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# Internal Audit of the Bottom-up Strategic Budgeting Exercise (BUSBE)

Office of the Inspector General  
Internal Audit Report AR/22/11

June 2022



World Food  
Programme



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# Internal Audit of the Bottom-Up Strategic Budgeting Exercise

## I. Executive summary

### Introduction and context

1. As part of its annual workplan, the Office of Internal Audit conducted an audit of the Bottom-up Strategic Budgeting Exercise (BUSBE). The audit focused on the application of project outputs to the formulation and finalization of the WFP 2022 budget consolidated in the Management Plan (2022–2024).
2. The BUSBE project aimed to revisit the management of funding sources<sup>1</sup> in WFP and determine how best to appropriately align funding to activities in regional bureaux, country offices and headquarters divisions. Through a bottom-up approach, the project aimed to deliver recommendations for planning and budget teams to align funding with operational priorities in a consistent and efficient manner. In addition, it was intended that better allocation of funding sources for activities would bring transparency and improve accountability to stakeholders.
3. The project was initiated in June 2020, with outputs and recommendations from four project workstreams applied to the formulation of the 2022 budget, as part of the annual budgeting exercise which was conducted from April 2021. The project team was disbanded in September 2021, with responsibility for ongoing initiatives transferred to various headquarters units or divisions.
4. The WFP Management Plan (2022–2024) summarizes the planned programme of work for a three-year period and the budget required to implement it in 2022. The 2022 approved programme, support and administration budget is set at USD 496.1 million (USD 443.5 million in 2021), based on a forecasted income level of USD 8.4 billion, with a projected indirect support cost recovery of USD 501 million.

### Audit conclusions and key results

5. Based on the results of the audit, and with consideration to this being an ongoing project, the Office of Internal Audit has assigned two ratings to distinguish: (1) the relevance of the project and its initial design (vision) requiring **some improvements**;<sup>2</sup> and (2) its project management and implementation demanding **major improvements** to ensure the project maintains its momentum and continues to be relevant, coherent and provides the outcomes envisaged initially.
6. Significant improvements were noted as envisioned through the BUSBE project, especially in the budget governance and visibility of budget across funding sources. Not all objectives were achieved, nor were they expected to be achieved, in the first year. Yet the project structure, which provided unity of vision and coherence in implementation, has been disbanded very quickly without clear objectives and a roadmap going forward. This represents a clear risk that the vision, coherence and momentum may be lost and that the improvements expected will not materialize.
7. WFP implemented the BUSBE between 2020 and 2021 to determine the baseline budget for essential activities required to support programmes, and to identify the most appropriate funding sources for meeting these requirements. In the context of increasing operational activities and forecasted income levels for 2022 (reaching USD 8.4 billion), it is paramount that resources are allocated in an efficient and optimum manner

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<sup>1</sup> Funding sources include the programme, support and administration budget, multilateral funds, and other resources.

<sup>2</sup> See Annex B for definitions of audit terms.



to improve accountability to multiple stakeholders. The outputs of the BUSBE project workstreams were transitioned to corporate business owners, resulting in changes in budget methodology implemented during the 2022 budgeting exercise carried out in 2021.

8. The audit obtained broad feedback that implementing the new methodology and applying the outputs of related workstreams during the 2022 budgeting exercise facilitated business owners' visibility and linkages of planned activities to funding sources, including a consolidated view of staffing costs regardless of contract types. Nevertheless, in view of the anticipated changes to the budgetary process, the attempted implementation of the project in one budget cycle encountered challenges typical of a significant shift in methodology. There are opportunities to benefit from lessons learned in successive budget cycles to refine the new strategic budgeting approach, tools, and processes.

9. In the absence of established criteria to measure progress against the original project objectives and contributions from the workstreams implemented as part of the project, there is no defined horizon for the bottom-up strategic budgeting exercise end state, nor any means to measure whether such a position has been reached. It is also unclear how the initial vision can be sustained, and its momentum maintained when compartmentalized with no articulation of how the various parts will continue to feed a coherent objective. The workstreams that transitioned to business owners would benefit from consolidated workplans with defined key performance indicators, timelines, accountabilities, and resource requirements in successive budget cycles. Corporate sponsorship would also complement the budget methodology change management process, including communication strategies that are currently dispersed across corporate business units.

10. The cross-functional representation of global headquarters and country offices in the new budget governance set-up and quality review process contributed to the perception of transparency in programme, support, and administrative budget allocation decisions. The budget review committee's proposal, endorsed by the Executive Director, resulted in the re-prioritization of an initial baseline activities budget request from USD 868 million to a final approved allocation of USD 648.3 million. While business owners initially conceptualized the new budgeting approach with a strategic (and in some cases zero-based) focus, the processes underpinning the final alignment of budget requests to the available programme, support and administration funding ceilings were viewed as top-down and financially driven, undermining the mindset shift welcomed by all budget holders and the benefits achieved thus far. There is an opportunity to strike a balance between the intended strategic approach and the technical budgeting framework, while leveraging positive feedback from budget holders on the initial project communication and guidelines. Determination of core or essential activities remains unclear and heavily compartmentalized as budget arbitration in 2021 continued to be largely driven by statistical budget cuts.

