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HAS DECENTRALISATION MET THE WORLD FOOD PROGRAMME'S OPERATIONAL NEEDS?

Report by the External Auditor

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NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for consideration.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

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National Audit Office

Report by the External Auditor

International Audit

The National Audit Office (NAO) provides external audit services to the World Food Programme. The External Auditor, Sir John Bourn, has been appointed by the Executive Board in accordance with Article XIV of the Financial Regulations. In addition to providing an opinion on the financial statements of the WFP, he has authority under the mandate to report to the Executive Board on the efficiency of the financial procedures and the general administration and management of WFP.

The NAO provides external audit services to international organisations, working entirely independently of its role as the United Kingdom's Supreme Audit Institution. The NAO has a dedicated team of professionally qualified staff with wide experience of the audit of international organisations.

The aim of the report is to provide independent oversight and assurance to the governments and others; to add value to the organisation's financial management and governance; and, through the audit process, to support the objectives of the organisation's work.

Has decentralisation met the World Food Programme's operational needs?

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Executive summary

An independent review of whether the implementation of decentralisation appears to have met the World Food Programme's operational needs and led to cost-effective resource allocation.

1. In 1996 the World Food Programme (WFP) embarked on a major initiative to decentralise operations to the field. Decentralisation was originally seen as a way of devolving decision making and accountability as close as possible to operations, in effect providing support and resources to strengthen the country offices and improve performance, accountability and flexibility. The Secretariat expected that this would lead to a reduction in central support services and move technical expertise to the field. Since that time there have been successive changes to the regional structure and extensive commentary and reports on emerging decentralisation issues.
2. Decentralisation provides scope for delegation of the management of operational activity to country offices, enabling rapid deployment of resources to meet emergency situations. It may increase operational and financial risk, however, unless the transfer of accountability and oversight is commensurate to the delegation of responsibility.
3. **We carried out a review of decentralisation to provide an independent and objective contribution to the deliberations of the Executive Board and senior management at a time when the organisation is reviewing its financial and budgetary constraints and considering how best to deliver its objectives within available and limited resources. We sought to examine three aspects:**
 - **Whether decentralisation has led to appropriate, controlled and timely allocation of resources;**
 - **Whether decentralisation has focussed resources effectively to meet operational needs; and**
 - **Whether decentralisation has led to the cost effective and efficient use of resources overall.**
4. This report considers the impact of decentralisation on the Programme's regional structure and Headquarters. Based on our examination, we conclude that management decision-making is now closer to operations but that there remains scope to:
 - Improve the efficiency of resource allocation, to provide a more timely and flexible response to changing operational requirements;
 - Strengthen management controls;
 - Clarify responsibility for management oversight; and
 - Review operational structures and support in order to improve cost effectiveness.

Review of organisational structure

5. WFP is wholly reliant on voluntary funding from governmental donors and the private sector; and operates in a constantly changing environment, in responding to emergency situations and in developmental activity. The Secretariat established a decentralised regional structure, to move staff out of the Rome Headquarters into the field, in accordance with the aim of strengthening country offices and meeting operational needs more effectively. Country offices in general have been better supported and managed through a regional structure, which met the envisaged operational needs and had developed into seven regional bureaux at the time of our review.
6. Since the introduction of decentralisation there have been more than 40 studies and directives related to the effectiveness of implementation and issues arising. We consider that the Programme now requires improved organisational efficiency sufficient to meet corporate requirements and budget constraints: if necessary by changing the structure of field operations to give greater flexibility, re-defining management roles and responsibilities and strengthening management oversight at all levels.

Alignment of resource allocation to operational need

7. Even though the Executive Board approves workloads through the budgeting process, the number of offices and the resources allocated to them may have drifted out of alignment with operational need. Before 2006, workloads had changed rapidly with the advent of emergencies; but the absence of new emergencies in 2007 provides scope for the Secretariat to re-examine whether the allocation of Programme resources remains commensurate with current workloads and needs:
 - In 2002 the Asia region was responsible for 25 per cent of total beneficiaries and was allocated 22 per cent of available food tonnage. In 2007 the region held responsibility for 30 per cent of beneficiaries but received only 21 per cent of the metric food tonnage; and
 - By contrast East and Central Africa had 25 per cent of beneficiaries in 2002 and 30 per cent of food tonnage. In 2007 the percentage of beneficiaries in the region remained at 25 per cent, but the food tonnage allocation had increased to 35 per cent.

To assist the re-examination, our review provides analysis of some of the challenging questions that the Secretariat may wish to explore in relation to the alignment of resource allocation to operational needs.

8. The numbers of Headquarters staff and consultants have been increasing since 2002. Consultancy may have originally provided expertise for Secretariat initiatives or covered perceived gaps in staffing where the transfer of skilled staff to the field left a skills deficit. We identified evidence to indicate that some consultants have now become, in effect, regularly employed.

Ensuring that rising resource costs are managed commensurate with funding

9. The cost of regional bureaux and country offices continue to increase despite budgetary controls. In the 2004-2005 financial statements and the 2006 unaudited annual financial statements, the Secretariat reported to the Executive Board an overspend on staffing standard costs originally partly budgeted as Programme Support and Administration (PSA) amounting to in excess of US\$114 million: a result of many factors, including changes to salary scales; average staffing grades; the number and cost of staff reassignments; and exchange rate fluctuations.¹ Nevertheless to avoid depleting reserves needed to support other activities, the organisation clearly must operate within its available funding.
10. This audit report attempts to identify opportunities for the Programme to develop new ways of meeting its objectives - such as in Africa, where there may be opportunities for co-locating and sharing support services with other United Nations bodies; and in Headquarters, where management delayering and the merging of some support functions may offer PSA savings without involving a corresponding weakening of fundamental capacity or control.
11. At the time of our audit, the recently appointed Executive Director had initiated a reappraisal of operations with the stated aim of establishing a flexible resource structure to meet operational needs. On 26 July, the Secretariat informally updated the Executive Board on a draft management plan for 2008-2009, which focussed on the key risks facing WFP and measures required to address them, including:
 - Fundamental structural and managerial change in addition to activity changes, organisational re-structuring, and changes to the locations of activities;
 - Better definition of roles between Headquarters, regional bureaux, and country offices; and
 - A human resources strategy to reduce costs including reducing consultants and short-term staff.
12. We welcome this reappraisal based on assessment of key risks. **This External Audit report presents findings and independent commentary to inform the Executive Board's consideration and indicate areas where greater resource efficiencies might be obtained. We have presented five recommendations to strengthen the management of decentralised operations in order to:**
 - **Ensure the ongoing effectiveness of regional support structures;**
 - **Strengthen and clarify management oversight at Headquarters and in the regions;**
 - **Facilitate closer alignment of resources allocated to Headquarters, regions and country offices with work loadings and operational expectations;**
 - **Achieve efficient management of staffing contracts and consultant assignments; and**

¹ WFP/EB.A/2007/6-F/1/1

- **Explore whether the existing operational structure and operational support solutions might be made more cost efficient through the rationalisation of regional infrastructure in line with need and more economic alternatives.**

Background and scope of the review

13. Decentralisation has remained a fundamental Secretariat initiative of major importance to the Executive Board since 1996. Ten years after implementation, the extent of attention and analysis is shown by more than 43 key documents comprising reports to the Executive Board, executive decisions and guidelines prepared by three Executive Directors, external partners such as the Boston Consultancy Group, contracted consultants and our predecessors as External Auditors.
14. The ED Directive which originally established the decentralisation strategy² in 1997 aimed to:
 - Reorganise authority and capacity to the field, resulting in a new central role of Headquarters to support the field. Management and support was to be clearly distinguished with Headquarters retaining overall responsibility for advocacy, external relations, human resources management, and policy development; and
 - Establish six regional offices with widespread responsibility for regional strategic planning, management, and programme planning, mobilisation and monitoring.
15. In February 2007, the Senior Deputy Executive Director of Operations informed regional directors that the 2008–2009 Management Plan could result in less available funding for operations. WFP would consider reviewing its geographical coverage in light of phase-out strategies in seven countries in Africa and the Caucasus by reviewing:
 - Headquarters and regional bureaux structures and capacities; and
 - Ways to better manage and prioritise technical support services to country offices considering supply, demand and cost.
16. At the time of our report the Secretariat was informally consulting with the Board on the planned budget for 2008–2009. The programme and support administration budget originally requested - US\$490 million - had been reduced to US\$345 million, of which the planned regional bureaux budget amounting to US\$60 million has been reduced to US\$45 million.

