

# **Internal Audit of WFP's Procurement of Goods and Services**

Office of the Inspector General  
Internal Audit Report AR/16/06



**World Food Programme**

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# Internal Audit of WFP's Procurement of Goods and Services

## I. Executive Summary

### Introduction and context

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP's procurement of goods and services (G&S) between January and December 2015. The value of G&S procured by WFP in 2015 amounted to approximately USD 590 million. The audit team conducted the fieldwork from 2 to 23 March 2016. This involved the Supply Chain Division (OSC) and specifically, the Goods and Services Procurement Branch (OSPG). The United Nations Humanitarian Response Depot (UNHRD), the Dubai Office and a sample of Regional Bureaux (RBx) were also involved through interviews with key officers and desktop review of documentation. Eleven Country Offices (COs) were surveyed through a questionnaire; relative documentation was requested and analysed as appropriate.

2. WFP follows a decentralized model with procurement authority delegated to various headquarters (HQ) and field entities by the Executive Director. At HQ, OSPG is responsible for the procurement of G&S. In the field, Country Directors (CD) and Regional Directors are responsible for establishing Procurement Units in charge of their office's procurement activities. These operate within delegated authorities and under the normative guidance of OSC. Procurement authorities have also been delegated to UNHRD and WFP Offices.

3. WFP's G&S procurement covers non-food items (NFI) and services, including construction and major rehabilitation of infrastructure, excluding categories managed in accordance with Human Resources and Transport and Logistics rules. The evolution of WFP's business model in recent years, including the provision of critical logistic support to the humanitarian community (common services), constructions, cash-based transfers and financial services and the increase of the volume of operations, have resulted in G&S procurement growing in dollar values (a 30 percent increase in 2015 as compared to 2013) and in complexity. G&S procurement totalled USD 590 million as of 2015 end, while Food Procurement amounted to USD 1.1 billion over the same period. In 2015, the top five purchasing offices managed almost 40 percent of procured G&S total value.

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

### Audit Conclusion

5. In 2013, a Business Process Review (BPR) exercise highlighted multiple issues and opportunities for further efficiency and effectiveness in G&S procurement, especially to cut processing time and obtain best value for money. However budget constraints impacted on the implementation of BPR recommendations.

6. The audit noted OSPG's efforts, starting late 2014, to reach industry standards. These included an assessment and gap analysis of G&S procurement organization, processes and systems, compared with leading practices, and resulted in a pilot project for three major categories' spending analysis and sourcing strategy, which highlighted significant potential savings.

7. The audit noted positive practices both at organizational and process level. OSC developed a business plan for an "effective and efficient supply chain" and "trusted partner", and the COs described OSPG as easily accessible and responsive. In addition, OSPG:

- put in place actions to improve the timing and quality of support provided;
- implemented new system functionalities;



- issued a procedure for streamlining simple procurement actions in emergencies; and
  - redesigned the approach to transport NFI, leveraging in-house expertise.
- Some field procurement units proactively developed tools to detect issues and inform mitigating actions.

8. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of partially satisfactory. The governance, risk management and internal control system of WFP’s G&S procurement were generally established and functioning but needed improvement. Several weaknesses were identified that may negatively affect achieving the audited process objectives. Audit observations are summarized in the following section.

**Table 1: Summary of risks by Internal Control Component**

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

**Audit observations**

9. The audit report contains no high-risk observations and eight medium-risk observations.
10. Issues were identified with regards to:
- the definition and implementation of coordination, oversight and monitoring roles and activities, after the decentralization of G&S procurement authorities;
  - the alignment of rules and delegated authorities with the evolving business model, including partnership with the private sector;
  - funding model and staffing to bring G&S procurement up to industry standards; and
  - vendor management and criteria for the articulation of competition.

Observations are detailed in Section III, Table 4.

**Actions agreed**

11. Management has agreed to address the reported observations and work is currently in progress to implement all agreed actions.
12. 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

### WFP's Procurement of Goods and Services

13. The evolution of WFP's business model in recent years resulted in growing dollar values and complexity of G&S procured by the organization. WFP's G&S procured in 2015 amounted to approximately USD 590 million<sup>1</sup>, with a 30 percent increase from 2013. Values represent about half of the food procurement expenditures<sup>2</sup>. G&S procurement is therefore becoming critical to the mandate and delivery of WFP.

