Internal Audit of WFP Operations in the Philippines

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Contents

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I. Executive Summary

Introduction and context

1.   As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP's operations in the Philippines that focused on the period 1 January to 31 December 2017. Expenditures in the Philippines totalled USD 12 million in 2017, representing 0.2 percent of WFP's total direct expenses for that year. The audit team conducted the fieldwork from 12 to 28 March 2018 at the Country Office premises in Manila and through onsite visits to the Cotabato and Iligan Sub-Offices.

2.   WFP's presence in the Philippines dates from 1968. It was re-established in 2006 at the request of the Government of the Philippines to support the ongoing peace process in the Mindanao region. WFP's strategy in the country is to build the resilience of vulnerable population groups and communities through a range of market-sensitive food-assistance options, and enhance the Government's disaster response capability, particularly logistics and supply chain management. After the armed conflict started in Marawi City in May 2017, WFP complemented the Government's Marawi crisis response with the provision of rice to the most vulnerable households, and by conducting joint Emergency Food Needs Assessments.

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

Audit conclusions

4.   The Country Office implemented food security and capacity strengthening activities during the audit period, and following the Marawi City siege in June 2017 was able to respond to emergency needs leveraging existing structures. Stakeholders consulted during the audit recognized WFP's achievements and interventions in contributing to the increased disaster response capacity of government entities in recent typhoons and landslides. The Country Office is preparing to implement a Country Strategic Plan in mid-2018, as part of WFP's Integrated Road Map transition. Partners met during the audit highlighted the alignment of WFP activities and strategy with country priorities, and the recent improvement in donor coordination and reporting.

5.   The WFP Regional Bureau Bangkok conducted multiple support missions in preparation for the Country Strategic Plan, and the Country Office had begun to address recommendations arising from these missions. The Country Office proactively requested a staff wellness mission in 2017 in an attempt to improve the working environment and staff interactions, and to manage staff morale and work-related stress. The audit received confirmations from staff that recent initiatives had contributed to improved internal coordination and clarity of the Country Office's strategy.

6.   Over the previous three years overall funding remained limited, although in the second half of 2017 contributions increased following the Marawi crisis. At the time of the audit, fieldwork operations were 58 percent funded. The Country Office had not yet developed a resource mobilization strategy aligned to the new Country Strategic Plan, and funding received was almost entirely for emergency activities. In the absence of seed funding, there are risks regarding the development of new and/or non-emergency activities under the Country Strategic Plan. These relate to the long-term sustainability of the revised strategy, making the Country Office's ability to attract and retain the capacity and skills required for the implementation of

these new activities uncertain. These issues will require re-assessment should the funding situation not change.

7.   An absence of agreements with key government partners outlining operational frameworks, as well as limited capacity and risk assessments to guide programme implementation, impacted the targeting and management of beneficiaries/participants and quality of delivery. There was limited visibility of WFP capacity strengthening interventions and attribution of results to WFP. Monitoring targets were not achieved and there were weaknesses in the implementation of the monitoring plan and in the management of feedback mechanisms.

8.   Tools for the definition and tracking of overall objectives, and for risk management and emergency preparedness, needed completion or updating. Procedures and compliance in procurement, and some other areas, required strengthening.

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 generally established and functioning well, but needed improvement to provide reasonable assurance that the objective 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. Management action is required to ensure that identified risks are adequately mitigated.

Key results of the audit

10. The audit report contains one high priority and seven medium priority observations. The high priority observation is:

11. **Collaboration with partners, targeting and implementation of activities**: agreements with partners did not provide an operational framework for collaboration, limiting WFP's visibility over its partners' targeting of beneficiaries in the area of food security, and over the levels and profiles of training participants in the area of capacity strengthening. This led to inclusion and exclusion errors confirmed during audit field visits, along with weaknesses in commodity management by partners. Emergency food distribution beneficiary lists were not shared with the Country Office by government partners until December 2017. There were no due diligence and/or capacity assessment of partners, nor assessments of the risks of specific partnership arrangements to ensure operational effectiveness of programmatic activities. A lack of corporate guidance in these areas was also noted.

Actions agreed

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

13. 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

The Philippines

14. With an estimated population of 103.9[1] million in 2016 and ranking as the thirteenth most populated country in the world, the Philippines is one of the most dynamic economies in the East Asia and Pacific region. It reached a 6.9 percent Gross Domestic Product growth rate[2] in 2016. World Bank estimates indicate that extreme poverty, measured by the international poverty line of USD 1.9 a day (2011 purchasing power parity), decreased from 10.6 percent in 2012 to 8.4 percent in 2015. Although the prevalence of children aged 6-23 months eating the Minimum Acceptable Diet tripled from 6.4 percent in 2013 to 19 percent in 2015, the percentage of nursing mothers at risk worsened from 11 to 14 percent in the same period and stunting prevalence in children aged 0-59 month increased to 33.4 percent[3].

15. One of the most disaster-prone countries in the world, with an average of 20 typhoons a year, the Philippines has a food deficit caused by the combined effects of natural and man-made disasters. In May 2017 armed conflict began in Marawi City, in Mindanao, between the Armed Forces of the Philippines and local non-state armed actors; families were displaced and martial law was declared for the entire Mindanao island. The people in the Central Mindanao region are the country's poorest, showing significantly lower rates of primary-school completion, and higher rates of stunting growth among children under five. The armed conflict and the occurrence of Typhoon Vinta in December 2017 further affected the food security situation. In February 2018, 35 percent of the affected population was estimated to be moderately to severely food insecure, and only 7 percent food secure[4].

