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Follow-up Review of the Implementation of Agreed Actions from the 2019 Internal Audit of WFP Djibouti Corridor Management

Office of the Inspector
General Follow-up of Audit Report
AR/22/06



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I. Executive Summary

Introduction

1. As part of its annual workplan, the Office of Internal Audit conducted a follow-up review of the implementation of agreed actions from the 2019 internal audit of WFP Djibouti Corridor Management (AR/19/12), which was rated *Unsatisfactory*, i.e. internal controls, governance and risk management practices were either developed and not fully established or not functioning well. The audit report made four high priority and one medium priority observation with sixteen related agreed actions which were all due to be implemented by 31 December 2020.

2. The audit team conducted the fieldwork from 14 to 25 November 2021 in the Djibouti Country Office and the Humanitarian Logistics Base.

Status of agreed actions

3. From July 2019 to July 2021, the Supply Chain Division and the Regional Bureau of East Africa supported the Djibouti Country Office through several support and oversight missions to implement the agreed actions. This resulted in the development of the WFP corporate corridor management strategy, which clarifies the governance structure, operational model (including standards and guidelines) and performance measures, as recommended by the audit. These efforts helped to streamline the responsibility and accountability framework, and clarify the complementary roles of headquarters, regional bureaux and country offices in decision making, oversight and coordination mechanisms in relation to corridors. The operational model established guidelines for service planning, budgeting and costing methodology, and minimum corridor staffing structures. A new WFP corridor management framework was developed with substantial involvement of the Regional Bureau of East Africa; therefore, it is being piloted in the region and specifically in the Djibouti corridor.

4. Of the 16 agreed actions, 14 were implemented and closed (88 percent); these comprised 13 high and one medium-priority actions. The remaining two agreed actions (both high priority) were overdue (initial target date was 31 December 2019 and 31 December 2020, respectively). One was in progress with a revised target completion date of 31 December 2022 and the other is due for implementation by June 2023. Outstanding actions related to vendor performance management are included in an updated of the topic conducted in 2021.¹

5. Details of observations, actions taken, and the audit's conclusions are provided in Tables 1 and 2.

Thank you!

6. The Office of Internal Audit would like to thank management and staff for the assistance and cooperation accorded during the follow-up review.

¹ Internal Audit of WFP operations in Djibouti observation 6, report AR/22/07



II. Context and scope

Djibouti

7. 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, within eight to ten days. Over five million metric tons of cargo pass through Djibouti each year. Therefore, the Djibouti port is critical for the efficient flow of humanitarian goods in and out of Ethiopia and the countries along the Horn of Africa.

8. Large-scale strategic infrastructure work completed in Djibouti in recent years includes a new port and container terminal with modern facilities for all types of cargo (e.g., bulk grain, break-bulk and containerized cargo, and fertilizer). The old Djibouti port remains dedicated to bulk and conventional cargo. This has increased the capacity of Djibouti as a major regional port and reduced congestion and delays in the movement of cargo. A new railway line (opened in 2018) connecting Djibouti and Ethiopia complements the limited overland trucking capacity between Ethiopia and Djibouti and 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

9. In 2010, WFP established a humanitarian logistics base (HLB) to enhance supply chain efficiencies along the Djibouti corridor. The 2019 internal audit of management of the Djibouti corridor identified low utilization of the HLB with associated high operational fixed costs and a low level of operational efficiency. It recommended assessing sustainability.

10. Since 2019, use of the HLB has increased by over 200 percent, with approximately 1 million metric tons (mt) of throughput being processed via the Djibouti corridor in 2021 compared to less than 300,000 mt in 2019. The high demand for Djibouti corridor services is driven by the crisis in Tigray, Ethiopia and an increase in the uptake of bilateral service provision (BSP) offered by the Djibouti Country Office.

11. The Regional Bureau of East Africa supported the Country Office in reviewing the corridor staffing structure in 2020 and again during its update in 2021. This was to align with the corridor management staffing model defined in the WFP corridor management strategy. Enhanced staff capacity led to increased efficiency in the discharge of corridor services.

