

# **Internal Audit of WFP's Operations in Jordan**

Office of the Inspector General  
Internal Audit Report AR/17/08



**World Food Programme**

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# Internal Audit of WFP's Operations in Jordan

## 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 operations in Jordan from 1 August 2015 to 31 October 2016. Expenditure in Jordan totalled USD 173.6 million in 2016. The audit team conducted the in-country fieldwork from 27 November to 8 December 2016, including onsite visits at the country office premises and a review of related corporate processes that impact across WFP.
2. WFP operations in Jordan focus on providing food assistance to Syrian refugees and supporting the Government in improving the quality of life of Jordanians, creating income generating opportunities and guaranteeing social welfare. Jordan currently hosts the third largest population of Syrian refugees in the region, with 655,000 individuals registered by UNHCR in November 2016. As of 30 November 2016, WFP assists 527,929 Syrian refugee individuals across all of the country's 12 governorates and in Al Za'atri, Azraq and King Abdullah Park refugee camps.
3. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

### Audit Conclusion

4. The audit observed that significant attention and effort has been and continues to be directed towards the development of capabilities and tools enabling the country office to set up the most appropriate platform for managing cash-based transfers to beneficiaries. A Structure and Staffing Review was conducted in November 2015, with almost full roll-out of the new structure at the end of December 2016. The review has addressed clear reporting lines and segregation of duties. Since November 2016, the country office is using WFP's corporate digital platform (SCOPE) to support registration and management of beneficiary identity information and generation of transfer instructions to financial service providers. The launch of an automated database ('triangulation database') in March 2016, where the functional units are responsible for uploads and data management, and a global corporate knowledge improvement has enhanced knowledge sharing.
5. The audit of WFP's operations in Jordan concluded that governance, risk management practices and internal controls were generally established and functioning, but needed improvement. Several weaknesses were noted which may negatively affect the achievement of the objectives of the audited process, that is the cash-based transfer operations. Particular issues include the incomplete controls over the transfer to beneficiaries through WFP's financial service provider, such as detailed reconciliation of balances at the individual beneficiary account level and monitoring of the movements and status of electronic cards.
6. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory**.

7. Conclusions are summarised in Table 1, sub-divided by internal control component:

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

Internal Control Component	Risk
1. Control Environment	Medium 
2. Risk Assessment	Medium 
3. Control Activities	High 
4. Information and Communication	Low 
5. Monitoring Activities	Medium 

## Key Results of the Audit

### Audit observations

8. The audit report contains one high-risk and seven medium-risk observations, detailed in Section III, Tables 4 and 5.

9. The high-risk observation is:

Reconciliation of individual beneficiary accounts: The reconciliation of e-card uploads and WFP transfer instructions should be conducted monthly, as well as the reconciliation of individual beneficiary account balances and transaction details. From the initiation of the programme, the country office has relied primarily on the financial service provider's internal controls, as assessed through financial assessments in 2014 and 2016 and in line with applicable banking regulation. The country office does further re-performance of the control as follows:

- The country office compares e-card uploads against the beneficiary payment lists through direct access to the financial service provider's reload confirmation reports. Such reconciliation is performed by the country office on the total amount transferred to the financial service provider. Since November 2016, the country office also checks the upload of the total amount transferred into the individual beneficiary accounts level.
- The amount effectively used at an aggregated level is confirmed by the financial service provider and unused balances returned upon specific request of the country office, at the time of the audit. It is expected that the breakdown of this amount at the individual account level will be available starting 2017, as this was added as a requirement in the new contract with the financial service provider. At the time of the audit, such data was not available.

Such control will allow WFP to ensure assistance is provided to the beneficiaries identified and the updating of beneficiary data, as well as prevent fraud and misappropriation of unused balances. The update of beneficiary data is key for the programme in view of refugee population fluidity, which translates into a high number of dormant accounts. Accounts are classified as dormant when there is no financial activity for a three-month period of time without formal communication with the account holder/beneficiary. These dormant accounts may have unused balances that should be identified and transferred back to WFP as quickly as possible.



