Internal Audit of WFP On-Demand Service Provision

Office of the Inspector General
Internal Audit Report AR/24/07

June 2024

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I. Executive summary

Introduction and context

1.   As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP on-demand service provision. WFP provides services on-demand to augment national capacity and support governments and the humanitarian and development community in the areas of transport and logistics, procurement, cash-based transfers, administration, infrastructure, digital solutions and data analytics

2.   The audit assessed the extent to which management has established governance, risk management and internal controls for the effective delivery of on-demand services to external clients. The audit covered the period from 1 January 2021 to 31 December 2023. Over this period, over half of WFP country offices provided on-demand services for a total value of USD 842 million.

Audit conclusions and key results

3.   Based on the results of the audit, the Office of Internal Audit reached an overall conclusion of **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.

4.   WFP is praised by the humanitarian and development community for the on-demand services it provides, as the organization leverages its expertise and significant presence in and access to field locations. This extended to WFP's core strength in supply chain management as well as experience in other services such as cash transfers, engineering, and facility management.

5.   Despite a growing portfolio and volume of on-demand services, the demand-driven business model would benefit from a clear strategic direction that prioritizes corporate efforts and defines a risk appetite considering which services should or not be rendered. The role of WFP in the context of the UN Reform[1] and other UN Agencies also providing services posed risks and opportunities that required careful consideration.

6.   The audit included the following two high priority observations with agreed action:

7.   High Priority Observation 1: WFP should address: (a) the varying interpretations of what constitutes a service, capacity strengthening, or technical assistance by some country offices in implementing activities under a programmatic framework when these could, in substance, be considered services; and (b) how service provision contributes to Sustainable Development Goals and WFP's Strategic Outcomes, which differed across modalities and was only measured by one outcome indicator.

8.   Corporate units had fragmented approaches and processes that country offices and clients did not always comprehend. Coordination mechanisms among units in headquarters did not ensure consistent and robust approaches to risk management – including through insurance coverage – and budget management. This issue extended to the decision on the tools to support business processes.

9.   High Priority Observation 2: It is important for WFP to revisit headquarter roles and responsibilities for on-demand services, develop criteria to include an insurance budget in service level agreements and strengthen management cost recovery and cost accounting principles consistent with full cost recovery.

Actions agreed

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

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[1] UN Sustainable Development Group, link

THANK YOU!

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

II. Context and audit scope

WFP service provision

12. WFP's Strategic Plan 2022-2025 recognizes that accelerated progress towards the Sustainable Development Goals rests on effective collaboration and partnership within and between the humanitarian, development and peace sectors. WFP provides services under its Strategic Outcome 5: humanitarian and development actors are more efficient and effective.[2] The plan positioned WFP to take on a role as a system-wide service provider, beyond mandated services,[3] to support better collaboration. Figure 1 below shows the value of services per client type.