WFP Operations in the Philippines

16. The Country Office (CO) has prepared a Country Strategic Plan (CSP) for the period 2018-2022, with a budget of USD 33 million, approved in draft by the Regional Bureau Bangkok (RBB), and scheduled to be presented in June 2018 for approval by the WFP Executive Board. The CSP draws from a Strategic Review of Food and Nutrition Security in the Philippines and aims to align WFP activities to the Philippines Development Plan priorities in terms of development of policies and guidelines directly linked to food security and nutrition, and to the Regional Development Plan of the Autonomous region of Muslim Mindanao.

17. The CSP identifies the following four strategic outcomes (SOs):

   a.   SO1: Crisis-affected people in the Philippines are able to meet their food and nutrition needs during and immediately after an emergency.
   b.   SO2: Women, boys and girls in provinces prioritized by the Government have adequate and healthy diets to reduce malnutrition, in line with government targets, by 2022.
   c.   SO3: Vulnerable communities in Mindanao have improved food security and nutrition, in support of government targets, by 2022.
   d.   SO4: National and Local Government Authorities have enhanced capabilities to reduce vulnerabilities to shocks, by 2022.

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[1] http://data.un.org/CountryProfile.aspx?crName=philippines
[2] https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG
[3] Food and Nutrition Research Institute 2015 National Nutrition Survey
[4] WFP Emergency Food Security Assessment February 2018

18. During the audit period, the CO implemented its strategy through a Protracted Relief and Recovery Operation (PRRO), a Special Operation, an Immediate Response Emergency Operation (IR-EMOP), and a Trust Fund (TF):

    a. PRRO 200743, with a budget of USD 61 million, aimed at building the resilience of vulnerable population groups and communities through a range of market-sensitive food-assistance options.

    b. Special Operation 200706, with a budget of USD 8.4 million, aimed to address challenges identified during the Typhoon Haiyan response in order to: (i) enhance the disaster response capability of the Government of the Philippines, particularly logistics and supply chain management; and (ii) ensure that WFP is ready to activate emergency response options at-scale, in a timely manner, and in alignment with government relief mechanisms, especially with regard to in-kind food and cash transfer options.

    c. TF 201003, with a budget of USD 2.4 million, aimed to enhance government rapid response capacity, strengthening the strategic partnership between WFP, the Office of Civil Defence and the Department of Social Welfare and Development.

    d. IR-EMOP 201084, with a budget of USD 0.5 million, aimed at complementing the Government's Marawi crisis response with the provision of rice to the most vulnerable households, and conducting of joint Emergency Food Needs Assessments with focus on Agrarian Reform Communities.

Objective and scope of the audit

19. 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 the Philippines. 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.

20. 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.

21. The scope of the audit covered the period from 1 January to 31 December 2017. Where necessary, transactions and events pertaining to other periods were reviewed.

22. The audit field work took place from 12 to 28 March 2018 at the CO premises in Manila and through onsite visits to the Cotabato and Iligan Sub Offices.

III. Results of the Audit

Audit work and conclusions

23. Taking into account the CO's risk register (RR), oversight findings of WFP's second line of defence functions, as well as an independent audit risk assessment, the audit work was tailored to the country context and to the objectives set by the CO.

24. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **Partially satisfactory / Some improvement needed** [5]. 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. Issues identified by the audit could negatively affect the achievement of the objectives of the audited entity/area. Management action is required to ensure that identified risks are adequately mitigated.

25. The Office of Internal Audit, in supporting WFP's management's efforts in the areas of risk management and data quality, separately report its assessments or gaps identified in both areas.

Risk management maturity (see Observation 3)

26. The CO 2018 RR had not been finalized at the time of fieldwork, and the 2017 RR and respective mitigation actions have been used as a basis to assess risk maturity. At the time of the audit, the 2018 Annual Performance Plan (APP), including the RR, was being coordinated by the risk management focal point and timelines for finalization were being defined.

27. Three of the issues identified during the audit were partly captured in the CO's RR. Three represent concerns that although not formally tracked had already received management attention, while two observations represent additions to the CO's risk identification efforts. The process for risk identification and assessment would benefit from looking at emerging risks related to transition to the CSP and by integrating periodic updates from subsets of the RR prepared by CO units.

28. Oversight missions from RBB technical units performed reviews of controls and processes in areas of CO operations during the audit period. They identified gaps which may be used by the CO as a source for updates of its RR or reassessment of the effectiveness of mitigation actions. Most of the RBB oversight mission agreed action plans were being addressed or implemented at the time of the audit fieldwork.

Data quality

29. Challenges relating to data quality identified during the audit are reported in observation 2, with regard to the utilization of monitoring systems, and observation 8, concerning the recording of assets and the use of purchase order (PO) types.

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[5] See Annex B for definitions of audit terms.

Observations and actions agreed

30. Table 1 outlines the extent to which audit work resulted in observations and agreed actions. These are rated as medium or high priority; observations that resulted in low priority actions are not included in this report.

