

Internal Audit of WFP Operations in Yemen

Office of the Inspector General
Internal Audit Report AR/18/02



World Food Programme

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Internal Audit of WFP Operations in Yemen

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 Yemen that focused on the period 1 May 2016 to 30 September 2017. Expenditures in Yemen totalled USD 591 million in 2017, representing 10 percent of WFP's total direct expenses for that year. The audit team conducted the fieldwork from 5 to 20 November 2017 at the Country Office premises in Sana'a, Yemen.

2. During 2016 and 2017, WFP's Yemen Country Office continued its L3 Emergency Response to the conflict that began in 2014. As of September 2017, 20.7 million people (76 percent of Yemen's population) were in need of humanitarian or protection assistance, including 9.8 million people who were in acute need and required immediate food assistance. In addition to the ongoing conflict, a cholera epidemic broke out in the country affecting nearly 1 million people, with WFP providing essential logistical support to the World Health Organization.

3. WFP's operations in Yemen can be distinguished in two areas: the southern governorates controlled by the internationally-recognized government; and the northern governorates under the control of the de facto authorities. The authorities in these two areas have had different approaches towards WFP, directly impacting the organization's ability to access beneficiaries and carry out its programmes effectively and free from interference.

4. An Internal Audit of WFP Operations in Yemen was conducted in 2016, covering the period from January 2015 to April 2016, and concluded to unsatisfactory¹ governance, risk management and control arrangements. The subsequent desk review of the implemented agreed actions from the 2016 audit, carried out in January 2017 by the Office of Internal Audit, highlighted substantial progress in the implementation of the agreed actions.

5. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Audit conclusions

6. The audit found that despite the challenges met and highlighted further below, WFP in Yemen has been effective in scaling up and providing assistance to over 7 million beneficiaries as of September 2017. The management of WFP activities in Yemen have seen significant improvement in their efficiency and effectiveness during the first half of 2017, since the arrival of the new management team and staff in key positions. During this period, the Country Office was able to negotiate and secure more favourable terms with cooperating partners and vendors, resulting in improved performance and reduced costs. The Country Office's programme unit enforced the completion of distributions by cooperating partners within the entitlement month, significantly reducing late deliveries. In addition, WFP was able to restore donor confidence through increased donor engagement, enhanced reporting and transparency.

7. The Country Office entered into negotiations and is adopting a disciplined approach with both the internationally-recognized government and the de facto authorities with regard to its ability to

¹ See Annex B – Definition of Categorization of Observations, table B.1: Rating System for a description of the unsatisfactory rating.

carry out assessments, conduct targeting exercises and register beneficiaries. These efforts have been successful and improvements are underway in the southern governorates. However, these efforts have seen limited results in the northern governorates where 80 percent of WFP's beneficiaries reside, as the de facto authorities continue to impose restrictions that impact WFP's ability to provide assurance that assistance is reaching the most food insecure and vulnerable populations. Lack of access due to insecurity, interference by the de facto authorities, and the large number of distribution sites have led to monitoring gaps in certain governorates and districts, with WFP implementing alternative means to carry out monitoring in these areas.

8. The cholera response support provided to the World Health Organization by WFP was generally found to be effective. However, WFP would benefit from a review and clarification of the scope of its services.

Key results of the audit

9. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory/some improvement needed**. The assessed governance arrangements, risk management and controls were found to be generally established and functioning well, but needed improvement to provide reasonable assurance that the objectives of the operation could be achieved. Management action is recommended to ensure that risks are adequately mitigated. The Office of Internal Audit notes that work on agreed actions has in some cases already commenced.

10. The audit report contains two high-priority and nine medium-priority observations, one of which is directed at corporate level. One high-priority and one medium-priority observation are about security. They have been redacted in accordance with the Policy for Disclosure of Oversight Reports (WFP/EB.2/2012/4-A/1) due to the sensitivity of the information. The other high priority observation is:

Targeting and registration of beneficiaries - the Country Office carried out a series of exercises during the audit period aimed at improving district and household targeting strategy; application of prioritization criteria; beneficiary registrations; and implementation of independent checks on distributions. These efforts have been hampered by the de facto authorities controlling the northern governorates hosting 80 percent of WFP's beneficiaries, posing a significant risk that WFP may not be reaching the most food insecure and vulnerable populations in some areas.