Figure 1: Value of services per client type and service category (2021 to 2023)[4]
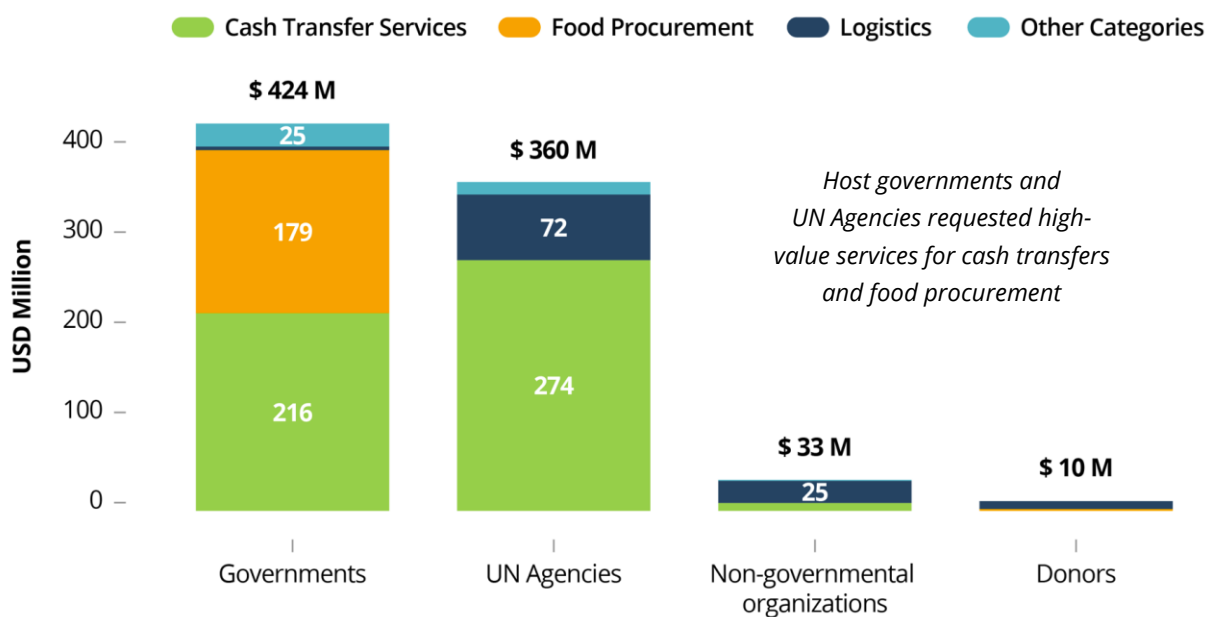
13. WFP progressively expanded the scope and scale of its services to humanitarian and development actors with a significant role during the responses to the Ebola outbreak in 2014, the Syrian refugee crisis in 2016, and the COVID-19 pandemic in 2020. Over the audit period, country offices provided on-demand services to over 200 clients:

    a. Cash transfer services in over ten countries, with the most significant agreements signed in Lebanon and the State of Palestine (prior to the corporate scale-up activated in October 2023);

    b. Food procurement services provided to host governments, mainly in Ethiopia, Guatemala, and Burkina Faso;

    c. Logistics services – including fuel procurement and health supply chain – provided in over half of WFP operations, mostly to UN Agencies and non-governmental organizations; and

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[2] Payment services for government-to-people transfers are recognized under Strategic Outcome 4: national programmes and systems are strengthened.

[3] WFP mandated services include the UN Humanitarian Response Deport, UN Humaniatarian Aviation Services, and the coordination of clusters for logistics, food security, and emergency telecommunications.

[4] Source: list of non-donor grants from WFP's enterprise resource planning software.

d. Other service categories including engineering, administration, management of facilities and clinics, and digital solutions.

14. Logistics services represented 67 percent of the total service agreements signed as highlighted in Figure 2 below. Cash transfer and food procurement services comprised the value to be transferred to third-parties and as such represented 81 percent of the total value of services. In 2023, there were 128 agreements of low aggregate value for other service categories.

Figure 2: Value and number of agreements per service category (from 2020 to 2023)[5]

