

# Internal Audit of WFP's Forward Purchase Facility

Office of the Inspector General  
Internal Audit Report AR/14/18



**World Food Programme**



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# Internal Audit of WFP's Forward Purchase Facility

## I. Executive Summary

### Introduction






1. As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP's Forward Purchase Facility (FPF). In 2013 USD 486 million from the Forward Purchase Facility (FPF) was used to meet emergency needs, and to procure commodities before the contributions are received, thus effectively reducing the delivery time. The audit covered activities of WFP's Forward Purchase Facility for the period of 1 January 2013 to 31 December 2013. It looked at events prior and subsequent to this period as required.

2. The audit was carried out in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors. This audit was carried out in Rome and involved Logistics, Procurement and Budget & Programming divisions.

### Audit Conclusions

3. Based on the results of the audit, The Office of Internal Audit has come to an overall conclusion of **satisfactory**. Conclusions by internal control components are summarised in Table 1:

**Table 1: Summary of conclusions by Internal Control Components**

Internal Control Component	Conclusion	
1. Internal environment	Medium	
2. Risk assessment	Medium	
3. Control activities	Medium	
4. Information and communication	Low	
5. Monitoring	Medium	

### Key Results of the Audit

#### Positive practices and initiatives

4. The audit noted a number of positive practices and initiatives. These included establishment of a dedicated Supply Chain Working Group; important progress in the sourcing strategy and planning; significant improvement in the system solutions to support demand planning and improve traceability of internal material management and related financial transactions. These practices and initiatives were identified as strengthening the FPF and its working process.

5. Past results of the FPF's activities showed its healthy impact in reducing the lead times between contribution confirmation and availability of commodities for distribution especially in large scale emergencies like the Horn of Africa, the Sahel Drought and the South Sudan crisis. In 2013 the FPF achieved an average supply time gain of two and half month or a supply lead-time improvement of 71 percent. The estimated cost savings from use of the FPF gradually improved over time to an estimated USD 23.5 million in 2013.



## Agreed actions

6. The audit report contains six medium-risk observations for which solutions have been developed and actions agreed with the relevant offices in Headquarters (HQ).

## Management response

7. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations. Work is in progress to implement the six agreed actions.

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

A handwritten signature in blue ink, which appears to read 'D. Johnson', is positioned above the printed name and title.

**David Johnson**  
Inspector General



## II. Context and Scope

### The Forward Purchase Facility

9. From the time of its inception in 2008, the Forward Purchase Facility (FPF) has greatly supported implementation of forward purchasing and proactive movement of food commodities based on forecasted demand in WFP. The financial authority for the FPF scaled up from USD 60 million prior to June 2011, up to USD 300 million by mid-2012 and it allowed geographical expansion and complementary focus on optimisation and cost-efficiency. In 2013, the Executive Board approved a new ceiling of USD 350 million (conditional to an increase in the operational reserve) for the FPF. Since the time of its inception, more than 2.4 million tonnes (mt) of food (valued at USD 1.2 billion) was procured under FPF.

### Objectives of the Forward Purchase Facility

10. The FPF was established with the following main objectives: (a) reduce supply lead-times; (b) improve timeliness of food deliveries; (c) procure food at advantageous times, in developing countries where possible; and (d) reduce response times, particularly in emergencies. Additional benefits may include cost savings through economies of scale and exploitation of opportunities and stimulation of processed food production capacities.

### Objective and scope of the audit

11. The objective of the audit was to evaluate and test the adequacy and effectiveness of the processes associated with the internal control components of the FPF. Such audits are part of the process of providing an annual and overall assurance statement to the Executive Director on governance, risk management and internal control processes.

12. The audit was carried out in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. It was completed according to an approved planning memorandum and took into consideration a risk-assessment exercise carried out before the audit.