Actions agreed

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

12. 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

Yemen

13. Yemen is a low, middle-income, food deficient country, ranked 168 out of 188 countries in the 2016 Human Development Index, a decrease from its 2015 ranking of 164. In March 2015, Yemen's conflict, which started in 2014, escalated into a full-scale nationwide conflict drawing international military intervention. Yemen suffers from quickly deteriorating levels of food insecurity and is ranked as the sixth most food insecure country in the world by the 2016 Global Hunger Index.

WFP Operations in Yemen

14. In April 2017, a new emergency operation (EMOP 201068) was approved for an immediate, integrated and sustained response to avert famine in Yemen, as a continuation of the previous EMOP 200890. With a one-year budget of USD 1,167 million, the Yemen Country Office (CO) aims to support 9.1 million beneficiaries through an integrated package of food and nutrition assistance, with complementary activities implemented through agriculture, livelihoods, water, sanitation and hygiene (WASH) as well as through health partners. The overriding objective is to address emergency levels of food insecurity and to prevent a famine in the country (WFP's strategic objectives 1: end hunger and 2: improve nutrition) by protecting access to food in a manner that looks towards the country's longer-term recovery.

15. The CO also implements special operations (SOs) for logistics and emergency telecommunications support, and air transport services, to facilitate the humanitarian response to the crisis in the country (SO 200841 and SO 200845 respectively). In addition, the CO receives trust fund resources for recovery and resilience activities.

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 Yemen. 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 Yemen from 1 May 2016 to 30 September 2017. Where necessary, transactions and events pertaining to other periods were reviewed. The audit risk assessment took into consideration the results and recommendations arising from the internal audit mission conducted by the Office of Inspector General in July 2016².

19. The audit field work took place from 4 to 26 November 2017 at the CO's premises in Sana'a, Yemen. Due to the escalation in the conflict at the time of the country visit, with attendant insecurity and restrictions of movement, the audit team was not able to perform the planned visits to locations outside of Sana'a. However, the audit reviewed all aspects of the key processes identified in its audit risk assessment and the restriction in movement is not considered to constitute a reduction in the audit scope that affects the overall audit conclusion.

² Internal Audit Report AR/16/13

III. Results of the Audit

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

Table 1: Positive practices and initiatives

Control Environment

- Significant improvement in the control environment noted for processes around procurement, landside transport, human resources, partnership management and monitoring tools.
- Overall strengthening of the compliance function as a second line of defence.

Risk Assessment

- Formalization of a dedicated risk register at the launch of the cholera response, with support from relevant HQ units.

Control Activities

- Major increase in programme delivery, reaching more than 7 million beneficiaries in over 10,000 food delivery points (FDPs) as of September 2017, twice as much as at the start of the year.
- In coordination with the supply chain unit, the programme unit enforced completion of distributions by cooperating partners (CPs) within the entitlement month, reducing late deliveries from 20 percent in June 2017 to less than 1 percent of the plan, as at September 2017.
- Significant reduction of landside transport, storage and handling costs as a result of an innovative tariff system and negotiations with transporters. The CO was pro-actively addressing gaps in the supply chain process that are not covered by the Logistics Execution Support System (LESS) corporate system.

Information and Communication

- The CO enhanced transparency and improved communication with donors, and took a more assertive position with CPs and suppliers for programme delivery.

Monitoring activities

- Implementation of a new hotline for beneficiaries, and adoption of a centralized online monitoring platform.

21. 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.

22. Table 2 outlines the extent to which audit work resulted in observations. Agreed actions are rated as of low, medium or high priority; these are summarized below. An overview of the observations to be tracked by internal audit for implementation, their due dates and their categorization by WFP's risk and control frameworks can be found in Annex A.