Table 2: Overview of areas in scope, observations and priority of agreed actions

Priority of issues/agreed actions

A: Governance and structure	
The CO had not completed the APP for 2017 and 2018, for definition and tracking of overall objectives and key performance indicators (KPIs), including risk registers. Transitioning to the CSP, a Partnership Action Plan (PAP) was not yet available, and there were concerns in terms of capacity and skills for the operationalization of all aspects of the new strategy. Several other corporately required planning and preparedness tools were either pending completion or outdated.	
1 Strategic planning and performance, including IRM readiness	*Medium*
2 Organizational structure, skills and capacity	*Medium*
3 Risk management and emergency preparedness planning	*Medium*
B: Delivery	
An absence of agreements with government partners outlining operational frameworks, as well as a lack of partners' due diligence and/or capacity/operational risk assessments, impacted the transparency of targeting and beneficiary management, and the quality of programme delivery. There was limited visibility of WFP capacity strengthening interventions and results attribution. Monitoring targets were not achieved and there were weaknesses in the implementation of the monitoring plan and in feedback management.	
4 Collaboration with partners, targeting and implementation of activities	*High*
5 Implementation of the monitoring plan and feedback management	*Medium*
6 Visibility and attribution of country capacity strengthening (CCS) outputs and long-term outcomes	*Medium*
C: Resource management	
The CO has raised limited funding over the last three years, in particular for non-emergency response activities such as those included in the CSP; this may impact the development of these activities and their long-term sustainability. A donor mapping exercise had been completed, but not a resource mobilization strategy, pending the completion of a PAP. Recurrent costs may not be fully covered under the CSP given funding challenges.	
7 Resource mobilization and basis of allocation of recurring costs	*Medium*
D: Support functions	
Procedural and compliance issues related to vendor identification, contracting and contract management, spending analysis and validity checks of performance bonds were noted in the procurement process. High value non-food item (NFIs) from previous emergency responses were being maintained in storage without plans for possible use or disposal, resulting in risks of potential obsolescence and unnecessary storage costs.	
8 Procurement and NFI stocks management	*Medium*
E: External relations, partnerships and advocacy	
Contextual information, positive practices, and issues relating to coordination with the multiple stakeholders are reflected in the Governance, Delivery and Resource management sections and observations 1, 4 and 7.	
F: Information and Communication Technology (ICT)	
Contextual information, positive practices, and issues relating to implementation of ICT systems in support of CO programmatic activities are reflected in the Governance and Delivery section and observations 1 and 5.	

G: Cross-cutting

Contextual information, positive practices and issues relating to working environment and knowledge management are reflected in the Governance and Delivery sections and observations 1 and 6.

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31. The eight observations of this audit are presented in detail below.

32. Management has agreed to take measures to address the reported observations[6]. An overview of the actions 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.

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

Governance and structure

The audit performed tests and reviews of strategic planning and performance including: the effectiveness of mechanisms in place for defining and monitoring CO objectives; the preparation of the CSP; elements of preparedness to achieve defined objectives and transition to the CSP including the implementation of SCOPE; organizational set-up and scale-up for effective delivery; internal coordination and relationships with external stakeholders; and mechanisms for management oversight and risk management, including fraud prevention and ethical aspects.

Following the Marawi City siege in June 2017, the CO was able to respond to needs leveraging the CO structure already in place. Stakeholders met by the audit were generally positive regarding the potential for CO senior management to improve coordination and the alignment of WFP activities and strategy with country priorities, reflected in the CSP due for approval in June 2018.

The CO recently introduced initiatives to enhance internal coordination, and staff indicated a positive trajectory with regard to clarity of the CO's strategy. The CO proactively requested a wellness support mission from RBB, to help improve the working environment and interaction with management, and to assist in managing staff morale and work-related stress. During the audit period and in 2018 there were several other support missions from RBB in preparation for the CSP, including missions in the second quarter of 2018 for the emergency preparedness and response package (EPRP) and RR preparation.

Observation 1	**Agreed Actions** [Medium priority]
Strategic planning and performance, including IRM readiness	The CO will:
The CO had not completed the 2017 APP, to define and track overall objectives and KPIs, and had not started the 2018 APP. At the time of the audit fieldwork, this was planned for the second quarter of the year.	(i) Prepare the APP for 2018 in line with corporate requirements;
The CO is transitioning to the CSP, due for approval in June 2018, and had started preparing a workplan for the transition, but this had not been finished at the time of the audit. Consultations involved various stakeholders, however a PAP for CSP formulation was not available at the time of the audit fieldwork.	(ii) Prepare a PAP to assess completeness of CSP consultations and finalize the workplan for the transfer to the CSP, identifying roles and responsibilities;
CCS activities have been implemented as part of the current programme portfolio and the CSP is envisaged to include two strategic outcomes on CCS. However, at the time of the audit, training on and support for the implementation of new CCS corporate guidelines and tools had not been cascaded to most programme staff.	(iii) Liaise with RBB/HQ to schedule training or exchange visits to other COs implementing CCS activities using the new corporate guidelines and tools;
Cash-based transfers (CBT) comprise a critical activity of the CSP, as well as a major area of focus for donors with expectations of further development from WFP, yet there is limited capacity at CO level for CBT activities and the use of SCOPE. Currently available CSP non-emergency funding for CBT is limited and relates to activities for asset creation; there is a risk of activity design issues and implementation non-readiness, when shifting the approach from that used previously (effectively cash for work activities) to that prescribed by current corporate guidance.	(iv) Liaise with HQ to assess CBT capacity needs, including for use of SCOPE, in line with and to finalize received requests; and
In 2016, the CO received requests from a governmental partner to implement SCOPE for social protection activities. Although a proposal was drafted in consultation with headquarters (HQ), this was not finalized and submitted. There may be a loss of opportunity to engage with partners in strengthening beneficiary management systems.	(v) Reassess the design of CBT programmes in line with corporate guidance and identify actions for implementation readiness.
Underlying causes: Limited funding and staff capacity leading to (de)prioritization of activities. Corporately driven timeline for formulation of the CSP.	Due dates: **31 December 2018**

