

Internal Audit of WFP Operations in the Democratic People's Republic of Korea

Office of the Inspector General
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World Food Programme



Contents

	Page
I. Executive Summary	3
II. Context and Scope	5
III. Results of the Audit	7
Annex A – Summary of categorization of observations	14
Annex B – Definition of categorization of observations	15
Annex C – Acronyms	18

Internal Audit of WFP Operations in the Democratic People's Republic of Korea

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 the Democratic People's Republic of Korea (DPRK) that focused on the period 1 January to 31 December 2016. WFP expenditure in DPRK during 2016 totalled USD 26.5 million, representing 0.45 percent of WFP's total global contributions for the year. The audit team conducted the fieldwork from 13 February to 3 March 2017 at the Country Office in Pyongyang and selected field locations. In addition, the team visited the DPRK Beijing Support Unit located in China which provides administrative support to the Country Office's Procurement, Finance and Human Resources functions.
2. In 2016, WFP aimed to assist 1.7 million food-insecure and undernourished people in DPRK through its nutrition support activities for children and pregnant and nursing mothers, local food fortification and food for disaster risk reduction programme.
3. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Audit Conclusions

4. The audit noted a number of positive practices and initiatives, including continued capacity development and efficiency improvement initiatives in food safety and quality management of production processes in local food production facilities; implementation of random sampling techniques in the Country Office's programme monitoring which improved the reliability of monitoring data; implementation of WFP's web-based monitoring support tool (eWIN) and the use of tablets for improved data collection from monitoring visits; and development of supply chain management standard operating procedures to improve traceability and visibility of WFP commodities managed by Government counterparts.
5. Based on the results of the audit, and with consideration to the country context, the Office of Internal Audit has come to an overall conclusion of *partially satisfactory*. Weaknesses were noted at the targeting and monitoring level which require immediate improvement as they affect the achievement of overall objectives of WFP's operations in DPRK, in that it limits its capacity to ensure and demonstrate effective programme delivery. Conclusions are summarised in Table 1 by internal control component.

Table 1: Summary of risks by Internal Control Component

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

Key Results of the Audit

Audit observations

6. The audit report contains two high-risk observations and five medium-risk observations. The high-risk observations are:

Programme Management: The DPRK Country Office started operations under the new Protracted Relief and Recovery Operations programme 200907 from 1 July 2016 with target outreach of 60 counties in nine provinces. At the design stage, the Country Office relied on food security and nutrition trends emerging from 2012 and 2013 surveys further evidenced through a limited scope food security and nutrition assessment of 2015 covering WFP assisted nurseries in the country. The Country Office is only provided with aggregated data, as indicated in the project documents approved by the WFP Executive Board, making it difficult to assess accuracy of county level targeting.

In-Country Monitoring: The Country Office and the Regional Bureau in Bangkok jointly reviewed the Office's in-country monitoring process and practices and came up with a number of improvements, including a clear definition of minimum monitoring requirements. Despite the improvements, the Country Office did not have an effective system to plan and track its monitoring coverage, with travel plans providing little visibility of the type and number of institutions covered. The audit analysis of the Country Office's travel plans for 2016 indicated that it reached 72 percent of its planned monitoring targets for the WFP assisted institutions in the country. The rationale for deviations in the coverage of some provinces could usefully be documented and analysed.

Actions agreed

7. Management has agreed to address the reported observations and work to implement the agreed actions by their respective due date.

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

Anita Hirsch
Director, Office of Internal Audit
and Acting Inspector General

II. Context and Scope

The Democratic People's Republic of Korea

9. DPRK is a relatively industrialised country with a population of 24.8 million. DPRK has been affected by chronic food insecurity and recurring natural disasters (e.g. droughts, floods) resulting in protracted undernutrition in a significant proportion of its population. The 2016 Global Hunger Index for DPRK was 28.6 and was ranked as "serious". The Office for the Coordination of Humanitarian Affairs (OCHA)'s Country Profile for DPRK notes that while the food production in DPRK has improved slightly in recent years, critical needs remain in food security, nutrition, health and water and sanitation.