14. Fuel was the highest value category of G&S procured by WFP in 2015, representing approximately 20 percent of total expenditure. The top categories of goods (5) and services (5) represented approximately 64 percent of total G&S expenditure in the year. In the audit period, services including construction represented 74 percent of the total value of G&S procured.

15. The three Rome-based Agencies (WFP, the Food and Agriculture Organization of the United Nations (FAO) and International Fund for Agricultural Development (IFAD)) launched the Common Procurement Team (CPT) initiative. The CPT is responsible for identifying and planning combined HQ procurement and for executing them up to tender awarding.

16. The Goods and Services Procurement Manual (the Manual) is generally intended to be a consolidation of WFP's constitutional documents detailing regulations, rules and procedures relevant to the procurement of G&S. OSC is responsible for the development and maintenance of the Manual as well as for the release of information concerning G&S procurement.

17. At the time of the audit, five fixed-term staff and three consultants, supported by five office assistants, staffed OSPG. OSPG staffing level decreased by two professionals from 2015. Capacity at field/other offices level is a direct responsibility of the respective CO management who identify the number and skills of staff required for the execution and management of procurement activities.

### Objective and Scope of the Audit

18. The objective of the audit was to evaluate and test the adequacy and effectiveness of the processes associated with the internal control components of WFP's G&S procurement. Such audits are part of providing an annual and overall assurance statement to the Executive Director on governance, risk-management and internal control processes.

19. The audit was carried out in conformance with *the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing*. It was completed according to an approved engagement plan and took into consideration the risk assessment exercise carried out prior to the audit.

20. The scope of the audit covered WFP's G&S procurement from January to December 2015. Where necessary, transactions and events pertaining to other periods were reviewed. The audit team conducted the fieldwork from 2 to 23 March 2016. This involved OSC, specifically OSPG. UNHRD, the Dubai Office and a sample of RBx (Bangkok, Cairo and Nairobi) were also involved through interviews with key officers and desktop review of documentation. A sample of 11 COs<sup>3</sup> was surveyed through a questionnaire; relative documentation was requested and analysed as appropriate.

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<sup>1</sup> This amount does not include in-kind G&S amounting to USD 24 million in 2015.

<sup>2</sup> As of end of 2015, G&S procurement totaled approximately USD 590 million; Food Procurement approximately USD 1.1 billion.

<sup>3</sup> Specifically: Afghanistan, Chad, Colombia, Democratic Republic of the Congo, Ethiopia, Mali, Pakistan, Somalia, South Sudan, Sudan and Syria.



21. At the time of planning the audit, Internal Audit had reviewed G&S procurement at HQ and field level, as part of 12 audits in 2015<sup>4</sup>. Building on these engagements, the audit focused on operational aspects, including elements of efficiency, effectiveness and economy and performed a limited testing, at transactional level, of compliance aspects.

22. In the area of procurement, previous audits covered HQ Food Procurement (AR-10-04) and HQ NFI Services (AR-10-14) in 2010, Food Procurement Service (AR-12-10) in 2012, the Forward Purchase Facility (AR-14-18) in 2014 and the Rome-based Agencies' CPT (AR-15-01) in 2015.

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<sup>4</sup> These included Country Office audits, the Ebola Virus Disease Response Audit (AR/15/12) and the thematic audit of Construction Projects (AR/16/05).

### III. Results of the Audit

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

**Table 2: Positive practices and initiatives**

#### 1. Internal Environment

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- OSC's procurement service developed a business plan with the mission of "an effective and efficient WFP procurement service with a Pro-Smallholder Farmers component".
- Stakeholders at country, regional and HQ levels, that were surveyed and interviewed, indicated positive interactions and collaboration with OSPG.
- An ad-hoc procedure<sup>5</sup> was issued during the Ebola Virus Disease emergency, to accelerate procurement action time for construction activities, still adhering to WFP competitive tendering principles.

#### 2. Risk Assessment

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- A Procurement Complexity indicator has been established for CO locations with indicators and sub-indicators relevant for both food and G&S procurement. Main indicators are: (i) value of purchases including cash, voucher and NFI; (ii) commodity complexity including number of NFI material categories; (iii) country complexity including the Corruption Perception Index as well as the Fragile State Index; and (iv) workload drivers including number of NFI purchase orders.