Observation 2	**Agreed Actions** [Medium priority]

Organizational structure, skills and capacity

The audit observed that CO skills and capacities are limited and are not aligned with operational needs for current and future activities included in the CSP. At the time of the audit fieldwork, a workforce planning exercise was ongoing with the support of RBB, to align the organizational structure to the CSP; this will be followed by a skills gap analysis and the finalization of a new CO organigramme. Vacant positions were on hold pending CSP structure definition, and there are risks in terms of staff cost sustainability for the transition to the CSP, specifically for non-emergency activities given current funding levels.

There were unclear reporting lines for some combined roles, specifically monitoring and donor relationships and reporting, also highlighted by a recent RBB mission.

All national staff are on short term/consultancy contracts, some of which are longstanding, including 17 for more than 10 years. This, coupled with very short-term contract renewal, has resulted in low staff morale, job uncertainty and high staff turnover. Issues in internal coordination, working environment and communication over the audit period were indicated by multiple sources, including the RBB wellness mission carried out in August 2017; staff generally indicated improvement since late 2017, however actions taken to escalate/address specific issues have not yet been formalized and tracked.

The compositions of some internal oversight committees require updating in line with organizational evolution and to ensure compliance with corporate rules.

Underlying causes: Funding constraints. Organizational structure rationalization based on funding criteria only. Limited options for staff committee composition.

The CO will:

(i)   Finalize workforce planning, skills gap analysis and the new organigramme, taking into account funding levels and the opportunity to offer more stable contracts, and ensuring effective communication with staff;

(ii)   As part of the finalization of workforce planning, clarify reporting lines where necessary;

(iii)   Develop an action plan to address identified staff wellness issues; and

(iv)   Review the composition of oversight committees to ensure alignment with organizational evolution and applicable rules.

Due dates: **31 December 2018**

Observation 3	**Agreed Actions** [Medium priority]

Risk management and emergency preparedness planning

The CO risk register for 2018 had not been finalized at the time of the audit fieldwork. Emerging risks related to the transition to the CSP, including staffing and the use of third party monitoring (TPM), had not been assessed and profiled.

The CO EPRP action plans were last updated in 2016 and the business continuity plan (BCP), disaster recovery plan (DRP), and security risk assessment (SRA) were not formalized in accordance with corporate guidance; as such these key tools to inform risk management may not be suitable, effective and/or up-to-date in the context of a country which is highly disaster-prone.

Additionally, the CO Logistics Capacity Assessment (LCA) was last updated in 2012, and at the time of audit there were no defined plans and timelines to update it in line with corporate requirements.

Underlying causes: Key changes in staffing; competing work pressures in preparation for the CSP implementation.

The CO will:

(i)   Finalize the 2018 RR and ensure proper identification and profiling of all risks, including key risks emerging from the implementation of the CSP and the use of TPM; and

(ii)   Complete the BCP and DRP, and update the EPRP, evacuation plan and LCA, in line with corporate requirements.

Due dates: **31 December 2018**

Delivery

The audit performed tests and reviews of programme implementation for food security and CCS including: prioritization of activities; management of partnerships with government partners and cooperating partners (CPs); targeting and registration of beneficiary/CCS activities participants; on-site distribution management, including the effectiveness of beneficiary verification and validation; capacity building of CPs; and delivery of Disaster Preparedness and Response (DPR) training in Local Government Units (LGUs), including co-ordination with government counterparts and attribution of changes in capacity to respond to disasters by LGUs that received training and knowledge management systems. Other areas of audit focus were monitoring processes and implementation of monitoring plans, selection and management of TPM monitors, and management of feedback mechanisms.

Government counterparts met during the audit were positive about the fast response of WFP during the Marawi crisis, and recognized the increased disaster response capacity of government entities in recent typhoons and landslides attributed to WFP CCS interventions. A governmental partner met during the audit stated that following a capacity strengthening programme, its family emergency packs packaging plant had managed to significantly increase production efficiencies, and acknowledged increased capacity in planning and emergency logistics response following WFP training interventions.

In the audit period, the CO signed an agreement for TPM to complement its monitoring activities, and to strengthen segregation of duties when WFP monitoring staff are involved in programme implementation.