Table 2: Overview of lines of enquiry and priority of agreed actions identified³

Lines of enquiry	Priority of agreed actions
1. Control environment	
Control environment	Medium
2. Risk assessment	
Enterprise risk management	Medium
Emergency preparedness and response and business continuity	Low
3. Control activities	
Resource mobilization and management	Low
Programme management	High
Supply chain	Medium
Human resources	Medium
Travel and administration	Low
Partnership and coordination	Medium
Security	High
Gender	Low
Property and equipment	Low
Information and communications technology	Low
4. Information and communication	
Internal and external communication	Low
5. Monitoring activities	
Programme monitoring and evaluation	Medium

23. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of *partially satisfactory/some improvement needed*⁴. The two high-priority and nine medium-priority observations of this audit are presented below. Management has agreed to take measures to address the reported observations⁵.

³ Lines of enquiry: Emergency preparedness and response, 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.

⁴ See Annex B for definitions of audit terms.

⁵ Implementation will be verified through the Office of Internal Audit's standard system for monitoring agreed actions.

Table 4: High-priority observations

Observations	Agreed Actions
<p>1 Programme – Targeting and registration of beneficiaries</p> <p>The ongoing conflict in Yemen, and interference by the de facto authorities both at central and field level, have restricted and prevented WFP from collecting the data needed to support the independent targeting and registration of beneficiaries.</p> <p>In December 2016 the CO, together with the Food and Agriculture Organization (FAO), co-led the country’s food security cluster in carrying out an Emergency Food Security and Nutrition Assessment. Preliminary results were published in February and a final report in June 2017. The results of an Integrated Phase Classification to assess food insecurity and vulnerability at the governorate levels, valid for the five-month period March to July 2017, was published on 1 March 2017.</p> <p>Conditions external to WFP continue to hamper its operations in the country:</p> <ul style="list-style-type: none"> • In the southern governorates, hosting close to 2 million beneficiaries, the CO targeting criteria and strategy was accepted by government authorities. The CO was in the process of implementation at the time of the audit. It plans to pilot a biometrics registration exercise, scheduled for the southern governorates in late 2017 to early 2018. This aims to strengthen beneficiary data management, building upon a comprehensive beneficiary targeting exercise; • In the northern governorates, hosting 5 million beneficiaries, WFP could not collect and re-validate data at district and household levels. The CO efforts were obstructed and delayed by the Yemeni de facto authorities. They rejected WFP’s district and household targeting strategy, application of prioritization criteria, beneficiary registrations, and implementation of independent checks needed to provide assurance regarding the validity of beneficiary lists. Ultimately, during the fourth quarter of 2017, thanks to significant advocacy, the CO and food security and agriculture cluster partners have undertaken rapid assessments in most districts that are recommended for significant upward or downward changes to the distribution plans. The CO plans to implement the new targeting approach in the first half of 2018. <p>While resources have allowed the CO to scale-up assistance to more than 7 million beneficiaries during 2017, the above restrictions pose a significant risk that WFP may not be reaching the most food insecure and vulnerable populations in some areas. Considering the dire needs and risk of famine, the CO agreed to continue assistance to the existing beneficiary caseload until the rapid assessments were completed.</p> <p><u>Underlying cause:</u> Denial of access by national authorities; non-acceptance of prioritization/targeting strategy and interference by the de facto authorities, at governorate-level and in certain specific communities.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> (a) coordinate with the Operational Task Force to establish a risk appetite statement. This will guide the CO strategy and decision-making on targeting and registration of beneficiaries in areas where external factors present a serious challenge to achieving results. The CO will inform the donor community of the outcomes of these consultations; (b) whilst securing full access, define minimum critical indicators for assessing food insecurity, and agree these with the local authorities; (c) develop a process for ensuring the appointment of independent enumerators; (d) provide training to enumerators for successful data collection exercise; and (e) roll out biometric registration in the districts where access has been obtained and a targeting strategy accepted.

Observations	Agreed Actions
2 Protection – Redacted ⁶	Redacted.

