

Internal Audit of the Logistics Execution Support System (LESS) implementation in WFP

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I. Executive Summary

Introduction

1. As part of its annual work plan for 2015, the Office of Internal Audit conducted an audit of WFP's implementation of the Logistics Execution Support System (LESS), focusing on the period 1 January 2014 to 31 August 2015. LESS is the final phase of the WFP Information Network and Global System (WINGS) II project and completes the process of providing WFP with a fully integrated system to support critical business functions with SAP as the Enterprise Resource Planning (ERP) platform. LESS is being implemented in all WFP country offices (COs) in a phased approach during the three year period from 2014 to 2016; the LESS implementation has an approved budget of USD 35.1 million.

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

Audit Conclusions

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

Table 1: Summary of conclusions by Internal Control Component

Internal control component	Conclusion
1. Internal environment	Low 
2. Risk management	Low 
3. Control activities	Low 
4. Information and communication	Low 
5. Monitoring	Low 

Key Results of the Audit

Positive practices and initiatives

4. The audit noted a number of positive practices and initiatives. These included: effective and streamlined governance through a Steering Committee and Project Board supported by a Project Charter; effective project management and monitoring; a risk management process embedded in the project governance framework; connectivity ensured in remote locations; appropriate training materials and well delivered training; a rollout strategy that provided COs and regional bureaux (RB) with sufficient time and resources to build capacity as required.



Audit conclusion

5. Overall, the audit confirmed WFP's management of the LESS implementation to be satisfactory. The audit also concluded that Management took the correct decision in adopting a phased rollout approach, starting with those offices that handle significant quantities of commodities; pilot testing in two of the larger offices enabled users and the project team to identify and address issues at an early stage. Implementation has benefitted from a strong project management team and a representative Steering Committee.

6. The audit identified the following three areas relating to project benefits where improvements and continued management attention are required: the adequacy of the project's cost recovery mechanism; the need for robust methodologies and independent verification in relation to the measurement and reporting of benefits; and the feasibility of interfacing LESS with the corporate on-line tool being implemented to support programme management. Management has already started to address the matters in question, however, further commitment and monitoring is required to ensure objectives are fully achieved.

Audit observations

7. The audit report contains three medium-risk observations.

Actions agreed

8. Management has agreed to take measures to address the reported observations and work is in progress to implement the three agreed actions.

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

David Johnson
Inspector General

II. Context and Scope

The LESS initiative

10. LESS is the final phase of the WINGS II project and completes the process of providing WFP with a fully integrated system to support critical business functions with SAP as the Enterprise Resource Planning (ERP) platform. The system was developed to achieve: improved delivery of the logistics function; an integrated supply chain management process; inventory accounting; and real-time tracking systems. LESS was designed to enable annual IPSAS-compliant accounting for some four million metric tonnes of commodities, valued at circa USD 2.5 billion.

11. LESS provides WFP with an online system that gives full visibility of food commodities as they move along the supply chain, from point of receipt through to final delivery for distribution. The real time nature of the system means that food supply transactions can be viewed when and where they take place. The system provides information regarding the location and availability of commodities (including batch numbers), independently of whether such commodities are on vessels at sea, in port, on the road or in the most remote warehouse. It provides details of all planned arrivals and dispatches, at a local level, at a regional level and at a global level.

12. There are two key dimensions to the LESS implementation:

- The geographic scope of the rollout, which involves the effective delivery of LESS to all locations with responsibility for supply chain processes. As the system is rolled out to all locations worldwide, it brings relevant functionality to the locations where business is conducted.
- The functional scope, which covers the full range of business processes managed by WFP. This involves standardisation of business practices related to commodity movements and ensuring that information, while being accessible to users in multiple locations, is captured only once, in real time and as close to source as possible.

13. LESS is being implemented in a phased approach over a period of three years. Testing of the rollout in the Afghanistan and Pakistan COs began in late 2014 and a phased rollout was planned for 2015 and 2016 on the basis of lessons learned. LESS was rolled out during 2015 to COs in Djibouti, Ethiopia, Sudan and Palestine (by 1 May 2015) and Kenya, Somalia, South Sudan, Uganda, Burundi, Rwanda and Tanzania (which went live on 1 July 2015). The third and fourth waves of implementation for 2015, comprising 16 COs, took place during September and November 2015. By the end of 2015, WFP is expected to have implemented the system in one fifth of the countries where it has operations, accounting for over 65 percent of annual commodity movements. Rollout to those countries that account for the remaining percentage of commodity movements is planned to be finalized by November 2016. Achievement of the project targets will see LESS implemented in all of WFP's 72 COs, 200 sub-offices and 650 warehouses.

