

Internal Audit of WFP Operations in Somalia

Office of the Inspector General
Internal Audit Report AR/17/20



World Food Programme

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Internal Audit of WFP Operations in Somalia

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 Somalia that focused on the period from 1 January 2016 to 30 June 2017. Expenditures in Somalia totalled USD 143.5 million in 2016, representing three percent of WFP's total direct expenses for that year. The audit team conducted the fieldwork from 18 September to 6 October 2017 at the Liaison Office premises in Nairobi, Kenya, and through onsite visits to the Country Office in Mogadishu as well as Area and Sub-offices in Bosasso, Hargeisa and Berbera. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

2. WFP's strategy in Somalia prioritizes malnutrition and food security of vulnerable communities in the country, pursuing a shift from relief to recovery and resilience-building activities with an emphasis on addressing the underlying causes of undernutrition. In 2017, because of the persisting severe drought conditions impacting food security, WFP's Somalia Country Office focused on famine prevention by scaling-up response efforts in the affected areas, especially through increased use of Cash-Based interventions. In February 2017, the deteriorating situation resulted in emergency conditions with WFP activating the "Horn of Africa" Level 2 emergency response.

Audit conclusions

3. The Country Office effectively delivered its emergency response, leveraging on significant preliminary work as well as corporate systems and mechanisms. The extensive biometric registration of potential beneficiaries in the SCOPE corporate system facilitated the rapid scale-up of operations. The scale-up in Cash-Based Transfers required a significant increase in the number of retailers for which the Country Office implemented a rigorous profiling and assessment process. Furthermore, in the complex security context for the Somalia operations, the Country Office had begun implementing security measures that went beyond the minimum standard requirements.

4. Cash-Based Transfers were praised by stakeholders for responding to humanitarian priorities whilst supporting local economy and trade. The audit noted effective coordination with the humanitarian community, between the Liaison Office and the Area Offices, through regular coordination meetings, and with the Regional Bureau Nairobi, particularly on resource mobilization in the scale-up phase. Yet at the time of the audit report, overall funding was at approximately 57 percent with potential pipeline breaks in November and December 2017.

5. The audit observed that corporately established protocols for emergency response management were not fully implemented as Headquarters were not involved in the operational coordination meetings of the Level 2 emergency. In acknowledging the high inherent risk of fraud and corruption associated with the context of the operations, the Country Office worked on mitigation controls, which the audit found could be further improved. Controls such as cooperating partners profiling and beneficiaries feedback and incident reporting mechanisms were in place, but were not operating in a consistent manner as the scale-up of activity stretched the Country Office's capacity. There were also notable gaps in the performance assessment of cooperating partners, controls on Cash-Based Transfers sub-contractor, and inconsistencies in the management of e-cards. An opportunity for further involvement of Headquarters to complement knowledge and skills at the local level was noted in the area of constructions.

6. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of Effective / Satisfactory. The assessed governance arrangements, risk management and controls were adequately established and functioning well to provide reasonable assurance that issues identified by the audit were unlikely to affect the achievement of the objectives of the audited entity/area.

Key results of the audit

7. The audit report contains six observations with medium-priority agreed actions, three of which are directed at a corporate level.

Actions agreed

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

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

Kiko Harvey
Inspector General

II. Context and Scope

Somalia

10. Somalia is a low-income, food-deficit country with an estimated population of 12.3 million, 1.1 million internally displaced people and an additional one million living as refugees in neighbouring countries and Yemen. Somalia is currently not ranked on the 2017 UNDP Human Development Index because of lack of data. According to the most recent publicly available data on the Multidimensional Poverty Index, 82 percent of the population is poor with a further eight percent nearing poverty.

11. The severe drought that has affected the Horn of Africa since November 2016 has caused significant increase in acute food insecurity and malnutrition in the country. In the May 2017, Humanitarian Response Plan, over 6.7 million people or more than half of the population were estimated to need protection and humanitarian assistance. This comprised of more than 1.5 million women of childbearing age, nearly 130,000 pregnant women requiring urgent care and more than 680,000 displaced people.