⁶ Redacted under the WFP Policy for Disclosure of Oversight Reports - WFP/EB.2/2012/4-A/1 paragraph 13.

Table 5: Medium-priority observations

Observations	Agreed Actions
<p>3 Partnerships – Management of cooperating partners</p> <p>The 2016 internal audit of operations in Yemen highlighted partnership management as a high-risk area for the CO. Over the audit period, the new management team implemented controls strengthening the processes for the selection and evaluation of CPs. This led to a more transparent allocation of caseloads and improved coordination for distribution planning with all CPs. This then allowed for the scale up of assistance to 7 million beneficiaries, while allowing to mitigate the risk related to partners management.</p> <p><i>Overall partnerships</i> - Significant challenges remain in the coordination of the CPs' work. Inconsistent CP reporting, mainly for the de facto authorities' Ministry of Education (MoE), was delaying the clearance of monthly distribution reports. Moreover, half of the 2017 field monitoring visits highlighted issues of concern with the implementation of programme activities by partners, such as late and/or partial distributions.</p> <p>During the audit period, the CO was in the process of renegotiating with CPs their scope of work and cost of services. The audit noted that some activities started prior to endorsement by the CP Committee, and the signing of corresponding field level agreements. However, the audit notes that Letters of Intent were signed with CPs while an agreement was being reached.</p> <p><i>Ministry of Education</i> - The de facto authorities' MoE is a historical partner to WFP, with a broad network and available infrastructure in the country to reach people in need, and to use political leverage on the ground. However, despite regular and consistent meetings to coordinate the implementation of programmes and ensure compliance with agreements and deliverable commitments, the MoE's performance evaluations by the CO continue to report significant weaknesses and poor performance.</p> <p>During 2017, the MoE's relative caseload has gradually decreased; however, further decreases in its assigned caseload were not accepted by local authorities, most notably in the Al Bayda, Amran, Ibb, and Sa'adah governorates, with no justifiable reasons provided. The adequacy and reliability of internal controls and processes in the execution of programme activities by the MoE remain a concern. Its centralized management structure has limited ability to coordinate and oversee field operations in around 2,000 FDPs on a monthly basis. However, the CO remained reliant on the MoE's programme delivery for 40 percent of beneficiaries country-wide, and 60 percent for in-kind assistance in northern governorates.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> (a) develop a plan to support and improve communications with the MoE and build capacities to strengthen WFP's partnership with the institution; (b) develop a plan and conduct oversight activities with its main CPs to identify and address internal control weaknesses. Results will be incorporated in partners' evaluation forms and serve as the basis for capacity building and partner selection; and, (c) coordinate with the United Nations Country Team (UNCT), and evaluate possibility to leverage on existing harmonized approach to cash transfer (HACT) audits implemented by other UN agencies.

Observations	Agreed Actions
<p><u>Underlying cause:</u> Large dependence on a partner with limited capacity due to security restrictions, access challenges and a management structure that is not fit for purpose; limited use of the audit clause in field level agreements to exercise control and oversight over CPs; political interference preventing WFP from allocating caseloads to CPs based on performance merits.</p> <hr/> <p>4 Cholera response – Agreement for service provision</p> <p>Following a request by the World Health Organization (WHO), WFP entered into a service level agreement (SLA) in August 2017. The SLA supports the cholera response with the construction of diarrhoea treatment centres, information technology and communications support to emergency centres, and logistics capacity augmentation. While the emergency response and mobilization of functional units and staff was noted to be effective, the audit noted the following weakness in overall project management.</p> <p>As the needs and the epidemic evolved, an expansion and review of activities under the existing SLA was agreed and extended, through an annex, to non-cholera related items and services, moving to a wider supply chain concept. At the time of the audit, this annex had not been signed, even though ensuing contractual agreements (notably with construction companies) had been finalized and commitment entered into by WFP. The lack of a formalized agreement and an exit strategy presents a financial and operational risk to WFP.</p> <p><u>Underlying cause:</u> Changing needs and evolving epidemic situation on the ground; lack of a framework to define the scope and limit the duration of services in response to the cholera emergency versus other non-emergency objectives.</p>	<hr/> <p>The CO will formalize with WHO two separate SLAs: one specific to the emergency cholera response with a clear exit strategy, the other for a wider and continuing supply chain support for non-emergency related support services.</p>