11. Initiatives are under way to integrate budget performance management and accountability with the corporate annual performance plan, including an assessment and resourcing requirements for a digital tool. These activities will provide a pathway to results-based budgeting in successive budget cycles. At the time of the audit fieldwork, this segment was hardly touched to further guide the new budgeting approach.

12. Staff costs amount to 60 percent of the 2022 PSA budget allocation. The shift in the budgeting approach requires also greater clarity on the drivers of position creation and determination of grades. The concept of position management in WFP is approached principally from a budgeting perspective, focusing on the availability of funds and the creation of budget codes in the enterprise resource planning system. The Human Resources Division's role in the creation of positions is advisory and its recommendations are not binding. Accountability for position management rests with heads of divisions and is not clearly outlined and articulated; this situation did not change as a result of the bottom-up strategic budgeting exercise. Headquarters divisions and regional bureaux followed informal and inconsistent procedures to request new positions, and documentation to support such requests was unstructured and did not provide an adequate



audit trail with linkages to divisional workplans and objectives. In consideration of these gaps, an overarching framework for position management is required.

### Actions agreed

13. The audit report contains three high and three medium priority observations. The Corporate Planning & Performance Division, in consultation with units implementing other workstreams, will be the primary lead for implementation of the agreed actions. Management has agreed to address the reported observations and work to implement the agreed actions by their respective due dates.

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



## II. Context and scope

### Bottom-up Strategic Budgeting Exercise objectives

15. To ensure that WFP's increasing operational activities are resourced from the most appropriate funding sources, in June 2020, the Executive Director launched the Bottom-up Strategic Budgeting Exercise (BUSBE) project. The BUSBE project was carried out by a small, dedicated project team.

16. The project had the following four main objectives, to:

- (i) Ensure the use of optimum funding sources for activities.
- (ii) Enable more efficient use of funding.
- (iii) Increase the transparency of headquarters and regional bureaux funding.
- (iv) Examine the programme, support, and administration (PSA) budget to country offices.

17. In 2020, phase one of project implementation focused on data gathering, analysis and developed recommendations for implementation. In 2021, phase two focused on implementing recommendations to guide the 2022 budgeting exercise that formed the basis for the WFP 2022–2024 Management Plan.

### Project workstreams

18. The rationale for the establishment of BUSBE project workstreams focused on organizational needs such as the efficient management of limited resources; alignment of funding sources to activities; and a fair mechanism to fund global headquarters.

19. To achieve the objectives, four workstreams were identified that aimed to:

- (i) *Technical Budgeting* – Refine management plan submissions to ensure the right funding sources were aligned to activities with workplans in headquarters divisions and regional bureaux.
- (ii) *Budget Governance* – Examine how different funding sources were allocated and managed to ensure WFP funding is transparent and accountable.
- (iii) *Cost Recovery Analysis* – Analyse various aspects of internal cost recovery and recommend a way forward for the organization.
- (iv) *Country Office Budget Analysis* – Analyse the PSA budget funding levels allocated to country offices and propose alternative models to foster transparency and consistency.

20. In September 2021, the BUSBE project was dissolved and the four workstreams transitioned to corporate functional units to continue the work initiated by the project team. This transition included aspects related to implementation of the 2022 Management Plan and preparation of the 2023 Management Plan.

21. A new budget governance decision-making structure for funds over which WFP management has discretion was established, which, together with guidelines, was issued in January 2022.

22. In 2021, the cost recovery working group led by the Corporate Finance Division was established with the objective to strengthen corporate guidance on internal cost recovery at WFP and to identify centralized internal activities that could be directly charged to country portfolio budgets and other funding sources.

23. The country office budget analysis workstreams developed a more equitable model for allocating PSA funds to country offices. The model was endorsed by the Leadership Group and implemented in the 2022 budget allocations. As a result, the PSA budget for country offices decreased by 58 percent (see paragraph 27) due to the removal of costs that were not considered to be baseline and the subsequent redefinition of country offices' PSA budget.