12. The Djibouti Country Office's BSP, through the HLB, focused on offering logistical support to United Nations (UN) agencies and non-governmental organizations. BSP clients increased from 4 in 2019 to 15 in 2021, with the potential for more, based on the high number of enquiries received by the Country Office, more so from Djibouti-based clients.



Objective and scope of the follow-up review

13. The objective of the follow-up review was to determine the extent to which the actions agreed in the 2019 internal audit of WFP's Djibouti corridor management had been implemented and risks reported effectively mitigated.

14. This involved a review of available documentation, interviews and consultations with the Djibouti Country Office, the Regional Bureau of East Africa, and the Supply Chain Division to verify implementation of the agreed actions. The Office of Internal Audit verified and documented implementation of the agreed actions through its system for monitoring implementation of agreed actions (TeamMate+). The Office of Internal Audit tracks all medium and high-risk observations to ensure management actions are implemented within the agreed timeframe to manage and mitigate identified risks, thereby contributing to the improvement of WFP's operations.

15. The follow-up review relied on the second line oversight support missions conducted by the Regional Bureau of East Africa in November 2020 and July 2021 to review implementation of outstanding agreed actions and to help the Country Office prepare for the internal audit review. The follow-up review was conducted concurrently with the internal audit of the Djibouti Country Office's operations.

16. The verification process followed standard internal audit practices and was in line with the Office of Internal Audit guidelines. The guidelines provide for follow-up reviews of internal audits that the Office of Internal Audit rated 'unsatisfactory' (see Annex A for definitions of audit ratings). The follow-up review procedures and tests were designed to assess the progress of implementation of the agreed actions, and not for the purpose of expressing an opinion on the effectiveness of the Djibouti Country Office, its operations and internal controls.

17. The review was carried out in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors.

18. Annex A outlines the categories used to determine the status of implementation of the agreed actions based on the 2019 audit.

III. Results of the follow-up review

Table 1: High-priority observations

Audit report observation 1: Sustainability of the Humanitarian Logistics Base as from AR/19/12

Organizational structure and workforce planning

The business case for the humanitarian logistics base (HLB) and investment in 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 arguments made in justification of the investment included:

- (i) Congestion at the port facility in Djibouti resulting in significant demurrage, shunting and storage/detention charges for the Ethiopia Country Office. These costs amounted to over USD 9 million between 2014 and 2018.
- (ii) Limited silo capacity in the Djibouti port and inadequate truck capacity.
- (iii) Government of Ethiopia’s plan to increase the strategic grain reserve from 400,000 mt to 3 million mt.

During the seven years of construction, conditions have, understandably, changed since the business case for the HLB was made, making the previous arguments no longer valid, given large-scale investments in a new port; railway connection between Djibouti and Ethiopia inaugurated in 2018; resumption of relations between Ethiopia and Eritrea creating an opportunity to re-open the port of Massawa; and other alternative routes and transport modalities introduced by Ethiopia and Yemen Country Offices and the Global Commodity Management Facility (GCMF), discussed as a potential silo user. In 2018, the Yemen Country Office opened a new corridor to serve its operations and, therefore, no longer used the Djibouti corridor.

As a result, the HLB saw throughput decrease by 53 percent between 2017 and 2019. The silos have only been used once, at 15 percent 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. 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 when they were used in 2018 and currently, as there is no internal capacity. Two warehouses at the old Djibouti port, donated by the Djibouti Government, were significantly under-used at the time of audit.

Due to the absence of an effective governance structure (see observation 3), the Regional Bureau of East Africa did not have control over the decisions made by recipient countries that have an impact on the Djibouti corridor activity and sustainability. The Ethiopia Country Office decided to use direct delivery transport and alternative ports outside of Djibouti based on a cost–benefit analysis, impacting the Djibouti corridor and Djibouti Country Office. The Yemen Country Office reduced its throughput through Djibouti by 99 percent in 2018 and had not planned any throughput via the Djibouti corridor in 2019 unless on an exigent basis. In as much as the development of the HLB relied on the assumption that other country offices would use 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. Other cost–benefit analyses performed by the Regional Bureau of East Africa and the Djibouti Country Office negated the benefits outlined by the Ethiopia Country Office, and the need to reconsider reasonable costs if a model is not effective and efficient.