WFP Operations in DPRK

10. WFP has been providing in-kind food assistance in DPRK since 1995 to support populations affected by floods, droughts and chronic food insecurity and undernutrition. During the audit period, the DPRK Country Office (CO) managed the two Protracted Relief and Recovery Operations (PRRO) programmes detailed below; the first ending on 30 June 2016 with the other succeeding it.

11. **PRRO 200532** was initially approved for two years beginning 1 July 2013, extended to 30 June 2016. The project aimed to assist 2.3 million people in DPRK with food insecurity and undernutrition with a planned budget of USD 199 million. The project had three components:

- a) **Nutritional support for children and women:** providing fortified blended foods, pulses and oil to children in nurseries, kindergartens, hospitals, baby homes, child centres and boarding institutions, and fortified biscuits for primary school children. Pregnant and lactating women were planned to receive fortified blended foods, pulses and oil to maintain their nutritional status. Malnourished children attending the nurseries in selected pilot areas received additional Super Cereal.
- b) **Food for community development:** with the Ministry of Land and Environment Protection and the Ministry of Agriculture, WFP planned to engage in activities for protecting agricultural land, planting trees, dredging streams and repairing irrigation canals, riverbanks and infrastructures affected by floods. Construction of pavements for drying cereals to reduce post-harvest losses was also envisaged under this activity.
- c) **Local food production:** activities aimed to provide nutritionally balanced, micronutrient-fortified and easily digestible products manufactured in local factories for targeted beneficiaries.

12. **PRRO 200907** was launched on 1 July 2016 for a period of 2.5 years ending in December 2018. WFP plans to reach 1.7 million food-insecure and undernourished people with a planned budget of USD 129 million. The PRRO has two components:

- a) **Nutrition support for children, pregnant and nursing mothers,** which aims to prevent undernutrition and reduce micronutrient deficiencies through the local production of fortified foods; and
- b) **Food for Disaster Risk Reduction (FDRR) activities,** which focus on mitigating the impact of natural disasters on the food security of local communities.

Objective and Scope of the Audit

13. 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 DPRK. 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.

14. 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 the approved engagement plan and took into consideration the risk assessment exercise carried out prior to the audit.

15. The scope of the audit covered WFP's operations in DPRK from 1 January to 31 December 2016. Where necessary, transactions and events pertaining to other periods were reviewed. The audit fieldwork took place from 13 February to 3 March 2017 in Pyongyang and selected field locations, and at the DPRK Support Unit in Beijing.

III. Results of the Audit

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

Table 2: Positive practices and initiatives

Control Activities

- Upfront communication in the programme review process and consultation with WFP's Executive Board members regarding data limitations of the assessments guiding the programme design of PRRO 200907.
- Improved engagement with Government counterparts - e.g. a public health officer was seconded from DPRK's Ministry of Public Health to the CO's nutrition programme - resulting in stronger technical collaboration.
- Development of supply chain monitoring Standard Operating Procedures (SOP) to improve visibility and traceability of commodities managed by Government counterparts.
- Continued capacity development and efficiency improvement initiatives in the food safety and quality management system, e.g. WFP engaging expert consultants for the review of Local Food Production (LFP) facilities.

Monitoring activities

- Improved reliability of monitoring data by adoption of random sampling in the monitoring activities of the new PRRO 200907.
 - Use of eWIN for electronic data collection for in-country monitoring for nutrition activities and the introduction of tablets to reduce the time lag in capturing monitoring data.
-

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

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

Internal Control Component/Business Process	Risk ¹
1. Control environment	
Strategic planning and performance	Medium
Organizational structure and staffing	Low
Internal oversight	Low
Ethics	Low
2. Risk assessment	
Enterprise risk management	Low
Emergency preparedness and response	Low
3. Control activities	
Finance and accounting	Low
Programme management	High
Transport and logistics	Medium
Procurement	Low
Human resources	Low
Partnership and coordination	Medium
Security	Low
Gender	Low
Property and equipment	Low
Information and communications technology	Low
Resource mobilisation	Low
4. Information and communication	
Internal and external communication	Low
5. Monitoring activities	
Programme monitoring and evaluation	High

18. Based on the results of the audit and considering the country context, the Office of Internal Audit has come to an overall audit conclusion of *partially satisfactory*².