WFP Operations in Somalia

12. The Country Office (CO) operates under the United Nations Strategic Framework, contributing to the Humanitarian Response Plan. WFP's strategy in Somalia prioritizes malnutrition and resilience of vulnerable communities in the country, pursuing a shift from relief to recovery and resilience-building activities with an emphasis on addressing the underlying causes of undernutrition¹. During the audit period, the WFP Somalia CO implemented its strategy through a Protracted Relief and Recovery Operation (PRRO) and three Special Operations.

- With a budget of USD 999 million running from 2016 to 2018, PRRO 200844 aims to provide food and nutrition assistance to 2.4 million vulnerable people over three years. With the worsening of the drought conditions, the CO prioritized the nutrition and relief drought responses over livelihood activities. The implementation of Cash-Based Transfers (CBT), piloted since 2013, was scaled-up to reach over 1.2 million beneficiaries in June 2017 with a total amount of USD 17 million.
- Special Operation 200924, with an approved plan of USD 78 million from 2016 to 2018, aims to provide safe and reliable air transport services to the humanitarian community in Somalia and Kenya.
- Special Operation 201051, with an approved plan of USD 1.6 million from June 2017 to May 2018, provides for the rehabilitation of the Kismayo Port to allow for more efficient humanitarian operations and at the same time augment the port capacity as the gateway for local trade and contribute to economic growth in Somalia.
- Special Operation 200440, with an approved plan of USD 7.4 million from September 2012 to June 2016, provided resources to support the Food Security Cluster coordination and information management.

13. The approval of the Somalia Country Strategic Plan is planned for 2019.

¹ Standard Project Document 2016 Reducing Malnutrition and Strengthening Resilience to Shocks for a Food Secure Somalia.

Objective and scope of the audit

14. 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 Somalia. 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.

15. 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.

16. The scope of the audit covered WFP's operations in Somalia from 1 January 2016 to 30 June 2017. Where necessary, transactions and events pertaining to other periods were reviewed.

17. The audit field work took place from 18 September to 6 October 2017 at the Liaison Office in Nairobi, Kenya and through onsite visits to the Country Office in Mogadishu, and Area/Sub-offices in Bosaso, Hargeisa and Berbera.

III. Results of the Audit

18. Building on the CO's risk register (CRR) as well as an independent audit risk assessment, audit work was tailored to the country context and to the objectives set by the CO.

19. Table 1 outlines the extent to which audit work resulted in observations. Agreed actions are rated as of low, medium or high priority; of which the two latter priorities are summarised below. An overview of the observations to be tracked by internal audit for implementation, their due dates and their categorisation by WFP's risk and control frameworks can be found in Annex A.

Table 1: Overview of lines of enquiry and priority of agreed actions identified²

	Lines of enquiry	Priority of agreed actions
1	Strategic planning and performance	Medium
2	Organizational structure and staffing	No issues noted
3	Management oversight	Medium
4	Enterprise risk management, ethics and fraud	Medium
5	Emergency preparedness and response	No issues noted
6	Finance and accounting	No issues noted
7	Programme	Medium
8	Transport and logistics	No issues noted
9	Procurement	Medium
10	Human resources	No issues noted
11	Partnership and coordination	Medium
12	Security	No issues noted
13	Resource mobilisation	Medium
14	Internal and external communication	No issues noted
15	Programme monitoring	Medium

20. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of *Effective/Satisfactory*³. The six observations of this audit are presented below. Management has agreed to take measures to address the reported observations⁴.

² Lines of enquiry: Travel and Administration, Gender, Property and equipment and Information and Communication Technology were assessed as low priority in the initial risk assessment. No further testing has been carried out at the fieldwork stage.

³ See Annex B for definitions of audit terms.

⁴ Implementation will be verified through the Office of Internal Audit's standard system for monitoring agreed actions.

Observation 1**Strategic planning and performance, governance and coordination**

The CO participated in the overall aid coordination architecture, particularly humanitarian coordination platforms, implemented regular internal coordination meetings, and used WFP's Forward Purchase Facility and advance financing mechanisms for timely response. The audit noted effective coordination with the Regional Director (RD) in Nairobi.