Observations	Agreed Actions
<p>5 Management Oversight – Management oversight alignment and follow up</p> <p>The compliance function plays an important role in supporting management’s oversight of internal controls, governance and risk management, particularly in a complex and risk-prone operating environment. During 2017, the CO gradually strengthened its compliance function by bringing on-board a new risk and compliance officer and authorizing new positions for the function. Opportunities to further strengthen the compliance function were noted including:</p> <ul style="list-style-type: none"> • <i>Better alignment of risks, plans and products</i> – due to priority requests from management, emerging risks and lack of staff, a few objectives of the compliance work plan, including beneficiary information and identity management and structured compliance analytics, could not be carried out. Moreover, compliance reports and outputs were inconsistent and, in a few instances, were unclear in their conclusions, implications or recommendations; • <i>Tracking and follow up</i> - findings arising from the work of the compliance function were not systematically tracked or fully documented to evidence that appropriate action was taken to address the internal control weakness; and, • <i>Coordination</i> – reports from headquarter (HQ) and the Regional Bureau Cairo (RBC) support missions that included findings and recommendations on internal control weaknesses and compliance issues had not been shared with, or were visible to, the compliance function. <p><u>Underlying cause:</u> Compliance function not yet fully staffed; processes, procedures and tools for the systematic assessment of risk, work planning, reporting and follow-up not finalized; changing risk landscape and emerging and un-planned requests by management requiring urgent redress, resulting in a shifting focus by the compliance function.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> (a) complete the staffing of the compliance function; (b) finalize the standard operating procedures (SOPs) and tools for the risk assessment and compliance work plan for the upcoming year, and systematically track, follow-up and evidence the closure of recommendations; and (c) inform the compliance function of all proposed support and oversight missions, and provide it with all relevant reports for its review and comments.

Observations	Agreed Actions
<p>6 Supply Chain – Procurement of non-food items and services, and transport services</p> <p>The 2016 internal audit report made two high-risk observations, noting a number of issues, in the supply chain process. The audit noted significant improvement in this area from March 2017 as a result of the new management’s drive to implement the actions agreed with the Office of Internal Audit. While the governance and oversight processes over procurement activities were generally noted to be designed and operating effectively, further opportunities for improvement were identified as follows:</p> <p><i>Procurement planning</i> - during the audit period, the CO purchased USD 26.3 million worth of goods and services. The CO had completed its procurement plan; however, only the inputs from the supply chain and information technology and telecommunications functions were comprehensive enough to allow proper sourcing and procurement planning.</p> <p><i>Review processes</i> – The CO has improved and continues to refine its processes for the procurement of goods and services, introducing enhanced due diligence and selection procedures. However, prior to the introduction of these enhanced procedures, the audit noted two instances of inconsistencies and inaccurate information (for example, references to prior and undocumented procurement committee decisions and suspension of suppliers) within the audit sample. These were not detected by the procurement committee before approval by the procurement authority in some of the procurement actions, with one of them attributed to inaccurately documented actions. The completeness and accuracy of the review process is key in guaranteeing the integrity of the procurement process.</p> <p><i>Assessment of transporters</i> – Information gaps and inconsistencies were not detected or addressed in the assessment of transporters’ eligibility for inclusion in the November 2016 roster. Moreover, the composition of the panel for the re-assessment of suspended transporters in June 2017 was not attended by a logistics officer to assist in the evaluation of the re-instatement of suspended transporters. The CO stated a new round of assessments was carried out in October 2017 for new transporters, and said it has revised governance mechanisms and was planning to review all existing transporters going forward.</p> <p><u>Underlying cause:</u> Evolving processes, incomplete inputs, and exigencies of procurement in an emergency context; inconsistent involvement of senior staff and insufficient monitoring of procurement actions, including waivers and assessment of vendors prior to the introduction of enhanced vetting and review processes, and staffing gaps in 2016 and 2017.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> (a) ensure that the CO’s procurement plan is prepared on the basis of a complete set of information submitted by all participating functional units; (b) ensure the procurement function is adequately staffed and includes senior and experienced officers to support the planning, review and monitoring of procurement actions; (c) set a plan and deadline to carry out a complete review of existing transporters not previously examined in October 2017; and (d) finalize its procurement operating procedures, ensuring all issues noted by the audit are captured and addressed.