² Organizational Change within WFP ED97/018

17. The main objective of our review was to examine the impact of decentralisation on the use of resources by asking, in effect, three questions:
- Whether decentralisation has led to appropriate, properly controlled and timely allocation of country and regional resources?
 - Whether decentralisation has focussed resources effectively to best support operational needs?
 - Whether decentralisation has given rise to cost-effective and efficient use of resources overall?
18. We looked at the progress made in decentralisation against the five strategic objectives in WFP's Strategic Plan for 2006–2009³, in particular Objective Five - to strengthen the capacities of countries and regions to establish and manage food-assistance and hunger reduction programmes.
19. It should be noted that our review included the analysis of WFP-generated data, such as numbers of beneficiaries, which may not have been subject to systematic audit validation and should therefore be regarded as indicative rather than authoritative. The data are drawn mainly from the Secretariat's Annual Reports to the Executive Board.

Has decentralisation assisted appropriate, properly controlled and timely allocation of country and regional resources?

20. We set out to consider the alignment of regional locations and the number of offices with operational needs; and whether there is an appropriate framework of controls - with management oversight in the right place and sufficient emphasis being given to oversight and responsibility.

ARE REGIONAL LOCATIONS CORRECTLY ALIGNED WITH OPERATIONAL NEEDS?

Summary: Regional locations and structures may originally have been in alignment with requirements, but needs constantly change and a time-lag can occur before any resultant modification to the regional and country structure. WFP could benefit from a more flexible structure to enable quicker response to change. Options might include co-locating WFP offices with sister organisations within the UN system or maintaining one central office for each continent.

³ WFP/EB.A/2005/5-A/Rev.1

21. The first strategic objective for the WFP Strategic Plan 2006–2008 is to save lives in crisis situations, which requires worldwide access to areas at risk where new emergencies occur. When moving decentralising activity to field operations initially, WFP set up clusters of offices to benefit from economies of scale in services supplied to the offices. This decentralised responsibility expanded until WFP established its seventh regional bureau (the Sudan Regional Office) in 2006 because of the overall significance of WFP’s operations in three areas of Sudan.

There have been considerable fluctuations in actual and expected regional workloads over recent years

22. To assess the alignment of regional locations to operational needs, we considered the budget planning for the biennium 2008–2009 and actual operational expenditure for two years. Figure 1 shows the distribution of the operational budget for 2008–2009 between regional bureaux (under discussion with the Executive Board at the time of our review in July 2007). Figure 2 shows how operational expenditure for the regions (comprising direct project and other costs but excluding PSA expenditure) changed between 2003 and 2006.
23. Together both these figures show clearly the need for flexibility of regional resources and structure in response to changing operational needs - regional operational expenditure in Cairo has fallen significantly while Sudan’s budget has increased to become the second largest region.

Figure 1: Biennial Operational Budget (US\$ millions) for 2008–2009 (July 2007) by Regional Bureau

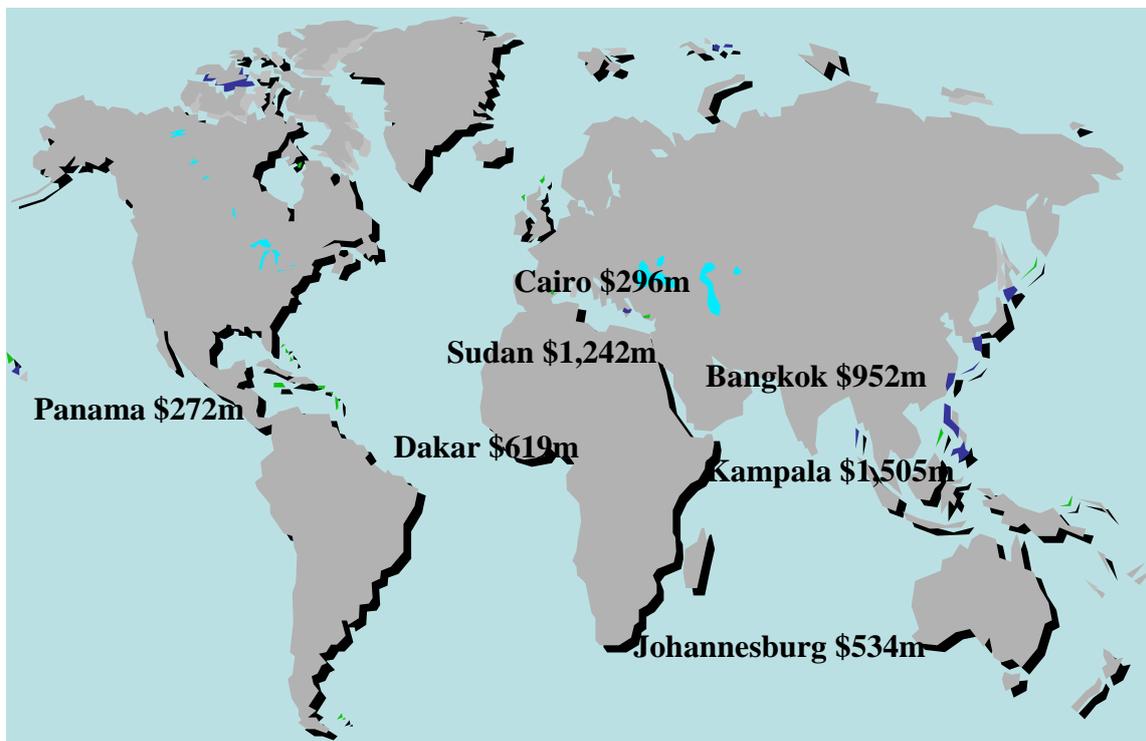


Figure 2: Operational Expenditure by Regional Bureaux for 2003 and 2006

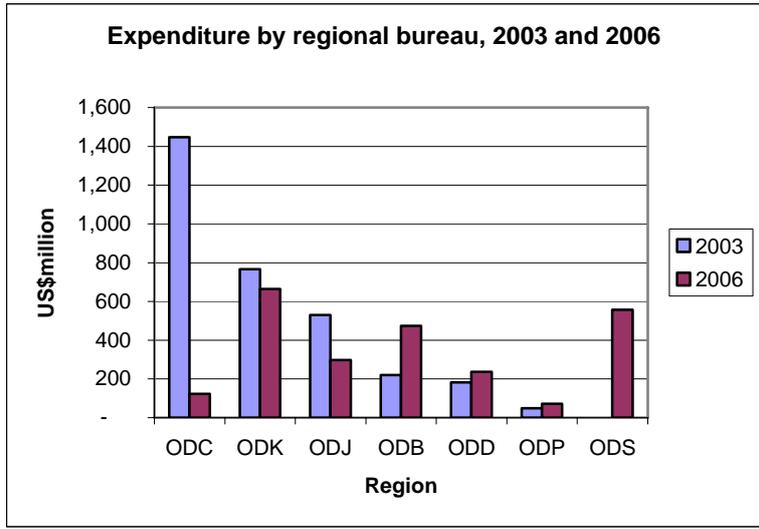


Figure 2 shows the variation in resources used by region for 2003 and 2006, excluding PSA expenditure.

