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de Alimentos

**Executive Board  
Annual Session**

**Rome, 3–6 June 2014**

# **RESOURCE, FINANCIAL AND BUDGETARY MATTERS**

**Agenda item 6**

*For consideration*

# **E**

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## **WFP MANAGEMENT RESPONSE TO THE RECOMMENDATIONS OF THE REPORT OF THE EXTERNAL AUDITOR ON FOOD PROCUREMENT IN WFP**



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## NOTE TO THE EXECUTIVE BOARD

**This document is submitted to the Executive Board for consideration.**

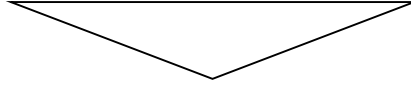
The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal point indicated below, preferably well in advance of the Board's meeting.

Director, OSP\*:                      Ms C. Fleischer                      tel.: 066513-2293

Should you have any questions regarding availability of documentation for the Executive Board, please contact the Conference Servicing Unit (tel.: 066513-2645).

\* Procurement Division

## DRAFT DECISION\*



The Board takes note of “WFP Management Response to the Recommendations of the Report of the External Auditor on Food Procurement in WFP” (WFP/EB.A/2014/6-G/1/Add.1).

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\* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.

## BACKGROUND

1. This document presents the Secretariat's response to the recommendations in the "Report of the External Auditor on Food Procurement in WFP".
2. Sourcing from more than 90 countries, WFP purchases an annual average of 2 million mt of mixed commodities, valued at USD 1.1 billion. Numerous sourcing and logistics challenges need to be overcome, as food is moved across large distances and via multiple transport modes to reach beneficiaries. WFP purchases more than 50 percent of its food in the countries and regions where it operates, making it a significant investor in local and regional markets.
3. WFP management welcomes this external audit and agrees with its recommendations, which include improving the procurement model to make the most of innovative tools such as the Working Capital Financing Facility and the Forward Purchase Facility, and to address initiatives arising from the Business Process Review. The report identified several issues that are now being addressed, such as corporate sourcing and delivery planning, supply chain integration, food quality and safety issues, and the deployment of information technology (IT) solutions. A number of the recommendations refer to areas for which additional investment is crucial, such as vendor management and the maintenance of an efficient procurement function. WFP will draw on the External Auditor's findings and recommendations to improve its food procurement model.
4. Specific responses to the recommendations are presented in the attached matrix, with clarifications to contextualize some of them.



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External Auditor Recommendations	Action by	WFP management response	Timeframe
<p><b>Recommendation 1:</b> WFP needs to formulate an integrated 'Procurement planning framework' based on a supply chain approach applicable to Headquarters (HQ), regional bureaux (RBs) and country offices (COs). The framework should inter alia contain guidance on identifying inputs required for devising a sourcing and supply strategy; make it mandatory for all entities (HQ, RBs, COs) to prepare an annual procurement plan; contain a standard template for procurement plan; define Key Performance Indicators of the procurement process; and define reporting requirements regarding periodic monitoring and evaluation of the procurement process.</p>	<p>Procurement Division (OSP)</p>	<p>Agreed.</p> <p>The development of a procurement planning framework is a component of the corporate sourcing and delivery strategy led by the Supply Chain Management Working Group, formed to improve supply chain integration. The working group brings together the functional areas in charge of resourcing and resource planning, procurement and logistics, and identifies the best sourcing and delivery options.</p> <p>The global framework incorporates the regional and local sourcing and delivery plans of regional bureaux and country offices respectively, and will be underpinned by a tool for monitoring supply chain performance.</p> <p>Implementation of the standard project pipeline management tool will support forward planning at the country office level and across WFP.</p>	<p>31 December 2014</p>
<p><b>Recommendation 2 a):</b> WFP may consider carrying out an assessment of the effectiveness and outcome measurement (impact assessment) of the Forward Purchase Facility (FPF).</p>	<p>Project Budget and Programming Service (RMBP)</p>	<p>Agreed.</p> <p>The anticipation time and key performance indicators currently reported in the Annual Performance Report (APR) will be complemented with cost-efficiency analysis in 2014. A broader impact assessment will be considered for 2015–2016 to: i) allow enough time – five years – for activities; and ii) ensure that the approach is mainstreamed. The impact assessment will consider a review of the approach and its impact.</p>	<p>31 December 2016</p>
<p><b>Recommendation 2 b):</b> WFP may consider formulating a comprehensive Purchase for Progress (P4P) governance guidance applicable to HQ, RBs and COs. This guidance could be designed with the overarching aim of integrating P4P with WFP's overall procurement plan at HQ, RB and CO levels and addressing the identified risks so as to make P4P initiative effective.</p>	<p>OSP/Policy, Programme and Innovation Division (OSZ)</p>	<p>Agreed.</p> <p>The final evaluation foreseen in the design of the P4P pilot is currently under way. The findings, to be presented to the Board in 2015, will include additional corporate guidance to complement that developed during the course of the pilot and already available in the food procurement manual.</p>	<p>31 December 2015</p>