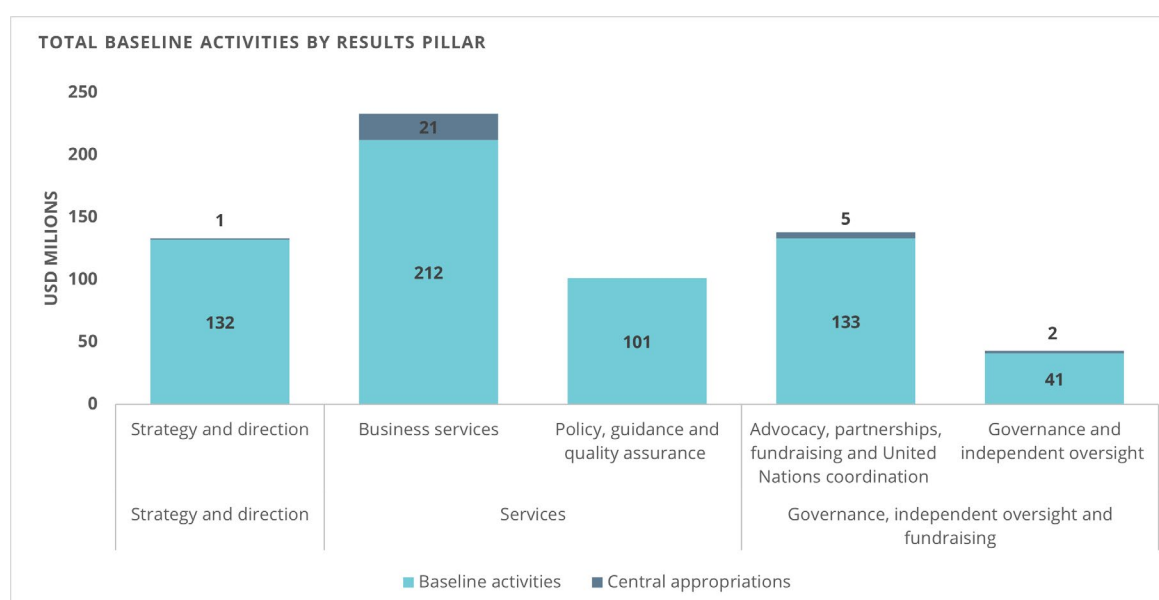
## BUSBE outputs and the WFP Management Plan 2022–2024; key data

24. The WFP Management Plan for 2022–2024 builds on the Management Plan for 2021–2023. It reflects the results of the BUSBE project in determining the funding requirements for WFP's programme support and business operations, and the optimal funding sources for meeting those requirements at the 2022 projected funding level of USD 8.4 billion.

25. The 2022 PSA budget of USD 496 million, approved annually by the Executive Board, is a subset of the baseline budget and is funded from the indirect support costs recovered from contributions per WFP's full cost recovery policy. In 2022, the PSA budget (see paragraph 27) increased by 12 percent from the 2021 budget allocation and considered the realignment of programme support and business operations funding arising from BUSBE; the increasing complexity of WFP's work; and the organization's continued commitment to implement high-quality, efficient, innovative programmes.

26. Based on the approved 2022 baseline budget of USD 648 million, categorized by appropriation lines and the five WFP corporate pillars,<sup>3</sup> almost 36 percent of the budget is attributed to business services. Figure 1 provides an overview of the approved 2022 baseline activities budget by appropriation lines and pillars.

**Figure 1: Overview of total baseline activities by results pillar**



Source: WFP 2022–2024 Management Plan (September 2021)

27. In line with the new budget methodology, WFP committed to fully fund baseline activities<sup>4</sup> planned for 2022 with a projected total of USD 648 million consisting of different funding sources<sup>5</sup>. The global headquarters accounts for 86 percent of total PSA allocations in 2022 (USD 424.4 million), representing a 31 percent increase from the 2021 allocation. The PSA budget for country offices declined by USD 60.5 million (58 percent) due to the removal of costs that were not considered to be baseline and the subsequent

<sup>3</sup> Appropriation lines and five pillars define the nature of the support offered to country offices to successfully implement their country strategic plans.

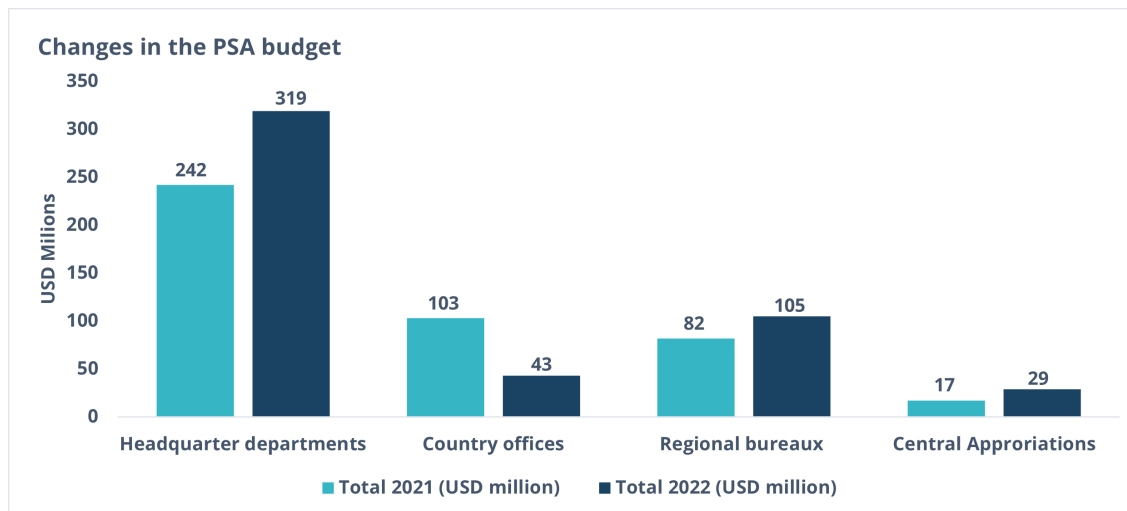
<sup>4</sup> Baseline activities are defined as essential activities that contribute to the efficient and effective delivery of the annual implementation plan but that cannot be readily traced to individual country strategic plans.

