



World Food Programme
Programme Alimentaire Mondial
Programa Mundial de Alimentos
برنامج الأغذية العالمي

Executive Board
Annual session
Rome, 10–14 June 2019

Distribution: General

Agenda item 6

Date: 8 May 2019

WFP/EB.A/2019/6-F/1*

Original: French

Resource, financial and budgetary matters

* *Reissued for technical reasons
on 23 May 2019*

For consideration

Executive Board documents are available on WFP's website (<https://executiveboard.wfp.org>).

Report of the External Auditor on fraud prevention, detection and response

Draft decision*

The Board takes note of "Report of the External Auditor on fraud prevention, detection and response" (WFP/EB.A/2019/6-F/1) and management response in WFP/EB.A/2019/6-F/1/Add.1, and encourages further action on the recommendations, taking into account considerations raised by the Board during its discussion.

* This is a draft decision. For the final decision adopted by the Board, please refer to the decisions and recommendations document issued at the end of the session.

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Cour des comptes
FRANCE



EXTERNAL AUDIT OF THE WORLD FOOD PROGRAMME

AUDIT REPORT

FRAUD PREVENTION, DETECTION AND
RESPONSE

2018 financial year

COUR DES COMPTES REFERENCE: PAM-2018-8



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SUMMARY

The World Food Programme established its current anti-fraud framework in May 2015, when its Executive Board adopted a new policy called the Anti-Fraud and Anti-Corruption Policy. WFP has chosen a definition of fraudulent behaviour in line with that of most international organizations and consistent with that contained in international audit standards. However, in practice it can be difficult to distinguish fraud from other reprehensible actions, such as theft. In addition, the population concerned by the policy does not include all of WFP's partners, as it does not explicitly target non-government donors and beneficiaries.

The extent of fraud suffered by WFP appears low at USD 141,198 in 2017 and USD 747,286 in 2018. These amounts are lower than those observed in international organizations having a similar size and mandate. Yet, by the very nature of its activity, the territories in which it operates and the context of emergency in which it acts, WFP is an organization that is highly exposed to fraud risks.

The External Auditor considers that WFP must make this policy more operational by tackling the reasons for the underreporting of fraud and strengthening its actions at all stages of the cycle in the fight against fraud: prevention, detection and response.

As regards prevention, the organization needs to further raise the awareness of its internal and external stakeholders (staff members, consultants, suppliers, cooperating partners) by conducting specific anti-fraud due diligence when formalizing its contractual relations. Fraud awareness should also include strengthening the detection of conflicts of interest as well as more effective training actions. In addition, particular attention should be paid to strengthening internal controls (risk registers, letters of representation and declarations of assurance) at all levels of WFP.

The detection capacity, which is undoubtedly the priority, could be improved by extending fraud risk assessments to the processes and countries that are most at risk, by strengthening monitoring – particularly via information systems –, by developing cooperating partners' ability to report cases of fraud and by ensuring the referral to headquarters of cases identified by the fraud reporting mechanisms.

As regards the handling of fraud, and to rectify the risk of the Office of Inspections and Investigations becoming overburdened, especially if the number of cases of suspected fraud is to increase, the External Auditor recommends delegating authority to the responsible managers to conduct investigations for the least complex cases or those representing a seemingly small amount of money, while maintaining the obligation of reporting all cases of fraud, irrespective of the amount, to the Inspector General. Furthermore, in order to manage its exposure to the risk of fraud, WFP must endeavour to better estimate the financial impact of cases of fraud.

Finally, to improve the enforceability of the Anti-Fraud and Anti-Corruption Policy, joint stances and strategies should be adopted with other United Nations agencies in the most exposed countries.

These measures should enable WFP to combat fraud and corruption even more effectively.