ODC: Middle East, Central Asia, Eastern Europe ODK: East and Central Africa ODJ: Southern Africa
 ODB: Asia ODD: West Africa ODP Latin America and Caribbean ODS: Sudan

Source: WFP Annual Report 2006

24. Figure 3 below shows the variations in levels of beneficiaries and food distributed in recent years. Some beneficiaries may receive microfinance loans to assist sustainable development rather than food aid, mainly in Latin America.

Figure 3: Beneficiaries and Food Distributed by Year, 2002-2006 and planned for 2007

Year	Beneficiaries (millions)	Food distributed(millions of metric tonnes)
2002	71.9	3.7
2003	104.2	5.7
2004	86.8	3.7
2005	96.7	4.2
2006	87.8	4.0
2007	78.0	4.6

Source: WFP Annual Reports 2002-2006.

(Figures for 2007 are as planned at June 2007)

25. Our examination of operational expenditure for 2003 and 2006 and our review of beneficiaries and metric tonnage of food distributed between 2002 and 2007 showed that there had been considerable change in the operational workloads of regional bureaux, for two main reasons:
- **The changing nature of emerging need.** For example, in 2006, the Secretariat responded to the three areas of operation in Sudan (Darfur, South Sudan and the Central Eastern Transition Area), particularly the Darfur emergency, by converting the Country Office into the Sudan Regional Office reporting directly to the Secretariat in Rome. Prior to this time, Sudan had been supported by the Regional Bureau in Kampala.
 - **Decisions by the Secretariat to move responsibility for offices between bureaux.** For example, in 2003, responsibility for the United Republic of Tanzania transferred from Johannesburg to Kampala because of the office's proximity to Uganda and the Great Lakes region. In 2005, the Afghanistan and Pakistan offices transferred to the Bangkok Regional Bureau from Cairo. The move assisted logistics, since food and supplies to Afghanistan generally travelled through Pakistan; and increased consistency with other United Nations organisational structures in Asia. This move and the changed situation in Iraq resulted in a reduction in operational expenditure in the region organised through Cairo Regional Bureau from US\$1,447 million in 2003 to US\$124 million in 2006.

There may be time-lags in adapting the regional structure to reflect changing operational workloads

26. Our examination of changes to regional work loading identified a time-lag in adapting the WFP structure to reflect changing operational needs and changes in country responsibilities between bureaux. While delays in the speed of structural responses are inevitable and, indeed, to some extent prudent to measured and rational decision making, there may be scope for increased flexibility in response to the continual change in operational workloads which arise from the nature of the World Food Programme's activities. Increased flexibility may be possible as a result of alternative country and operational support solutions.

Decentralised operations need flexible structures, and organisations similar to WFP may provide useful comparisons

27. Case Study One refers to a United Nations' initiative which could affect the future location of country offices and regional bureaux. Participation in pilot arrangements under the UN Development Group may create a common UN presence in each country, with scope for operations being quickly adapted to reflect changing resource requirements. Such an approach offers economies of scale, efficiencies and other benefits so long as WFP's responsibility and accountability frameworks in rules and financial regulations approved by the Executive Board are observed.

At the time of preparation of this report, the Secretariat was continuing discussions between United Nations organisations in accordance with the objectives of the United Nations Development Group. The Development Group aims to enhance the coordination and delivery of effective development operations to accelerate progress to achieve the Millennium Development Goals. UNDG is piloting schemes in eight countries in 2007 aimed at achieving a common UN presence in each country while capitalising on the comparative advantages of different members of the UN family. The establishment of a common UN presence could generate efficiency gains and cost savings by shared services although the accountability and responsibility for any services provided by WFP remains with the Executive Director reporting to the WFP Executive Board under extant regulations.

Case Study One: United Nations Pilot of Joint Country Premises.

28. For comparison, we looked at the regional support structure in Africa of other United Nations organisations. The Office of the United Nations High Commissioner for Refugees operates from one regional bureau for Africa supported by local technical hubs in Africa; the United Nations Children's Fund and the Food and Agriculture Organisation retain two bureaux; and the International Labour Organization has only one base which supports all African operations. There may be scope for reduction of the number of WFP regional bureaux in Africa or for co-location. Alternatively, a single central office in Africa might support more semi-permanent sub-regional offices which can provide flexible country support. We also informed our consideration from the review of decentralisation⁴ carried out by our predecessors as WFP's External Auditors, which had considered the establishment of new regional bureaux as at 2002, and recommended that the locations of future regional bureaux should be subject to a documented regional study.

IS THE NUMBER OF OFFICES CONSISTENT WITH OPERATIONAL NEEDS?

Summary: We were unable to confirm that the number of offices and staffing complement remained appropriate to current operational needs, from the standpoint that the allocation of food to regions may not be consistent with beneficiary numbers.

29. There is a limit to the number of country offices which can be cost-efficiently supported by a regional bureau, depending on staff resources allocated to the bureau, logistical constraints and the operational needs of the region. While a full review of country office operational needs is beyond the scope of our review, the number of beneficiaries - hungry people assisted - and the tonnage of food distributed are clear indicators of the operational needs of the organisation. Indeed, as can be seen in the Secretariat's Annual Reports to the EB from 2002, the most prominent indicators in the Key Figures section are the number of beneficiaries and the quantity of food aid distributed. These

⁴ WFP/EB.3/2002/5-A/1/3

indicators are a key part of monitoring Millennium Development Goal 1 – to eradicate extreme poverty and hunger.

30. Our predecessors' External Audit report⁵ on the geographic coverage of the three regional bureaux in Africa in 2002 noted that the Programme's objective had been to set up 12 countries in each bureau which the Programme considered allowed adequate coverage while facilitating effective management. Figure 4 shows the numbers of country offices and PSA-funded staffing in the regions in 2002–2003 compared with the current biennium.

Figure 4: Comparison of Number of Country Offices and planned International Staff by Regional Bureaux in 2002-2003 compared with 2006-2007

Region	2002-2003		2006-2007	
	Number of Country Offices	International Staff Number PSA posts	Number of Country Offices	International Staff Number PSA posts
Middle East, Central Asia and Eastern Europe (ODC)	9	15	16	19
East and Central Africa (ODK)	15	13	11	21
South Africa (ODJ)	5	18	9	16
Asia (ODB)	13	15	14	22
West Africa (ODD)	25	21	25	24
Latin America and Caribbean (ODP)	11	14	11	14

Figure 4 shows the variation in the number of country offices and international staffing in 2002–2003 and 2006–2007. The figures may vary in response to funding and operational needs during each period.

Yaoundé is a sub-regional office in West Africa for which the Bureau is in Senegal (ODD). South Africa Regional Bureau was set up in Johannesburg in 2003 after the closure of a cluster office in Maputo. Rome Regional Bureau was closed in 2003 transferring its offices to the Middle East, Central Asia and Eastern Europe Region. Sudan became a Regional Office in 2006 and is included in East and Central Africa for the Management Plans providing the information. The 2002 staffing figures for ODD (21) increased to 26 in 2003.

Source: Secretariat records, Annual Reports and Management Plans 2002–2003 (September 2001) and 2006–2007 (November 2005).