19. The audit made two high-risk and five medium-risk observations. Tables 4 and 5 below present the high and medium-risk observations respectively.

Action agreed

20. Management has agreed to take measures to address the reported observations.³

¹ Risk rating after the fieldwork stage, used for developing overall audit opinion. In the fieldwork stage, the audit focussed on areas of high and medium risk assessed areas in the initial risk assessment. New rating was assigned after considering the results of audit testing at the fieldwork stage. Limited testing was performed on seven business processes rated low risk in the initial risk assessment and the same risk rating was carried forward to final risk ratings.

² See Annex B for definitions of audit terms.

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

Table 4: High-risk observations

Observation	Agreed action
<p>1 Control Activities: Programme Management – Beneficiaries and Targeting</p> <p>Starting 1 July 2016, PRRO 200907 targeting provinces and counties vulnerable to food insecurity, undernutrition and natural disasters, started operations. The target outreach was revised from 87 counties in nine provinces in the previous programme to 60 counties in the new. At the programme design stage, geographical targeting relied on global trends emerging from the 2012 National Nutrition Survey (NNS) and 2013 Crop and Food Security Assessment Mission (CFSAM), further evidenced through a limited scope Food Security and Nutrition Assessment (FSNA) carried out in 2015 covering WFP assisted nurseries in 24 counties of the 60 where WFP operates. A lessons learned exercise conducted at the end of the previous PRRO 200532 was used to fine-tune the project design for the new PRRO 200907. It did not include actual data collection and assessment, and the data collected for the 2015 FSNA was considered sufficient for this exercise.</p> <p>The CO, as other United Nations organizations present in country, is provided with aggregated data. Lack of food security and nutrition assessment data for each of the individual counties impacts the CO's capacity to assess the accuracy of county level targeting. The data survey methodology, as per government approved conditions, is based on results aggregated at the provincial level. None of these assessments incorporate nutrition or food security trends at the county level. In the absence of this data, the CO agreed with the Government to use alternative indicators, for example high malnutrition rates, net food import per county and the percentage of dependants of the public distribution system of DPRK in each county for prioritisation of counties for WFP's response under the new PRRO. The second most vulnerable province based on the 2012 National Nutrition Survey (NNS) and the 2013 Crop and Food Security Assessment Mission (CFSAM), Chagang, was not included for WFP's assistance as indicated in the project approved by the WFP Executive Board, due to national security reasons.</p> <p><u>Underlying cause:</u> Delay in approval by the Government to conduct a nationwide survey advocated by United Nations organizations in DPRK since 2014 as the basis for programmatic design. Lack of county level disaggregated data.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> (a) Liaise with the UNICEF-led Nutrition Sector Working Group and Government counterparts to advocate, through the UN Resident Coordinator, for a survey methodology and data collection plan that supports disaggregated results, which can be used across the various counties to achieve the optimum targeting in a comprehensive and coordinated way; and (b) Initiate a food security assessment that can further strengthen the evidence-base for programme implementation with as wide a reach as feasible.