<sup>5</sup> The funding sources include PSA of USD 496 million, PSA equalization account of USD 41 million, and trust funds and special accounts amounting to USD 111 million.



redefinition of country offices' PSA budgets. Figure 2 provides an overview of the PSA budget changes between 2021 and 2022.

**Figure 2: Overview of changes in PSA budget allocation between 2021 and 2022**



Source: WFP 2022–2024 Management Plan (September 2021)

## Objective and scope of the audit

28. The objective of the audit was to provide assurance on the effectiveness of governance, risk management and internal control processes related to the BUSBE project; the application of its outputs; and to determine whether the project achieved its aims and objectives. Such audits contribute to the Office of Internal Audit's annual and overall assurance statement to the Executive Director on governance, risk management and internal control processes. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

29. The audit used a performance approach to explore and answer questions related to the optimization of opportunities and mitigation of risks in relation to the BUSBE project and its workstreams, and to the implementation of its outputs. The audit scope covered the following lines of enquiry and sub-questions:

- **Line of enquiry A:** Did the outputs of the BUSBE project workstreams and their application to the 2022 budgeting exercise result in changes to budgeting in line with stakeholder expectations?
- **Line of enquiry B:** Was the transition of the BUSBE project to business owners effective? Are adequate measures in place to coordinate and report on ongoing work and the fulfilment of the project's original objectives?
- **Line of enquiry C:** Have opportunities, challenges and risks arising from BUSBE and its application in the 2022 budgeting exercise been adequately identified? Have responses, tools and frameworks been captured and relevantly mainstreamed to inform the budgeting exercise for 2023 and future years?
- **Line of enquiry D:** Are the decision-making processes for the creation, (re)classification and allocation of resources for positions clear; and are effective accountability mechanisms in place?

30. The scope of the audit covered the period from 1 June 2020 to 31 December 2021. Where necessary, transactions and events pertaining to other periods were reviewed. The audit fieldwork was conducted from 7 February to 4 March 2022. The audit team conducted structured interviews with relevant stakeholders at global headquarters and field levels, data analysis of budget submissions and allocations, and documentation reviews to evaluate the outputs of BUSBE as it informed the 2022 budgeting exercise. The team consulted a sample of four headquarters divisions, four regional bureaux and three country offices through structured interviews.





## III. Results of the audit

### Overview of conclusions

31. Table 1 outlines the extent to which audit work resulted in observations and agreed actions. These are classified according to the lines of enquiry established for the audit (see paragraph 29) and are rated as medium or high priority; any observations that resulted in low priority actions are not included in this report.

**Table 1: Overview of lines of enquiry, observations and priority of agreed actions** Priority of issues/  
agreed actions

<b>A: Did the outputs of the BUSBE project workstreams and their application to the 2022 budgeting exercise result in changes to budgeting in line with stakeholder expectations?</b>	
1. Design and implementation of BUSBE methodology	High
<b>B: Was the transition of the BUSBE project to business owners effective? Are adequate measures in place to coordinate and report on ongoing work and fulfil the project's original objectives?</b>	
2. Transition of BUSBE workstreams to business owners	High
3. Instruments complementing the BUSBE change management process	Medium
<b>C: Have opportunities, challenges and risks arising from BUSBE and its application in the 2022 budgeting exercise been adequately identified? Have responses, tools and frameworks been captured and where relevant mainstreamed to inform the budgeting exercise for 2023 and future years?</b>	
4. Budget review process and accountabilities	Medium
5. Corporate budgeting tools	High
<b>D: Are the decision-making processes for the creation, (re)classification and allocation of resources for positions, clear; and are effective accountability mechanisms in place?</b>	
6. Position management	Medium

32. The issues identified in this report are mainly rooted in the design and implementation of the BUSBE project workstreams, and are related to: (a) the absence of criteria to measure progress on the project's original objectives, including workstreams transitioned to business owners; (b) project implementation timelines that presented challenges because of the number of changes anticipated in one budget cycle (including change management factors); and (c) timing issues in the finalization of critical corporate frameworks that inform the budgeting process.

33. Some observations result from the implementation of critical budget enablers for the first time in the 2022 budget exercise, such as budget governance, budget performance management and accountability frameworks.

34. Overall, across all observations, there is an opportunity to build on lessons learned and refine the new budgeting approach in successive budget cycles.



## Line of Enquiry A: Did the outputs of the BUSBE project workstreams and their application to the 2022 budgeting exercise result in changes to budgeting in line with stakeholder expectations?

35. The audit reviewed the design and implementation of the BUSBE project and workstreams focusing on: (a) the clarity of project objectives and scope, including the contributions of the four workstreams to the achievement of these objectives; (b) the correct interpretation and application of the BUSBE concepts by the budget holders during the 2022 budget exercise; (c) processes through which resources are allocated for corporate priorities and mechanisms for monitoring and reporting, and (d) design and implementation of the budget governance mechanisms facilitating implementation of the workstreams to increase transparency in the allocation of resources across WFP.

