SCO
SOP	Standard Operating Procedures
SWOT	Strengths, Weaknesses, Opportunities and Threats Analysis
UN	United Nations
UNHAS	United Nations Humanitarian Air Service
UNHRD	United Nations Humanitarian Response Depot
UNDP	United Nations Development Programme
USD	United States Dollar
WFP	World Food Programme