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External Auditor Recommendations	Action by	WFP management response	Timeframe
<p><b>Recommendation 3 a):</b> WFP may consider reviewing its policy of procurement of nutritional products like super cereal plus under waiver contract, so as to meet its objective of ensuring cost effective purchases. Further, use of waivers in procurement, on the plea of urgency, should ensure their stated objective of ensuring timeliness and quality in delivery of food grains, especially in case of emergency operations (EMOPs).</p>	OSP	<p>Agreed. WFP will review its approach to the procurement of nutrition products as part of a broader corporate sourcing and delivery strategy. The production of specialized nutrition products requires a sizeable capital investment that must be assessed with reference to WFP's often erratic demand. WFP will incorporate the recommendations and, to improve product quality, will introduce contracting practices based on appropriate incentives. Waivers are deployed if in WFP's best interests. OSP will circulate further guidelines on the use of waivers to all procurement staff.</p>	<p>31 December 2014  31 December 2014</p>
<p><b>Recommendation 3 b):</b> Compliance mechanism to ensure adherence to the laid down procurement policy and guidelines may also be strengthened.</p>	OSP	<p>Agreed. WFP will complement current procurement processes with post-factum reviews as part of the procurement risk management framework.</p>	31 December 2014
<p><b>Recommendation 4 a):</b> WFP may ensure that Inspectors for Quantity and Quality Report are different from those entrusted with the responsibility of inspecting vendors for qualification so as to avoid possible conflict of interest.</p>	OSP	<p>Agreed. WFP employs inspection companies with established food quality and safety competencies to ensure that suppliers of specialized nutrition products comply with international regulatory standards. Where appropriate and possible, WFP will define which services should be provided by inspection companies, to avoid any potential conflict of interest.</p>	31 December 2014
<p><b>Recommendation 4 b):</b> Food Purchase Committee at HQ and COs may be provided information on vendor's prior performance with regard to quality and timeliness of delivery to enable the committee to make a more informed decision.</p>	OSP	<p>Agreed. The Vendor Management Committee (VMC) reviews vendor performance issues. Procurement seeks to address these issues as and when they occur, through the VMC. The Food Purchase Committee receives additional information on vendor performance when requested or when pertinent to its decision-making. The vendor management system will also include a module that enhances reporting of vendor performance.</p>	30 June 2015