⁵ WFP/EB.3/2002/5-A/1/3

The rationale and relationship between numbers of country offices/support staff to regional bureaux is not clear

31. In 2006-2007, the number of country offices in regions excluding Sudan varied from nine to 25 offices, with an average number of offices per regional bureau of 14. Figure 4 shows the absence of clear correlation between the number of offices supported and overseen by regional bureaux and the number of PSA-funded international staff working in each bureau. Over the period analysed, the number of international PSA staff posts by regional bureau increased in the West Africa and the East and Central Africa bureaux from 21 to 24 and 13 to 21 respectively; although the number of country offices remained at 25 in West Africa and reduced from 15 to 11 in East and Central Africa. Over the same period, international PSA staff posts in the Southern Africa Bureau declined from 18 to 16, even though the number of country offices increased from five to nine.
32. Management informed us that staff numbers funded by direct support costs are linked to tonnage of food distributed and that PSA funded posts in Regional Bureaux and Country Offices are driven not just by the levels of operations but by other factors including the functions, complexity, number and size of country office. That said, figures for the regional bureaux proportions of tonnage of food delivered (Figure 5 further below) show that between 2002 and 2007 (planned) an increase in international PSA staff posts has indeed been accompanied by increases in the proportion of tonnage handled by the West Africa (ODD) and East and Central Africa (ODK) bureaux. By contrast, for the Mediterranean, Middle East and Central Asia bureau (ODC), an increase in international PSA staff numbers from 15 to 19 has occurred notwithstanding a decline in the share of tonnage from 20 to eight per cent.

There may be benefits in providing support services covering a wider area than the existing regions

33. Where regions are in geographical proximity, there may be some opportunity for interregional support based on logistical and cost considerations. There may be benefits in providing support services covering a wider area than by region, as can be seen from the establishment of emergency support services to which Case Study Two refers.

In November 2005, our report to the Board⁶ on the Dubai Support Office identified scope to extend the expertise gained in rapid deployment of support services, including procurement and telecommunications, to developing emergencies. WFP subsequently expanded procurement services and the support of emergency response requirements based in Dubai: the Field and Emergency Support Office, FESO.

Originally set up in 2001 as a temporary contingency base for the central Asia humanitarian emergency, FESO has grown into one of the world's largest humanitarian emergency support and fast intervention bases. The aim of FESO is to ensure an adequate supply of support services for the Programme and its partners in the humanitarian community, on a fast, safe and cost-effective basis and with the highest level of service and quality.

In 2006, FESO provided a total value of US\$45 million of goods and services to WFP operations and other partners in the humanitarian community, across more than 60 countries

Case Study Two: Dubai Field and Emergency Support Office

Regional allocation of food may be moving out of alignment with beneficiaries

34. We analysed the information recorded in Annual Reports from 2002 in terms of beneficiaries and tonnage of food distributed, in order to assess one aspect of the operational needs of WFP. Since 2002, the countries where programmes are in place to assist hungry people has remained at around 80 in number, although in 2006 this fell slightly to 78. Beneficiary numbers and quantity of food distributed are generally following an upward trend (Figure 3 refers) with beneficiaries having seen a growth of eight per cent and food distributed 23 per cent since 2002. These movements in beneficiaries and food distribution represent an increase in beneficiaries per metric tonne, from 19 in 2002 to 22 in 2006. The planned beneficiaries per metric tonne in 2007 had been expected to fall to 17 as at June 2007.
35. Figure 5 shows the changes over time in the percentage allocations between the regional bureaux from the start of our tenure as External Auditors in 2002, the final year of the 2004-2005 biennium and the 2007 planned percentages as at June 2007. Our analysis of food distributed in proportion to beneficiaries highlighted that food allocation in three regional bureaux may be moving away from alignment with the numbers of beneficiaries.

⁶ WFP/EB.2/2005/5-G/1

Figure 5: Percentages of Beneficiaries and Tonnage of Food by Regional Bureau in sample years 2002, 2005 and Planned for 2007

	2002		2005		2007	
	Beneficiary %	Tonnage %	Beneficiary %	Tonnage %	Beneficiary %	Tonnage %
ODC	19	20	18	11	9	8
ODR*	2	4	0	0	0	0
ODK	25	30	21	33	25	35
ODJ	15	17	11	12	9	10
ODB**	25	22	25	19	30	21
ODD	8	4	11	8	13	9
ODP	6	3	7	2	6	3
ODS***	0	0	7	15	8	14
Total	100	100	100	100	100	100

ODC: Middle East, Central Asia, Eastern Europe

ODK: East and Central Africa

ODJ: Southern Africa

ODB: Asia

ODD: West Africa

ODP: Latin America and Caribbean

ODS: Sudan

Highlighted areas show major variations in the relationship of tonnage and beneficiaries from 2002 to 2007.

* 2003 ODR (Rome) merged into ODC

** 2006 Afghanistan & Pakistan under ODB management from ODC in 2002 and 2005

*** Prior to 2005 ODS included under ODK

Source: WFP Annual Reports 2002-2006

36. Whereas in 2002 the proportion of beneficiaries per region broadly reflected the proportion of food distributed per region, in 2007 there are three regions where the proportion of food being distributed is substantially different from the share of beneficiaries: ODB has 30 per cent of WFP's beneficiaries but distributes 21 per cent of the total food; ODK has 25 per cent of WFP's beneficiaries but distributes 35 per cent of the total food; and ODS has eight per cent of the beneficiaries but distributes 14 per cent of WFP's total food.

HAS WFP MAINTAINED AN APPROPRIATE AND EFFECTIVE FRAMEWORK OF CONTROL UNDER DECENTRALISATION?

Is management oversight in the right place?

Summary: Regional bureaux have different approaches to management oversight of the region. Some bureaux consider their role is to monitor financial control at the country level; others only to support country offices. Although arguments exist for both roles, mixed messages may increase the risk that neither country offices nor regional bureaux fully accept responsibility for management oversight and, in consequence, effective accountability. Clear oversight frameworks should be agreed between regional bureaux, country offices and Headquarters; and reviewed for adequacy and effectiveness by WFP's Oversight Services Division. Management oversight of regional projects should be independent of regional bureaux involvement.

Despite improvements in controls, there has been a lack of clarity about who should exercise oversight

37. In the first biennia of our tenure our audit findings from visits to seven regional bureaux indicated that regional finance officers concentrated mainly on the provision of financial administrative support to their bureaux rather than on financial support and oversight to country offices. Although offices not functionally linked to WINGS at the time sent monthly financial returns to their regional bureau and to Headquarters, we found little evidence of any review conducted at either Headquarters or the relevant bureau. In our report⁷ on the audit of the financial statements for 2002-2003, presented to the April 2004 Executive Board meeting, we recommended that regional bureaux should have a clear responsibility to oversee and monitor the financial performance of the country offices in their region, to ensure the integrity of the Programme's systems for budgetary and financial control.
38. In our 2004–2005 audit, in visits to nineteen countries, we found evidence of improved financial awareness and training of staff. However, the acceptance and implementation of a formal accountability framework at regional and country level had not been applied consistently, with some locations contacting Headquarters on issues that should be resolved at the regional level.

Oversight of regional projects should be independent of the regional bureau's project involvement

39. Our reports to management following visits to two regional bureaux in 2006 raised concern at the lack of management oversight and financial control, particularly over regional projects. Case Study Three below refers to one regional project; the other region had planned for oversight visits but had been constrained by the need to provide financial staff to support an emergency.
40. Although both cases may have resulted in inadequate regional oversight, Case Study Three demonstrates an improvement in management oversight as the regional project developed. The development of management oversight frameworks clarifying responsibility for checking project controls would help to reduce problems on similar projects in the future.