Level 2 (L2) Emergency protocols: After the activation of the L2 drought emergency in February 2017, three operational coordination meetings were convened by the RD, as Corporate Response Director, and involving relevant country offices and Regional Bureau Units. Contrary to WFP's corporate emergency management protocols, these meetings did not involve Headquarters Senior Management and Division Directors in core functional areas. The Regional Bureau in Nairobi (RBN) indicated that given the structure and operational set-up of affected countries, they did not perceive the need for Headquarters involvement.

WFP presence in Somalia: At the time of the fieldwork, the CO was in the process of implementing the 2014 Executive Director Decision Memo related to WFP's presence in Mogadishu and Somalia for coordination with the UN mission and the Government of Somalia. The RD had been kept informed of delays in its implementation to date. Details on further requirements for WFP's presence in Somalia had not yet been developed at the time of the audit. Security incidents which occurred in Mogadishu in October 2017 may also require further consideration in the strategy going forward.

Capacity building: Stakeholders consulted were generally positive, noting WFP's effective role within the emergency response in-line with humanitarian priorities in the country. The audit also noted keen interest from the Federal Government Ministry of Health (MoH) in Mogadishu for enhanced interaction with WFP and cooperation to build capacity as they, and WFP, further transition from relief to resilience and recovery, following the emergency drought response. This was in-line with CO objectives. Alongside capacity building activities already implemented by the CO with numerous Ministries, the CO signed, in 2016, a letter of understanding with the MoH which focused on post monitoring activities. As highlighted in a 2015 evaluation report, a gap analysis would have helped inform the project's capacity strengthening activities.

Resource mobilization: In 2017, the CO significantly increased its funding level and some donors consulted during the audit confirmed interest in further supporting WFP activities. At the onset of the emergency, there were joint CO and RBN efforts for a coordinated and structured resource mobilization approach with an action plan detailing targeted donors, ongoing actions and relative status tracking, used during the scale up phase.

The emergency response resource mobilization strategy indicates funding opportunities for relief activities without clearly elaborating on: (i) thematic or UN pooled funding opportunities, as well as funding opportunities for activities other than the emergency operations; and (ii) non-institutional donors. The CO had fundraised some resources through the above channels, although at a lesser scale.

Agreed Actions [medium priority]

- (a) The Director, RBN, as Corporate Response Director, will provide feedback to the Director, Emergency Preparedness and Response Division on the usefulness and relevance of L2 protocols/regulations regarding Headquarters' participation in coordination meetings in relation to the ongoing management of the Horn of Africa Drought L2 and the need to revise protocols accordingly.
- (b) The CO will:
 - (i) Maintain, in consultation with RBN and the Director, Security Division, regular review of staff presence in Mogadishu, in light of ongoing and recent security events, and formalize a roadmap for WFP's presence as relevant.
 - (ii) Continue to engage with governmental counterparts as well as humanitarian and development stakeholders to ensure continuum of assistance from relief to recovery, including longer-term transition and development activities, and contribute to develop an interagency capacity gap analysis.
 - (i) Prepare its next resource mobilization strategy incorporating clear articulation of fundraising opportunities for activities other than emergency and from all donors.

Underlying causes: Misalignment of corporate protocols to the reality on the ground. Constraints on security, accommodation, contract types, costs and nationalities of existing staff. Prioritized lifesaving activities as part of the drought emergency response. Fundraising for resilience activities at a lesser scale due to programmatic and resource prioritization. Turnover in governmental counterparts and funding delays.