## Actions agreed

10. Management has agreed to address the reported observations and work is in progress to implement the agreed actions.

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

**Anita Hirsch**  
Director Office of Internal Audit  
OIC Office of the Inspector General

## II. Context and Scope

### Jordan

12. Jordan has an estimated population of 6.5 million and is classified as a middle-income country. Its overall HDI score is 0.748— which puts the country in the high human development category— positioning it at 80 out of 188 countries and territories. The 2014 Gender Inequality Index for Jordan is 0.473, ranking it 102 out of 155 countries. Jordan is host to about 1.4 million Syrians, including 655,000 refugees, making it the sixth highest refugee-hosting country in the world. While some 83 percent of all refugees have settled in host communities, particularly in the urban area of Amman and the northern governorates of Jordan, the remaining live in refugee camps.

### WFP operations in Jordan

13. WFP assistance in Jordan focuses on providing food assistance to Syrian refugees and supporting the Government on improving the quality of life for Jordanians, creating income generating opportunities and guaranteeing social welfare. WFP's support comes at a time when the country is faced with a chronic economic crisis, further exacerbated by the Syrian refugee crisis. WFP's assistance is aligned with the national development goals of strengthening social justice and equal opportunity and reducing the poverty rate in Jordan. WFP activities are in line with the United Nations Assistance Framework for Jordan (2013-2017), as well as the Jordan Response Plan (2016-18). WFP has been present in Jordan since 1964.

14. During the period audited, operations were implemented via the following projects:

- *Food Assistance to Vulnerable Syrian Populations in Jordan, Lebanon, Iraq, Turkey and Egypt affected by Conflict in Syria (Regional EMOP 200433 - July 2012 – December 2016):* Since 2012, the Regional Emergency Operation (EMOP) has provided food assistance through cash-based transfers (CBTs) to Syrian refugees in communities and camps, in addition to school feeding and daily distributions of fresh bread in the camps. As of November 2016, WFP assists 527,929 Syrian refugee individuals (106,523 in camps and 421,406 in communities) across all of the country's 12 governorates and in Al Za'atri, Azraq and King Abdullah Park (KAP) refugee camps. Since the start of WFP's voucher programme in Jordan in July 2012, WFP has injected a total of USD 543 million (as of October 2016) into the Jordanian economy through direct voucher benefits to Syrian beneficiaries.
- *Assistance to food insecure and vulnerable Jordanians affected by the protracted economic crisis aggravated by Syrian conflict (PRRO 200537- August 2013 –December 2016):* To address food insecurity, WFP Jordan initiated Protracted Relief and Recovery Operation (PRRO) 200537 which aims to improve food security for food insecure Jordanians. The project focuses on a set of activities: targeted food assistance providing food entitlements to the most vulnerable; food assistance for assets (FFA) providing CBTs focusing on forest and rangeland rehabilitation while creating short-term labour opportunities; and food assistance for training (FFT) which provides CBTs, offering vocational training opportunities and on-the-job training to develop human capital and improve employability.
- *Support to the national school feeding programme (DEV 200478- December 2012 – December 2016):* The Development Project (DEV) 200478 responds to the Government's request for WFP to resume direct food support for school children in poverty pockets after WFP Jordan handed over the school meals programme in 1998. WFP resumed its school meals programme in 2014, which aims to reach 320,000 school children throughout 2016, focusing in the poorest areas. In 2015, WFP launched the Healthy Kitchen pilot to deliver freshly baked meals for an entire school year to Jordanian and Syrian students. Thus far, the Healthy Kitchen has reached 6,700 school children.



15. WFP's OneCard platform was introduced in Jordan in 2014. The electronic platform is managed by WFP and enables financial transactions in partnership with the private sector/bank. The card allows beneficiaries to receive assistance in the form of both electronic value transfer and an optional cash withdrawal through ATMs. Beneficiaries are thus able to cover food, non-food and cash needs through one single electronic pre-paid card. It is the same e-card that Syrian beneficiaries already use as part of WFP's e-voucher programme. Upon redemption at WFP partner shops, details of beneficiary spending patterns can be provided to partners, allowing for greater analysis on the impact of programmes on beneficiaries. WFP acts as the platform manager of the OneCard, managing the relationship with the bank and acting as the focal point for reporting loss, theft or damage of cards.

## Objective and Scope of the Audit

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

17. 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.