Bubble sizes are proportionate to the number of agreements signed for a specific service category.
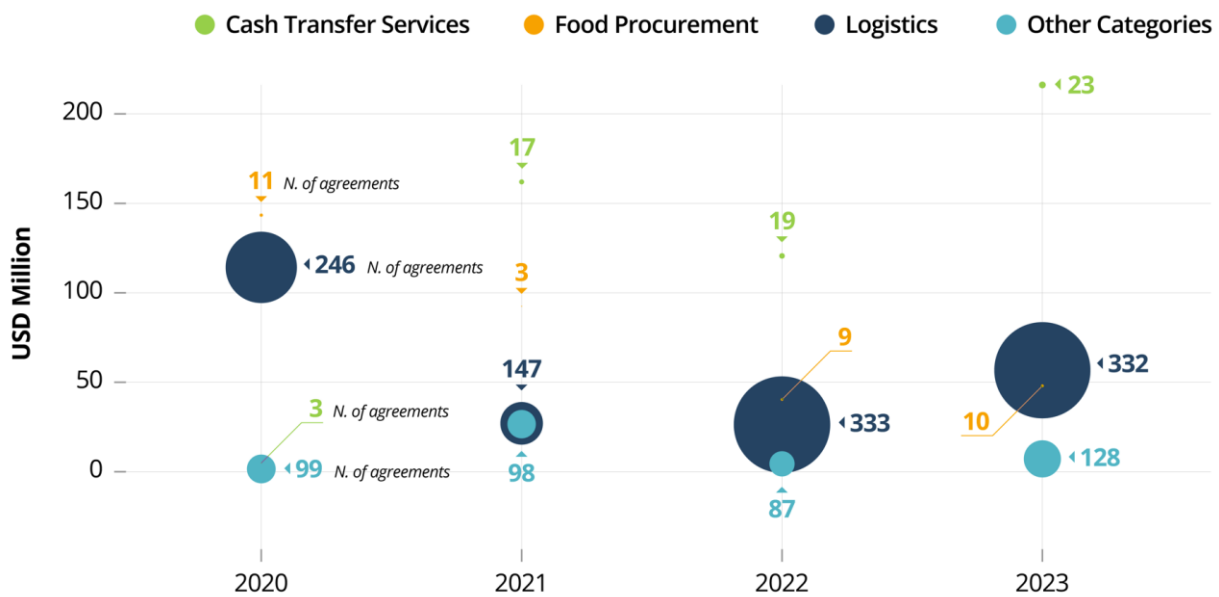
15. In 2019, a decision memorandum[6] established a governance model designating the Supply Chain Division to record in corporate systems resources generated by service provision and, in coordination with the former Corporate Finance Division, provide cross-functional governance oversight.

16. The 2023 Executive Director Circular on Service provision activities under the Country Strategic Plan Framework[7] further defined the treatment of these resources under the full cost recovery principle and established a delegation of authority framework to enter into service agreements. The circular delegates to the Chief Financial Officer[8] the authority to approve management cost recovery rates for on-demand service provision.

Objective and scope of the audit

17. The audit's objective was to provide assurance on the effectiveness of governance, risk management, and controls relating to WFP's on-demand service provision. Such audits contribute to an annual and overall assurance statement to the Executive Director on governance, risk management, and internal control processes.

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[5] Source: list of non-donor grants from WFP's enterprise resource planning software.

[6] Decision Memorandum: Governance structure for the management of non-donor grants for provision of on-demand services, December 2019.

[7] OED2023/006.

[8] Responsible for financial risk management, insurance oversight and financial service provider assessments.

18. The audit focused on services provided on-demand to external parties by country offices, including governments, non-governmental organizations, and UN agencies representing USD 842 million from 2021 to 2023.

19. The audit partially relied on the findings related to service provision from the internal audits of country offices in 2022 and 2023, and on the internal audit of WFP Digital Advisory and Solution Services.[9]

20. The audit covered three lines of enquiry and five risks:

A. Are services aligned with WFP's strategic objectives and risk-informed?

1. Country offices provide services not aligned with WFP's strategic objectives or policy framework

2. Country offices provide services that increase WFP's exposure to third-party and operational risks

3. Country offices do not have sufficient capacity to deliver services

B. Do costing and budgeting mechanisms ensure achievement of the full cost recovery principle?

4. Service provision subsidizes programme activities and/or core functions or lead to financial losses

C. Are performance monitoring and reporting mechanisms in place?

5. Limited visibility on services provided hinders monitoring, management oversight, and reporting activities

21. The audit covered the period from 1 January 2021 to 31 December 2023. Where necessary, transactions and events pertaining to other periods were reviewed. The audit mission was conducted from February to May 2024.

22. The Office of Internal Audit conducted information reviews and interviews with relevant stakeholders in headquarters, regional bureaux and country offices as well as key external clients. Service agreements from eight country offices were sampled and reviewed to inform the audit.

23. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

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[9] Internal audit of WFP Digital Advisory and Solutions Services Project Management, 2023, link

III. Results of the audit

Audit work and conclusions

24. Three observations corresponding to the three lines of enquiry arose from the audit. Any other audit issues assessed as low priority were discussed with management directly and are not reflected in the report.

Are services aligned with WFP's strategic objectives and risk-informed?

25. WFP Strategic Plan sets the priorities and objectives of service provision under Strategic Outcomes 4 and 5 (refer to Context and audit scope). Country offices describe in their multiyear strategic plan the services they will provide to the development and humanitarian community.