Observation 2**Enterprise Risk Management, ethics & fraud – mitigating the risk of fraud**

The CO prepared and updated its CRR as per corporate requirements, assessing relevant risks and critical triggering events and identifying mitigating actions. In acknowledging the high inherent risk of fraud and corruption in its CRR, the CO implemented mitigating measures which include feedback and incident reporting mechanisms, with a hotline and a call centre, and Compliance Officer and task force functions. The audit noted the following areas of improvement to strengthen fraud prevention and detection controls:

- Terms of Reference of the Compliance Officer aligned to the corporate job profile (now Risk and Compliance Adviser), yet the profile, contractual position and reporting line did not. The Compliance Officer work-plan for the audit period did not include compliance oversight missions. The CO indicated these started after the audit period.
- The CO has introduced a compliance task force to complement and strengthen procedures in place for the assessment and mitigation of fraud risks. Established procedures were not clear on how the fraud and corruption allegations review articulated with Headquarters escalation. The audit also concluded that the composition and role of the task force would require some revision.
- Since June 2017, the CO staff made efforts to comply with corporate mandatory training on ethics and fraud. Completion rate increased from 58 percent to 70 percent (anti-fraud) and from 12 percent to 38 percent (ethics and standard of conduct) in September 2017.
- Enforcing staff leave, acts as a key fraud prevention control. At the time of the fieldwork, although the Human Resource unit did monitor leave balances monthly, and reminded staff to utilize their leave within the leave year, some staff (29) had accrued leave days of more than 60 days for the current leave year.

Underlying causes: Sub-standard arrangements for the Risk and Compliance Adviser position as second line of defence. Insufficient consideration of the composition of the task force. Enhanced focus required on other fraud prevention controls such as staff leave and anti-fraud training.

Agreed Actions [medium priority]

The CO will:

- (i) Liaise with Headquarters units as appropriate and clarify the requirements linked to the position of the Risk and Compliance Adviser, and define and implement necessary adjustments and a work plan in-line with relevant terms of reference.
- (ii) Review the composition of the task force and implement mitigating measures as relevant.
- (iii) Clarify, in consultation with the Office of Inspections and Investigations, operating procedures criteria and timing for escalation of Fraud and Corruption allegations and linkages to corporate policy.
- (iv) Reinforce the need for staff to undertake mandatory training for Fraud and Ethics and to utilize their leave within the leave year.

Observation 3**Agreed Actions** [medium priority]**Programme – Cash-Based Transfers and management of e- cards**

CBT is a primary transfer modality in Somalia especially in areas with accessibility and good market functionality. The CBT business process is implemented through a multifunctional approach that conforms largely to the Corporate CBT Business Process Model and the responsibility assignment matrix. The CO developed a standard operating procedure (SOP) that contextualised the corporate procedures to align with its operations and organisational structure focusing on decentralization and segregation of duties among multiple units.

The CO has an agreement with the Financial Service Provider (FSP) for cash payment services to beneficiaries in Somalia, which the financial institution has sub-contracted to an agent who has presence in Somalia. The performance evaluation carried out by the CO on the FSP in July 2016 did not cover the performance of the agent. Due to limited documentation on the agent not allowing detailed assessment in the Somalia 2017 Micro Financial Assessment of FSPs, the CO relies on the FSP's vetting of the agent. The agreement has placed responsibility on the FSP to perform ongoing assessment and due diligence on the agent to ensure service delivery of the contract. During the audit period, the CO did not perform any assessments or checks to ensure that there was effective monitoring and management of the agent's performance by the FSP.

WFP's SCOPE is used 'end- to- end' for biometric registration and enrolment of beneficiaries, printing of vouchers, facilitating: (i) redemption of vouchers by beneficiaries through the network of over 800 retailers; and (ii) redemption of cash through the FSP and its designated money agents in Somalia. All redemptions of entitlements are conducted after successful fingerprint validation at the Point of Sale machines. The CO also works with over 80 Cooperating Partners (CPs) who facilitate the top-up of beneficiaries' e-cards after biometric finger identification.

The corporate CBT manual, through a joint directive, which details required procedures and processes for receiving, recording, retaining and destroying e-cards, regulates electronic payment instruments in the form of e-cards. During the field visit of Mogadishu, Bossaso and Hargeisa Area Offices (AO), the audit noted: (i) inconsistencies in the implementation of the SOP among different Area Offices; (ii) non-secured storing of 8,000 blank e-cards in one office and over 10,000 voided e-cards stored in another office, with no plan for their destruction; (iii) in Hargeisa the reconciliation of the e-cards, issued, distributed and in custody did not include comparison with reports received from CPs. The e-card transfer log was not updated to provide accurate status.