Observation 4	Agreed Actions [High priority]
Collaboration with partners, targeting and implementation of activities	The CO will:
The CO partners with government entities for the implementation of food security activities, and with non-governmental organizations (NGOs) and academia for CCS activities. The audit observed that no detailed agreements had been concluded to provide an operational framework for such collaborations with government counterparts. The general memoranda of understanding which are in place with some governmental partners do not include reference to ethics and prevention of sexual exploitation and abuse, which are standard clauses in other contractual arrangements with partners. The CO had not conducted due diligence and/or capacity assessments of any partners; nor had it carried out assessments to identify the risks of specific arrangements with government and CCS partners to enable the implementation of mitigating measures at a process level and to ensure operational effectiveness of programmatic activities[7].	(i) Establish agreements and operational frameworks with government partners (including roles, responsibilities, and requirements);
	(ii) Liaise with RBB, the Programme and Policy Division and other HQ units as appropriate, and, using existing partnership management guidance as a starting point, obtain relevant guidance and implement a system for assessing the risks associated with government and CCS partners. This will include capacity assessment, and possible reliance on targeting, beneficiary management and programme implementation procedures;
The CO had limited to no visibility over targeting exercises at geographical and beneficiary levels in the area of food security, and on the level of participants to the training offered in the area of CCS. In addition:	
• Emergency food distribution beneficiary lists were not shared by the government partners until December 2017. The main government partner indicated the system to identify and track beneficiaries in emergencies as an internal weakness.	(iii) Perform lessons-learned exercises with partners;
	(iv) Ensure prioritization decisions are properly formalized; and
• Profiles of participants nominated for logistics training from government counterparts were not formally reviewed by the CO.	(v) Address specific issues identified over programme implementation.

[7] The need for corporate guidance in these areas was raised as an observation in the Internal Audit report of Country Capacity Strengthening (AR/16/14).

- The CO had taken limited measures to mitigate inclusion/exclusion errors and to address risks related to beneficiary management and the broader implementation of programme activities through government counterparts.

Due dates: **31 December 2018.**

Food distribution attended during the audit confirmed possible inclusion and exclusion errors, as it was established that not all internally displaced persons in the area were on the master list. Weaknesses in the management of commodities by the partner were also noted, as no inventory records were maintained and the storage area was also used for NFIs and disused equipment.

The CO conducted emergency school feeding activities in 2017 following the Marawi crisis; the audit noted a two-month overlap with the National School Feeding programme (targeting malnourished children only), and that no visibility materials or guidelines were provided to schools. The prioritization criteria to scope down the regular school feeding programme following funding constraints in 2017 were unclear and not well documented.

Underlying causes: Limited staffing capacity / corporate guidance on how to manage collaboration with government partners. Nature of partnerships with Government (for instance, WFP is complementing national emergency response). Access restrictions (as a result of the martial law) and absence of international actors in the Marawi conflict areas.

Observation 5	**Agreed Actions** [Medium priority]
Implementation of the monitoring plan and feedback management	
The audit observed a number of areas requiring improvement in programmatic monitoring:	The CO will:
• Monitoring of CCS activities was performed by Supply Chain staff, with no visibility by the M&E unit; this arrangement was not regulated by the standard operating procedure (SOP) developed by the CO.	(i) Include CCS monitoring in the M&E scope of work, including CFM, and update SOPs;
• Although the CO introduced TPM in 2017 to complement its activities and manage increased volumes, the planned monitoring coverage for school feeding, general food distribution (GFD) and DPR was not achieved. The audit also identified some issues regarding the contracting and management of the TPM, and the recruitment of TPM staff as advised by the CO sub-office. There was no capacity and performance assessment before contracting, and the after-action review, carried out after contract renewal, indicated poor performance.	(ii) Reassess the monitoring plan and develop actions to achieve targeted coverage; (iii) Implement procedures to manage selection, capacity, delivery and performance assessment of the TPM partner in accordance with corporate guidelines and issues identified;
• During the audit period, the CO used two systems for carrying out monitoring activities, requiring manual processing to consolidate data and calculate indicators. Quality checks took place outside the systems.	(iv) Formalize recently introduced validation checks for GFD, and assess the possibility for partners to prepare reports themselves;
• Distribution reports were prepared by WFP and submitted to partners for approval. The CO indicated that validation checks for GFD had recently been introduced, including reconciliations with signed distribution lists and commodity collection coupons, but these were not evidenced.	(v) Implement and/or strengthen mechanisms for tracking, escalation and resolution of issues and complaints, taking into account all applicable corporate policies, and ensure visibility of CFM mechanisms to beneficiaries and partners;
The audit noted a number of indications that mechanisms in place to identify issues and receive complaints, including via the complaints and feedback mechanism (CFM), were not operating effectively:	(vi) Assess the feasibility of implementing a unique system for tracking monitoring activities and results.

- Beneficiaries had limited awareness and visibility of feedback mechanisms, including feedback from CCS partners and training participants.

- The SOP for management of CFM, although issued in 2016, was outdated and roles and responsibilities did not reflect evolution of the CO structure and allocation of activities.

- Actions taken to address issues/complaints received were not fully tracked.

- Actions to address specific reports and allegations received, including escalation to corporate level, were inconsistent or not in line with corporate requirements.

The CO had already identified the need for strengthening the CFM mechanisms, and reported that it plans to work on this topic in the second quarter of 2018.

Underlying causes: Unclear allocation of CCS activities. Staff reduction and workload, following increased volumes of activities for emergency response, and monitoring staff carrying out other activities. Issues in coordination between local authorities and TPM, limiting TPM information on rescheduled distribution. Implementation of martial law in some activity locations during the audit period, inhibiting access. Lack of consistent processes for complaints and issues handling. Delays in partner reporting in the absence of formal partner obligations. Tablets used for monitoring are incompatible with new corporate systems.