⁷ WFP/EB.A/2004/6-B/1/3

In May 2006, a Regional Bureau Management Group identified a budget shortfall in a regional project amounting to more than US\$17 million of the project budget which totalled US\$700 million for 2005-2007. The planned budget for land transportation and storage handling had been overspent in five of the eight country offices included in the regional project.

Following a special audit by regional finance staff, the Secretariat took immediate action to address control weaknesses identified; and to secure adequate funds to cover the deficit from available balances on recently closed projects, savings on resources and correction of misposted expenditure between emergency operations and the regional project.

The control weaknesses mainly related to override of controls, which had hindered timely detection of the over-expenditure or its prevention, including:

- Lack of effective monitoring of region-wide project expenditure against budget;
- Lack of efficient communication and coordination between regional logistics, financial analysis and finance units, and country offices;
- Lack of any budget revision after contracted supplier transportation costs per metric tonne had increased from US\$50 to US\$120,—giving rise to a total cost increase of US\$5.6 million;
- Lack of prompt issue of purchase orders, leading to funds not being reserved to cover expenditure and expenditure in advance of receipt of funds; and
- Failure by country offices to confirm the availability of funding when certifying expenditure.

Case Study Three: Regional Project Oversight

41. In 2006, the Secretariat issued new guidelines related to delegation of authority which clarified accountability for budgetary overspend and assisted in strengthening oversight. Nonetheless our visits confirmed that the impact of weak budgetary control management provides important lessons for the effective management of regional projects. Expenditure in advance of receipt of funds and inadequate oversight weakens management financial control and the scope for timely and informed management decision-making. Where bureaux are themselves authorising expenditure on regional projects, there may be an increased risk from the absence of independent oversight unless Headquarters effectively monitors regional controls.
42. At the time of the present audit review, the Secretariat was considering the advisability of continuing or expanding regional projects, although there have been examples of successful regional projects such as the response to the Tsunami disaster on 26 December 2004 described in Case Study Four.

Our financial report⁸ to the June 2006 Executive Board referred to the regional approach to the Tsunami disaster which had triggered one of the most complex and wide-reaching emergency relief operations mounted by the World Food Programme. The operation had a budget in excess of US\$200 million aimed at providing more than 260 thousand tonnes of food aid to the affected areas.

Our review of the operation concluded that WFP's response to the disaster was adequately managed. Operations were effected quickly and significant levels of food were organised and delivered promptly. The operation appeared to have been adequately coordinated.

Inevitably, however, in such circumstances, internal control, segregation of duties, procurement procedures, records and certification processes may have to be managed in the context of the need to expedite the humanitarian response in circumstances where lives are at risk. Our review of the control environment identified control weaknesses at various times throughout the operation. Controls were weakest at the initial phases in the affected field office locations although, as the operation evolved, internal controls were put in place or improved.

Case Study Four: Regional Approach to the Tsunami Disaster Operations

43. Our review of reports of the Oversight Services Division (OSD) over the period 2003–2006 showed that more than 40 reports had raised concerns related to regional oversight, indicating issues where OSD considered that individual regional bureaux had inadequate knowledge of financial procedures and controls to provide adequate guidance and oversight to the countries in their region.

Is guidance on oversight and management responsibilities adequate?

44. The Intranet website available to offices worldwide provides a Programme Guidance Manual which sets out the responsibilities related to emergency preparedness of country offices, regional bureaux and Headquarters.
45. In 2006, as a result of earlier reports on decentralisation which highlighted an absence of clear terms of reference for Regional Directors and guidelines for regional bureau responsibilities, the Secretariat updated the responsibilities (termed accountabilities) of Regional Directors reporting to the Senior Deputy Executive Director for Operations. The accountabilities comprised a generic list of 18 duties, ranging from contributing to corporate management and important strategic policy and operational issues to performing other related duties as required. The generic duties were not to be carried out by all Regional Directors and varied with operational requirements.

Scope remains for clearer definition of responsibilities

46. Our audit findings have indicated that scope remains for a clearer definition of responsibilities, where appropriate taking account of the differing nature of operational activities in the regions. In Panama, there is no country level operational project and the region implements mainly development and prolonged relief and recovery projects. By contrast, the East and Central Africa region has large scale emergency operations supported by the regional bureau in Kampala, as well as other projects managed by the country office located within Uganda. The development of management oversight

⁸ WFP/EB.A/2006/6-A/1/3

frameworks, taking account of differing regional and country requirements, could help to clarify roles and responsibilities.

CONCLUSION

47. Decentralisation has been established since 1996 and continues to undergo development. Initially the focus was on bringing more effective support to aid delivery in the field. The Secretariat is giving greater focus to improving oversight and accountability at a time when budgets are being reviewed and efficiency savings are required. Improvements are in evidence, but there remains scope for tighter control and more efficient allocation of resources to provide a flexible, timely response to changing operational needs.
48. The Secretariat originally set up regional bureaux in alignment with operational needs. Meeting the strategic objectives of the Programme and supporting increased consistency in UN structures may now require flexibility to move locations or reduce the number of bureaux, as well as transfer country offices between bureaux where appropriate.
49. Our analysis further indicated that the number of offices and the resources allocated to them may have drifted out of alignment with operational need, and may need to be reviewed. Finally, there is scope to clarify responsibility for management oversight at every level, and ensure independence of review in the different levels of line management.

Recommendation 1: As part of its review of organisational restructuring, we encourage the Secretariat to consider whether there is sufficient justification for maintaining the extant regional structure, in particular by:

- **(i) Reviewing the flexibility that current circumstances provide for differing operational needs and the appropriate number of country offices to be supported by each regional bureau;**
- **(ii) Considering the requirement for timely alignment of regional food allocations to beneficiary numbers; and**
- **(iii) Examining the scope for support services to more cost-efficiently take advantage of geographical proximity of offices across regional boundaries or established by other United Nations entities.**

Recommendation 2: We recommend that the Secretariat develop improved management oversight frameworks, agreed between regional bureaux and country offices and reviewed by the Oversight Services Division, which:

- **(i) Better clarify consistent responsibilities for management oversight of regional and country operations; and**
- **(ii) Maintain an appropriate and independent management oversight of regional projects.**

Has decentralisation focussed resources effectively to best meet needs?

50. We examined the alignment of resource allocation with operational workload under decentralisation; and considered the extent to which management skills and resources had been transferred from Headquarters to the field.

DO RESOURCE LEVELS REFLECT WORKLOADS?

Summary: Staffing levels at Headquarters have increased with greater reliance on the flexibility of consultancy contracts, the number of which show significant increase. Workloads prior to 2006 increased through new emergency situations, although from 2006 to July 2007 the number of new emergencies significantly decreased.

51. Details of expenditure, beneficiaries and metric tonnage of food handled, as described above, provide some indication of the Programme's workload by region and for WFP overall. Figures 4 and 5, for example, show that for the Middle East, Central Asia and Eastern Europe Regional Bureau, an increase in international PSA staff over time has been accompanied by a decline in beneficiaries and tonnage of food allocated. In order to better assess the extent to which the Secretariat has allocated resources to meet a changing workload, we further considered the resources allocated to regions, country offices and Headquarters.
52. One major contribution in making resources available in a potentially flexible way has been the use of consultants worldwide. We therefore examined the extent of consultancy support by region and in Headquarters, comparing consultant numbers allocated to the various locations, where workload needs could be assessed against food deliveries or beneficiary numbers.
53. Earlier reports on decentralisation⁹ had noted the impact of new initiatives introduced by the Secretariat which had increased workload and hence staffing and consultancy levels at Headquarters. We looked at Headquarters' resource allocation funded by the PSA budget, in order to assess the net impact of any reduction in Headquarters staffing arising from decentralisation which might have been offset by increased staffing required for new initiatives.