36. The establishment of BUSBE and implementation of the four workstreams informed the 2022 budget exercise, with their outputs leading to a shift to the preparation of a holistic baseline budget (see paragraph 27), funded from the PSA budget and other sources (including the PSA equalization account, directed contributions and management cost recovery fees). Budget submissions for the 2022 exercise used new templates that, for the first time, identified all programme support and business operations activities irrespective of their funding sources, along with their complete cost breakdowns, including the salary costs of all employees.

37. The governance workstream saw the transition of the previous Strategic Resource Allocation Committee to new budget governance committees, namely the Global Budget Committee and the Multilateral Budget Committee, supported by an independent secretariat hosted by the Corporate Planning & Performance Division (CPP). In January 2022, CPP issued new budget governance guidelines to guide the 2023 and future budgeting exercises.

### Observation 1: Design and implementation of BUSBE methodology

#### *Interpretation and application on the BUSBE concept*

38. Based on feedback received from budget holders and analysis of budget submissions, different interpretations of BUSBE communications and guidelines resulted in the following inconsistencies in the 2022 budgeting exercise:

- Some budget holders applied the principles of zero-based budgeting using a needs-based approach, while others built their budgets based on 2020 and 2021 expenditure levels.
- There was inconsistent application and classification of the concept of baseline (see definition at paragraph 27) and other services,<sup>6</sup> motivated at times by the need to remain conservative, recognizing and anticipating the potential for subsequent budget cuts arising from the budget review process.
- In some instances, budget holders applied the BUSBE guidelines more as an activity categorization exercise than as prioritization for resourcing their activities.
- There was a lack of clarity on whether to include and categorize activities pending confirmation of resource mobilization status, resulting in some activities being classified as baseline unfunded at the time of the 2022 budget exercise.

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<sup>6</sup> Other services are activities that are incidental or supplementary and are not central to directly supporting the operations of the organization.



39. These factors impacted the correct application of the new BUSBE methodology by business owners, which was viewed as having started from a strategic viewpoint, but which then later became more financially driven. This may also adversely affect the 2023 budget exercise.

*Classification of programme, support and administration budgets and other services*

40. The new budget template implemented in the 2022 budget exercise presented challenges for some budget holders with multiple funding sources in terms of multilateral funding sources and cost recovery streams. In addition, regional bureaux activities significantly differed, resulting in inconsistencies in mapping activities to the BUSBE template.

*Baseline bilateral funding confirmations*

41. The Budget Review Committee approved (based on a decision agreed by the Leadership Group) activities totaling USD 16 million within nine headquarters divisions as baseline activities with bilateral funding. As of February 2022, only approximately 13 percent (USD 2 million) of funding for these activities had been confirmed. There was no clarity on how funding for the balance of USD 14 million would be obtained, noting also that almost 67 percent of this funding gap relates to staffing costs.

Underlying causes: New BUSBE methodology and application of related guidelines still in progress; short implementation timelines considering the number of changes of changes anticipated for budget holders to conceptualize and apply; lack of clarity on implementing budget review committee decisions and fundraising for baseline bilateral activities.

**Agreed Actions** [High priority]

The Corporate Planning and Performance Division will:

- i) Formalize and disseminate comprehensive budget process guidelines (to be included in the planned update of the corporate budget manual), including clarifications and training for budget holders on applying critical concepts.
- ii) In liaison with the Global Budget Committee and based on the 13 percent funding secured as of February 2022 for baseline bilateral funding, review and re-prioritize related budget activities, and communicate and implement decisions with respective budget holders.

**Timeline for implementation**

31 July 2022



## Line of Enquiry B: Was the transition of the BUSBE project to business owners effective? Are adequate measures in place to coordinate and report on ongoing work and fulfil the project's original objectives?

42. The audit reviewed the transition of the BUSBE project to business owners, and the mechanisms to coordinate and report on ongoing work and the fulfilment of the project's original objectives. The audit focused on: (a) the mechanisms in place to ensure continuity of the workstreams; (b) the oversight and monitoring mechanisms established to monitor and report continuous implementation of transitioned activities, including the achievement of original objectives; and (c) the budget change management plan and executive management sponsorship.

43. The BUSBE project team was dissolved in September 2021, and actions identified that were yet to be implemented were handed over to three corporate business units, with handover memoranda forming the basis of the transfer of responsibility. The 2023 Management Plan workplan and budget framework considerations had yet to be finalized at the time of audit fieldwork.

44. The implementation of BUSBE represented a change in the budgeting process for 2022 in determining activity types (baseline, other services, and direct cost recovery) and appropriate funding sources. Further changes are expected from key corporate processes such as the ongoing follow up of the 2020 Functional Review Output Report, that had yet to be implemented when workstreams were handed over to corporate business units.