13. The audit scope covered activities of WFP's Forward Purchase Facility for the period of 1 January 2013 to 31 December 2013. Where necessary, transactions and events pertaining to other periods were reviewed. The audit was completed in Headquarters (Rome) and involved the Logistics, Procurement and Budgeting and Programming divisions. The audit took place between 03 and 23 April 2014.

### III. Results of the audit

14. In performing the audit, the following positive practices and initiatives were noted:

**Table 2: Positive practices and initiatives**

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**1. Internal environment**

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- The coordination between the various supply chain stakeholders has been enhanced through the establishment of the Supply Chain Working Group that brings together all relevant stakeholders to identify and/or address issues throughout the supply chain.
  - The sourcing strategy and planning has seen important progress complementing other planning processes in place.
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**2. Control activities**

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- Delivery of joint services from supply chain stakeholders has proved effective in various ways within the context of FPF implementation. Specifically, the response time to avail commodities after the confirmation of contribution or granting of advances to projects, has been significantly shortened (e.g.: Horn of Africa, Sahel, South Sudan, etc.).
  - Procurement is working towards the development of new contracting tools (e.g. forward supply agreements).
  - Global processes are established and anchored in Regional Bureaux and Country Offices and regular provision of planning information has improved (e.g.: pipeline management information, sourcing plans, etc.).
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**3. Information and communication**

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- The corporate Enterprise Resource Planning system (i.e. SAP/WINGS) has undergone an upgrade to support traceability of internal material management (food consignments) and related financial transactions, superseding the earlier system of manual recording and tracking of internal purchases and sales.
- The corporate Enterprise Resource Planning system (i.e. SAP/WINGS) has also been complemented with the implementation of SAP's Advance Planner and Optimiser (APO) module to support Demand Planning (a new process required under FPF).

15. Having evaluated and tested the controls in place, the Office of Internal Audit came to the following conclusions on the residual risk related to the processes:

**Table 3: Conclusions on risk by internal control component and business process**

<b>Internal Control Component/ Business Process</b>	<b>Risk</b>
<b>1. Internal environment</b>	
Corporate organisational and reporting structure	Low
Strategic planning and performance accountability	Medium
Delegated authority	Low
Assurance statement	Low
<b>2. Risk management</b>	
Enterprise risk management	Medium
Emergency preparedness and response	Low
<b>3. Control activities</b>	
Finance and accounting	Medium
Transport and logistics	Medium
Procurement	Medium
<b>4. Information and communication</b>	
Information and Communications Technology	Low
External Communication	Low
Internal communications	Low
<b>5. Monitoring</b>	
In-country Monitoring	Low
Corporate Monitoring	Medium

16. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **satisfactory**<sup>1</sup>.

17. The audit report makes six medium risk observations which are detailed in table 4.

### **Action agreed**

18. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations and work is in progress and management plans to implement all the agreed actions<sup>2</sup>.

<sup>1</sup> See Annex A for definitions of audit terms.

<sup>2</sup> Implementation will be verified through the Office of Internal Audit's standard system for monitoring agreed actions.