The CO implemented projects with external partners utilizing SCOPE. Criteria to recover costs need further clarification.

Underlying causes: Corporate guidance on capacity assessment and performance evaluation focusing on the FSP, and not the designated agents. Inconsistent understanding and implementation of the e-card management SOP.

(a) The CO will:

- (i) Formalise operating modalities to monitor FSP performance and monitor FSP's oversight of its agent's performance in-line with new corporate procedures.
- (ii) Liaise with RMF and define criteria for identifying and calculating costs to be recovered by external users of WFP systems.
- (iii) Reinforce the knowledge of the e-card management SOP and conduct regular compliance oversight missions to the Area Offices.

(b) RMF will:

- (i) Develop policies and procedures regarding the assessment of FSPs' agency arrangements and agent-related risk mitigation strategies.
- (ii) Assess the need for development of corporate guidance on cost recovery on external partners using SCOPE.

Observation 4**UNHAS – gaps in implementing quality assurance agreed actions**

In Somalia UNHAS is a long established and stable operation and humanitarian partners praised the reliable transport service provided. In 2016, UNHAS served more than 140 humanitarian actors, transporting more than 3000 passengers monthly. The audit reviewed the implementation of the cost recovery mechanism and actions recommended by Headquarters oversight missions on quality assurance and safety. The CO has recognized the security risk linked to UNHAS operations in its CRR and identified mitigating actions, which were also reviewed by the audit. The team observed UNHAS operations while travelling within Somalia.

The most recent Headquarters quality assurance and support (QA) and safety missions were conducted in 2015 with no high-risk observations relating to safety aspects. The next mission from Headquarters is planned for end of 2017, including both quality and safety aspects.

The audit reviewed some recommendations relating to QA observations yet to be implemented. These included: (i) the verification of agency identity documents or agency letters at check-in; and (ii) the reduction of outstanding cost recovery fee balance and the implementation of an advance payment model. As of September 2017, the balance of outstanding receivables (above 90 days) amounted to USD 987,000, of which 33 percent since 2016 and before.

Underlying causes: Delays in implementing some UNHAS recommendations from quality missions' observations.

Agreed Actions [medium priority]

- (a) The Aviation service within the Supply Chain Division (OSCA), as part of the forthcoming QA mission to Somalia in the final quarter of 2017, will review the relevance of outstanding observations from the 2015 mission and current processes in place.
- (b) The CO will, based on the findings of (a), re-assess required actions to be taken for any residual observations.

Observation 5**Procurement – gaps in contracting**

The audit selected a sample of contracts for goods and services for a total value of USD 650,000, two percent of locally managed contracts in the audit period, for an end-to-end process review including waived transactions. There were no exceptions noted with regard to the vetting of suppliers against the United Nations vendor sanctions lists and waiver justifications were well documented.

The analysis of one sampled construction contract highlighted that the CO carried out works in a sub-office since 2012 through multiple tenders and contracts awarded to the same vendor (purchase orders value was approximately USD 350,000 in the audit period and USD 940,000 aggregated value since 2015 up to the fieldwork). There had been no consultation with Headquarters, although the aggregate construction value would call for such as per the construction manual to ensure efficient overall project delivery as well as visibility and tracking by corporate technical expertise.

The scope of work of the different phases/contracts was inter-related and overlapping. As a result, there could not be a clear handover of previous phases without completion of the following ones. This also led to a waiver of competition not to impact the defect liability period.

Agreed Actions [medium priority]

The CO will ensure implementation of the construction manual including: (i) consultation with and guidance from Headquarters about current and future projects, and (ii) for obtaining valid performance bonds.

Performance bonds were requested and obtained for some construction contracts, but not for all, contrary to corporate guidelines and manuals. The CO explained that the financial market in Somalia does not allow for proper performance bonds as per corporate guidance, but possible alternatives were not explored with Headquarters technical support.

Underlying causes: Uncertainty about applicable contracting rules, lack of knowledge of and non-compliance with the construction manual. Somalia challenging financial context.