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External Auditor Recommendations	Action by	WFP management response	Timeframe
<p><b>Recommendation 4 c):</b> WFP needs to continue to strive to have flexible donor funding, without any restrictions for purchase, to achieve greater cost-effectiveness in procurement.</p>	<p>Government Partnerships Division (PGG)</p>	<p>Agreed. PGG strives to negotiate flexible donor funding. Not only should funding be free of restrictions on purchasing, to increase cost efficiency, but it should also help WFP respond dynamically and flexibly to fluid situations and the changing circumstances of rapidly evolving humanitarian crises. The principles of Good Humanitarian Donorship expressly recognize the considerable value of flexible funding, and WFP's default stance is to ask for flexibility. If flexibility is not offered or negotiable, WFP weighs the cost to beneficiaries of not receiving the food assistance against the efficiency losses caused by the funding restrictions.</p>	<p>Continuing</p>
<p><b>Recommendation 4 d):</b> COs should monitor the Terminal Obligation Dates (TOD)/Terminal Distribution Dates (TDD) and discuss potential issues with HQ early so that they do not have to resort to procurement in a hurry to meet TOD/TDD or have instances of non-adherence to the TOD/TDD.</p>	<p>RMBP/ country offices</p>	<p>Agreed. Country office monitoring of terminal obligation/distribution dates will be enhanced through: i) increased access to data analysis tools; ii) increased human resource capacity at country offices through the employment of resource management analysts, resources permitting. Implementation of the standard project pipeline management tool will also enhance forward planning at the country office level and across WFP.</p>	<p>31 December 2015</p>
<p><b>Recommendation 5 a):</b> WFP needs to standardise the use of In-Tend across COs and RBs to exercise more effective monitoring of the tendering process.</p>	<p>OSP</p>	<p>Agreed. WFP has identified 67 countries where network connectivity and local infrastructure may allow the use of In-Tend. OSP has rolled out the system in 60 of these countries, and plans to install it in the remaining 7 in 2014.</p>	<p>31 December 2014</p>
<p><b>Recommendation 5 b):</b> Gaps in the WFP Information Network and Global System II (WINGS II) related to vendor performance, contractual delivery date, details of default and food quality etc. need to be addressed for more effective control over the procurement process. This would make information about vendor performance easily extractable and available as an essential input in selection of vendors.</p>	<p>OSP</p>	<p>Agreed. Using specialized SAP modules for vendor and contract management – to be integrated with WINGS – is preferred, but requires a considerable financial investment. WFP will implement the modules as soon as resources become available. Until then, WFP will identify and deploy an alternative vendor management system to complement existing systems and address this critical information gap.</p>	<p>30 June 2015</p>



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<p><b>Recommendation 6:</b> WFP needs to implement a robust vendor management system at HQ, RB and COs, which should inter alia ensure</p> <ul style="list-style-type: none"> <li>a) adherence to registration guidelines for all new vendors;</li> <li>b) completeness of vendor database for all the commodities and updation of database at regular intervals;</li> <li>c) expansion of vendor base to ensure greater competition and best value for money;</li> <li>d) standardizing the time given to vendors for submission of their offers; and</li> <li>e) strengthening the processes of levy of penalty due to quality or late delivery issues by the vendors.</li> </ul>	OSP	<p>Agreed.</p> <p>WFP management recognizes the need for a modern and comprehensive vendor management system. Preliminary work is under way to identify an appropriate system that is in line with industry best practice and will incorporate registration protocols and performance management modules. The introduction of a vendor management system suited to WFP's operational context depends on the availability of resources.</p> <p>WFP's vendor base is under continuous review as part of the VMC structure. Efforts to expand the base are determined by: i) the number of active and well-performing vendors registered for a commodity; ii) WFP's demand relative to the investment required from suppliers, especially for the manufacture of specialized nutrition products; iii) the types of food commodities purchased; and iv) the WFP operational context.</p> <p>The markets in which WFP operates largely determine the time allowed to vendors to respond to tenders. OSP will review timeframes to check consistency across similar markets and operating environments.</p> <p>Deployment of the vendor management system will improve processes for imposing penalties where needed.</p>	30 June 2015
<p><b>Recommendation 7:</b> Requested Time of Arrival (RTA) needs to be fixed keeping in mind the lead times and the shipping period. Adherence to RTA so fixed needs to be ensured by appropriate monitoring.</p>	Country offices	<p>Agreed.</p> <p>The time of arrival indicated in purchase requests is demand-driven and takes into consideration other planning risks and opportunities. Within the new standard approach for managing project pipelines, country offices' implementation plans take constraints into account. RTA should therefore be better aligned with sourcing and supply capabilities. Monitoring will be considered within the context of the Supply Chain Management Working Group's activities.</p>	31 December 2015