### Observation 2: Transition of BUSBE workstreams to business owners

45. Based on review of implementation plans, functioning of established working groups and interviews with corporate business units, four issues related to the continuity of workstreams and achievement of the BUSBE project's original objectives were identified:

- At time of audit fieldwork, there was no formalized consolidated workplans based on defined budget cycle(s) and overall accountability to capture ongoing BUSBE activities. This included a lack of consideration of the 2022 feedback received from budget holders, and the required tactical and strategic actions proposed by the BUSBE project team during the workstream handover process. These contribute to the BUSBE project original objectives, including relevant changes.
- In the absence of formalized workplans as highlighted above, consolidated resource requirements to fully achieve the original BUSBE objectives for all workstreams transitioned to business units had not been assessed.
- Criteria to measure implementation of transitioned activities and their contribution to the achievement of the original BUSBE objectives were not clearly articulated. In addition, there was a lack of clarity on how country presence reviews<sup>7</sup> would contribute to the achievement of objectives.
- There was no systematic monitoring and reporting of workstreams transitioned to business units and their contributions to the original BUSBE objectives and relevant changes.

Underlying causes: 2023 Management Plan workplan, structures and budget framework considerations still in progress; BUSBE implementation timelines short and the horizon to achieve its end-state post-handover not defined; comprehensive assessment of resource requirements not carried out.

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<sup>7</sup> The 'country presence review' is an internal analysis planned to be carried out by the Operations Management Support Office. It analyses the minimal country office structure considered essential for WFP presence to ensure continuity where WFP considers it strategically important to be present.

**Agreed Actions** [High priority]

The Corporate Planning and Performance Unit will:

- i) Incorporate the ongoing Bottom-Up Strategic Budgeting Exercise workstream activities, proposed process improvements and required tactical and strategic actions in the 2023 Management Plan workplan.
- ii) In liaison with the Operations Management Unit and Corporate Finance Division, develop implementation timelines and key performance indicators for all workstreams based on budget cycle(s).
- iii) Assess the resource requirements to implement the established workplans and request budget allocations for the activities in the 2023 and subsequent budget(s).

**Timeline for implementation**

i & ii) 31 July 2022

iii) 30 November 2022

### Observation 3: Instruments complementing the BUSBE change management process

46. Several changes arising from BUSBE workstreams which were implemented during the 2022 budgeting process (including, for example, implementation of the beneficiary identity management cost recovery mechanism; restructuring of the IT per capita process; and the planned regional bureaux budget analysis) were communicated in differing formats.

47. The communication strategies were dispersed across different corporate business units and did not consistently clarify the impact of the changes implemented through BUSBE in the 2022 budget. There is an opportunity to provide further clarity on BUSBE-related changes through a consolidated change management plan with consolidated executive management sponsorship.

48. The audit identified that new operational risks have emerged from the 2022 budget exercise in relation to funding sources (see paragraph 46), including for example the implementation of the beneficiary identity management cost recovery mechanism.

49. These emerging risks include: (a) clarity of communication to country offices to anticipate the changes in 2022; (b) impact of increased direct cost attribution on country office budgets; and (c) risks of country offices deciding for budgetary reasons not to use corporate tools, with potential consequent impacts on the quality of programme delivery. These risks had not yet been assessed and mitigated at the time of audit fieldwork.

Underlying cause: Diverse change management and communication strategies adopted by various headquarters divisions; and risk management principles not applied to changes implemented.

**Agreed Actions** [Medium priority]

The Corporate Planning and Performance Unit will:

- i) Develop a consistent communication and change management plan with all relevant headquarters divisions and complement the plan with executive sponsorship.
- ii) In liaison with relevant business units, assess emerging risks as a result of the BUSBE related changes and develop appropriate mitigation actions.

**Timeline for implementation**

31 July 2022



## Line of Enquiry C: Have opportunities, challenges and risks arising from BUSBE and its application in the 2022 budgeting exercise been adequately identified? Have responses, tools and frameworks been captured and where relevant mainstreamed to inform the budgeting exercise for 2023 and future years?

50. The audit interviewed budget holders from selected headquarters divisions, regional bureaux, WFP offices, country offices and members of the Budget Review Committee (which was established on an ad-hoc basis in 2021 for the Management Plan 2022 review process). The audit also assessed the budget review process, including implementation of the decisions endorsed by the Budget Review Committee and analyses of data in the corporate budgeting tool (Tagetik).

51. A new budget governance structure was established in January 2022 to enhance budgetary decision making in the 2023 Management Plan and subsequent budgets. The audit did not review the design or implementation of this structure.

### Observation 4: Budget review process and accountabilities

#### *Communication and implementation of decisions by the Budget Review Committee*

52. The decisions taken by the Budget Review Committee on budget cuts for certain entities, ranging from 10 to 15 percent of requested funding, were not accompanied by suggestions or directions on how to achieve the required reductions. As such, further prioritization of activities had to be undertaken by business units, as mechanisms for implementing budget cuts (based on efficiency gains, absorption capacity and impact on strategic outcomes and corporate priorities<sup>8</sup>) were not clarified to budget holders. This resulted in the 2022 PSA budget allocation process being more financially driven, with limited strategic considerations in the implementation of proposed budget reductions at divisional level.

53. In addition, two approved Budget Review Committee decisions had not been implemented, which implied gaps in timely consultations with budget holders to inform and agree on decisions taken and recommended for the Executive Director's approval. For example, a committee decision on the supply chain direct cost recovery mechanism for procurement and shipping services was not feasible to implement by the responsible division within the given timelines; and separately, that budget holders were not aware of their responsibilities to raise bilateral donor funds to finance baseline activities (see paragraph 41) that were marked as funded from bilateral funding sources.