18. The scope of the audit covered WFP's operations in Jordan from August 2015 to October 2016. Where necessary, transactions and events pertaining to other periods were reviewed. The audit team conducted the in-country fieldwork from 27 November to 8 December 2016 at the country office (CO) premises and a review of related corporate processes that impact across WFP. CBT retailer implementation, including verification of beneficiaries by retailers, and food quality and safety activities were reviewed in 2016 and covered under two separate audit reports<sup>1</sup>.

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<sup>1</sup> For details, please refer to the "Internal Audit of WFP CBT Retailer Implementation in Jordan and Lebanon" (AR/17/03) and the "Internal Audit of Food Quality and Safety in the WFP Jordan and Lebanon Operations" (AR/17/05).

### III. Results of the Audit

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

**Table 2: Positive practices and initiatives**

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#### **Control Environment**

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- A Structure and Staffing Review was conducted in November 2015, with involvement of the Regional Bureau Cairo (RBC), with almost full roll-out of the new structure at the end of December 2016.
  - In 2016, the CO enhanced the existing Standard Operating Procedures (SOPs) outlining the roles and responsibilities of all units through the cross functional CBT steering committee. These map the duties, deliverables and deadlines for each unit involved in the process aligned with corporate guidance materials.
  - The CO has established adequate segregation of duties between staff in the same functional area (for example, programme staff producing the beneficiary list should not also perform the beneficiary reconciliation post distribution).
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#### **Control Activities**

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- Along with the global improvement of corporate knowledge, the launch of an automated database ('triangulation database') in March 2016, where the functional units are responsible for uploads and data management means knowledge is shared and not concentrated with one or two very specialized persons, as it was at the programme's start.
  - The CO is using WFP's corporate digital platform (SCOPE) to support registration and management of beneficiary identity information and generation of transfer instructions to financial service providers (FSPs). SCOPE was fully rolled out in November 2016 and represents an improvement on previous manual processes (Excel spreadsheets) for which segregation of duties was not always guaranteed.
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21. 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 examined:

**Table 3: Conclusions on risk, by Internal Control Component and Business Process**

Internal Control Component/Business Process	Risk
<b>1. Control Environment</b>	
Strategic planning and performance	Low
Organizational structure and staffing	Medium
Internal oversight	Medium
Ethics	Low
<b>2. Risk Assessment</b>	
Enterprise risk management	Medium
Emergency preparedness and response	Low
<b>3. Control Activities</b>	
Finance and accounting	High
Programme management	Medium
Procurement	Medium
Human resources	Medium
Partnership and coordination	Medium
Security	Medium
Gender	Low
Property and equipment	Low
Information and communications technology	Medium
Resource mobilization	Medium
<b>4. Information and Communication</b>	
Internal and external communication	Low
<b>5. Monitoring Activities</b>	
Programme monitoring and evaluation	Medium

22. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory**<sup>2</sup>.

23. The audit made one high-risk and seven medium-risk observations detailed in tables 4 and 5 below.

#### **Actions agreed**

24. Management has agreed to take measures to address the reported observations. Work is in progress to implement the agreed actions<sup>3</sup>.

<sup>2</sup> See Annex B for definitions of audit terms.

<sup>3</sup> Implementation will be verified through the Office of Internal Audit's standard system for monitoring agreed actions.