#### 3. Control Activities

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- OSPG carried out a spend analysis and an assessment of the maturity of its organization, processes and systems, compared with leading practices. This resulted in a gap analysis and a preliminary roadmap for implementation on strategic sourcing, organization design, processes and tools improvements. A pilot project for three major spending categories was completed, to allow for new strategy definition, new tenders/negotiation and significant potential savings.
- On-the-job training was provided to selected OSPG staff/resources through collaboration with specialized consultants reviewing the spending of three major G&S categories.
- A global long-term agreement (LTA) with specialized consultants is now being finalized at HQ level for the procurement of cash-based transfer (CBT) financial service providers.
- The membership of the HQ Procurement Contract Committee (PCC) was expanded in 2016 to enable it to meet a quorum and discuss at any time.
- OSPG has established a stand-by procurement consultant roster with the Danish Refugee Council.
- The Dubai office surveys customers to identify issues relating to time and quality of G&S procured and establish actions to mitigate them. OSPG redesigned the approach to transport NFI from international suppliers to WFP operations. This entails shifting the risk of delivery from the supplier to using WFP's internal shipping service via WFP's logistic units at HQ.
- OSPG recruited an engineer with specific expertise in constructions to manage and support relative category procurement.

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<sup>5</sup> OSPG/NO/141003 "Rapid Procurement Approach to Contract Non-Complex Construction Services for the Ebola Emergency Response".

- OSPG, in collaboration with WFP Engineering, has arranged joint training sessions focusing on both procurement and technical aspects of construction projects, following the finalization of the relative Directive.

#### 4. Monitoring

- In 2015, OSPG started tracking HQ contracts and LTAs expiry dates using the corporate system (In-tend).
- System improvement such as e-signature in Micro Purchase Orders (MPOs) is now in place.

24. 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:

Internal Control Component/Lines of enquiry	Risk
1. Control environment	
Governance, rules and regulations	Medium
2. Risk assessment	
Risk assessment	Medium
3. Control activities	
Procurement	Medium
4. Information and communication	
Internal and external communication	Low
5. Monitoring activities	
Monitoring and evaluation	Medium

25. Based on the results of the audit, and with consideration of the context of the operations, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory**<sup>6</sup>.

26. The audit made eight medium-risk observations. Table 4 presents the medium-risk observations.

#### Actions agreed

27. Management has agreed to take measures to address the reported observations. Work is in progress to implement the agreed actions<sup>7</sup>.

<sup>6</sup> See Annex A for definitions of audit terms.

<sup>7</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
<p>1 <b>Control environment - Strategy, roles and responsibilities and funding models</b></p> <p>WFP’s structure, following the decentralization of G&amp;S functions and the return to HQ of off-shored G&amp;S procurement function in Dubai (2011), did not pair with clear strategies, mandates, roles and responsibilities - especially relating to stronger coordination, oversight and monitoring. For example:</p> <ul style="list-style-type: none"> <li>▪ some responsibilities at HQ Rome (corporate oversight, ensuring accountability, performance monitoring and corporate reporting as per Fit for Purpose strategy) are not fully exercised;</li> <li>▪ coordination and oversight responsibilities among procuring offices (HQ, UNHRD and the Dubai Office) are not clearly defined or assigned and it is unclear how oversight roles differ within the Global HQ (OSPG and the RBx). The G&amp;S procurement in the Dubai Office currently has the same delegation of authority as the Supply Chain Director and reports to the Partnership, Governance and Advocacy Department (PG).</li> </ul> <p>The funding model of UNHRD and Dubai includes a Management Cost Recovery (MCR) percentage to fund their operations. However, both entities showed slight funding gaps at 2015 year end. The audit noted competition of the two offices for G&amp;S procurement for emergencies, as a result of their overlapping functions.</p> <p>These may lead to unclear accountability for performance and execution of procurement functions, such as performance monitoring of some key activities or functions impacting on the deliverables.</p> <p><u>Underlying cause:</u> Unclear structure, roles and procurement ownership, impacting the rationalization of structures and services and resource allocation at Global HQ to perform coordination, oversight, and monitoring.</p>	<p>OSC will review, in consultation with RBx and PG, the strategy, mandates, roles and responsibilities of each actor in the areas of procurement type including monitoring and oversight functions.</p>