#### *Key performance indicators and accountabilities*

54. The internal key performance indicators (KPI), introduced at the latter stages of the 2022 budget process, were not included in the budget proposals submitted and, therefore, were not reviewed by the Budget Review Committee. As of the date of the audit fieldwork, 71 percent of all business owners had finalized KPIs for the 2022 budget implementation. Furthermore, mechanisms on the frequency and criteria for measuring, monitoring, and reporting on the internal KPIs were not communicated to budget holders. There was no clarity on how the internal KPIs would be measured to ensure the integrity of the data provided by budget holders. Related digital tools to integrate the process with the existing annual performance plan were still under consideration.

Underlying causes: New budget governance mechanism only recently approved (January 2022) and an ad-hoc committee used for the 2022 budget exercise; absence of standard criteria and key data analysis to inform budget decision-making; critical corporate frameworks that inform budgeting process under development; KPI process introduced late in the BUSBE process, and decisions on the digital tools for monitoring KPIs and linking them to corporate frameworks still to be made.

<sup>8</sup> Now termed "enablers" in the WFP Strategic Plan 2022–2025, approved by the Executive Board in November 2021.



### Agreed Actions [Medium priority]

The Corporate Planning and Performance unit will:

- i) Follow up on implementation of decisions taken by the Budget Review Committee in a timely manner and formalize a procedure to deal with cases where decisions are not implemented.
- ii) In liaison with budget focal points, support the Global Budget Committee in considering the necessary criteria and data to support the decision-making process.
- iii) Develop and disseminate guidelines to budget holders on mapping and linkages of the 2023 budget activities to the approved WFP Strategic Plan and Corporate Results Framework indicators.
- iv) In liaison with the Technology Division, finalize and implement the decision on the digital tool to integrate key performance indicators from the annual performance plan with the budgeting process.

### Timeline for implementation

- i) 31 March 2023
- ii) 30 September 2022
- iii) 31 July 2022
- iv) 31 March 2023

## Observation 5: Corporate budgeting tools

55. At the time of audit fieldwork, CPP carried out work on a technical solution in the Tagetik budgeting tool's testing environment to compare the approved<sup>9</sup> budget against actual expenditure. The following gaps in effectively conducting such a budget versus actual analysis were noted:

- The granularity of budgetary information in Tagetik and the corporate enterprise resource planning system (WINGS) differed, limiting the possibility for analysis.
- The responsibilities and accountabilities of budget holders for budget performance results were not defined.

56. There was no system-based traceability of the changes made during the 2022 budgeting exercise to the type of activity (baseline versus other services), funding status and funding source, to effectively analyze changes resulting from the several rounds of budget decision-making. Budget planners undertook significant offline work prior to submitting budgets in Tagetik. In some instances, to expedite the process, the BUSBE team processed data in Tagetik on behalf of business units. While such decisions were made to assist budget holders, it may have increased data integrity risks.

57. The system showed the funding status of baseline activities from bilateral funding sources (see paragraph 41) as 'funded', although no actual funding was confirmed. As such, the system data provided potentially misleading information to stakeholders.

58. At the time of audit fieldwork, only one experienced employee (engaged on a consultant contract) was capable of performing the critical customizations to the budgeting tool and its integration with other systems – thus presenting a business continuity risk.

59. The lack of linkage between WFP's budget tool and its Enterprise Resource Planning system resulted in an absent linkage between budget and expenses. This represents a key challenge to the implementation of the new budgeting mindset envisaged by BUSBE.

<sup>9</sup> Approved by the Executive Board during the Management Plan process.



Underlying causes: Suitability and adequacy of the current system to meet business needs not yet comprehensively assessed based on the new BUSBE methodology.

**Agreed Actions** [High priority]

The Corporate Planning and Performance Unit will:

- i) In liaison with the Technology Division and budget holders, assess if the Bottom-Up Strategic Budgeting Exercise budget process requirements are adequately and effectively supported by the current WFP corporate budgeting tool.
- ii) Based on the above assessment, if necessary, implement investment decisions on staffing and system enhancements.

**Timeline for implementation**

- i) 31 March 2023
- ii) 30 November 2023





## Line of Enquiry D: Are the decision-making processes for the creation, (re)classification and allocation of resources for positions clear; and are effective accountability mechanisms in place?

60. The audit performed trend analyses of staffing levels at headquarters and regional bureaux, from 2017 to 2021, to identify organizational units with specific trends, and to inform the selection of samples for detailed review. The analyses compared the number of staff by organizational unit and their classification by grades and type of contract, year by year. For regional bureaux, further analyses considered staffing levels compared to direct expenditure and the number of countries within each region. Detailed testing analyzed the audit trail of a sample of requests for the creation of new positions at senior level, which were approved during 2021.