Table 4: Summary of high-risk observations

Observation	Agreed action
<p>1 <b>Control Activities</b> – Reconciliation of individual beneficiary accounts</p> <p>The reconciliation of e-card uploads and WFP transfer instructions should be conducted monthly, as well as the reconciliation of individual beneficiary account balances and transaction details. From the initiation of the programme, the CO has relied primarily on the FSP’s internal controls, as assessed through financial assessments in 2014 and 2016, and in line with applicable banking regulation.</p> <p>Further re-performance of the control is done by the CO as follows:</p> <ol style="list-style-type: none"> <li>1) The CO compares e-card uploads against the beneficiary payment lists through direct access to the FSP’s reload confirmation reports. Such reconciliation is performed by the CO on the total amount transferred to the FSP. Since November 2016, the CO also checks the upload of the total amount transferred into the individual beneficiary accounts level.</li> <li>2) The amount effectively used at an aggregated level is confirmed by the FSP and unused balances returned upon specific request of the CO, at the time of the audit. It is expected that the breakdown of this amount at the individual account level will be available starting 2017, as this was added as a requirement in the FSP’s new contract. At the time of the audit, such data was not available.</li> </ol> <p>Such control will allow WFP to ensure assistance is provided to the beneficiaries identified and the updating of beneficiary data, as well as to prevent fraud and misappropriation of unused balances. The update of beneficiary data is key for the programme in view of the refugee population’s fluidity, which translates into a high number of dormant individual accounts. Accounts are classified as dormant when there is no financial activity for a three-month period of time without formal communication with the account holder/beneficiary. These dormant accounts may have unused balances that should be identified and transferred back to WFP as soon as possible.</p> <p>The CO implements a staggered reload schedule of the e-cards to alleviate pressure on the camp supermarkets. This makes the reconciliation of unspent balances more complex, as unspent balances cannot be swept back from beneficiary accounts on the 31st of the same month.</p> <p><u>Underlying Cause:</u> Monthly account balances and detailed transactions are not available at the individual account level.</p>	<p>The CO will:</p> <ol style="list-style-type: none"> <li>(i) Ensure that the FSP is providing monthly reports to carry out the reconciliation process at the aggregate and individual account level;</li> <li>(ii) Strengthen the reconciliation process by aligning it with the more advanced tools used by the CO;</li> <li>(iii) Include in the existing monthly dashboard the tracking and monitoring of outstanding items;</li> <li>(iv) Define a methodology for managing monthly reconciliation, despite the absence of a cut-off date caused by a staggered reload schedule of the e-cards; and</li> <li>(v) Establish, in liaison with the RB, a clear plan to work on reconciliation prior to 2017.</li> </ol>

Table 5: Summary of medium-risk observations

Observation	Agreed action
<p>2 <b>Control Environment</b> – Organizational structure</p> <p>A Structure and Staffing Review was performed in November 2015 with involvement of RBC. As a result of the review, the CO started to recruit national staff to some positions previously held by international staff. These are positions with no specific authority as no delegation of authority exists for national staff. A period of transition and training was planned for and no issues were encountered. Due to operational constraints and the necessity to attend to the berm operations, the CO had to delay the recruitment process to 2017 thereby putting some additional strain on the business to ensure segregation of duties and the necessary training and smooth transition.</p> <p>With the creation of the CBT unit, the CO has set-up a 'back-office' to manage its operations (including the management of beneficiaries, the management of distribution plans and the creation of beneficiary payment lists). The national programme officer who is supervising activity managers has been given the responsibility to supervise the CBT unit and verify and approve the final beneficiary payment lists. His oversight role is limited to some testing on a sample of beneficiaries before final approval. Given that the generation of transfer instructions is not fully automated and requires manual interventions, the audit is of the opinion that the CO should look into enhancing the programme officer's oversight role.</p> <p><u>Underlying Cause:</u> The implementation of the Structure and Staffing Review has been delayed because of other operational priorities.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> <li>(i) Ensure that existing staff will give new national staff the required training and transition to ensure continuity and effective discharge of their functions; and</li> <li>(ii) Review the oversight role of the programme officer and assess the opportunity of introducing a checklist-based approach to verify and approve the final beneficiary payment list.</li> </ul>
<p>3 <b>Risk Assessment</b> – Enterprise Risk Management</p> <p>The CO maintains and updates its risk register at least semi-annually, with the most recent update in October 2016. The risk register provides a comprehensive list of risks, yet some risks and related mitigating actions appear to be too general for effective management and mitigation. In particular, information on risks in relation to the OneCard platform or retailers is not included. The CO would benefit from more specific risk identification, as well as definition of scenarios of fraud and misappropriation, with specific mitigating measures.</p> <p>The CBT manual requires that a retail assessment and risk identification is conducted to, among other objectives, identify and analyse in detail the retail landscape in terms of capacity, dependencies, distance to beneficiaries, economic connection to beneficiaries, costs, opportunities and determine impact of potential supply chain disruptions. There however has not been a retail market assessment conducted in Jordan.</p> <p><u>Underlying Cause:</u> The current assessment of risks does not consider all relevant risks and mitigation activities.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> <li>(i) The CO will carry out a revision of the risk register. This will incorporate risks relating to the management of the OneCard platform, reassess risks related to retailers and reframe mitigating actions in more specific terms, with specific due dates, to facilitate assessment when necessary.</li> <li>(ii) Update the market assessment for 2017 market planning.</li> </ul>