Observation 6

6 Partnership and coordination - Gaps in Cooperating Partners performance evaluation and monitoring

In the implementation of its programmatic activities, the CO works with over 100 CPs, International and local Non-Governmental Organizations. Guidance was in place on the frequency of performance evaluation based on the length of the Field Level Agreement signed with each CP, as expiry dates varied. A spreadsheet Field Level Agreement (FLA) tracker provided information on expiry dates and evaluation performed.

Despite the existence of the evaluation tracker, the performance evaluation of the CPs was not systematically or timely conducted for five out of the ten CPs sampled and reviewed. The evaluation tracker also had gaps in information on performance evaluation for expired FLAs and, as such, it was not possible to ascertain accuracy and completeness of information therein.

A comprehensive monitoring system was in place with a monitoring strategy around six pillars to address the complex Somalia context. Roles and responsibilities were defined in the yearly monitoring implementation plan, the monitoring and evaluation matrix, and several SOPs. Coordination between CO and AO for monitoring activities was effective; the use of Third Party Monitoring was in-line with corporate policies.

A set of checklists and back-to-office report templates was available for each monitoring activity. Capacity development initiatives for WFP and Third Party Monitor (TPM) monitors were also noted. A system was set-up to integrate and perform analysis on monitoring results collected using an electronic tool, also including data from the Beneficiary Feedback Mechanisms and the WFP-operated call centre.

A follow-up mechanism was in place to address issues noted during monitoring activities. Yet the audit noted that significant issues were not consistently captured or highlighted in monitoring reports. Extensive effort and coordination with AOs and the call centre was needed to follow-up on all monitoring issues tracked thus allowing some opportunity to streamline the process by focusing on high/medium risk issues. Further beneficiary sensitization was needed about WFP's feedback mechanism and entitled rations particularly on nutrition activities (as indicated from the field visits especially in Hargeisa).

Underlying causes: A significant increase in needs during the drought emergency scale-up and time lag for confirmation of resources leading the CO to offer successive short-term FLAs. The high number of

Agreed Actions [medium priority]

The CO will:

- (i) Design and implement a structured approach for tracking the FLA deadlines to ensure timely performance evaluation.
- (ii) Assess the opportunity for longer term FLAs.
- (iii) Within the training package to field monitors (including TPM), strengthen messaging on the accountability framework to ensure issues reported are aligned with process monitoring objectives.
- (iv) Implement documented sample checks on completeness of the tracking list.
- (v) Carry on classification of monitoring issues as high/medium/low on a consistent basis, and focus follow-up efforts on high risk, and a sample of medium risk issues.
- (vi) Reinforce beneficiary awareness of feedback mechanism and, for nutrition, of entitlements.

CPs challenging the CO capacity for continuous monitoring and timely performance assessments, particularly during the scale-up. The comprehensive monitoring system generating a significant volume of data, which in turn stretches the internal control capacity of the Programme Unit. Gaps in beneficiaries' awareness with regards to WFP Beneficiary Feedback Mechanisms and entitlements.

Annex A – Summary of categorization of observations

The following tables 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 Strategic planning and performance, governance and coordination	Strategic	Partnerships	Contextual	Guidance Resources	RBN SOCO	31 March 2018
			Institutional			30 June 2018
2 Enterprise Risk Management, ethics & fraud – mitigating the risk of fraud	Operational	Compliance	Institutional	Guidance Compliance	SOCO	31 March 2018
3 Programme – Cash-Based Transfers and management of e- cards	Operational	Programmes	Institutional	Guidelines	SOCO RMF	31 March 2018
4 UNHAS – gaps in implementing quality assurance agreed actions	Operational	Processes and Systems	Institutional	Guidance	OSCA SOCO	31 March 2018
5 Procurement – gaps in contracting	Operational	Processes and Systems	Institutional	Guidance	SOCO	31 March 2018
	Compliance					
6 Partnership and coordination - Gaps in Cooperating Partners performance evaluation and monitoring	Operational	Processes and Systems	Institutional	Guidelines Compliance	SOCO	30 June 2018