Observation	Agreed action
<p>2 Monitoring: In-Country Monitoring – Monitoring of programme activities</p> <p>In April 2016 the CO, in collaboration with the Regional Bureau in Bangkok’s monitoring unit, developed an SOP to guide its monitoring activities. This led to marked improvements in the monitoring approach and tools adopted by the CO. The SOP defined a cyclical approach to visit the 60 counties assisted by WFP once every three months.</p> <p>Despite these improvements, the CO did not have a robust planning and tracking system for monitoring visits. The CO developed monthly travel plans to coordinate its field visits and facilitate necessary approval and clearance from Government authorities. The travel plans did not clearly distinguish the purpose of the field visits between monitoring, other coordination and support activities, nor did they indicate the type of the beneficiary institutions planned to be visited.</p> <p>The travel plans alone did not facilitate a structured analysis to ensure that planned monitoring coverage requirements are met in line with the established SOP. From the audit’s analysis of the 2016 monthly travel plans, 72 percent of the CO’s total annual target of 452 visits were met. For LFPs, the travel plan did not elaborate whether it was LFP or programme staff conducting the visits. North Hamgyong was the least visited province for nutritional activities, with 20 percent below the average visits to any of the other eight provinces with WFP operations. At the beneficiary institution level, 1,158 visits were achieved, which represented 69 percent of the minimum monitoring requirement set out in the SOP. The reasons for such deviations were not clearly documented.</p> <p>During 2016, 29 planned county monitoring visits were cancelled due to administrative commitments of the national staff seconded from DPRK’s National Coordination Committee (NCC).</p> <p><u>Underlying causes:</u> Lack of structured planning, tracking and periodic review for the achievement of planned monitoring targets. Targets could not be met due to not formally adjusting plans to consider emerging emergency activities.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> (a) Develop structured monitoring tools that enable comparison of planned and actual monitoring visits and provide basis for a structured analysis of the monitoring coverage against the minimum monitoring targets defined in the CO’s monitoring SOP; and (b) Review the monitoring SOP to include alternative arrangements for monitoring coverage in cases when the desired monitoring levels cannot be achieved due to factors outside the control of WFP (for example weather, administrative limitations, as well as direct changes due to the impact of new emergency interventions that can significantly alter the monitoring targets).

Table 5: Medium-risk observations

Observation	Agreed action
<p>3 Control Environment: Programme Management - Capacity Development and Augmentation activities</p> <p>WFP's operations at global level have evolved from food aid to food assistance. The tailored technical assistance and capacity development activities to strengthen national capacities in areas of food security, nutrition and disaster risk management have become a regular part of WFP's operations.</p> <p>While the strategy outlined in PRRO 200907 did not include capacity development and augmentation activities, the CO undertook a range of capacity development and efficiency improvement initiatives in 2016. These include three expert missions, engaged by WFP to review LFP facilities for proper maintenance and possible upgrades, and specialised training organised by WFP for DPRK's Central Bureau of Statistics during the Food Security and Nutrition Survey exercise.</p> <p>The CO had not yet formalized its vision for capacity development and augmentation activities in the country. The resources needed for capacity development activities were not clearly reflected in the CO's budget structure, nor were these visible in the PRRO document.</p> <p><u>Underlying cause:</u> Capacity development from WFP's activities was not visible as a strategic outcome at the Government level primarily as WFP does not have access to work with the line ministries directly and could not be agreed as part of WFP activities under the PRRO 200907.</p>	<p>The CO:</p> <ul style="list-style-type: none"> (a) Will coordinate with the NCC and relevant ministries and consider in the interim Country Strategic Plan capacity development and augmentation activities in relation to the Food Production facilities; and (b) Review the results framework for PRRO 200907 to ensure that the achievements of capacity development activities undertaken in 2016 and 2017 are adequately reflected in the results reported at WFP corporate level.
<p>4 Control Activities: Transport and Logistics - Food Safety and Quality Management System in LFP facilities</p> <p>The CO has collaborated with 11 food production factories, managed by the Ministry of Food Administration in 11 provinces across the country, to produce Fortified Blended Foods (FBF). The CO has been continuously working to improve the capacity of these factories to ensure they adhere to food safety and quality standards in manufacturing of commodities requirements. In 2016, the CO commissioned three expert reviews that resulted in the development of action plans to overhaul and upgrade the LFP facilities to Fortified Blended Food and, at the time of the audit, the implementation of the improvement plans was on track.</p> <p>The key shortcomings noted by the audit in the LFP food safety and quality management systems of DPRK included: limited quality control checks on finished products; lack of visibility on the scope and results of periodic quality control checks performed by the Government quality control agencies; some of the internally fabricated parts of LFPs could not be verified to be of food grade materials despite being in regular contact with processed foods; absence of tracking best before and expiry dates for finished products; and deficiencies in packaging of the finished products.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> (a) Liaise with Government counterparts for regular and timely information sharing on the scope and results of quality tests undertaken at the LFP level by the relevant Government authorities; (b) In partnership with NCC, expand the agreed trainings programme to all LFPs and ensure that the parts used for milling and food blending are food safe; (c) Review and strengthen processes supporting tracking and monitoring of food quality of finished products in the CO's supply chain; (d) Review and change the process/method for the sealing of Corn Soya Milk and Corn Maize Blend inner bags in line with WFP current practices; and (e) Define with WFP's Food Quality and Safety unit in HQ (OSCQ) minimum quality standards applicable to the country context, and develop an action plan to meet these from current scope and results of the expert missions carried out in 2016.