There has been an increasing reliance on consultants to meet workload demand

54. Figure 6 below shows the number of consultants, and budgeted posts comprising international and general service staff funded by PSA from 2000-2001 to 2006-2007. Staffing at Headquarters includes all staff with Rome as their duty station. Additional staff in support of country offices would be funded mainly through projects. The WFP Budget Section expects an average of some five per cent of posts to be vacant at any time.

⁹ Report on the Findings of the Operations Review April 2005

Figure 6: Consultants and Budgeted staffing at Headquarters, Regional Bureaux and Country Offices

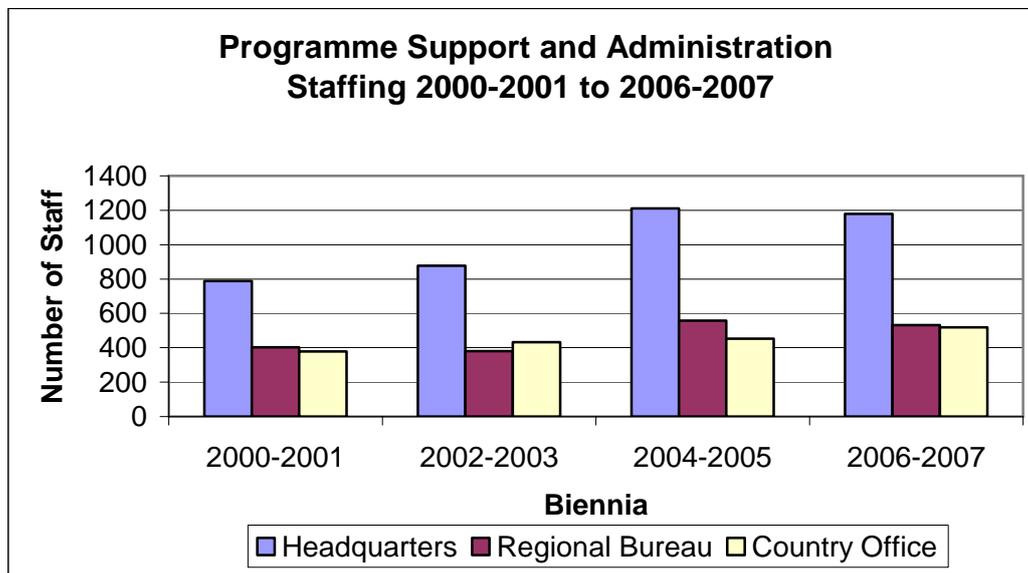


Figure 6 shows the number of consultants and budgeted staff PSA posts from 2000-2001 to 2006-2007 comprising contracted staff and general staffing.

Source: WFP Budget Section Records

55. Figure 6 shows that the allocation of posts to country offices steadily increased alongside the trend in increased regional bureaux posts. In each biennium, PSA budgeted for approximately twice as many staff in Headquarters than in the regional bureaux, increasing from 788 in 2000-2001 to 1,180 in 2006-2007 (a 50 per cent increase).

Use of Consultancy Resources

56. To further assess the extent of consultant support, we analysed HR Division's monthly records for international consultants during 2006. Figure 7 reveals a fairly consistent use of consultants to support both regional and Headquarters activity. In 2006, the regions averaged a total of 248 consultants worldwide in comparison to 228 at Headquarters.

Figures 7a & b: Number of Consultants in Headquarters, Bureaux and Offices during 2006

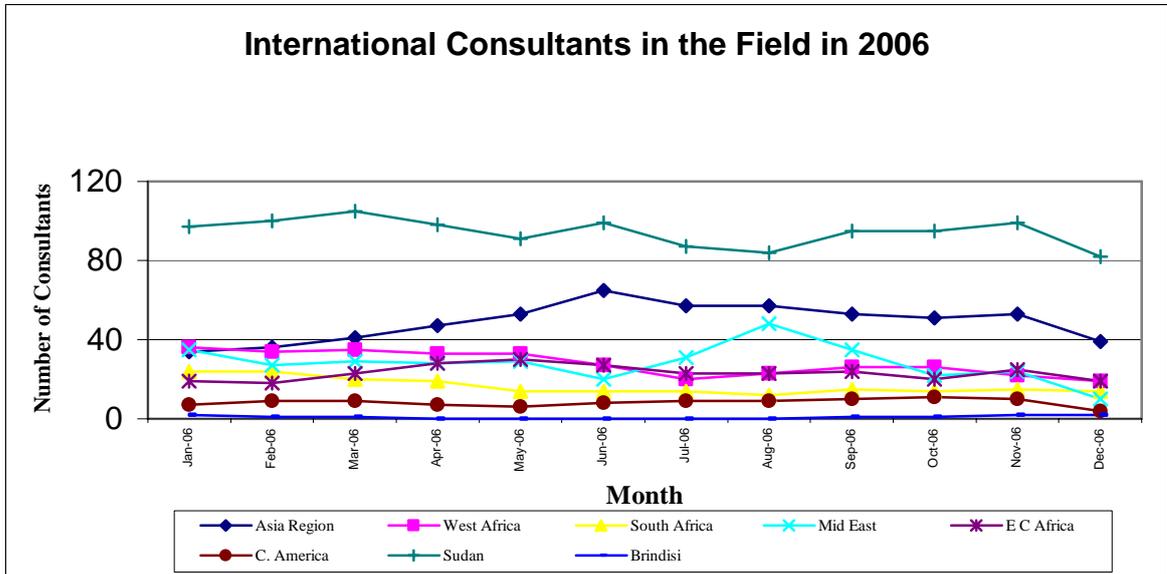


Figure 7a shows in visual terms the variation in use made of consultants by region throughout 2006, although each region reflected a fairly constant number (or volume) of consultants.



Figure 7b shows the extent of consultant support throughout 2006, averaging 228 per month, which mainly supported Operations Division (averaging 84), Administration (56), Funds Division (32) and Policy and External Affairs (32)

57. Continuing reliance on the use of consultants can increase the flexibility of staff resources compared with salaried employees and assist in the deployment of specific skills or expertise to operations. But it may also present risks to value for money and cost efficiency, and create dependency on key consultancy expertise which is lost at the end of the contract.

58. Consultants and most staff at WFP are contracted for specific periods, which are reviewed and extended depending on available funding and workloads. Our review revealed potential inefficiencies related to the appointment of international staffing. HR Division records showed that 463 initial staff appointments, 977 reappointments and 1,390 separations had been processed in 2006. Of the 977 reappointments, 409 related to Rome-based staff reappointed more than once in the year, of which

- 304 individuals had been appointed twice;
- 88 had been appointed three times;
- 14 had been appointed four times; and
- 3 had been appointed more than four times.

59. Since each reappointment requires an established procedure to be operated, there may be scope to expedite procedures or plan the scheduling of work to merge one work period to another and appoint the successful candidate for the entire longer period, reducing the administration costs of re-appointment.