Due dates: 31 December 2018

Observation 6	**Agreed Actions** [Medium priority]

Visibility and attribution of CCS outputs and long-term outcomes

The focus of training carried out as part of logistics capacity strengthening activities was tracked through output-based indicators (such as number of staff trained, or number of training sessions) rather than via assessment of longer-term outcomes or changes in capacity. A key government counterpart met during the audit acknowledged positive changes in their logistics capacity after WFP trainings and investment in mechanised packaging systems (MPSs), but there was no visibility or tracking of these outcomes. The Special Operation did not have a logframe with defined indicators.

For the DPR project some of the LGUs who received disaster preparedness training and related equipment attributed their increased capacity to WFP intervention; however, there was limited visibility and attribution to WFP of such improved disaster preparedness capacity.

The MPS in Cebu, provided as part of the DPR Capacity Enhancement Project to support the Government to enhance production capacity of family emergency packs, was initially installed in a temporary rented location. At the end of the lease period, in October 2017, the machinery was mothballed and transferred on a loan agreement to the government counterpart, awaiting formal handover through a deed of transfer when the plant is re-installed. At the time of the audit the government counterpart had not yet finalized timelines for reinstallation. Prolonged delays may limit the supplier warranty period given that the plant was already installed.

The CO has been providing technical support to some key government counterparts through secondment of staff, but there were gaps in monitoring the execution of approved work plans and quality of outputs provided as part of this activity. There was no structured knowledge management and the CO risks possible loss of knowledge gained by staff who are engaged on a short-term basis.

The CO will:

(i) Define coordination mechanisms for the implementation of CCS activities between supply chain, programmes and M&E units, and incorporate both output and outcome based indicators;

(ii) Continue to follow up and seek formalized commitments from relevant government partners with defined timelines for re-installation of the MPS plant in Cebu, and negotiate with the supplier for a warranty variation; and

(iii) Introduce mechanisms to monitor the work of seconded staff in line with approved workplans, defined deliverables and compensation systems.

Due dates: 30 September 2018

<u>Underlying causes:</u> Limited internal coordination between supply chain and programme units. Indicators used for monitoring of CCS activities are output based and short-term in nature and corporate guidance was recently issued. Delays in land acquisition for re-installation of the MPS plant and complexities in government procurement processes. Staff changes in logistics affecting continuity of supervision of seconded staff.

Resource management

The audit performed tests and reviews of financial and resource management including; allocation of recurring costs in the context of funding constraints; resource mobilization strategy and donor relations, specifically in light of the transition to the CSP; and human resources management, recruitment and training.

Donors met during the audit were positive about collaboration with WFP and highlighted a positive recent trajectory with respect to donor reporting and coordination. CO management had initiated strategies in an effort to reduce and manage recurring fixed costs, and had performed detailed cost benefit analysis on options related to premises expenses.

Observation 7	Agreed Actions [Medium priority]
Resource mobilization and basis of allocation of recurring costs	The CO will:
The funding environment in the Philippines is challenging, with donors being stretched in multiple emergencies, and with limited interest in a middle-income country. The CO has raised limited funding over the last three years (averaging around USD 4 million per year with an increase in the second half of 2017 following the Marawi crisis), and the majority of current CSP funding is for food security emergency response activities. The limited funding available, and absence of seed funding for non-emergency related activities included in the CSP, presents a risk for the development of new activities and their long-term sustainability.	(i) Conduct a prioritization exercise of critical activities under the CSP, taking into account current and projected funding;
The CO has completed a donor mapping exercise, however at the time of the audit had not finalized a resource mobilization strategy including fundraising targets, pending the completion of the PAP (see observation 1). Consultation with relevant stakeholders indicated that there is an appetite for enhanced coordination with other UN agencies for advocacy and programme design/implementation.	(ii) Following finalization of the PAP, complete a resource mobilization strategy, including fundraising targets, taking into account opportunities for coordination with other UN agencies and leveraging on results and achievements in critical activities; and
The CO has been allocating recurrent costs across all projects on the basis of fixed negotiated budgets (for example a 15 percent allocation of rent and utilities to the Special Operation) and the remaining balance shared to the PRRO and the Trust Fund. With the transition to the CSP, there are risks that some recurring costs may not be fully covered or that the budget framework does not offer such flexibility any longer.	(iii) Perform a review of recurring costs coverage in line with the CPB recurring cost standards.
Underlying causes: Prioritization exercise of critical activities under CSP pending at the time of the audit. Resource mobilization has been a reactive process to obtain emergency funding where possible, rather than with reference to strategy. Perception of WFP as an emergency responder leading to low appetite of donor community to fund development activities. Relatively high proportion of recurrent fixed costs.	Due dates: **31 December 2018**

Support Functions

The audit performed tests and reviews of transport and logistics including: contracting and management of transporters; commodity and warehouse management including management and handover of NFIs; CO procurement, including planning, contracting and contract management for food and goods and services; and of food quality and safety processes and management.

The audit noted that the CO had started to make efforts to implement the recommendations of the comprehensive oversight mission by RBB carried out in February 2018.