14. The LESS project was approved with a budget of USD 35.1 million. An advance of USD 20 million was provided from the Capital Budgeting Facility (CBF) to ensure the timely availability of funds in support of development and rollout. The remaining USD 15.1 million required to complete the rollout was expected to be generated by charging a Landside Transport, Storage and Handling (LTSH) rate of USD 3 per metric tonne to all the COs where LESS is implemented.

15. The LESS business case anticipated several benefits. These included: strategic advantages, including enhancement of the organization's comparative advantage in the humanitarian sphere; greater operational efficiencies, for example by reducing commodity losses through more precise



tracking and distribution planning; and financial savings, through the decommissioning of the Commodity Movement, Processing and Analysis System (COMPAS) - which served as an interim solution but has proven to be prone to error and risk due to integration limitations and progressively outdated technology - and attendant redundant posts of logistics staff. A number of unquantified economic benefits are also foreseen due, *inter alia*, to increased efficiencies in overall supply chain management, procurement processes, transport planning, scheduling and execution, inventory management and warehouse planning and scheduling.

Objective and scope of the audit

16. 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 LESS implementation. The audit is part of the process of providing an annual and overall assurance statement to the Executive Director on governance, risk management and internal control processes.

17. 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. It was completed according to the approved planning memorandum and took into consideration the risk-assessment exercise carried out prior to the audit.

18. The scope of the audit covered WFP's LESS implementation and the identification of risks and weaknesses that could undermine achievement of the overall project objectives and the drafting of recommendations to address any such risks and weaknesses. While the audit included review of plans to measure efficiencies generated by WFP from the implementation of LESS, the evaluation of any such efficiencies generated to date was not within scope. The audit covered the period 1 January 2014 to 31 August 2015. Where necessary, transactions and events pertaining to other periods were reviewed. The audit field work, which took place between 24 September and 22 October, included visits to two country offices and one regional bureau.

III. Results of the Audit

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

Table 2: Positive practices and initiatives

1. Internal Environment
<ul style="list-style-type: none"> Steering Committee and Project Board supported by a Project Charter ensuring effective and streamlined governance in support of all project phases. Existence of a Core Team led by a Project Manager, with appropriate technical expertise and experience in each of the Product, Change Management, Implementation and Support streams in addition to support from the IT and Office Infrastructure functions. Key HQ stakeholder functions (including Programming, Procurement, Logistics, Finance and Programme units) involved in rollout through provision of guidance on testing and cutover activities, timely support and, where applicable, training to COs. Rollout strategy, involving seven separate waves scheduled over two years (four waves in 2015 and three in 2016), considered appropriate to handle the scale of operations and provide sufficient time and resources to build necessary capacity at each CO and RB.
2. Risk Management
<ul style="list-style-type: none"> Risk management process embedded in the project governance framework. The cutover process was significantly enhanced from the initial pilot implementation, providing stronger risk management for the assessment and prioritization of potential issues that could affect the go-live decision for each CO.
3. Control Activities
<ul style="list-style-type: none"> Capacity building ensured through training and refresher courses during pre and post go-live phases. Appropriate training materials and well delivered training (in particular to middle managers and below) and an effective rollout plan. Some 1,200 staff trained globally at the time of the audit with a projected figure of 3,000 persons by the end of the rollout. Coaching provided to senior managers and country directors, taking into consideration the corporate mobility programme. Connectivity ensured in remote locations prior to rollout.
4. Monitoring
<ul style="list-style-type: none"> Strong project monitoring exercised by the Project Manager and the Core Team.

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

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

Internal Control Component/Process	Risk
1. Internal environment	
Project governance, organization and reporting structure	Low
Project planning, rollout and performance accountability	Low
Project benefits	Medium
Continuous improvement	Low
Internal/external oversight	Low
2. Risk management	
Enterprise risk management	Low
IT risk management	Low
Project risk management	Low
Emergency preparedness and response	Low
3. Control activities	
Finance, accounting and reporting	Low
Programme management	Low
Food commodity management	Low
Capacity building	Low
Change management and training	Low
Infrastructure and IT security	Low
Post-implementation	Low
4. Information and communication	
External and internal communication	Low
5. Monitoring	
Programme monitoring and evaluation	Low

21. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **satisfactory**¹.

22. The audit made three medium-risk observations, which are presented in Table 4.

Action agreed

23. Management has agreed to take measures to address the reported observations and work is in progress to implement the agreed actions.²

¹ See Annex A for definitions of audit terms.