Observation	Agreed action
<p>2 <b>Control Environment - Procurement Contract Committees (PCCs)</b></p> <p>PCCs across the decentralized structure perform multiple compliance checks on procurement actions, especially those that require HQ procurement authority approval. This entails multiple layers of managerial review. Some COs and RBx confirmed inefficiencies in the current PCC review process especially for emergency operations. The Office of Internal Audit noted the scope of the review and recommendations from COs, RBx and HQ PCCs were similar for the sample tested.</p> <p>The PCCs review the due process of purchases against LTAs, LTA extensions, purchases against existing LTAs or contracts of other UN organizations, as well as mandatory waivers and post-factum POs. The type of review performed and input by PCC has no/limited value added in the above cases.</p> <p>There is a risk of inefficient use of time and resources in multiple compliance reviews, as well as effectiveness of the multiple layers of PCC review, as reliance is placed on the layers of review above and below.</p> <p><u>Underlying causes:</u> Lack of clear guidance on the number, location and purpose of the PCC review, as well as information sharing needed at each level of the WFP's structure. Lack of priority in streamlining the PCC review process and in assessing HQPCC role and its possible evolution as more strategic rather than compliance focused.</p>	<p>OSPG will review, in coordination with other HQ units as appropriate, the PCC approval process including:</p> <ul style="list-style-type: none"> <li>(a) Various levels of approvals and information sharing required between COs/RBx and HQ, as well as the mandate of the HQPCC, and consider having the PCC review only at the level of the approval authority; and</li> <li>(b) Approval process for post-factum purchases against LTAs, purchases against existing LTAs or contracts of other UN organizations and mandatory waivers.</li> </ul>



### 3 Control Environment - Policies and procedures

G&S policies and procedures are not aligned with current structure and business model and regulating instruments have been issued that supersede sections of the Manual. The financial rule and the Manual are not aligned with regards to the procurement values presented to the PCC, however the Manual is more conservative.

While recognizing management effort in strengthening G&S procurement systems and processes, improvements need to be made in the area of vendor selection:

- complete vendor profile information is not input systematically or required by the existing vendor registration system (In-tend);
- criteria to identify the vendors invited to tender are unclear and management relies on its professional judgement in deciding how many and which vendors, generally using information in the In-tend system;
- most of the surveyed COs maintain a vendor roster and pre-select/assess vendor capacity before inviting them to tender but this process is not present in OSPG. Formal evidence of vendor capacity assessment was not always available for the sample selected;
- current rules and procedures establish competition as a minimum of three invited vendors, even where only one responds to the tender. A comparison with the practice of other UN agencies highlighted that most of the organizations require a higher number of vendors to submit tenders as the procurement value increases. There is a risk that best value for money may not be obtained where competition is limited.

There are no clear and consistent criteria/algorithms for evaluating and blocking poor performing vendors and sharing vendor performance across the organization, particularly for non-corporate vendors. An IT system is not available to track vendor performance. One case was noted of a blocked vendor not reflected in the corporate systems. The current performance evaluation forms are not consistent.

Cases were noted of private partnership, agreements with third parties and/or provision of in-kind/pro bono services resulting in unique positions with WFP that could favour subsequent commercial contracts and possible conflict of interest and unclear competition. WFP's push from leadership for increasing transformative collaboration with private partners under SDG 2 and SDG 17 advocates for a clearer decision framework to regulate the above and eventual prospects of commercial relationship with partners.

Underlying Cause: Organizational/business model changes not promptly reflected in WFP rules. G&S procurement competition criteria not clearly articulated. Lack of a procedure to perform capacity assessment before vendors are invited to tender because of the high number/type of G&S procured. Lack of priority in sharing non-corporate vendor performance information across the organization. Lack of IT systems to assess/record vendor performance.

OSC will review the existing G&S Procurement Manual/rules, in particular with regard to vendor management, including:

- (a) The vendor roster for G&S procurement;
- (b) Consideration of environmental criteria as part of the tender evaluation, where appropriate and as per client unit request;
- (c) Guidance on examining/following up on cases of no response by vendors and for responses not compliant with WFP requirements, to assess whether specifications are in line with market practices; and
- (d) Vendor poor performance reporting system to ensure information sharing across the organisation.

This would include a cost-benefit analysis of the implementation of an adequate vendor management IT system, taking into account availability of resources.