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 2019 audit, a draft proposal on potential options for the use of the HLB had been developed by the Regional Bureau of East Africa in consultation with the Supply Chain Division for corporate consideration and decision.

Underlying cause(s): Lack of a corporate view and ownership of the management of WFP corridors, as well as consideration of cost-benefits from a corporate perspective. Limited corporate prioritization 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 finalization of its construction.

Agreed actions as from AR/19/12	Actions undertaken and update from OIGA's 2021 review	OIGA Conclusion
The Supply Chain Division will:		
(i) Finalize the review and confirm the corporate decision on the silos and humanitarian logistics base sustainability taking into consideration the memorandum of understanding signed with the Government of Djibouti and expectations of the donors who funded the investment.	<p>The Supply Chain Division and the Regional Bureau of East Africa conducted a sustainability review on the use of the HLB and silos in 2020. Four options were considered: (i) the country office to manage both the HLB and the silos; (ii) the Djibouti country office to maintain the HLB, but outsource the silos to a private entity for the management of only WFP cargo, including BSP; (iii) the Djibouti country office to maintain the HLB, but outsource the silos to a private entity to manage cargo for both WFP and other external clients; and (iv) outsource management of the entire HLB (warehouses, office space, container freight station and silos).</p> <p>Over the last two years, use of the HLB and silos has increased by over 200 percent, with maximum warehouse utilization, requiring the Djibouti country office to source additional warehouse space. The increased demand is driven by the Tigray crisis in Ethiopia and the increased uptake of BSP that has risen from four clients in 2019 to over 20 clients in 2021, with more anticipated in 2022 based on enquiries for services.</p>	Closed
(ii) 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.	<p>The Supply Chain Division and the Regional Bureau of East Africa performed a cost-benefit analysis of the various delivery and transport modalities impacting the Djibouti corridor in 2020. It was determined that the Djibouti corridor was more expensive compared to other routes such as Barbera and direct dispatch of containerized cargo to Ethiopia. Costs were driven by low levels of operational efficiency in the corridor. This has since been improved through the support of the Regional Bureau of East Africa, better communication and collaboration with the Ethiopia Country Office and enhanced staff capacity. Additionally, in agreement with the Regional Bureau of East Africa, a compensatory clause was introduced in the service-level agreements signed annually between the Djibouti Country Office and the recipient countries. This was to mitigate the level of losses to the Djibouti Country Office if a recipient country decided to withdraw their tonnage from the corridor before the end of the year.</p>	Closed

Audit report observation 2: Corridor management strategy and governance framework as from AR/19/12

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

Corridor strategy: A comprehensive strategy that would inform management of the Djibouti corridor had not been developed corporately or regionally by the Regional Bureau of East Africa, in consultation with all possible stakeholders in the model (“client” country offices, GCMF, etc.). The following preparatory steps were yet to be undertaken to inform a corporate corridor management strategy:

- (i) *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.
- (ii) *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.
- (iii) *Operational synergies:* Potential operational synergies with the GCMF, UN Humanitarian Response Depot (UNHRD) and the Yemen Country Office logistics cluster based in and operating from the Djibouti HLB have not been formally identified to inform and streamline management of the Djibouti corridor.

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 the Regional Bureau of East Africa, Ethiopia and Djibouti Country Offices were not clear and comprehensively articulated. The delegation of authority for overland transport given to the Ethiopia Country Office, but executed in coordination with Djibouti Country Office, required support and oversight from the Regional Bureau of East Africa and resulted in fragmentation of accountabilities and decision making. The Regional Bureau of East Africa did not have control over significant decisions undertaken by recipient countries which impacted HLB operations, including the use of alternative modalities and routes based on operational demand and efficiency (see observation 1).

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 standard operating procedures between serving and recipient countries to strengthen coordination and to establish performance standards.