26. The audit reviewed the formulation of country offices' strategic plans, as well as corporate policies and guidance. The audit sampled agreements to understand the nature and scope of services, risk management practices, and sought to ensure services were provided in a effective and efficient manner including through interviews of clients.

27. Overall, external client interviews with UN Agencies and non-governmental organizations confirmed the positive results of surveys at field-level to measure customer satisfaction. WFP leveraged its expertise and footprint and was deemed critical in challenging operational contexts, particularly in delivering supply chain services.

28. The governance model for on-demand services was progressively being established as the portfolio and volume of services increased. Over the audit period, corporate units made efforts to define their own service offering and country offices improved the maturity of processes to deliver services.

Observation 1: Unclear strategic direction

29. WFP Strategic Plan provided a broad direction for service provision which was not accompanied by a framework delineating the available service categories, establishing objectives and areas of opportunities to prioritize efforts, and defining a risk appetite considering which services should – or not – be rendered.

30. Country offices' strategic plans provided limited information on the nature and scope of services – or did not include any information in few cases – and how these aligned to countries' humanitarian and development frameworks. The contribution of on-demand service provision to Sustainable Development Goals and WFP's Strategic Outcomes was not well captured. For instance, contributions differed across modalities with cash transfer services to governments contributing to Strategic Outcome 4 while food procurement services to Strategic Outcome 5 irrespective of client. In addition, the organization measured only one outcome indicator related to customer satisfaction.

31. As per the Strategic Plan, WFP aims to "support partners' programmes" yet there was no framework to explain which type of services this corresponded to. This led to varying interpretations of what constitutes a service, capacity strengthening or technical assistance.[10] In some instances, country offices implemented activities under a programmatic framework when these could, in substance, be considered services. In addition, service offering was fragmented across policies, guidance documents, and catalogues leading to uncertainty in country offices and with clients on which services were available and should be provided.

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[10] The internal audit of Digital Advisory and Solutions Services Project Management identified similar issues, 2023, link

32. Several strategic elements remained to be clarified such as the role of WFP for facilities and fleet management in the context of the UN Reform;[11] other UN Agencies also providing services; and interactions of on-demand services with mandated services coordinated through the Logistics Cluster.[12]

Underlying cause(s): Strategy, mandate and authority | Strategic and operational plans not developed, approved, or not SMART; Strategy, mandate and authority | Unclear direction for planning, delivery, or reporting.

Agreed Actions [High priority]

The Assistant Executive Director for the Programme Operations Department will, in consultation with the Assistant Executive Director for the Workplace and Management Department and the Deputy Executive Director & Chief Operating Officer, develop a framework clarifying WFP's strategic direction for service provision.

The framework will define WFP's objectives for on-demand services; clarify the contribution to Sustainable Development Goals and WFP's Strategic Outcomes; establish criteria for determining when an activity should be classified as WFP's own programmatic activity or as service provision; identify opportunities as well as areas of risk; establish a service catalogue that considers the value and categories of service provision as well as WFP's comparative strengths; and articulate WFP's position vis-à-vis other UN Agencies providing services.

Timeline for implementation

30 September 2025

Observation 2: Fragmented approaches and processes

Roles and responsibilities

33. The 2019 decision memorandum designated the Supply Chain Division to perform centralized tasks such as technical support to country offices, and the review and monitoring of non-donor grants. Grant management is a process usually managed by the Partnerships and Innovation Department. The current set-up may challenge segregation of duties especially with respect to special accounts financial management, non-donor grants master data creation and maintenance.

34. The Supply Chain Division established in 2022 a steering committee under the Humanitarian Logistics Services (HLS) as a decision-making body to guide the development of the service provision governance model specifically for logistics services. The Supply Chain Division prioritized projects on a common legal agreement, a single approach for insurance management, a mechanism for the full cost recovery, and business requirements for technology and systems for services delivered within the division. Other service categories such as engineering, digital services, and facilities management were not in-scope of this steering committee

35. There has been insufficient consideration by WFP of a broader governance and business model including other service categories. The dismantlement of the HLS in March 2024 and headquarters organizational redesign provide WFP an opportunity to rethink roles and responsibilities, what should be centralized and where, and what the cross-functional governance arrangements should be.