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

Table 4: Summary of medium-risk observations

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date	
Internal Environment						
1	<p>Project Benefits: Ensuring project funding and investment feasibility – The rollout of LESS is planned to be completed by November 2016 at an estimated cost of USD 35.1 million. A CBF advance of USD 20 million was approved to ensure the timely availability of funds to support the development and rollout of LESS. The remaining USD 15.1 million was expected to be generated by charging a LTSH rate of USD 3 per metric tonne to all COs using LESS.</p> <p>The reduction in food deliveries observed during 2015 will generate lower recoveries than anticipated and this could affect the 2016 LESS rollout plan unless alternative sources of funding are made available. Based on current estimates of the reduction in annual tonnage (forecasted recoveries were USD 3 million in 2015 but only USD 1 million had been recovered at the time of the audit), the project will have a funding shortfall of USD 3 million towards the end of 2016. Furthermore, the CBF will face a recovery shortfall of some USD 8 million at the end of the planned recovery period.</p>	<p>The LESS Steering Committee will review and adjust the current recovery mechanism in terms of time extension and/or dollar amount per metric tonne as per LESS Project Management options proposed at the Project Board meeting of 29 September 2015.</p>	<p>Operational Processes and Systems Institutional</p>	Guidance	LESS Steering Committee	January 2016

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<p>2 Project Benefits: Efficiency gains measurement – LESS was selected on the basis that the application would deliver a range of (financial and non-financial) benefits. The key expected financial benefit was that every USD 1 invested in LESS would yield a return of USD 1.35 over a projected payback period of five years.</p> <p>In validating the business decision to select and implement LESS, only financial benefits were initially quantified (i.e. cost avoidance and staff redundancies) and these were assessed to be sufficient to justify the investment being made. The audit noted that while certain milestones had been reached in terms of gains measurement readiness, more precise models were required to calculate several non-staff related benefits (i.e. productivity gains). The audit also noted that a structured process with defined roles to capture and report such benefits still had to be defined. The credibility of the project may be challenged and how it is perceived by Stakeholders (including Donors) may be at risk unless the measurement and reporting of benefits is supported by robust methodologies and independent verification.</p>	<p>The LESS Steering Committee will take the following actions:</p> <p>(a) Identify an independent body which will prepare a methodology to capture and measure all benefits generated by LESS, including efficiency gains; and</p> <p>(b) Define a process and related roles to capture and report such information.</p>	<p>Compliance</p> <p>Processes and Systems</p> <p>Institutional</p>	Best practice	LESS Steering Committee	June 2016



Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<p>3 Project Benefits: LESS interface with other corporate legacy systems –WFP's food supply chain management system, LESS, has strong links with COMET, the corporate on-line tool being implemented to manage Programmes. COMET generates Food Release Notes (FRNs), which represent the Field Programme Units' requests to the Logistics Division to deliver defined quantities of food to Cooperating Partners.</p> <p>There is no system interface between LESS and COMET and, in order to generate Stock Transport Orders and other commodity movement documents, FRN data that has already been input into COMET needs to be input manually into LESS. This practice is error prone and, if the FRN information is not correctly input in LESS, may lead to inaccurate monitoring of food delivered to Partners.</p>	<p>The LESS Steering Committee will take up the issue of systems interfacing with WFP's corporate ICT governance body, the Management Information Systems Steering Committee, and in coordination with the LESS and COMET implementation teams, the Innovation and Change Management Division and the Information Technology Division, propose the following actions:</p> <p>(a) Evaluate the maturity of LESS and COMET and assess the feasibility of implementing an interface between the two systems;</p> <p>(b) Subject to a positive outcome of the feasibility study, implement a requirements gathering schedule for such interface functionality, ensuring data is properly captured by the target system (i.e. LESS); and</p> <p>(c) Keep stakeholders (specifically CO Directors/Heads of Logistics in COs) informed of progress regarding this initiative.</p>	<p>Operational Processes and Systems Institutional</p>	<p>Guidance</p>	<p>LESS Steering Committee</p>	<p>December 2016</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 recognises 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 and the Standards of the Institute of Internal Auditors

1	Strategic:	Achievement of the organisation'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 enabling 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.

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. Audit observations are 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. Audit observations are 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 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.³

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 identified 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 medium and high-risk observations. Implementation of agreed actions is verified through the Office of Internal Audit’s system for the monitoring of the

³ 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.

implementation of agreed actions. The purpose of this monitoring system is to ensure management actions 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 degree of related 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 or 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

CBF	Capital Budgeting Facility
CO	Country Office
COMET	WFP's corporate on-line tool for managing Programmes
COSO	Committee of Sponsoring Organizations of the Treadway Commission
FRN	Food Release Note
IPSAS	International Public Sector Accounting Standards
LESS	Logistics Execution Support System
LTSH	Landside Transport, Storage and Handling
RB	Regional Bureau
SAP	A software package named for its German developer, SAP AG.
USD	United States Dollar
WFP	World Food Programme
WINGS II	WFP's corporate Enterprise Resource Planning system