Staffing: No staffing structure review had been conducted to assess and justify the staffing level of the current Djibouti Country Office corridor management staff. In the draft 2018 and 2019 cost sharing matrix, staff costs represent 43 percent and 61 percent respectively of total corridor costs, constituting the most significant cost factor, with its share increasing as the staffing level remained at 36 personnel since 2017 despite a significant reduction (of over 50 percent) in the volumes handled by the corridor from 2017 to 2019. The Country Office re-classified and re-apportioned staff costs in the 2019 cost sharing matrix corridor to the Country Office and BSP budget in May 2019 after the audit fieldwork; therefore, this was not reviewed as part of the audit. This reapportionment has increased the costs per tonnage charged to recipient countries, who complained that corridor costs are high compared to alternative routes. Note that 24 of the staff are fixed-term contract holders, some of whom became fixed-term staff 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 decentralized operational management, which may be attributable to the lack of corporate ownership for defining the strategy, governance framework and guidelines. Limited corporate ownership of the decision to fund and later support the operation of the Djibouti HLB. Fragmented accountability across corridor multi-stakeholders as a result of existing delegation of authority operational structures. Lack of transparency on decisions, especially those with cost implications, leading to mistrust and tension among corridor users.

Agreed actions as from AR/19/12	Actions undertaken and update from OIGA's 2021 review	OIGA Conclusion
The Supply Chain Division will:		
(i) Clarify ownership and develop a corporate corridor strategy incorporating governance and staffing structures, with guidelines that support corridor management and relevant resource requirements.	The Supply Chain Division developed the WFP corridor management strategy starting in 2020. The strategy is currently being piloted in the Regional Bureau of East Africa, and specifically in the Djibouti corridor. It defines the governance structures that support management of the corridors, staffing structures, costing and budget management. A memorandum of understanding appended to the strategy clarifies the roles and responsibilities of headquarters divisions, regional bureaux, and the serving and recipient countries.	Closed
(ii) In consultation with the Regional Bureau of East Africa, Djibouti and Ethiopia country offices, reassess the effectiveness of the current Delegation of Authority arrangements for the Djibouti corridor.	In consultation with the Ethiopia and Djibouti Country Offices, the Regional Bureau of East Africa revised the delegation of authority to better clarify roles and responsibilities. Ethiopia has the delegation of authority on overland transport due to the limitation of trucks in Djibouti. Based on discussion with the Regional Bureau of East Africa and the Ethiopia and Djibouti Country Offices, clarity on roles and responsibilities has increased consultation and collaboration in the corridor. This has enabled a higher level of engagement between the two countries, including a service-level agreement signed with the Ethiopian Government for BSP for grain storage in the silos.	Closed
The country office will in consultation with Human Resources Division, the Regional Bureau of East Africa and Supply Chain Division and, based on the corridor strategy and the assessment of the sustainability of the humanitarian logistics hub once finalized (see observations 1), perform a review on the staffing level required for the Djibouti corridor management.	Based on the staffing review model developed as part of the WFP corridor management strategy, the Regional Bureau of East Africa supported the Djibouti Country Office to align the staffing of corridor activities. This exercise was completed in October 2021, with implementation still ongoing at the time of the follow up review.	Closed

Audit report observation 4: Cost sharing model as from AR/19/12

The following shortcomings were noted in the cost sharing model used to apportion and allocate corridor costs to the five recipient countries served by the Djibouti corridor:

Design and implementation of the cost sharing matrix

The current cost sharing matrix is composed of non-standardized, 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. The Djibouti Country Office has not performed relevant analysis to determine an applicable tariff per metric ton 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.

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

Recording of corridor costs

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

Reconciliation

The audit noted cost sharing reconciliations were not performed on a quarterly basis as stipulated in the service-level agreements signed between the Djibouti Country Office and the recipient countries. The 2018 reconciliations were only finalized 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 previous financial periods resulted in re-adjustments, reapportionment and redistribution of unforeseen costs across the recipient countries, which in turn had to find extra resources to cover these unexpected cost increases.

The forecasted BSP income for 2019 of USD 600,000 against total costs of USD 582,000 (65 percent being staff costs) provides limited flexibility in case income is not realized and may result in adjustments of the cost matrix at the end of the year and additional, unexpected costs being re-allocated to the recipient countries.