Private Sector Partnerships (PGP) will:

- (a) Finalize training to CDs on corporate processes, systems and rules in place to partner with the private sector; and
- (b) Liaise with other HQ units as appropriate and define mechanisms and issue guidance to offices on decision-making for the provision of in-kind/pro bono services or products and managing possible conflict of interest cases.



Observation	Agreed action
<p>4 <b>Control Environment - Delegation of Authorities.</b></p> <p>Delegated authority thresholds were not defined in relation to the procurement needs and capability of the COs, except for Level Three Emergencies. Staff capacity and skills at field level may not be sufficient to perform complex procurement activities.</p> <p>The COs highlighted a risk of untimely procurement decisions especially when implementing complex projects.</p> <p><u>Underlying Cause:</u> The delegated procurement authority given to CDs is based on the function and not on the complexity of operations and risks identified, as well as on the procurement capacity.</p>	<p>OSC with other HQ units, as appropriate, will assess the opportunity to review and align the level of procurement authority among the different WFP procuring entities, taking into account the level of complexity of the operations and capacity of procuring entities.</p>
<p>5 <b>Risk assessment- G&amp;S procurement risk management</b></p> <p>The WFP Offices' procurement units contribute risk identification and relative mitigating measures as part of WFP risk management process. However, a structured process to consolidate and share information on goods and services risks and/or issues across the organization was not in place. At the time of the audit, major risks highlighted in OSPG's risk register (staffing and rules) were not mitigated.</p> <p>Fraud risks are analysed as part of the risk management process and controls are embedded in current processes. However, a structured fraud risk assessment process was not available across the organization. For example, there are no rules to regulate rotation of buyers (especially national/local staff).</p> <p>OSPG performed a spend analysis of three major G&amp;S procurement categories, assigning procurement sourcing teams and defining procurement strategy for each category. However, further to the above three categories, there is no structured and complete category management process, including the formal identification of risks and the definition of procurement strategy, at category/transaction level. Management informed us that budget constraints do not allow for further implementation of the activities so far performed.</p> <p>Management may not be able to identify (i) the correct mix of acceptable risk exposure and opportunities and 'make the most' of them; and (ii) analyse strengths, weaknesses, opportunities and threats, to prioritize improvement opportunities. Value for money may not be maximized if contract strategy is not in place.</p> <p><u>Underlying Cause:</u> Current tools used for risk identification, information sharing and contract risks analysis do not support formal tracking and monitoring for all procurement categories. Lack of priority by the organization in the execution of category management process and fraud risk assessment.</p>	<p>OSPG will:</p> <ul style="list-style-type: none"> <li>(a) Develop and implement category management process for remaining key categories in coordination with relevant HQ functional divisions. This will include identifying the extent of risk management required for key categories and provide adequate guidance in terms of tools and criteria for the analysis of risks, in liaison with the relevant WFP Offices as appropriate, and taking into account the availability of resources;</li> <li>(b) Evaluate the possibility of developing a process to share or escalate G&amp;S procurement risks and/or issues across the organisation; and</li> <li>(c) Support HQ Project, as appropriate, in the identification, evaluation and mitigation of G&amp;S fraud risks.</li> </ul>



Observation	Agreed action
<p>6 <b>Control Activities - Use of human and financial resources</b></p> <p>The audit noted from OSPG’s current staffing structure:</p> <ul style="list-style-type: none"> <li>• a large proportion of non-staff to staff;</li> <li>• the absence of budget to fund its non-staff pool beyond 2016; and</li> <li>• the lack of strategy to retain skills and competencies gained by both fixed-term and short-term personnel during recent procurement consulting projects.</li> </ul> <p>Moreover, OSPG has relied on short-term funds from other units to support its temporary staff pool as well as its recent projects.</p> <p>OSC’s assessment, within the reassignment exercise, to rank entities according to a complexity indicator is not supplemented by guidance on alternatives/actions to mitigate the risks of insufficient capacity in case a CO does not take on board OSC’s advice.</p> <p><u>Underlying Causes:</u> Absence of a mechanism to assess and guide on the optimal level of human and financial resources required for the proper discharge of roles and responsibilities. In particular, there are (i) no assessments of tasks and workload levels linked to funding requests; and (ii) no analysis of different HQ entities’ capacity for possible streamlining and consolidation of roles. For hardship locations, lack of incentive mechanisms at corporate level to build and deploy capacity rapidly.</p>	<p>OSC will:</p> <ul style="list-style-type: none"> <li>(a) Carry out a funding assessment across OSC to source optimal staffing levels, including to adequately undertake G&amp;S procurement tasks for HQ clients, as well as normative/policy guidance for offices outside HQ; and</li> <li>(b) Establish a mechanism to provide guidance and support to offices as necessary, in cases of insufficient capacity and taking into account the availability of resources.</li> </ul>