Observations	Agreed Actions
<p>7 Supply chain – Deliveries and distribution cycle</p> <p>Inquiry with CPs indicated common late food deliveries to FDPs – i.e. in the month following the distribution cycle. Over the audit period, the CO discontinued the practice of alternate distributions, and directed CPs to distribute entitlements within the designated distribution cycle. This resulted in a decrease in late deliveries from 20 percent of total distributions in June 2017 to less than 1 percent in September 2017.</p> <p>The audit noted that the corporate system LESS did not allow to capture commodity delivery data at FDPs in real time and no validation checks were in place; waybill data relies on manual processes prone to mistakes and gaps and were found to be inconsistently completed by CPs. Moreover, systemic errors were found in the waybill data recorded in LESS, thus increasing the likelihood of late deliveries going undetected. The supply chain and programme units were addressing this issue through the development of an Excel-based tracking sheet and by collecting delivery confirmations directly from CPs and transporters via phone or email. This set of tools was inadequate and highly unreliable in addressing the complexity and scale of the CO’s operation, with close to 10,000 dispatches per month.</p> <p>Further measures were implemented by the CO to deduct the value of undeclared commodities on a pro-rata basis from CPs that fail to record the date of receipt on the waybills. Transporters have also been advised to work with CPs to ensure confirmation waybills are signed before being submitted to WFP. In addition, the CO was in the final stages of developing an in-house solution (the Online Food Tracking System) to track food movements from warehouses to the FDPs and the CO expects to rollout this system in the first quarter of 2018.</p> <p><u>Underlying cause:</u> Partners’ non-compliance with agreed requirements to report information on waybills; limitations of the LESS corporate system in enabling the timely recording and capture of commodity delivery data at FDPs.</p>	<p>(1) The CO will:</p> <ul style="list-style-type: none"> (a) establish a process to monitor CP’s timely and accurate completion of waybills, and withhold payment from CPs as required, on a pro-rata basis, for instances where waybills are not duly and consistently completed; (b) finalize implementation of the food tracking system as a temporary solution to track dispatches and deliveries to FDPs; and <p>(2) OSC will define a timetable for the roll-out of the corporate solution – Last Mile – addressing issues of delivery data in LESS, and prioritize rollout for COs where the solution will have a greater impact.</p>
<p>8 Monitoring – Limited monitoring coverage and third-party monitoring dependency</p> <p>The CO was assisting over 7 million beneficiaries in more than 10,000 FDPs (including nutrition centres). The audit noted significant improvement in monitoring over the audit period, including the implementation of a new hotline for beneficiaries, and adoption of a centralized online monitoring platform. Moreover, monitoring planning had been decentralized to sub-offices to increase the effectiveness and efficiency of the monitoring and follow-up processes.</p> <p>Despite this progress, the audit noted that on average only one out of eight FDPs had a monitoring field visit in 2017. In some conflict-affected areas, this ratio was significantly lower. Remote monitoring through call centres only partially compensated for the lack of field monitoring coverage. Due to access restrictions, 80 percent of monitoring activities were performed by a single third-party monitor (TPM)</p>	<p>The CO will:</p> <ul style="list-style-type: none"> (a) diversify its portfolio of TPM service providers and increase the overall coverage of TPM activities to include a significant proportion of FDPs and nutrition centres; and (b) update the monitoring SOPs to include quality assurance reviews of TPM reports by WFP field monitors.