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[11] UN Sustainable Development Group, link
[12] Logistics Cluster, link

Risk management

36. Headquarters had not defined a risk appetite nor guidelines for country offices to manage risks related to service provision. With the exception of health supply chain services and anecdotal instances of documented risk assessments in country offices, there were no structured risk assessment to inform decisions and risk mitigation measures. As a result, country offices may have accepted service provision agreements without due consideration of reputational, operational or third party risks that can also impact WFP's core programme activities.

Management cost recovery

37. Corporate units had different methodologies to determine how to recover expenses for corporate support and oversight through the management cost recovery (MCR) mechanism. The fixed rate for MCR applied to the value of services varied significantly from 0 to 4.5 percent depending on the service type and value. The methodologies applied challenged the achievement of the full cost recovery principle as some services did not properly account for all costs. For instance, headquarters were not recovering management costs for wellness services. In addition, the audit trail was insufficient to ascertain that management cost recoveries were used for their intended purpose, or returned to the client if not used.

Insurance coverage

38. WFP contractually declines any liability in providing services unless it arises from WFP's gross negligence or willful misconduct. To mitigate financial risks, varying insurance requirements have been noted in service agreements, some placing the responsibility on the client and others on WFP. These varying practices coupled with weak escalation mechanisms for incidents or losses posed a financial risk for the organization which could not fully appreciate its risk exposure. The most significant loss over the audit period was covered by WFP's internal insurance mechanisms.

Underlying cause(s):. Strategy, mandate, and authority | Unclear direction for planning, delivery, or reporting (refer to Observation 1); Strategy, mandate and authority | Insufficient authority and/or accountability; Process and planning | Insufficient coordination - internal or external; Policies and procedures | Absence or inadequate corporate policies/guidelines.

Agreed Actions [High priority]

1. The Assistant Executive Director for the Programme Operations Department will, in consultation with the Assistant Executive Director for the Workplace and Management Department and the Deputy Executive Director & Chief Operating Officer, will review roles and responsibilities for on-demand services in headquarters.

2. The Assistant Executive Director for the Programme Operations Department, in consultation with the Risk Management Division, Legal Office and Chief Financial Officer Division will:

   a) Define a structured methodology and criteria for risk informed decisions – including when to decline requests – prior to entering in service agreements based on the nature of services, partner type, and value of agreement;

   b) Establish guidelines for country offices to undertake risk assessments and identify mitigation actions before providing services; and

   c) Establish criteria to include a budget for insurance in service level agreements.

3. The Chief Financial Officer will establish management cost recovery and cost accounting principles consistent with full cost recovery to:

   a) Approve activity-specific management cost recovery rates proposed by relevant corporate units; and

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b) Oversee the allocation of collected fees to relevant headquarters units and the full cost recovery across all cost categories.

Timeline for implementation

1. 30 September 2025

2. 30 September 2025

3. 30 June 2025

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Do costing and budgeting mechanisms ensure achievement of the full cost recovery principle?

39. Resources generated by service provision amounted USD 842 million from 2021 to 2023. In seven country offices, these resources exceeded 20 percent of their total budget.

40. The audit reviewed how country offices prepared the budget for service agreements to ensure full cost recovery, whether they followed policies for financial risk mitigation, and how potential losses were identified and recovered. The audit also reviewed how headquarters computed and used the management cost recovery for corporate support and oversight.

41. The budgetary practices in country offices carried risks of surplus or deficit for the country portfolio budgets, particularly in the few offices[13] with significant resources for service provision. These issues were noted in budget management were assessed as a low priority. They were discussed directly with management and partially explained by fragmented approaches and processes by corporate units (refer to Observation 2).

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[13] The Office of Internal Audit reviewed the country portfolio budget of the following country offices with significant resources for service provision: Burkina Faso, Guatemala, and Yemen.

Are performance monitoring and reporting mechanisms in place?

42. The audit reviewed service provision reports across units and assessed the completeness and accuracy of tools and dashboards used to monitor service provision activities. Furthermore, the audit examined the integration of risks into organizational decision-making processes and verified compliance mechanisms by engaging with risk officers in regional bureaus.