Observation	Agreed action
<p><b>7 Control Activities - Sourcing and Contracting</b></p> <p>There is no consistent procurement planning exercise across the organization. RBx and COs produce procurement plans but do not systematically update them. OSPG started the procurement planning exercise in 2016, however management does not consider requesting HQ units to submit inputs to the procurement plan mandatory. There is a risk of inefficient procurement process and best value for money is not always obtained without a procurement plan.</p> <p>The roles and responsibilities of the contract manager are not clearly defined and implemented. G&amp;S procurement does not regulate the role of the contract manager. It only defines the overall responsibilities of requesting officers.</p> <p>There is no defined procurement timeline from creation of a Purchase Requisition to receipt of goods. The Purchase Requisition delivery date is not always clearly defined. This may not be taken into consideration by the procurement unit, meaning delivery timing in the PO may not be in line with client units' needs.</p> <p>There is the risk that (i) supply risk areas, solutions and plans are not identified and (ii) structured approaches to supplier relationship and contracting policies do not support market and business strategy.</p> <p><u>Underlying Cause:</u> Lack of clear guidance. High turnover rate. Unclear roles and responsibilities. The procurement plan is not used by OSPG to plan their G&amp;S procurement activity and needs.</p>	<p>OSPG will:</p> <ul style="list-style-type: none"> <li>(a) Expand the normative guidance to instruct units/offices, in collaboration with the RBx, to produce procurement plans, taking into account the assessment of needs of regular items procured;</li> <li>(b) Advise, in collaboration with RBx and COs, and as appropriate, an indicative requisition to delivery timeline for G&amp;S transactions; and</li> <li>(c) Formalize, as part of the review of the G&amp;S procurement rules, roles and responsibilities of the contract manager, for specific strategic/key categories including their appointment (by the client unit) and acceptance of the role, in line with actions agreed with external supervisory body.</li> </ul>



Observation	Agreed action
<p>8 <b>Monitoring Activities - Performance measurement and monitoring</b></p> <p>A structured and consistent process for measuring the performance of the procurement entities and for monitoring and reporting on the different procurement activities across the organization is not defined and implemented.</p> <p>Key Performance Indicators (KPIs) are defined by each entity, however they are not homogeneous and consistent. There is no system supporting KPIs calculation, resulting in calculations being estimated.</p> <p>Monitoring mainly focuses on compliance and basic information for major procurement types. Root-cause analysis to identify areas for improvement is not available.</p> <p>LTA spending analysis is performed outside the corporate system, requiring extensive effort and not ensuring timely detection for extra estimated values, further necessary approval or opportunities for further negotiation/improvement. As a result, OSPG does not have any visibility on LTAs entered by RBx and COs. LTA spending in excess of estimated/budgeted amount and outside approving delegated authorities may not be detected.</p> <p>In the sample selected, there were cases where the actual value procured from the vendor differed from the estimated value presented to the PCC. Moreover, there is no defined contract amendment limits (number of times and maximum value) and a process is not available to monitor the number of times that contracts are amended and if the contract increase is within reasonable limits.</p> <p>There are no dashboard or exception reports available to support the review of procurement exceptions. The implementation of MPOs is currently not maximised. Moreover, the procurement division was not able to completely assess the trends and monitor the volume of post-factum purchases across WFP.</p> <p><u>Underlying Cause:</u> Unclear definition of roles and responsibilities. Lack of monitoring performance/exceptions holistically. Lack of systems and guidance on how to use system functionality to monitor spending against LTA. Lack of homogeneous/consistent performance measures across the organization.</p>	<p>OSC, will:</p> <ul style="list-style-type: none"> <li>(a) Define and develop a performance management and monitoring system/process for knowledge sharing as well as tracking relevant information, as part of the vendor management review;</li> <li>(b) Provide guidance to offices to monitor relevant spending and report cases where the actual value procured is more than the estimated value. This would include (i) a mechanism in WINGS or other corporate systems to monitor relevant LTA spending across the organization; and (ii) coordinating with RMT to evaluate if contract-approved value can be entered in the corporate system; and</li> <li>(c) Continue providing information, training and guidance to support offices in implementing MPOs.</li> </ul>



## Annex A – Summary of categorization of observations

The following table shows the categorization ownership and due date for all observations made during the audit. This data is used for macro analysis of audit findings.