Observations	Agreed Actions
<p>creating a dependency risk. In mid-2016, the contract with the former TPM service provider was discontinued for political reasons, causing a significant monitoring gap in the month of July 2016. Monitoring SOPs did not provide for the performance of quality assurance reviews of TPM reports by WFP field monitors.</p> <p>Fifty percent of the CO's monitoring plan for the audit period was not completed due to access restriction, security and coordination issues and administrative burdens in organizing field missions to areas not covered by sufficient security. WFP monitors dedicated only limited time to quality assurance reviews of the TPM's reports.</p> <p><u>Underlying cause:</u> Access restrictions and active conflict zones; large-scale operations with significant field challenges.</p>	
<p>9 Monitoring – Complaints and feedback mechanisms (CFM)</p> <p>The CO established a toll-free hotline for beneficiaries to provide feedback and report any issues in relation to WFP programmes. The hotline, in complementing WFP and TPM efforts, provided insights into programme design and delivery issues as well as potential cases of abuse of power, fraud, corrupt practices, and beneficiary protection issues. The following issues were noted:</p> <p><i>Lack of awareness</i> – The CO received an average of 660 calls per month, equivalent to 0.04 percent of registered households. Post-distribution reports confirmed a low level of awareness of the hotline by beneficiaries. While the CO had been engaging with CPs to promote the hotline, these efforts have not been not tracked, followed up or supported with visibility materials.</p> <p><i>Data management and closure procedures</i> – The classification, categorization and prioritization of hotline reports was not consistent throughout the audit period. As a result, issues of alleged fraud, corruption and abuse of power, while being followed up, were not marked or treated as high risk or were incorrectly categorized. In some instances, the status of cases was not updated and in many cases, hotline reports were not closed.</p> <p><i>Integration of CFMs</i> – CP's CFMs were not integrated into WFP's hotline database. Such integration would have helped to coordinate and leverage these for more effective and efficient monitoring.</p> <p><u>Underlying cause:</u> Changing and evolving processes for capturing data and managing hotline reports; follow up process not supported by a system to assign and track the actions of responsible owners.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> (a) review and update its operating procedures for in-taking, recording and updating cases reported to the hotline; (b) work with CPs on the integration of CFMs through a common approach and taxonomy for in-taking complaints; and (c) implement supervisory procedures and automated solutions for tracking and closing hotline reports with assigned responsible persons, ensuring proper escalation procedures are followed.

Observations	Agreed Actions
<p>10 Human Resources – Staffing and structure reviews and workforce planning</p> <p>The CO went through a period of rapid growth and restructuring during the first half of 2017. The audit noted that while the CO improved its human resources (HR) management through the introduction of systematic tracking and improved management of recruitment activities, opportunities for improvement remain available as detailed below.</p> <p><i>Staffing and Structure Review (SSR)</i> – a rapid SSR exercise was carried out between March and July 2017 to ensure the staffing requirements of the CO were met. The exercise was not robust enough in its documentation of the justifications for the proposed changes or employment contract types, budgeting for staff cost, comparative analysis of different staffing scenarios, or risk assessment on the feasibility and sustainability of the proposed changes. The CO plans to carry out a comprehensive exercise in 2018 as part of the Interim Country Strategic Plan (ICSP).</p> <p><i>Workforce planning</i> - The development of in-depth workforce planning and sourcing strategy would help the CO attract and retain staff and address the limitations imposed by the denial of visas by the de facto authorities. A workforce strategy may help the CO to (1) choose the best option to increase its current capabilities to better serve beneficiaries (for example, recruiting, outsourcing or building the skills of existing staff); (2) identify the local talent and leadership capacities required to enable the continued and effective delivery of assistance and mitigate the impact of a possible withdrawal of international staff from the CO; and (3) optimize its staffing levels and employment contract arrangements, decentralized functions in Amman and Djibouti, in view of the medium and long-term changes that follow should there be a future scale down of operations. Some of these opportunities were already identified by a high-level review commissioned by management subsequent to the issuance of the 2016 internal audit report.</p> <p><u>Underlying cause:</u> Rapid increase in demand for personnel and increased volume of HR transactions without adequate HR staffing support; lack of periodic and coordinated planning with the CO's heads of unit.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> (a) carry out a SSR as part of the ICSP scheduled for 2018 in line with corporate guidelines; (b) develop a plan to strengthen its workforce planning and take steps to increase coordination among the heads of units.
<p>11 Security – Redacted⁷</p>	<p>Redacted.</p>