Annex B – Definition of categorization of observations

1 Rating system

1. The internal audit services of UNDP, UNFPA, UNICEF, UNOPS and WFP adopted harmonized audit rating definitions, as described below. Both, the entity under review as a whole, as well as the specific audit areas within the audited entity are assessed as follows:

Table B.1: Rating system

Rating	Definition
Effective / Satisfactory	The assessed governance arrangements, risk management and controls were adequately established and functioning well to provide reasonable assurance that issues identified by the audit were unlikely to affect the achievement of the objectives of the audited entity/area.
Partially satisfactory / Some improvement needed	The assessed governance arrangements, risk management and controls were generally established and functioning well, but needed improvement to provide reasonable assurance that the objective of the audited entity/area should be achieved. Issue(s) identified by the audit were unlikely to significantly affect the achievement of the objectives of the audited entity/area. Management action is recommended to ensure that identified risks are adequately mitigated.
Partially satisfactory / Major improvement needed	The assessed governance arrangements, risk management and controls were generally established and functioning, but need major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues identified by the audit could negatively affect the achievement of the objectives of the audited entity/area. Prompt management action is required to ensure that identified risks are adequately mitigated.
Ineffective / Unsatisfactory	The assessed governance arrangements, risk management and controls were not adequately established and not functioning well to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area. Urgent management action is required to ensure that the identified risks are adequately mitigated.

2 Categorisation of audit observations and priority of agreed actions

2.1 Priority

2. Audit observations are categorized according to the priority of the agreed actions, which serves as a guide to management in addressing the issues in a timely manner. The following categories of priorities are used:

Table B.2: Priority of agreed actions

High	Prompt action is required to ensure that WFP is not exposed to high/pervasive risks (that is, where failure to take action could result in critical or major consequences for the organization).
Medium	Action required to ensure that WFP is not exposed to significant risks. Failure to take action could result in negative consequences for WFP.
Low	Action is considered desirable and should result in enhanced control or better value for money.

3. Low priority recommendations, if any, are dealt with by the audit team directly with management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority actions are not included in this report.

4. 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.⁵

5. To facilitate analysis and aggregation, observations are mapped to different categories.

2.2 Categorisation by WFP’s Internal Control Framework (ICF)

6. 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. 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.”⁶ 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	The 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.

2.3 Risk categories

7. The Office of Internal Audit evaluates WFP’s internal controls, governance and risk management processes, 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.

8. To facilitate linkages with WFP’s performance and risk management frameworks, the Office of Internal Audit maps assurance to the following two frameworks:

⁵ 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.

⁶ 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 and 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 and 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 and Funding:	Predictable, timely and flexible resources obtained – Strategic transparent and efficient allocation of resources – Accountability frameworks utilized – Effective management of resources demonstrated.

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

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

2.4 Causes or sources of audit observations

9. 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 (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 to reach recognized best practice.

2.5 Monitoring the implementation of agreed actions

10. 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 to manage and mitigate the associated risks identified, thereby contributing to the improvement of WFP's operations.

Annex C – Acronyms

AO	Area Office
CBT	Cash-based Transfers
CO	Country Office
COSO	Committee of Sponsoring Organizations of the Treadway Commission’s
CP	Cooperating Partner
CRR	Country Risk Register
FLA	Field Level Agreement
FSP	Financial Service Provider
ICF	Internal Control Framework
L2	Level 2
MoH	Federal Government Ministry of Health
OSCA	Supply Chain Division – Aviation Service
PRRO	Protracted Relief and Recovery Operation
QA	Quality Assurance
RBN	Regional Bureau Nairobi
RD	Regional Director
RMF	Finance and Treasury Division
SCOPE	WFP’s Beneficiary and Transfer Management Platform
SOCO	Somalia Country Office
SOP	Standard Operating Procedure
TPM	Third Party Monitor
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNHAS	UN Humanitarian Air Service
UNICEF	United Nations Children’s Fund
UNOPS	United Nations Office for Project Services
USD	United States Dollar
WFP	World Food Programme