60. In 2003, the Executive Director delegated authority to regional bureaux and country offices for the appointment of international professional staff and consultants¹⁰. To assess the resource consequences of this, we examined consultant usage by separating the number of worldwide consultancy contracts in two contract categories over the period 2002-2006:

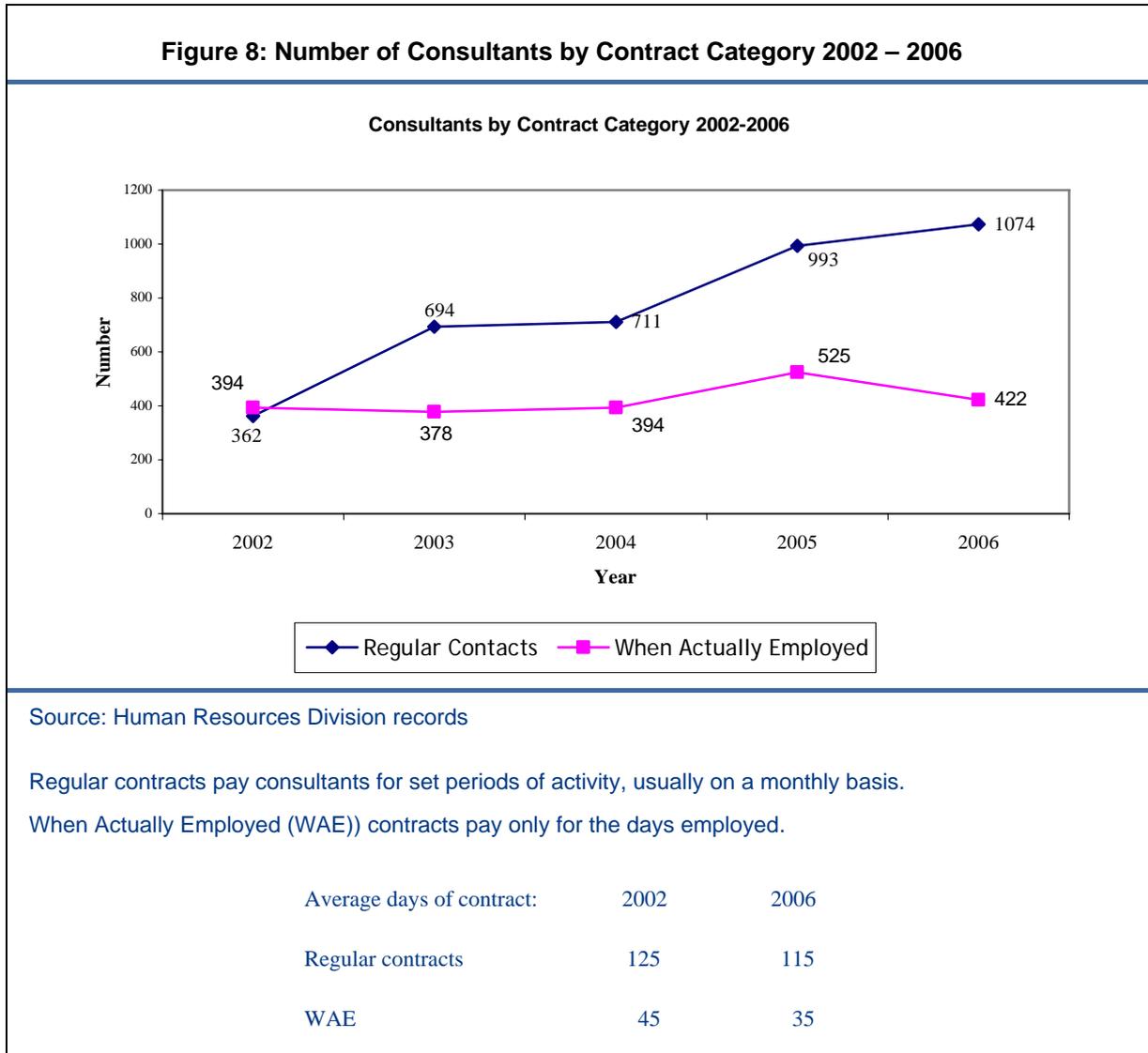
- Regular contracts appoint consultants for the duration of a specific assignment covering periods of less than one year, with payments usually on a monthly basis; and
- When Actually Employed (WAE) contracts relate to a series of assignments within a given period of time, in which the contractor will be reimbursed for only those days actually worked.

Many consultants are employed for lengthy continuous periods

61. WAE contracts enable the Secretariat to flexibly resource operations with specialist expertise for short periods of time. Regular contracts would generally be longer term assignments, perhaps normally covered by WFP staff. Figure 8 shows that the number of WAE contracts over the five year period from 2002 to 2006 remained relatively constant; and the average length of assignment decreased from 45 to 35 days. The number of regular contracts shows a rising trend from 362 to 1074 (almost 300 per cent), although the average period of contracts decreased from 125 to 115 days.

¹⁰ Administrative Procedures for International Professional Staff 2003

Long-term use of contractors has increased, with resource implications



62. In emergency situations, managers may for operational reasons retain consultants who have previously been reliable. But there may be resource implications from the long term use of consultants in comparison to flexible deployment of salaried staff; and our review revealed corporate risks in the ongoing employment over a sustained period of the same individual. Under UN guidelines, individuals employed for more than 44 months in a 48 month continuous period may be able to successfully claim staff status. At the time of our review, in one region examined we identified 16 consultant contracts which could meet the 44 month criteria in 2008.

63. From our analysis, we were unable to gain assurance that decentralisation had resulted in a reduction in staffing and consultants in Headquarters, as had been intended at the introduction of the decentralisation initiative. Any potential reduction has been offset by an increase in the number of staff allocated to Headquarters with Rome as their duty station and the significant increase in consultants, of which 743 had a duty station as Rome in 2006.

HAS THERE BEEN AN APPROPRIATE TRANSFER OF SKILLS AND RESOURCES FROM HEADQUARTERS TO THE FIELD?

Summary: Originally, transfers of management resources to the field were in line with the objectives of decentralisation. Modest increases in Headquarters management posts may reflect the strengthening of WFP's capacity to run larger, more complex and more demanding operations; and may reflect a number of initiatives for which professional grade staff have been required in Headquarters. But overall, subsequent increases appear inconsistent with decentralisation objectives.

Originally transfers to the field were in line with decentralisation

64. In 2003, our predecessors reported¹¹ to the Executive Board that over the period 1996–1997 to 2002–2003 the total number of staff in Headquarters reduced by 42 per cent while the number of staff in the field increased by 58 per cent. The change in location of staffing covered both professional and general service grades, indicating that skills had been transferred to the field. Our predecessors also reported that in the period 1996–1997 to 2002–2003 there had been a reduction in staff and non-staff costs of 55 per cent in Headquarters; and an increase of 49 per cent in the field¹².

Subsequent staff increases in Headquarters may have become inconsistent with decentralisation objectives

65. We reviewed staffing patterns during the period of our tenure as External Auditors, 2002-2007. Figure 9 shows the number of staff in post at the end of each year from 2002 to 2006 and as at April 2007, with professional and general service grades and levels of director and above separately identified.

¹¹ WFP/EB.3/2002/5-A/1/3

¹² Field budgets excluded reconfiguration costs at the time.

Figure 9: Professional and General Service occupied posts at the end of each year, 2002 – 2007

	2002	2003	2004	2005	2006	2007*
HQ International Professional Staff						
Above Director Grade	3	4	5	5	5	5
Directors	40	50	54	63	64	63
Professional Grade	269	291	423	399	428	435
Sub Total	312	345	482	467	497	503
General Service	310	319	352	376	376	385
Total Staff	622	664	834	843	873	888

Numbers include Liaison, Fundraising & Communications Offices, those on leave without pay or loaned to other organisations.

* Staffing for 2007 as at April 2007

Source: Human Resources Division.