Observation	Agreed action
<p><u>Underlying cause:</u> Lack of information sharing between Government counterpart and WFP on scope and results of the food quality tests performed in LFPs. Limited investment in quality control systems of the LFPs and International sanctions on the country hindering the procurement of required parts led to internal fabrication of those parts with available materials.</p>	
<p>5 Control Activities: Transport and Logistics - Commodity Transformation in LFPs</p> <p>The CO hands over the imported food commodities to the Government of DPRK at the discharge ports and the commodities are transported to the 11 LFP factories across the country based on the distribution plan approved by the CO's Programme Unit. The standard WFP Food Fortification and Milling recipe for the FBF, conversion ratios and the acceptable threshold for raw material extraction losses have been adopted uniformly by all the LFP facilities in the country.</p> <p>The audit noted from a detailed review of the monthly local food production reports of the 11 LFPs for 2016 that actual usage of commodities was the exact reflection of the production plan, agreed recipes, and agreed on extraction loss thresholds. The absence of any variances between the planned and actual conversion ratios seems highly unusual and the audit would expect to see differences in the raw material quality over time, differences of technology in use at the various LFPs and the operating conditions of these LFPs over different periods. In the methodology, the expectation is not to meet exactly all targets but to monitor accurately to allow for analysis and corrective measure as need be.</p> <p><u>Underlying cause:</u> Lack of a periodic and structured system to perform data analysis from LFP monthly reports. Quality of information used for LFP monitoring purposes impaired due to insufficient Quality and Quantity (Q&Q) review and limited CO ability to perform spot checks on LFPs.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> (a) Develop and perform a structured analysis of monthly LFP reports to ensure that any variances from established recipes or acceptable extraction losses are timely identified; (b) Develop and institutionalize reporting at warehouse and production facilities to ensure more transparent and timely stock reporting; (c) Review the LFP monitoring strategy to ensure that reporting quality is adequately addressed in the monitoring visits; and (d) Liaise with relevant Government authorities with the aim of improving the Q&Q checks of finished products at the LFP level, or expand existing WFP's ad hoc sampling of factory produce.
<p>6 Control Activities: Transport and Logistics – Contingency planning for shipping of food commodities to DPRK</p> <p>The new and long-standing sanctions limit the overall shipping options for the DPRK operation and it is imperative to develop a comprehensive contingency plan that addresses potential interruption to the food pipeline.</p> <p>The CO, with the support of WFP's Food procurement and Shipping Unit (OSCS) commissioned a contingency planning mission in April 2016 to explore alternative measures that could be adopted in light of limitations in the number of shipping liners willing to carry WFP cargo bound for DPRK. This was a result of sanctions enacted by United Nations Security Council resolution 2270 (2016) though not intended to negatively affect the humanitarian assistance in DPRK. The mission highlighted alternate mechanisms available for shipping and land transportation of commodities to DPRK but did not result in the development of a formal contingency plan for the shipping of commodities to the country. The contingent options</p>	<p>The CO will:</p> <ul style="list-style-type: none"> (a) Liaise with OSCE and develop a contingency plan setting out possible alternate trans-shipping options and detail the relevant costs of such options, expected lead times and potential alignment with supply chain requirements; and (b) Develop a new comprehensive Logistics Capacity Assessment.