Observation	Agreed action
<p>4 <b>Control Activities</b> – Expertise for payment platforms and knowledge transfer</p> <p>Along with the global improvement of corporate knowledge, Jordan CO’s CBT knowledge and capacity has increased. It is no longer concentrated with one or two very specialized persons, as noted at the beginning of the programme, but largely shared with the different teams. This is partly the result of a new automated database (‘triangulation database’), launched in March 2016, where the functional units are responsible for uploads and data management. Each functional unit will also develop process mechanisms for queries to determine how analysis generated from the database would be used going forward. All Finance Unit staff have completed Macro Financial Assessment (MaFA) and Micro Financial Assessment (MiFA) trainings.</p> <p>The CO is still addressing some technical issues related to prepaid cards or payment systems which were not satisfactorily resolved with the FSP. These include incidents resulting from authorization codes and/or references duplication in the FSP’s payment platform, which may have limited financial implications.</p> <p>The CO had planned for a mapping of its relationship with the FSP, including risks associated, but has not yet clearly defined its needs for outsourced expertise.</p> <p>Insufficient clarity on the FSPs’ reporting capacities, including reconciliation and exception reports, might have impacted the quality of technical specifications developed by the CO when preparing the expression of interest (EOI) and the request for proposal (RFP) when retendering for a long-term contract for electronic payment platform provision through an FSP.</p> <p><u>Underlying Cause:</u> The CO is building its knowledge for payment platform internally with limited use of external expertise.</p>	<p>The CO will:</p> <p>(i) Work with the FSP to expedite the review of technical issues identified by the CO;</p> <p>(ii) Address the lack of technical expertise in the area of engagement with the FSP; and</p> <p>(iii) Continue to work with Finance &amp; Treasury Division (RMF) to develop a comprehensive mapping of its relationship with the FSP.</p>
<p>5 <b>Control Activities</b> – Management of beneficiary data and transfer instructions to FSPs</p> <p>Since November 2016 the CO has used WFP’s corporate digital platform (SCOPE) to support registration and management of beneficiary identity information and generation of transfer instructions to FSPs. Although an improvement, a few steps are missing to do this in a secure manner:</p> <ul style="list-style-type: none"> <li>The upload of United Nations High Commissioner for Refugees (UNHCR) beneficiary data is a manual process: the CO is waiting for a global agreement between WFP and UNHCR for their proprietary systems to interface. As an interim measure, the CO has designed and implemented a system for retaining the original UNHCR file in a secured folder on a shared drive. This is only accessible by senior WFP management to track post-factum WFP staff actions, as part of the process of generating the beneficiary payment lists.</li> </ul>	<p>The CO will:</p> <p>(i) Identify the necessary first level of controls to be put in place by operational management to address user management issues and limit or avoid manual interventions on the list of beneficiaries; and</p> <p>(ii) Ensure that the FSP develop the interface for automatically downloading WFP transfer instructions to the FSP’s proprietary system.</p>