**Table 4: Medium-risk observations**

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due Date
<b>Internal Environment</b>					
<p>1 <b>Strategic planning and performance accountability - Integrated Planning:</b> FPF being an evolving mechanism does not yet benefit from an integrated approach across various planning and execution activities grouped around Demand, Sourcing and Supplying themes. The Procurement Division (OSP) indicated that a long term procurement strategy was under development to facilitate purchasing at the best possible time in support of the FPF. With regards to delivery plans, the Logistics Division (OSL) was also looking for solutions to support delivery planning activities, with the view on logistical constraints and opportunities. Project Budget &amp; Programming Service (RMBP) had started using the Demand Planning (DP) system of the Advance Planner and Optimiser (APO) module in SAP to generate demand forecasts and plans leading to proactive purchases of food under the FPF. At the time of the audit, planning data (e.g. historical purchasing data, in-kind and cash contribution levels etc.) was being uploaded manually in the DP module. However the SAP data integration and automation activities were underway.</p>	OSL and OSP will: (i) undertake a review of available solutions which can greatly facilitate integration with the use of the Demand Planning (DP) module, which was implemented in January 2014, and (ii) finalise sourcing and delivery planning mechanisms and tools to integrate with demand plans and optimise the effectiveness.	Strategic Processes & Systems Institutional	Guidance	Logistics Division (OSL) and Procurement Division (OSP)	31 December 2015
	RMBP will finalise automation of the process to input information in the Demand Planning (DP) module of SAP.	Operational Processes & Systems Institutional	Best practice	Project Budget & Programming Service (RMBP)	31 December 2015
<b>Risk Management</b>					
<p>2 <b>Enterprise Risk Management - Risk assessment for FPF:</b> The multi-functional nature of activities undertaken to implement the FPF approach resulted in risk management for the FPF being managed individually by the relevant functional units (OSL, OSP and Budget and Programming Division (RMB)) without an over-arching management of the cross-cutting risks and oversight of various functional risks.</p>	Resource Management and Accountability Department (RM), in coordination with Operations Services Department (OS) will establish a joint RM/OS detailed risk management process for activities related to the FPF with a view to: (a) Identify and assess the risks at the cross-cutting level as well as at the functional level; (b) design and agree jointly on the risk response and/or mitigation strategies; and (c) assign clear ownership for all risk management actions agreed.	Strategic Processes & Systems Institutional	Guidance	Resource Management and Accountability Department (RM)	31 December 2015



Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due Date
<b>Control Activities</b>					
<p>3 <b>Finance and accounting</b> – Long term financing for FPF: The interim solution for FPF financing relied on the Working Capital Financing Facility (WCFF) ceiling. This posed a limitation to the further scale up of the FPF and the traditional use of WCFF as recently highlighted in the increased advance funding needs of simultaneous level 3 emergencies.</p>	<p>RM will seek the approval from the Executive Board to make the financing for FPF independent of WCFF, allowing for the WCFF ceiling to be used for traditional advance financing, while the ceiling for FPF is established based on overall demand plans assessed periodically, with consideration of operational requirements and funding outlook.</p>	<p>Strategic</p> <p>Processes &amp; Systems</p> <p>Institutional</p>	<p>Resources</p>	<p>Resource Management and Accountability Department (RM)</p>	<p>31 December 2014</p>
<p>4 <b>Food procurement</b> - Sourcing challenges for FPF: Process improvements in sourcing for FPF had not been commensurate with the rapid growth of FPF over the last couple of years. Due to this fact, there were various opportunities for the optimisation of the sourcing process to buy at most advantageous times, from the best available market. For specialised nutritious food commodities, there was a need to increase supplier base and meet higher shelf life requirements that suit various complex corridors in use of WFP operations.</p>	<p>Food Procurement Service (OSPF), in coordination with OSL and RMBP will undertake a comprehensive sourcing review/study to enable supply chain optimisation by exploiting opportunities that may exist, like market seasonality and price differentials in various markets for FPF procurement.</p> <p>OSPF will work with potential suppliers to encourage them to improve the products' quality and shelf life and compete with the existing suppliers in meeting WFP's needs.</p>	<p>Operational</p> <p>Processes &amp; Systems</p> <p>Institutional</p>	<p>Guidance</p>	<p>Food Procurement Service (OSP)</p>	<p>31 December 2015</p>