43. Service provision units made efforts to improve delivery efficiency and accountability. Annual reports on supply chain services and a dashboard on cash transfer services provided visibility and insights into these service categories. Some country offices proactively developed and monitored key performance indicators relevant to their operation, enabling them to track and improve service delivery.

Observation 3: Undefined information and data needs

44. Management and the audit's ability to grasp the full scope and nature of service provision was limited due to the unavailability or disjointed nature of reports specific to each category of service. Consistency of information was in question with financial and operational data suffering from completeness and comparability issues.

45. Financial information for country offices' budget included the resources for food, non-food item, and cash to be passed over to third parties while WFP's consolidated annual accounts did not, due to the accounting treatment of these resources. This impacted the comparability of country offices' budgets and corporate financial information, as well as the relevance of key management reports such as funding requirements.

46. Though several country offices had developed their own monitoring tools, the absence of corporate standards and a variety of performance metrics used across the organization also complicated a comparative analysis of service delivery, performance and associated risks.

47. As requests for services were not all centrally tracked, regional bureaux and headquarters could not always provide timely support. Consultations with country offices and regional bureaus during the audit confirmed the limited oversight mechanisms in place and for which management often relied on informal rather than structured information.

Underlying cause(s): Strategy, mandate and authority | Unclear direction for planning, delivery, or reporting (refer to Observation 1); Oversight and performance | Performance measures and outcomes are inadequately measured/established; Tools, systems and digitization | Inappropriate implementation or integration of tools and systems.

Agreed Actions [Medium priority]

1. The Analysis, Planning and Performance Division will review corporate indicators in line with the strategic direction for service provision.

2. The Assistant Executive Director for the Programme Operations Department, in consultation with the Assistant Executive Director ad interim for the Workplace and Management Department and the Deputy Executive Director & Chief Operating Officer, will:

    a) Define performance measures for service provision;

    b) Reassess corporate reporting requirements on service provision; and

    c) Review the existing system landscape and decide on which systems support business operations, performance measurement and reporting needs.

Timeline for implementation

1. 31 December 2025

2. 31 December 2025

Annex A – Agreed action plan

The following table shows the categorization, ownership and due date agreed with the audit client 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.

The agreed action plan is primarily at the country office level.

#	Observation (number / title)	Owner	Priority	Timeline for implementation
1	Unclear strategic direction	Programme Operations Department	**High**	1. 30 September 2025
2	Fragmented approaches and processes	Programme Operations Department Chief Financial Officer	**High**	1. 30 September 2025 2. 30 September 2025 3. 30 June 2025
3	Undefined information and data needs	Analysis, Planning and Performance Division Programme Operations Department	**Medium**	1. 31 December 2025 2. 31 December 2025

Annex B – Definitions of priority of agreed actions

1   Priority of agreed actions

Audit observations are categorized according to the priority of agreed actions, which serve as a guide to management in addressing the issues in a timely manner. The following categories of priorities are used:

Table B.2: Priority of agreed actions

High	Prompt action is required to ensure that WFP is not exposed to high/pervasive risks; failure to take action could result in critical or major consequences for the organization or for the audited entity.
Medium	Action is required to ensure that WFP is not exposed to significant risks; failure to take action could result in adverse consequences for the audited entity.
Low	Action is recommended and should result in more effective governance arrangements, risk management or controls, including better value for money.

Low priority recommendations, if any, are dealt with by the audit team directly with management. Therefore, low priority actions are not included in this report.

Typically audit observations can be viewed on two levels: (1) observations that are specific to an office, unit or division; and (2) observations that may relate to a broader policy, process or corporate decision and may have broad impact.[14]

2   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 corporate system for the monitoring of the implementation of oversight recommendations. 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.

The Office of Internal Audit monitors agreed 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. The Office of Internal Audit informs senior management, the Independent Oversight Advisory Committee and the Executive Board of actions closed without mitigating the risk on a regular basis.

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[14] 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.

Annex C – Acronyms

HLS	Humanitarian Logistics Services
MCR	Management cost recovery
USD	United States dollars
WFP	World Food Programme
UN	United Nations

Annex D – List of figures