Observation 8	**Agreed Actions** [Medium priority]

Procurement and NFI stocks management

The audit identified several procedural and compliance issues in the area of procurement, some of which had already been highlighted in the oversight mission carried out by RBB in February 2018. These included: limited transparency in vendor identification and shortlisting; contracts with outdated terms and conditions, including missing clauses on ethics (including those relating to sexual exploitation and abuse; use of incorrect types of PO for food inspection services; vendor acknowledgment of terms and conditions not tracked; suppliers not vetted against UN sanction lists, as highlighted by the RBB oversight mission; and no performance evaluations conducted for vendors for whom purchase values exceeded USD 5,000.

Cases were noted of split POs and micro-POs during 2017, and since August 2017 no long-term agreements were in place for recurring services such as events and workshops (amounting to 22 percent or USD 2.1 million of the total PO value in 2017).

Some performance bonds received in 2018 from food vendors in the form of bank certified cheques, were issued after the contract date and the validity period did not cover the entire contract delivery period. Furthermore, there were no independent validity confirmations for the bonds as required per corporate guidelines.

During emergency responses, including Haiyan in 2013 and more recently the Marawi crisis, the CO purchased a significant number of emergency response goods (NFIs). The audit noted that efforts had been made since the emergency response ended to donate or dispose of NFIs not required; however, at the time of the audit fieldwork the CO still had in stock a number of high value NFIs for which the possibility of utilization was limited. Moreover, these NFIs occupied a significant amount (up to 80 percent) of storage space in the warehouse facility. The CO had not set an optimum level of NFIs to be retained for use in future emergencies, which increases the risk of obsolescence and unnecessary expenditure for storage fees. There were variances between NFI inventory and balances captured in accounting records for some high-value NFIs.

Underlying causes: Inconsistent use of market assessment and vendor roster with categorization of service. Limited resources and training of procurement unit and misunderstanding of procurement rules and procedures. The owner of events management is the administration unit, and there is a lack of clarity on the role of procurement in this area. Spending analysis not carried out. Recent introduction of local food procurement and limited internal co-ordination to manage performance bonds in line with corporate guidance. Staff changes in logistics and previously purchased NFIs not rationalized in line with current programme delivery.

The CO will:

(i) Address specific issues / instances of non-compliance identified, and implement recommendations included in the RBB oversight mission;

(ii) Review the appropriateness of the SOP on events management (including roles, responsibilities and deadlines);

(iii) Conduct periodic analysis on POs and micro-POs to review appropriate processing and to allow identification of opportunities for LTAs;

(iv) Strengthen internal coordination between the supply chain unit, sub-offices and finance to ensure that performance bonds received are in line with contract validity periods, and perform independent confirmations on the validity of bonds;

(v) Develop optimum levels of NFI requirements for contingency emergency response, and consider disposal or donations to government counterparts of any NFIs not required to be maintained in stock; and

(vi) Perform a reconciliation between NFI physical stock balances and the balances in accounting records.

Due dates: **30 September 2018**

Annex A – Summary of observations

The following tables shows the categorization, 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.

High priority observations	Categories for aggregation and analysis			Owner	Due date
	WFP's Internal Control Framework	WFP's Enterprise Risk Management Framework	WFP's Internal Audit Universe		
4 Collaboration with partners, targeting and implementation of activities	Control Activities	Programme	Beneficiary management, and Technical assistance & country capacity strengthening	CO	31 December 2018.

Medium priority observations	Categories for aggregation and analysis			Owner	Due date
	WFP's Internal Control Framework	WFP's Enterprise Risk Management Framework	WFP's Internal Audit Universe		
1 Strategic planning and performance, including IRM readiness	Control Enviroment	Governance and oversight and External relationship	Governance, and Change, reform & innovation	CO	31 December 2018
2 Organizational structure, skills and capacity	Control Enviroment	Governance and oversight	Governance, and Human resources management	CO	31 December 2018
3 Risk management and emergency preparedness planning	Control Enviroment	Governance and oversight	Risk management and Emergency preparedness and support response	CO	31 December 2018
5 Implementation of the monitoring plan and feedback management	Monitoring Activities	Programme and Business process	Monitoring & evaluation	CO	31 December 2018

High priority observations	Categories for aggregation and analysis			Owner	Due date
	WFP's Internal Control Framework	WFP's Enterprise Risk Management Framework	WFP's Internal Audit Universe		
6 Visibility and attribution of CCS outputs and long-term outcomes	Control Activities	Programme	Communication & advocacy and Technical assistance & country capacity strengthening	CO	30 September 2018
7 Resource mobilization and basis of allocation of recurring costs	Control Activities	Partners and vendors and Business process	Fundraising strategy and Resources allocation & financing	CO	31 December 2018
8 Procurement and NFI stocks management	Control Activities	Partners and vendors and Business process	Procurement - goods & services and Procurement - food	CO	30 September 2018

Annex B – Definitions of audit terms: ratings & priority

1   Rating system

1.   The internal audit services of UNDP, UNFPA, UNICEF, UNOPS and WFP adopted harmonized audit rating definitions, as described below:

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 serve 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; failure to take action could result in critical or major consequences for the organization.
Medium	Action is required to ensure that WFP is not exposed to significant risks; failure to take action could result in adverse consequences for the audited entity.
Low	Action is recommended and should result in more effective governance arrangements, risk management or controls, including better value for money.