66. Figure 9 shows an increase of 191 professional grade staff from 312 in 2002 to 503 in 2007 (an increase of over 60 per cent); and an increase of 75 in general service staff, from 310 in 2002 to 385 in 2007 (24 per cent). These increases appear inconsistent with a policy of skills transfer to the regions, although there have been a number of initiatives for which professional grade staff have been required in Headquarters, such as more rapid biennial accounts' closure.

Modest increases in Headquarters management posts are in line with Executive Board decisions

67. Decentralisation increased the delegated authority of directors of regional bureaux and country offices. The Secretariat allocated a deputy director to larger offices and bureaux to ensure continuity of management and to maintain an adequate capacity to run increasingly complex operations in a decentralised environment.

68. In addition, modest increases in management posts are consistent with the Executive Board's decision in October 2000 to strengthen WFP's management capacity in response to the Executive Director's proposals¹³ that management of an increasingly complex and politically sensitive programme required more senior and experienced managers with experience of managing more complex and demanding operations.

69. Figure 9 shows a proportionately modest increase in the percentage of staff at Director level and above compared with the increases in Professional and General Service staff: rising from 43 in 622 posts, or 6.9 per cent, in 2002 to 68 in 888 posts, or 7.7 per cent, in 2007.

CONCLUSION

70. Decentralisation does not seem to have resulted in reduced staffing levels at Headquarters in the way that might have been expected from the intentions of the initiative. Further, there is evidence that consultants originally recruited to assist WFP in responding to emergencies or to provide

¹³ WFP/EB.3/2000/4-D/1

specialist expertise have been retained for relatively long periods of time, perhaps to supplement perceived deficits in staffing complements, particularly in Headquarters where the transfer of skilled, experienced staff to the field could have resulted in a skills deficit.

71. Since 2002, staff increases at Headquarters appear inconsistent with decentralisation objectives but may reflect the number of initiatives for which professional grade staff have been required in Rome.

Recommendation 3: *We encourage the Secretariat to ensure that resources allocated to Headquarters, regions and country offices reflect the respective work loading of each organisational level and unit.*

Recommendation 4: *We recommend that the Secretariat ensures improved and efficient processes for staff appointments and reappointments, with appropriate and economic timeframes for staffing contracts and consultancy assignments.*

Has decentralisation led to cost-effective and efficient use of resources overall?

Summary: There are some baselines or assumptions against which the costs of standard operations can be determined, and procedures for critically evaluating increased budgets; but robust prioritisation is required to take account of cost increases and business imperatives at a time of restricted financial resources.

HAVE BASELINES BEEN IDENTIFIED TO GUIDE ORGANISATIONAL STRUCTURE?

72. A basic structure exists for country offices, embodying a minimum staffing structure of a Director post, two professionals and three national staff. Usually regional bureaux and large offices have an additional Deputy Director post. Management informed us that further direct resources are linked to levels of food distributed. Professional staffing with specialist expertise such as logistics, finance, operations, liaison and vulnerability assessment support each bureau. There is, however, no agreed baseline or staffing model with indicative parameters to guide the allocation of resources to match specific operations in each location. Projects in the Latin America and Caribbean region are mainly

developmental, which naturally may require different resources to regions supporting mainly emergency operations.

HOW ARE INCREASED COSTS AGAINST BASELINE JUSTIFIED?

Budget-holders must assess priorities between what is desirable and what is affordable

73. The Secretariat critically evaluates requirements for increased resources against baseline budgets. Figure 10 shows programme support and administration (PSA) expenditure for the regional and country offices on staffing and non-staff costs for recent biennia from 2002–2007, demonstrating a trend towards increased PSA staffing expenditure in country offices in comparison to that of regional bureaux. PSA non-staff costs of regional bureaux steadily increased over the period, whereas country offices increased markedly in 2004–2005, before remaining level in 2006–2007. The increase may be explained in part by the Iraq emergency and subsequent operations into 2006.

Figure 10: Biennial PSA Expenditure on Regional and Country Offices

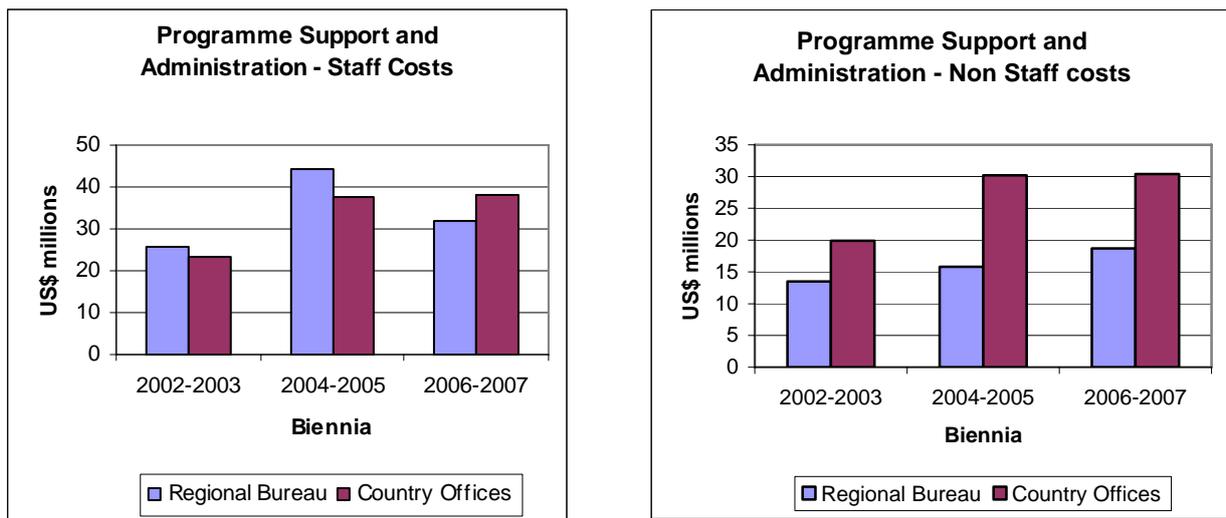


Figure 10 shows the regional and country office biennial expenditure on staff and non-staff costs from 2002–2007 demonstrating a trend towards increased PSA expenditure in country offices to that of regional bureau.

Source: World Food Programme

74. Costs of regional and country offices have increased despite budgetary control. In the 2004-2005 financial statements and the 2006 unaudited annual financial statements, the Secretariat have reported an overspend on staffing standard costs originally partly budgeted for as PSA expenditure amounting to more than US\$114 million; the result of many factors including changes to salary scales, average staffing grades, the number and cost of staff reassignments and exchange rate fluctuations¹⁴. Nevertheless, to avoid depleting reserves which could support other activities, the Secretariat clearly needs to ensure that WFP operates within its funding limits.

¹⁴ WFP/EB.A/2007/6-F/1/1

CONCLUSION

75. Increases in the number of field offices and staff, combined with proportionately greater increases in Headquarters staff and the continuing use of consultants, are not factors which, taken together, indicate increasing efficiency, nor perhaps effectiveness, in the use of resources. In our view, the continuation of this infrastructure in a time of reduced operational challenge from major emergencies may indicate scope for improved efficiency in organisational structures and the potential – or at least desirability - for staffing and response solutions which have greater flexibility than the organisation's present stand-alone field structure.
76. Restrictions on available resources require robust management, which represents a continuing challenge to the Secretariat and reinforces the benefits of the review of decentralised structures being carried out at the time of our audit examination in mid-2007.

Recommendation 5: *We recommend that in considering how costs can be reduced to remain in line with available funding, the Secretariat should explore whether the existing operational structure and operational support solutions might be made more cost efficient through the rationalisation of regional infrastructure in line with need and more economic alternatives.*