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<p><b>Recommendation 8 a):</b> WFP needs to put together existing policies and manuals to formulate and document a corporate food quality and safety policy based on a supply chain approach.</p>	OSP	<p>Agreed. Food safety and quality is a focus area across several WFP functional areas, and is addressed in their respective manuals and guidelines and on the food quality and safety website. To improve integration of the supply chain, relevant information will be consolidated and disseminated when appropriate to WFP's operational needs.</p>	30 June 2015
<p><b>Recommendation 8 b):</b> WFP needs to consistently check its suppliers on a sustained basis for food quality issues. It may consider including performance guarantee clauses in its contract with suppliers.</p>	OSP	<p>Agreed. WFP checks food quality for every purchase contract. Implementation of the web-based food quality management system (FOQUS) will lead to improvements in the procurement process. Local and regional purchase contracts currently include performance bonds. WFP will review food purchase contracts and include a product warranty clause where appropriate, based on industry and trade best practices.</p>	30 June 2015
<p><b>Recommendation 8 c):</b> WFP needs to select its inspectors on the basis of technical capability and not just price. Periodic review of such inspectors need to be conducted as the Quantity &amp; Quality reports of the inspectors are a vital mechanism in ensuring desired quality standards for WFP procurement contracts.</p>	OSP	<p>Agreed. The procurement of inspection services at the global level has recently been revised and now includes a technical and a financial evaluation. This approach is being applied at the regional and local levels as existing services come up for re-tendering.  The global rollout of FOQUS will enhance performance monitoring of the services provided by inspection companies.</p>	30 June 2015
<p><b>Recommendation 8 d):</b> WFP may take necessary steps to set up Food Quality Committees in all COs to address safety and quality issues at the CO level.</p>	OSP	<p>Agreed. Resourcing constraints have delayed the setting up of food quality committees recommended in the 2010 policy paper on food quality and safety. WFP will review this matter as part of its broader corporate agenda to integrate food safety and quality management along the supply chain. Governance structures will be identified with reference to risk profiling, and will be established at appropriate levels.</p>	30 June 2015

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<p><b>Recommendation 9 a):</b> Role of Committee on Commodities, Transport and Insurance (CCTI) needs to be reviewed and systems put in place in COs/RBs to ensure stronger oversight of the procurement process.</p>	OSP	<p>Agreed.</p> <p>The role of the CCTI is defined in WFP's Financial Rules (112.23). The committee's oversight role has been enhanced by the Office of Internal Audit, which every quarter reviews a representative sample of procurement transactions and makes observations.</p> <p>This sampling protocol will be revised to reflect the delegation of procurement authority to regional bureaux and country offices.</p> <p>The oversight role of regional bureaux will be strengthened, resources permitting.</p>	31 December 2014
<p><b>Recommendation 9 b):</b> With WFP moving into new modes of procurement, it is important to ensure that available resources and skills match, so that procurement activities are carried out effectively and efficiently.</p>	OSP	<p>Agreed.</p> <p>As noted by the audit team, the evolving WFP food procurement business model requires additional knowledge and skills. WFP needs to increase its commodity market intelligence and expertise and apply industry best practices in respect of contracting tools, risk-reduction instruments, and innovative trader/supplier relationship management. OSP is developing a functional people strategy within the broader context of the WFP people strategy. The primary aim is to articulate staff numbers, profiles and resources to fit the evolving business model.</p> <p>To build skills and competencies within its procurement network, WFP will make use of internal and external training opportunities, enter into secondment arrangements with private-sector companies and augment its team with market experts. Special emphasis will be put on strengthening the oversight capacities of regional bureaux.</p> <p>The proposed functional people strategy will be put into effect in a way that is appropriate for WFP's operations and evolving procurement procedures, taking into account available resources and absorptive capacity.</p>	30 June 2015



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## ACRONYMS USED IN THE DOCUMENT

CCTI	Committee on Commodities, Transport and Insurance
CO	country office
EMOP	emergency operation
HQ	Headquarters
IT	information technology
OSP	Procurement Division
P4P	Purchase for Progress
PGG	Government Partnerships Division
RB	regional bureau
RMBP	Project Budget and Programming Service
RTA	Requested Time of Arrival
TDD	Terminal Distribution Date
TOD	Terminal Obligation Date
VMC	Vendor Management Committee
WINGS	WFP Information Network and Global System