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due Date
<p><b>5 Transport and logistics</b> – Customs and Duties for FPF: WFP’s standard guidance for logistics management refers to general compliance with the local customs regulations and procedures. Given the nature of FPF cargo customs-wise (unknown destination country at the time of arrival at the ‘FPF transit country’, and unknown period of storage), there are no customs regimes available that are suitable for cargo of such status. At the same time, there is no global strategy yet defined to deal with this issue. As a result, custom regimes for FPF cargo are negotiated bilaterally between the Country Offices (COs)/Regional Bureaux (RBs) of the FPF transit country and the host government and subsequently available customs regulations are used. This may lead to additional costs as was the case in Kenya where WFP paid Railway Development Levy (RDL) of USD 669,043 over FPF commodities. This highlighted the need for a clear strategic approach for dealing with custom regulations for WFP’s Forward Purchase Facility.</p>	<p>OSL will: (i) undertake a detailed review of the current situation and compile the lessons learnt on similar transit situations that may exist; and (ii) develop guide for COs on customs regimes to consider and negotiate with countries where FPF food is likely to transit.</p>	<p>Operational Processes &amp; Systems Institutional</p>	<p>Guidelines</p>	<p>Logistics Division (OSL)</p>	<p>30 June 2015</p>
<p><b>Monitoring</b></p>					
<p><b>6 Corporate monitoring</b> – Oversight on FPF activities: Systematic and periodic reviews of FPF activities under the various processes involved was not yet in place i.e. Demand, Sourcing and Supply with review of achievements against targets over a period of time, review of exceptional cases, recommendations, suggestions for subsequent period, etc.</p>	<p>RM will: (i) Develop within the performance framework a set of performance measures, analysis (similar to annual Key Performance Indicators) to allow periodic monitoring and identification of deviations, exceptions; (ii) Review existing oversight over the various stakeholders’ activities under the FPF context, and establish a governance mechanism for FPF.</p>	<p>Strategic Accountability &amp; Funding Institutional</p>	<p>Guidance</p>	<p>Resource Management and Accountability Department (RM)</p>	<p>30 September 2015</p>

## Annex A – Definition of Audit Terms

### 1. WFP's Internal Control Framework (ICF)

A 1. WFP's Internal Control Framework follows principles from the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Integrated Internal Control Framework, adapted to meet WFP's operational environment and structure. The Framework was formally defined in 2011.

A 2. WFP has defined internal control as a process designed to provide reasonable assurance regarding the achievement of objectives relating to (a) effectiveness and efficiency of operations; (b) reliability of reporting; and (c) compliance with WFP rules and regulations. WFP recognizes five interrelated components (ICF components) of internal control, which need to be in place and integrated for it to be effective across the above three areas of internal control objectives. The five ICF components are (i) Internal Environment, (ii) Risk Management, (iii) Control Activities, (iv) Information and Communication, and (v) Monitoring.

### 2. Risk categories

A 3. The Office of Internal Audit evaluates WFP's internal controls, governance and risk management processes, in order to reach an annual and overall assurance on these processes in the following categories:

**Table A.1: Categories of risk – based on COSO frameworks<sup>3</sup> and the Standards of the Institute of Internal Auditors**

1	Strategic:	Achievement of the organization's strategic objectives.
2	Operational:	Effectiveness and efficiency of operations and programmes including safeguarding of assets.
3	Compliance:	Compliance with laws, regulations, policies, procedures and contracts.
4	Reporting:	Reliability and integrity of financial and operational information.

A 4. In order to facilitate linkages with WFP's performance and risk management frameworks, the Office of Internal Audit maps assurance to the following two frameworks:

**Table A.2.1: Categories of risk – WFP's Management Results Dimensions**

1	People:	Effective staff learning and skill development – Engaged workforce supported by capable leaders promoting a culture of commitment, communication & accountability – Appropriately planned workforce – Effective talent acquisition and management.
2	Partnerships:	Strategic and operational partnerships fostered – Partnership objectives achieved – UN system coherence and effectiveness improved – Effective governance of WFP is facilitated.
3	Processes & Systems:	High quality programme design and timely approval – Cost efficient supply chain enable timely delivery of food assistance – Streamlined and effective business processes and systems – Conducive platforms for learning, sharing and innovation.
4	Programmes:	Appropriate and evidence based programme responses – Alignment with Government priorities and strengthened national capacities – Lessons learned and innovations mainstreamed – Effective communication of programme results and advocacy.
5	Accountability & Funding:	Predictable, timely and flexible resources obtained – Strategic transparent and efficient allocation of resources – Accountability frameworks utilised – Effective management of resources demonstrated.