3.   Low priority recommendations, if any, are dealt with by the audit team directly with management. 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.[8]

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 ICF follows principles from the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Integrated Internal Control Framework, adapted to meet WFP's operational environment and structure. 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."[9] WFP recognizes five interrelated components (ICF components) of internal control, all of which need to be in place and integrated for them to be effective across the above three areas of internal control objectives.

Table 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	Ensures 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.

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[8] 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.
[9] OED 2015/016 para.7

2.3 Categorization by WFP's Enterprise Risk Management Framework (ERM)

7. WFP is further developing its ERM tools and is in the process of introducing a new risk taxonomy to facilitate aggregation and analysis of risk information. The new taxonomy is being piloted in a selection of COs during 2018 to test for the roll-out of a database/system in 2019. As a means to facilitate the testing and roll-out, audit observations are mapped to the new risk taxonomy.

Table B.4: WFP's new Risk Taxonomy recognizes 4 risk categories and 15 types of risk

1	Strategic	1.1 Programme risks, 1.2 External Relationship risks, 1.3 Contextual risks, 1.4 Failure to innovate/adjust business model
2	Operational	2.1 Beneficiary health, safety & security risks, 2.2 Employee health, safety & security risks, 2.3 Partner & vendor risks, 2.4 Asset risks, 2.5 ICT failure/disruption/attack, 2.6 Business process risks, 2.7 Governance & oversight breakdown
3	Fiduciary	3.1 Breach of obligations, 3.2 Fraud & corruption
4	Financial	4.1 Adverse price/cost change, 4.2 Adverse asset outcome

2.4 Categorization by WFP's Audit Universe

8. WFP's audit universe[10] covers organizational entities and processes. Mapping audit observations to themes and process areas of WFP's audit universe helps prioritize thematic audits.

Table B.5: WFP's 2018 Audit Universe (themes and process areas)

A	Governance	Change, reform and innovation; Governance; Integrity and ethics; Legal support and advice; Management oversight; Performance management; Risk management; Strategic management and objective setting.
B	Delivery	(Agricultural) Market support; Analysis, assessment and monitoring activities; Asset creation and livelihood support; Climate and disaster risk reduction; Emergencies and transitions; Emergency preparedness and support response; Malnutrition prevention; Nutrition treatment; School meals; Service provision and platform activities; Social protection and safety nets; South-south and triangular cooperation; Technical assistance and country capacity strengthening services.
C	Resource Management	Asset management; Budget management; Contributions and donor funding management; Facilities management and services; Financial management; Fundraising strategy; Human resources management; Payroll management; Protocol management; Resources allocation and financing; Staff wellness; Travel management; Treasury management.
D	Support Functions	Beneficiary management; CBT; Commodity management; Common services; Constructions; Food quality and standards management; Insurance; Operational risk; Overseas and landside transport; Procurement – Food; Procurement - Goods and

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[10] A separate universe exists for information technology with 60 entities, processes and applications.

		services; Security and continuation of operations; Shipping - sea transport; Warehouse management.
E	External Relations, Partnerships and Advocacy	Board and external relations management; Cluster management; Communications and advocacy; Host government relations; Inter-agency coordination; NGO partnerships; Private sector (donor) relations; Public sector (donor) relations.
F	ICT	Information technology governance and strategic planning; IT Enterprise Architecture; Selection/development and implementation of IT projects; Cybersecurity; Security administration/controls over core application systems; Network and communication infrastructures; Non-expendable ICT assets; IT support services; IT disaster recovery; Support for Business Continuity Management.
G	Cross-cutting	Activity/project management; Knowledge and information management; M&E framework; Gender, Protection, Environmental management.

5. Monitoring the implementation of agreed actions

9.   The Office of Internal Audit tracks all medium and high-risk observations. Implementation of agreed actions is verified through the Office of Internal Audit's system for the monitoring of the implementation of agreed actions. The purpose of this monitoring system is to ensure management actions are effectively implemented within the agreed timeframe to manage and mitigate the associated risks identified, thereby contributing to the improvement of WFP's operations.

Annex C – Acronyms

APP	Annual Performance Plan
BCP	Business Continuity Plan
CBT	Cash-based transfers
CCS	Country capacity strengthening
CFM	Complaints and feedback mechanism
CO	Country Office
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CP	Cooperating partner
CSP	Country Strategic Plan
DPR	Disaster preparedness and response
DRP	Disaster Recovery Plan
EMOP	Emergency Operation
EPRP	Emergency preparedness and response package
ERM	Enterprise risk management
GFD	General food distribution
HQ	Headquarters
ICF	Internal Control Framework
ICT	Information and communications technology
IR-EMOP	Immediate Response Emergency Operation
KPI	Key Performance Indicator
LCA	Logistic Capacity Assessment
LGU	Local Government Unit
M&E	Monitoring and evaluation
MPS	Mechanised packaging systems
NFI	Non- food items
NGO	Non-governmental Organization
PAP	Partnership Action Plan
PO	Purchase Order
PRRO	Protracted Relief and Recovery Operation
RB(B)	Regional Bureau (Bangkok)
RR	Risk register

SRA	Security Risk Assessment
SO	Strategic Outcome
SOP	Standard Operating Procedure
TF	Trust Fund
TPM	Third-Party Monitoring
UNDAF	United Nations Development Assistance Framework
USD	United States Dollar
WFP	World Food Programme