Observation	Risk categories			Underlying cause category	Owner	Due date
	ICF	WFP's Management Results Dimensions	WFP's Risk Management Framework			
1 Strategy, roles and responsibilities and funding models	Strategic	Processes and Systems	Institutional	Guidance	OSC	30 June 2017
2 Procurement Contract Committees	Operational	Processes and Systems	Institutional	Guidance	OSPG	31 December 2016
3 Policies and procedures	Operational	Processes and Systems	Institutional	Best practice	OSC	31 December 2017
					PGP	31 December 2016
4 Delegation of Authorities	Operational	Processes and Systems	Institutional	Guidance	OSC	31 December 2016
5 G&S procurement risk management	Operational	Processes and Systems	Institutional	Resources	OSPG	30 June 2017



Observation	Risk categories			Underlying cause category	Owner	Due date
	ICF	WFP's Management Results Dimensions	WFP's Risk Management Framework			
6 Use of human and financial resources	Operational	People	Institutional	Resources	OSC	30 June 2017
7 Sourcing and Contracting	Compliance	Processes and Systems	Institutional	Guidance	OSPG	30 June 2017
8 Performance measurement and monitoring	Reporting	Accountability and Funding	Institutional	Resources	OSC	30 June 2017

## Annex B – Definition of categorization of observations

### 1. Rating system

1. 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 B.1: 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.

### 2. Risk categorisation of audit observations

2. Audit observations are categorised by impact or importance (high, medium or low risk) as shown in Table B.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.<sup>8</sup>

**Table B.2: 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.

<sup>8</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.

	The matters observed might 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.

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

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

4. 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 and revised in 2015.

5. WFP defines internal control as: "a process, effected by WFP's Executive Board, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, compliance."<sup>9</sup> WFP recognises five interrelated components (ICF components) of internal control, all of which need to be in place and integrated for them to be effective across the above three areas of internal control objectives.

**Table B.3: Interrelated Components of Internal Control recognized by WFP**

1	Control Environment:	Sets the tone of the organization and shapes personnel's understanding of internal control.
2	Risk Assessment:	Identifies and analysis risks to the achievement of WFP's objectives through a dynamic and iterative process.
3	Control Activities:	Ensure that necessary actions are taken to address risks to the achievement of WFP's objectives.
4	Information and Communication:	Allows pertinent information on WFP's activities to be identified, captured and communicated in a form and timeframe that enables people to carry out their internal control responsibilities.
5	Monitoring Activities:	Enable internal control systems to be monitored to assess the system's performance over time and to ensure that internal control continues to operate effectively.

<sup>9</sup> OED 2015/016 para.7

#### 4. Risk categories

6. 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 B.4: Categories of risk – based on COSO frameworks 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.

7. 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 B.5: 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 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 utilized – Effective management of resources demonstrated.

**Table B.6: 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 and/or financial loss through corruption.

#### 5. Causes or sources of audit observations

8. Audit observations are broken down into categories based on causes or sources:

**Table B.7: 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.

**6. Monitoring the implementation of agreed actions**

9. 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 monitoring system. This system ensures management actions are effectively implemented, within the agreed timeframe, so as to manage and mitigate identified associated risks and improve WFP's operations.

## Annex C – Acronyms

BPR	Business Process Review
CD	Country Director
CO	Country Office
CPT	Common Procurement Team
COSO	Committee of Sponsoring Organizations of the Treadway Commission
G&S	Goods and Services
HQ	Headquarter
KPI	Key Performance Indicator
ICF	Internal Control Framework
LTA	Long Term Agreement
MPO	Micro Purchase Order
NFI	Non Food Items
OSC	Supply Chain Division
OSPG	Goods and Services Procurement Branch
PCC	Procurement Contract Committee
PG	Partnership, Governance and Advocacy Department
PGP	Private Sector Partnership Division
RB	Regional Bureau
UNHRD	United Nations Humanitarian Response Depot
USD	United States Dollar
WFP	World Food Programme