⁷ Redacted under the WFP Policy for Disclosure of Oversight Reports - WFP/EB.2/2012/4-A/1 paragraph 13.

Annex A – Summary of categorization of observations

The following table shows the categorization ownership and due date agreed with the auditee for all the audit observations raised. 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 Programme – Targeting and registration of beneficiaries	Control Activities	Programmes	Institutional	Best practice	YECO	31 October 2018
2 Protection – Redacted ⁸	Control Activities	Processes & Systems	Programmatic	Compliance	YECO	30 June 2018
3 Partnerships – Management of cooperating partners	Control Activities	Partnerships	Institutional	Guidelines	YECO	30 June 2018
4 Cholera response – Agreement for service provision	Control Activities	Processes & Systems	Institutional	Best practice	YECO	30 June 2018
5 Management oversight – Management oversight alignment and follow up	Risk Assessment	Processes & Systems	Institutional	Guidance	YECO	30 June 2018

⁸ Redacted under the WFP Policy for Disclosure of Oversight Reports - WFP/EB.2/2012/4-A/1 paragraph 13.

Observation	WFP's Internal Control Framework	Risk categories		Underlying cause category	Owner	Due date
		WFP's Management Results Dimensions	WFP's Risk Management Framework			
6 Supply Chain – Procurement of non-food items and services, and transport services	Control Activities	Processes & Systems	Programmatic	Compliance	YECO	30 June 2018
7 Supply chain – Deliveries and distribution cycle	Control Activities	Processes & Systems	Programmatic	Compliance	YECO OSC	30 June 2018 30 June 2018
8 Monitoring – Limited monitoring coverage and TPM dependency	Monitoring Activities	Programmes	Programmatic	Best practice	YECO	30 June 2018
9 Monitoring – Complaints and Feedback Mechanisms (CFM)	Monitoring Activities	Programmes	Institutional	Best practice	YECO	30 June 2018
10 Human Resources – Staffing and structure reviews and workforce planning	Control Activities	People	Institutional	Guidance	YECO	31 July 2018
11 Security – Redacted ⁹	Control Activities	People	Institutional	Resources	YECO	30 June 2018

⁹ Redacted under the WFP Policy for Disclosure of Oversight Reports - WFP/EB.2/2012/4-A/1 paragraph 13.

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 Categorization 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.

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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.¹⁰
5. To facilitate analysis and aggregation, observations are mapped to different categories.

2.2 Categorization 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.”¹¹ 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 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.

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.

¹⁰ 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.

¹¹ OED 2015/016 para.7

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

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

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

CFM	Complaints and Feedback Mechanism
CO	Country Office
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CP	Cooperating Partner
EMOP	Emergency Operation
FAO	Food and Agriculture Organization
FDP	Food Delivery Point
GPS	Global Positioning System
HR	Human Resources
HQ	Head Quarters
ICSP	Interim Country Strategic Plan
ICF	Internal Control Framework
L3	Level 3
LESS	Logistics Execution Support System
MoE	Ministry of Education
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
OSC	Supply Chain Division
PO	Purchase Order
PRRO	Protracted Relief and Recovery Operation
RBC	Regional Bureau Cairo
SLA	Service Level Agreement
SO	Special Operation
SOP	Standard Operating Procedure
SSR	Staffing and Structure Review
TPM	Third Party Monitoring
UNCAF	United Nations Common Accommodations Facility
UNCT	United Nations Country Team
WFP	World Food Programme
WHO	World Health Organization