Observation	Agreed action
<p>identified were not comprehensively appraised for elements such as potential costs, lead times and alignment to current and future commodity supply chain at the time of the audit fieldwork in February 2017.</p> <p><u>Underlying cause:</u> Delay in developing a comprehensive contingency plan and lack of an updated Logistics Capacity Assessment</p>	
<p>7 Control Activities: Partnership and Co-ordination – Work with technical line ministries</p> <p>The Ministry of Foreign Affairs NCC is the coordinating agency for WFP’s implementation of PRRO 200907. The WFP partnership with the NCC facilitates access to the 60 counties for implementation of the programme activities: “Nutrition support”, and “Food for disaster risk reduction”. The NCC also coordinates the implementation and monitoring of programme activities through support of different technical line ministries, in particular the Ministry of Food Administration, the Ministry of Public Health and the Ministry of Environment and Land Protection. The NCC also provides logistics support for WFP’s operations in DPRK.</p> <p>Stronger and regular contacts with technical line ministries would allow the CO to take full advantage of the expertise and specialized knowledge afforded by these ministries to implement and fine-tune its programme response in specialized areas such as nutrition support.</p> <p><u>Underlying cause:</u> Opportunity to further leverage expertise available in specialized line ministries.</p>	<p>The CO will coordinate with the NCC and further consider opportunities to work with technical line ministries involved in implementing WFP’s programme activities, identifying means to make the best use of the expertise and specialized knowledge afforded by these Ministries in implementing WFP’s programme of activities in DPRK in the most effective way possible.</p>

Annex A – Summary of categorization of observations

The following table shows the categorisation ownership and due date agreed with the auditee for all the audit observations raised during the audit. This data is used for macro analysis of audit findings and monitoring the implementation of agreed actions.

Observation	Risk categories			Underlying cause category	Owner	Due date
	WFP's Internal Control Framework	WFP's Management Results Dimensions	WFP's Risk Management Framework			
1 Control Activities: Programme Management – Beneficiaries and Targeting	Operational	Programmes	Contextual Programmatic	Resources	KPCO	30 November 2017
2 Monitoring: In-Country Monitoring – Monitoring of programme activities	Operational	Programmes Processes and Systems	Contextual Programmatic	Compliance Guidelines	KPCO	30 September 2017
3 Control Environment: Programme Management - Capacity Development and Augmentation activities	Strategic	Programmes	Institutional Programmatic	Resources	KPCO	31 December 2017
4 Control Activities: Transport and Logistics - Food Safety and Quality Management System in LFP facilities	Operational	Processes and Systems	Institutional	Guidelines	KPCO	31 December 2017
5 Control Activities: Transport and Logistics - Commodity Transformation in LFPs	Operational	Processes and Systems	Institutional	Guidelines	KPCO	31 December 2017
6 Control Activities: Transport and Logistics - Contingency planning for shipping of food commodities to DPRK	Strategic	Processes and Systems	Contextual	Guidelines	KPCO	30 September 2017
7 Control Activities: Partnership and Co-ordination - Work with technical line ministries	Strategic	Partnerships	Institutional Programmatic	Resources	KPCO	31 December 2017

Annex B – Definition of categorization of observations

1. Rating system

1. Internal control components and processes are rated according to the degree of related risk. These ratings are part of the system of evaluating the adequacy of WFP's risk management, control and governance processes. A rating of satisfactory, partially satisfactory or unsatisfactory is reported in each audit. These categories are defined as follows:

Table B.1: Rating system

Engagement rating	Definition	Assurance level
Satisfactory	Internal controls, governance and risk management practices are adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.	Reasonable assurance can be provided.
Partially Satisfactory	Internal controls, governance and risk management practices are generally established and functioning, but need improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.	Reasonable assurance is at risk.
Unsatisfactory	Internal controls, governance and risk management practices are either not established or not functioning well. The issues identified were such that the achievement of the overall objectives of the audited entity could be seriously compromised.	Reasonable assurance cannot be provided.

2. Risk categorisation of audit observations

2. Audit observations are categorised by impact or importance (high, medium or low risk) as shown in Table 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.⁴

Table B.2: Categorisation of observations by impact or importance

High risk	Issues or areas arising relating to important matters that are material to the system of internal control. The matters observed might be the cause of non-achievement of a corporate objective, or result in exposure to unmitigated risk that could highly impact corporate objectives.
Medium risk	Issues or areas arising related to issues that significantly affect controls but may not require immediate action. 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.