### Observation 6: Position management

61. One of the potential parameters initially proposed for the scope of BUSBE was to allow analyses of whether the grades of PSA-funded positions were in line with roles and responsibilities. This potential objective was not incorporated in the final BUSBE workstreams. At the time of audit fieldwork, the Human Resources Division (HRM) indicated that work was ongoing during 2022 to address aspects of the classification of positions, including guidance on requirements for post-related actions and automation of classification requests, as well as training on classification for field HR staff and staffing coordinators.

62. Given that 60 percent of the 2022 WFP PSA budget allocation (USD 298 million out of USD 496 million) related to staff costs, the following aspects required corporate attention, especially as BUSBE is a paradigm shift from WFP's past practice of managing positions and grades within available funds.

#### *Concept of position management*

63. Budgeting and human resources guidelines to support position management were available, including the procedures to create positions in WINGS, standard position cost rates, and the use of generic job profiles and job evaluation guides for managers. These procedural guidelines focus on the availability of funds and compliance with human resources regulations. The accountabilities of spending units within these procedural guidelines for management of positions are not comprehensively addressed.

64. HRM offers an advisory role in the position management process, including advice on strategic workforce planning for headquarters divisions, but its recommendations are not prescriptive. Similarly, CPP fulfils a procedural role focused on the creation of positions in WINGS and ensuring the availability of funds. Overall, the decisions to create new positions remain with divisional heads.

#### *Documentation to support position management decisions*

65. There is a standard classification request form that should be used for unique and non-rotational professional positions, as well as for encumbered General Service and National Officer positions. For other positions, spending units mainly kept documentation to support requests for new positions or reclassification of existing positions in the form of emails and internal correspondence. This also applied to senior level positions. Documentation was therefore unstructured and did not provide an adequate audit trail of the rationale for the related decisions, with clear linkages to divisional workplans.

66. The process to request new positions was not supported by integrated systems with built-in controls – posing challenges for the HRM and CPP to comprehensively review requests from spending units.



67. The HRM toolkit “Designing a Dynamic WFP” includes proposed structural models for country offices and a benchmark to facilitate decisions for grading country director positions. A similar organizational alignment framework to inform the structure of headquarters divisions and regional bureaux, and the grades of senior positions (based on the complexity of activities and other criteria), was not available.

Underlying cause: Absence of an overarching framework and process for position management; accountability framework of budget holders defined at high level; absence of organizational models for headquarters and regional bureaux; and limited systems to support the process.

**Agreed Actions** [Medium priority]

- 1) The Workplace Culture Department, in consultation with the Human Resources Division and the Corporate Planning and Performance Division, will lead the design and implementation of an overarching position management process at the corporate level, including aspects of accountability, roles and responsibilities, and related guidelines, to ensure proper assessment of budgeting decisions associated with requests for new positions (or reclassification of existing positions) and articulation with existing procedural guidance.
- 2) The Human Resources Division, in consultation with the Corporate Planning and Performance Division, will develop and implement standard instruments, systems and tools for an audit trail of decisions having a budgetary impact, considering the planned implementation of the Human Capital Management system. The “Classification request for professional positions” form provides key elements of audit trail for this purpose.

**Timeline for implementation**

31 March 2023



## Annex A – Agreed action plan

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

#	Observation title	Line of Enquiry	Owner	Priority	Timeline for implementation
1	Design and implementation of BUSBE methodology	LOE A	CPP	High	31 July 2022
2	Transition of BUSBE workstreams to business owners	LOE B	CPP	High	i) 31 July 2022 ii) 31 July 2022 iii) 30 November 2022
3	Instruments complementing BUSBE change management process	LOE B	CPP	Medium	31 July 2022
4	Budget review process and accountabilities	LOE C	CPP	Medium	i) 31 March 2023 ii) 30 September 2022 iii) 31 July 2022 iv) 31 March 2023
5	Corporate budgeting tools	LOE C	CPP	High	i) 31 March 2023 ii) 30 November 2023
6	Position management	LOE D	WPHRM and CPP	Medium	31 March 2023



## Annex B – Definitions of audit terms: ratings & priority

### 1 Rating system

The internal audit services of UNDP, UNFPA, UNOPS and WFP adopted harmonised audit rating definitions, as described below:

**Table B.1: Rating system**

Rating	Definition
<b>Effective / satisfactory</b>	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.
<b>Some improvement needed</b>	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.
<b>Major improvement needed</b>	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.
<b>Ineffective / unsatisfactory</b>	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**

<b>High</b>	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.
<b>Medium</b>	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.
<b>Low</b>	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 a broad impact.<sup>10</sup>

<sup>10</sup> 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 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.

Office of Internal Audit monitors agreed on actions from the date of the issuance of the report with regular reporting to senior management, the Independent Oversight Advisory 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, the Office of Internal Audit 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, the Office of Internal Audit 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. Office of Internal Audit informs senior management, the Audit Committee and the Executive Board of actions closed without mitigating the risk on a regular basis.



## Annex C – Acronyms

BUSB	Bottom-up Strategic Budgeting Exercise
CPP	Corporate Planning & Performance Division
HRM	Human Resources Division
KPI	Key Performance Indicator
PSA	Programme, Support and Administration
USD	United States Dollar
Tagetik	WFP corporate budgeting tool
WFP	World Food Programme
WINGS	WFP Information Network and Global Systems

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