Underlying cause(s): Absence of corporate guidelines on a standardized costing methodology for WFP corridors and BSP. Limited management accounting and costing analysis capacity at the Djibouti Country Office, and in WINGS. Limited controls of the cost sharing matrix by the Djibouti Country Office. 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 mandatory requirements in service-level agreements.

Agreed actions as from AR/19/12	Actions undertaken and update from OIGA's 2021 review	OIGA Conclusion
The Supply Chain Division will:		
(i) Based on the corridor strategy adopted (see observation 2) develop a standard corporate model for integrated corridor management.	In consultation with the Supply Chain Division, the Regional Bureau of East Africa developed a budgeting and costing template that was piloted in the Djibouti corridor in 2020 and 2021. The template has clear criteria and categorization of staff costs, service provision and other corridor activities. The Regional Bureau of East Africa manages and controls the costing and budgeting process with the recipient countries providing verified and approved inputs into the budget to develop a consolidated corridor budget.	Closed
(ii) Assess feasibility of incorporating depreciation costs in the cost sharing matrix for the humanitarian logistics base and silos (contingent upon the decision taken under observation 1), to provide for replacement costs for specialized equipment which may require major long-term repairs and overhaul.	The depreciation costs of the humanitarian logistics base and silos for 2021 were included in the budget and costing matrix.	Closed
(iii) 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.	The Supply Chain Division, in consultation with the Regional Bureau of East Africa, utilized the Integrated Resource Management funds and financial management solution to create a single pot for the corridor budget. Expenses are incurred against the country portfolio budget corridor activity irrespective of the service recipient; at the end of the period (quarterly), the expenses are allocated to service recipients based on utilization of the corridor resources. An analysis of the expenses is also streamlined against the country portfolio budget dedicated to corridor activities.	Closed
The country office will:		
(iv) In liaison with the Supply Chain Division—Risk and Insurance and the Regional Bureau of East Africa will review the potential risk exposure of the humanitarian logistics base in terms of losses through theft, fire or other damages and obtain appropriate insurance coverage.	The Djibouti Country Office obtained appropriate insurance coverage for the HLB in 2021, renewable annually.	Closed
(v) Finalize the cost sharing reconciliation for 2018 and make adjustments for the loan repayment balance.	The reconciliations for 2018 were finalized in May 2019 and outstanding loan amount repaid.	Closed
(vi) Finalize the 2019 cost sharing matrix, address the data quality issues noted and ensure timely performance of quarterly reconciliations.	The Regional Bureau of East Africa developed a budgeting and costing template that was piloted in the Djibouti corridor in 2020 and 2021. Reconciliations are also performed on a quarterly basis.	Closed

Audit report observation 5: Corridor management tools and coordination mechanisms as from AR/19/12

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

- (i) 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 processes were managed and coordinated via email. The audit noted on average 20 steps that were performed and communicated through emails between the Ethiopia and Djibouti Country Offices 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 the timeliness of throughput processing.
- (ii) 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.
- (iii) Standard protocols for communication had not been established internally and with port officials. This resulted in weak coordination between the Djibouti and Ethiopia Country Offices and led to confusion in dealing with port officials. Since the Ethiopia Country Office adopted the direct delivery option for containerized cargo, it has been dealing directly with Djibouti port officials, without the Djibouti Country Office in the loop.
- (iv) 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.
- (v) The Ethiopia Country Office uses the Djibouti Country Office's storage plant in LESS for capturing containerized cargo that is received through direct delivery. Data capturing by the Ethiopia Country Office in LESS has been delayed in most cases, negatively impacting the Djibouti Country Office's data reliability score, 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. Mistrust and tension between the Djibouti and Ethiopia Country Offices on corridor operations. LESS configuration allows access to logistics officers to storage plants globally.