Observation	Agreed action
<ul style="list-style-type: none"> <li>Transfer instructions generated by SCOPE are sent to the bank manually. The CO finance officer generates the SCOPE file, including transfer instructions, and then informs the bank via email, providing a download link of the file which is uploaded on the Secure File Transfer Platform (SFTP). No interface is available for importing transfer instructions directly from SCOPE, creating a risk that instructions may be changed in the course of the process.</li> </ul> <p><u>Underlying Cause:</u> The CO is facing delays in developing interfaces with UNHCR and the FSP.</p>	
<p>6 <b>Control Activities</b> – Custodian management for e-cards</p> <p>Electronic payment instruments in the form of e-cards are covered under the corporate voucher management control procedures of the corporate CBT manual. It provides, under custodian management, the required procedures and processes on how e-cards are received, recorded, retained and destroyed.</p> <p>No proper custodian database had been implemented by the CO at the time of the audit. As a consequence, the CO did not have visibility on the movements and status of e-cards, from the issuance by the FSP, to the receipt by cooperating partners (CPs) or beneficiaries, and finally to their destruction. These should be monitored to prevent unauthorized use.</p> <p>The management of e-cards received from WFP by the CPs required improvement. Although the CO made an effort to collect some of the undistributed cards in 2016, the CO noted that one CP had a large number of undistributed cards, which should have been returned to WFP. Reporting on undistributed cards was not timely. As part of their oversight role, CO finance assistants observe e-cards distribution by CPs. However, the CPs’ system of internal control in place to monitor e-cards under their custody was not assessed and their weaknesses not addressed, especially in relation to segregation of duties, resulting in a higher risk of fraudulent use.</p> <p><u>Underlying Cause:</u> The CO has not implemented a custodian database for electronic cards as it did for paper vouchers.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> <li>(i) Develop a voucher reporting log (VRL) for electronic cards to ensure adequate custodian management of all electronic cards received from FSP;</li> <li>(ii) Reinforce the use of the VRL and assign staff for the reconciliation of VRL statements with FSP and CPs reports; and</li> <li>(iii) Periodically inform the FSP to block or deactivate undistributed e-cards sent back by the CPs and destroyed by the CO.</li> </ul>
<p>7 <b>Control Activities</b> – Foreign Exchange management</p> <p>At the corporate level there are no clear instructions regarding roles and responsibilities of officers involved in Foreign Exchange (FX) management, selection criteria for counterparties and limits on the total value of FX contracts with each counterparty. Local currency conversions are usually conducted in the CO as local conversion rates are better than those offered to HQ, resulting in exchange gains.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> <li>(i) Work with RMF to define risks and other aspects to be considered when deciding on and transacting FX locally;</li> <li>(ii) Issue dedicated guidelines regarding the management of local FX transactions in order to identify the roles and responsibilities of those involved, selection criteria for</li> </ul>

Observation	Agreed action
<p>There is no documented procedure which defines risks and other aspects to be considered when transacting locally. The process that the CO undertakes to conduct local currency conversions is documented in an SOP. However, the roles and responsibilities have not been allocated to specific staff and the CO's process does not include checks on the FX transactions. The list of the FX providers does not include at least three providers from which the CO will seek quotations. No specific committee reviews the list of FX providers and FX transactions.</p> <p><u>Underlying Cause</u>: Processes and controls in place are not tailored or commensurate with the level of FX transactions.</p>	<p>counterparties and limits on the total value of FX contracts with each counterparty; and</p> <p>(iii) Set up a committee to perform advisory and monitoring role to the country director on the implementation of FX management and the use of FX providers.</p>
<p>8 <b>Control Activities</b> – Management of Cooperating Partners</p> <p>In the meetings and discussions with the two CPs that the CO is working with, the CPs management emphasised they have a positive collaboration and good working relationship with WFP.</p> <p>A performance evaluation of CPs is conducted semi-annually. The audit noted there was a recurrent issue on the capacity of managerial staff in one CP, highlighted in the performance evaluation reports of 2015 and 2016. Yet these performance evaluations have been used as a basis to extend the field level agreements. These issues have not been shared and discussed with the CPs, who were not aware. The audit also noted that one CP was having delays in reporting and that no financial reports and invoices had been submitted since September 2016. In addition, they were having challenges in collecting sales receipts from retailers on a timely basis for monitoring purposes. However, the audit saw no evidence of measures put in place to address the CP's reporting.</p> <p>The CPs also reported that although most of the issues they report to WFP from their monitoring activities are followed through, they never receive confirmation of their resolution, including for critical ones and those related to shops.</p> <p><u>Underlying Cause</u>: Existing coordination mechanism with CPs is not adequate.</p>	<p>The CO will:</p> <p>(i) Increase regular coordination and management meetings with CPs; any issue raised by CPs will be documented by the programme unit and shared with the CP, stipulating follow-up actions and outcomes;</p> <p>(ii) Ensure that the bi-annual performance evaluation is shared and discussed with CPs; and</p> <p>(iii) Identify challenges for CPs to collect receipts from retailers in the upcoming shop evaluation and share with CO supply chain to address these issues with the retailers.</p>