⁴ 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. Low risk observations, if any, are communicated by the audit team directly to management, and are not included in this report.

3. WFP's Internal Control Framework (ICF)

4. WFP's Internal Control Framework follows principles from the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Integrated Internal Control Framework, adapted to meet WFP's operational environment and structure. The Framework was formally defined in 2011 and revised in 2015.

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

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

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

4. Risk categories

6. The Office of Internal Audit evaluates WFP's internal controls, governance and risk management processes, in order to reach an annual and overall assurance on these processes in the following categories:

Table B.4: Categories of risk – based on COSO frameworks and the Standards of the Institute of Internal Auditors

1	Strategic:	Achievement of the organization's strategic objectives.
2	Operational:	Effectiveness and efficiency of operations and programmes including safeguarding of assets.
3	Compliance:	Compliance with laws, regulations, policies, procedures and contracts.
4	Reporting:	Reliability and integrity of financial and operational information.

7. In order to facilitate linkages with WFP's performance and risk management frameworks, the Office of Internal Audit maps assurance to the following two frameworks:

⁵ OED 2015/016 para.7

Table B.5: Categories of risk – WFP’s Management Results Dimensions

1	People:	Effective staff learning and skill development – Engaged workforce supported by capable leaders promoting a culture of commitment, communication & accountability – Appropriately planned workforce – Effective talent acquisition and management.
2	Partnerships:	Strategic and operational partnerships fostered – Partnership objectives achieved – UN system coherence and effectiveness improved – Effective governance of WFP is facilitated.
3	Processes & Systems:	High quality programme design and timely approval – Cost efficient supply chain enabling timely delivery of food assistance – Streamlined and effective business processes and systems – Conducive platforms for learning, sharing and innovation.
4	Programmes:	Appropriate and evidence based programme responses – Alignment with Government priorities and strengthened national capacities – Lessons learned and innovations mainstreamed – Effective communication of programme results and advocacy.
5	Accountability & Funding:	Predictable, timely and flexible resources obtained – Strategic transparent and efficient allocation of resources – Accountability frameworks utilised – Effective management of resources demonstrated.

Table B.6: Categories of risk – WFP’s Risk Management Framework

1	Contextual:	External to WFP: political, economic, environmental, state failure, conflict and humanitarian crisis.
2	Programmatic:	Failure to meet programme objectives and/or potential harm caused to others through interventions.
3	Institutional:	Internal to WFP: fiduciary failure, reputational loss and financial loss through corruption.

5. Causes or sources of audit observations

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

Table B.7: Categories of causes or sources

1	Compliance	Requirement to comply with prescribed WFP regulations, rules and procedures.
2	Guidelines	Need for improvement in written policies, procedures or tools to guide staff in the performance of their functions.
3	Guidance	Need for better supervision and management oversight.
4	Resources	Need for more resources (funds, skills, staff, etc.) to carry out an activity or function.
5	Human error	Mistakes committed by staff entrusted to perform assigned functions.
6	Best practice	Opportunity to improve in order to reach recognised best practice.

6. Monitoring the implementation of agreed actions

9. The Office of Internal Audit tracks all medium and high-risk observations. Implementation of agreed actions is verified through the Office of Internal Audit’s 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

CFSAM	Crop and Food Security Assessment Mission
CO	Country Office
DPRK	Democratic People’s Republic of Korea
eWIN	Electronic WFP Information Network (a web based monitoring support tool)
FBF	Fortified Blended Food
FSNA	Food Security and Nutrition Assessment
KPCO	WFP’s DPRK Country Office
LFP	Local Food Production
NCC	National Coordination Committee of DPRK’s Ministry of Foreign Affairs
NGO	Non-Governmental Organisation
NNS	National Nutrition Survey
OSCS	WFP’s Food procurement and Shipping Unit
PRRO	Protracted Relief and Recovery Operations
Q&Q	Quality and Quantity
SOP	Standard Operating Procedures
UNICEF	United Nations Children’s Fund
USD	United States Dollar
WFP	World Food Programme