<sup>3</sup> Committee of Sponsoring Organizations of the Treadway Commission.

**Table A.2.2: Categories of risk – WFP’s Risk Management Framework**

1	Contextual:	External to WFP: political, economic, environmental, state failure, conflict and humanitarian crisis.
2	Programmatic:	Failure to meet programme objectives and/or potential harm caused to others through interventions.
3	Institutional:	Internal to WFP: fiduciary failure, reputational loss and financial loss through corruption.

### 3. Causes or sources of audit observations

A 5. The observations were broken down into categories based on causes or sources:

**Table A.3: Categories of causes or sources**

1	Compliance	Requirement to comply with prescribed WFP regulations, rules and procedures.
2	Guidelines	Need for improvement in written policies, procedures or tools to guide staff in the performance of their functions.
3	Guidance	Need for better supervision and management oversight.
4	Resources	Need for more resources (funds, skills, staff, etc.) to carry out an activity or function.
5	Human error	Mistakes committed by staff entrusted to perform assigned functions.
6	Best practice	Opportunity to improve in order to reach recognised best practice.

### 4. Risk categorisation of audit observations

A 6. The audit observations were categorised by impact or importance (high, medium or low risk) as shown in Table A.4 below. Typically audit observations can be viewed on two levels. (1) Observations that is 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.<sup>4</sup>

**Table A.4: Categorisation of observations by impact or importance**

High risk	Issues or areas arising relating to important matters that are material to the system of internal control. The matters observed might be the cause of non-achievement of a corporate objective, or result in exposure to unmitigated risk that could highly impact corporate objectives.
Medium risk	Issues or areas arising related to issues that significantly affect controls but may not require immediate action. The matters observed may cause the non-achievement of a business objective, or result in exposure to unmitigated risk that could have an impact on the objectives of the business unit.
Low risk	Issues or areas arising that would, if corrected, improve internal controls in general. The observations made are for best practices as opposed to weaknesses that prevent the meeting of systems and business objectives.

A 7. Low risk observations, if any, are communicated by the audit team directly to management, and are not included in this report.

### 5. Monitoring the implementation of agreed actions

A 8. The Office of Internal Audit tracks all high and medium-risk observations. Implementation of agreed actions will be monitored through the Office of Internal Audit’s electronic system to ensure

<sup>4</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.

that actions agreed with management are effectively implemented within the agreed timeframe so as to manage and mitigate the associated risks identified, thereby contributing to the improvement of WFP's operations.

## 6. Rating system

A 9. Internal control components and processes are rated according to the severity of their risk. These ratings are part of the system of evaluating the adequacy of WFP's risk management, control and governance processes. A rating of satisfactory, partially satisfactory and unsatisfactory is reported in each audit. These categories are defined as follows:

**Table A.5: Rating system**

Engagement rating	Definition	Assurance level
Satisfactory	Internal controls, governance and risk management practices are adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.	Reasonable assurance can be provided.
Partially Satisfactory	Internal controls, governance and risk management practices are generally established and functioning, but need improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.	Reasonable assurance is at risk.
Unsatisfactory	Internal controls, governance and risk management practices are either not established or not functioning well. The issues identified were such that the achievement of the overall objectives of the audited entity could be seriously compromised.	Reasonable assurance cannot be provided.

## Annex B – Acronyms

APO	SAP's Advance Planner and Optimiser
CO	Country Office
DP	Demand Planning
EB	Executive Board
ERP	Enterprise Resource Planning
FPF	Forward Purchase Facility
HQ	Headquarters
OS	Operations Services Department
OSL	Logistics Division
OSP	Procurement Division
OSPF	Food Procurement Service
RB	Regional Bureau
RM	Resource Management and Accountability Department
RMB	Budget and Programming Division
RMBP	Project Budget & Programming Service
UN	United Nations
WCFF	Working Capital Financing Facility
WFP	World Food Programme
WINGS	The WFP Information Network and Global System