## Annex A – Summary of Categorization of Observations

The following table shows the categorization, ownership and due date for all the audit observations. 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 <b>Control Activities</b> Reconciliation of individual beneficiary accounts	Operational Compliance	Processes & Systems	Institutional	Compliance Best practice	Jordan CO	(i) 31 March 2017 (ii) 31 January 2017 (iii) 31 March 2017 (iv) 31 March 2017 (v) 31 March 2017
2 <b>Control Environment</b> Organizational structure	Operational Compliance	People Processes & Systems	Institutional	Compliance Guidance Best practice	Jordan CO	31 March 2017
3 <b>Risk Assessment</b> Enterprise Risk Management	Operational Compliance	Processes & Systems	Institutional	Compliance Resources	Jordan CO	(i) 31 March 2017 (ii) 30 June 2017
4 <b>Control Activities</b> Expertise for payment platforms and knowledge transfer	Operational	Processes & Systems	Institutional	Compliance Guidance Resources	Jordan CO	30 June 2017
5 <b>Control Activities</b> Management of beneficiary data and transfer instructions to FSPs	Operational	Processes & Systems	Institutional Programmatic	Compliance Best practice	Jordan CO	30 June 2017
6 <b>Control Activities</b> Custodian management for e-cards	Operational Compliance	Processes & Systems	Institutional Programmatic	Compliance Best practice	Jordan CO	31 March 2017
7 <b>Control Activities</b> Foreign Exchange management	Operational	Processes & Systems	Institutional Programmatic	Guidance Best practice	Jordan CO	31 March 2017

Observation	ICF	Risk Categories		Underlying Cause Category	Owner	Due Date
		WFP's Management Results Dimensions	WFP's Risk Management Framework			
<b>Control Activities</b> Management of Cooperating Partners	Operational	Processes & Systems	Programmatic	Guidelines Best practice	Jordan CO	31 March 2017



## Annex B – Definition of Audit Terms

### 1. Rating system

A 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 A.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 categorization of audit observations

A 2. Audit observations are categorized by impact or importance (high, medium or low risk) as shown in Table A.4 below. Typically audit observations can be viewed on two levels: (1) observations that are specific to an office, unit or division; and (2) observations that may relate to a broader policy, process or corporate decision and may have broad impact.<sup>4</sup>

**Table A.2: Categorization of observations by impact or importance**

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

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

<sup>4</sup> An audit observation of high risk to the audited entity may be of low risk to WFP as a whole; conversely, an observation of critical importance to WFP may have a low impact on a specific entity, but have a high impact globally.

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

A 4. WFP's ICF 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.

A 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>5</sup>. WFP recognizes 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 A.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 analyses 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 systems' performance over time and to ensure that internal control continues to operate effectively.

### 4. Risk categories

A 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 A.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.

A 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:

<sup>5</sup> OED 2015/016 para.7

**Table A.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 is facilitated.
3	Processes & Systems:	High quality programme design and timely approval – Cost efficient supply chain enabling timely delivery of food assistance – Streamlined and effective business processes and systems – Conducive platforms for learning, sharing and innovation.
4	Programmes:	Appropriate and evidence-based programme responses – Alignment with government priorities and strengthened national capacities – Lessons learned and innovations mainstreamed – Effective communication of programme results and advocacy.
5	Accountability & Funding:	Predictable, timely and flexible resources obtained – Strategic, transparent and efficient allocation of resources – Accountability frameworks utilized – Effective management of resources demonstrated.

**Table A.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 loss and financial loss through corruption.

## 5. Causes or sources of audit observations

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

**Table A.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 (for example, funds, skills, staff) 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 recognized best practice.

## 6. Monitoring the implementation of agreed actions

A 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 system for the monitoring of the implementation of agreed actions. The purpose of this monitoring system is to ensure management actions are effectively implemented within the agreed timeframe so as to manage and mitigate the associated risks identified, thereby contributing to the improvement of WFP’s operations.

## Annex C – Acronyms

CBT	Cash-Based Transfer
CD	Country Director
CO	Country Office
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CP	Cooperating Partner
DEV	Development Project
ED	Executive Director
EMOP	Emergency Operation
EOI	Expression of Interest
FFA	Food Assistance for Assets
FFT	Food Assistance for Training
FSP	Financial Service Provider
FX	Foreign Exchange
ICF	Internal Control Framework
IIA	Institute of Internal Auditors
MaFA	Macro Financial Assessment
MiFA	Micro Financial Assessment
OED	Office of the Executive Director
OIGA	Office of Internal Audit
PRRO	Protracted Relief and Recovery Operation
RBC	Regional Bureau Cairo
RFP	Request for Proposal
RMF	Finance and Treasury Division
SFTP	Secure File Transfer Platform
SOP	Standard Operating Procedure
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
USD	United States Dollar
WFP	World Food Programme