Agreed actions as from AR/19/12	Actions undertaken and update from OIGA's 2021 review	OIGA Conclusion
The Supply Chain Division will:		
(i) Liaise with Technology Division and formally assess feasibility of adapting existing corporate tools or developing an automated tool for streamlining current process steps.	Regular meetings between shipping and headquarters procurement divisions, the Ethiopia and Djibouti Country Offices were instituted to improve coordination and operations effectiveness. The Ethiopia and Djibouti Country Offices also hold weekly coordination meetings. This process has improved efficiency in the corridor and a survey from the recipient countries indicated a high level of satisfaction with current corridor services. The Regional Bureau of East Africa is working with the Ethiopia and Djibouti Country Offices to explore possible automated tools for improving efficiencies.	Ongoing Due date 31 December 2022
(ii) Develop corridor key Performance indicators and process level performance standards in the service level agreements that can be used to track and monitor performance end-to-end.	The Supply Chain Division and the Regional Bureau of East Africa developed clear operational targets and performance indicators through the corridor management framework. An online dashboard was also developed for tracking and reporting.	Closed
The country office will:		
(iii) Conduct a thorough and documented review of the performance of service providers.	The documentation of performance reviews still needs improvement as detailed in the 2021 audit of WFP Operations in Djibouti, observation 6, report AR/22/05. Vendor performance evaluations were partially missing, unapproved or delayed across all requesting units. They were mainly completed as a checklist with little information feeding into contract management. The procurement unit did not systematically perform vendor checks against UN sanctions.	Open Due date 30 June 2023
(iv) Consult the LESS team in headquarters to accurately reflect in the monthly reporting the Ethiopia country office usage of the Djibouti country office plant for the direct delivery of containerized cargo.	Consultations between the Ethiopia and Djibouti Country Offices reached an agreement that, for efficiency, the Djibouti Country Office would be responsible for recording all LESS transactions. These were recorded by the Djibouti Country Office in a timely manner with a 95 percent reliability score.	Closed

Table 2: Medium priority observations

Audit report observation 3: Bilateral service provision strategy as from AR/19/12		
<p>In support of activities proposed in the Country Strategic Plan 2020–2024, the Djibouti Country Office developed the 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 finalized 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. A formal collaboration with GCMF as a potential key client of the BSP had not been agreed.</p> <p><u>Underlying cause(s)</u>: Limited capacity at the Djibouti Country Office to develop and implement the BSP, and insufficient consultation with internal stakeholders. Unclear arrangements for reconsideration of the value for money of corridors.</p>		
Agreed actions as from AR/19/12	Actions undertaken and update from OIGA's 2021 review	OIGA Conclusion
The Djibouti Country Office will, in consultation with the Regional Bureau of East Africa, Supply Chain Division and other relevant units, finalize the bilateral service provision strategy and business case, supported by a viability and feasibility assessment for approval by the Supply Chain Division.	The Djibouti Country Office, in consultation with the Regional Bureau of East Africa, the Supply Chain Division and other relevant units, finalized the BSP strategy supported by a business case detailing viability and feasibility assessments. The strategy was approved by the Supply Chain Division in December 2020. In 2019, 75 percent of the BSP was offered to Yemen-based clients due to the activation of the logistics cluster in Yemen. In 2021, BSP increased the number of services offered to 15 clients, majorly from Djibouti and Ethiopia.	Closed

Annex A – Definitions of audit terms: ratings & priority

1 Rating system

Audit observations are categorized by impact or importance (high, medium or low risk) as shown in the internal audit services of UNDP, UNFPA, UNOPS and WFP adopted harmonized audit rating definitions, as described below:

Table A.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.
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.
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 A.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.²

² 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.



3 Categorization of the status of implementation of agreed per audit observation

Table A.3: Priority of agreed actions

Status	Definition
Closed	Action has been fully implemented.
In Progress	Action has been started, partially implemented and revised timescales for full implementation have been established.
Outstanding	Action has not been partially or fully implemented. Revised timescales have been agreed in some cases.
Not Applicable	Senior management has accepted the risk of not taking action. Conditions have changed that render the agreed action not relevant.



Annex B – Acronyms

BSP	Bilateral Service Provision
GCMF	Global Commodity Management Facility
HLB	Humanitarian Logistics Base
LESS	Logistics Execution Support System
MT	Metric Tons
UN	United Nations
UNHRD	UN Humanitarian Response Depot
USD	United States Dollar
WFP	World Food Programme
WINGS	WFP Enterprise Resource Planning Systems