I. OBJECTIVE, SCOPE AND APPROACH OF THE AUDIT

1. In accordance with our notification letters of 21 June and of 20 December 2018, a team of five auditors conducted an audit at WFP headquarters in Rome in two stages, from 16 to 20 July 2018 and from 21 January to 1 February 2019. This was accompanied by two interim audits at headquarters, conducted on 16 and 17 October and on 22 and 23 November 2018. In addition, all field audits planned for field offices¹ during the 2018-2019 financial period contributed to the drafting of this report. The purpose of this audit was to examine the fraud prevention, detection and response policy within WFP.
2. Pursuant to an Executive Board decision of 10 November 2015, the WFP External Audit was entrusted to the First President of the Cour des comptes of France for the period from 1 July 2016 to 30 June 2022, in accordance with Article 14.1 of the WFP Financial Regulations.
3. The External Auditor's mandate is defined in Article 14 of the WFP Financial Regulations and the corresponding Appendix, and in the call for applications for the appointment of the External Auditor. The terms of reference of this mandate comprise the call for applications, together with the offer of services of the Cour des comptes, particularly its detailed technical offer, which was approved by the Board.
4. The External Auditor's responsibilities are to audit WFP's financial statements (Article 14.1 of the Financial Regulations) and to make, where it wishes, observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of WFP (Article 14.4 of the Financial Regulations).
5. Pursuant to Article 3.1 of the Financial Regulations, the Executive Director is responsible and accountable to the Board for the financial management of the activities of WFP.
6. A letter of engagement was drawn up with the Executive Director in order to ensure that, in accordance with the International Standards on Auditing, the respective obligations of the management and the External Auditor are clearly understood. In addition, before each audit, the External Auditor informs the Secretariat of the scope of the verifications to be undertaken.
7. This report comes under the annual work plan of the External Auditor submitted to the WFP Executive Board during its second regular session in November 2018, which details the audits to be carried out between July 2018 and June 2019. Pursuant to the terms of reference, each year the External Auditor must produce an audit report on WFP's financial statements (subject to the approval of the Board), accompanied by an opinion on the accounts, two reports on the performance and regularity of the management of WFP, also called "performance audit reports" (submitted to the Board for consideration) and eight management letters drafted following visits to field offices (regional bureaux and country offices). The External Auditor also validates the draft annual report on the implementation status of its previous recommendations, submitted by the Secretariat to the Board for consideration.
8. The Anti-Fraud and Anti-Corruption (AFAC) policy audit was carried out in accordance with the International Standards of Supreme Audit Institutions (ISSAI) on performance and compliance audits, the WFP Financial Regulations, and the additional terms of reference annexed thereto. These standards require the External Auditor to comply with the applicable rules of professional conduct, exercise professional judgement and demonstrate critical thinking throughout the audit.

¹ Nairobi and Panama regional bureaux and Bangladesh, Guatemala, Haiti, Jordan, Uganda and United Republic of Tanzania country offices.

9. The primary aim of the audit was to:

- check compliance of the WFP approach with the international standards on the definition, prevention and detection of fraud and corruption;
- ensure correct identification of the main sectors affected by fraud;
- analyse the reasons for the low number of cases of fraud or suspected fraud reported each year in the report on the financial statements;
- check whether the fraud detection tools put in place by WFP provide reasonable assurance that all significant cases of fraud are detected;
- ensure that the resources and means allocated to combating fraud are suitable.

10. Each observation and recommendation has been discussed with the relevant staff, including the staff in the Enterprise Risk Management Division (RMR). The audit closure meeting with the Director of said division, the Deputy Executive Director, the Director of the Finance and Treasury Division and the Internal Audit Director from the Office of the Inspector General (OIG) was held on 1 February 2019. The Secretariat confirmed the validity of the facts set out. This report fully takes into account its comments and responses, provided in writing on 15 March 2019 and, for the Inspector General, on 21 March 2019.²

11. During an audit conducted according to the international standards, performance and compliance are examined based on appropriate criteria and the causes of any discrepancies in relation to those criteria are analysed. The aim is to answer the main audit questions and to recommend improvements. The first step in the audit is to define the scope of the subject matter in question, that is, the information or activity to be assessed. This subject matter can take many forms and have different characteristics depending on the audit objective. An appropriate subject matter is identifiable and capable of consistent evaluation or measurement against the criteria, such that it can be subjected to procedures for gathering sufficient and appropriate audit evidence to support the audit opinion or conclusion.³

12. Generally speaking, the External Auditor of public organizations contributes towards combating fraud. According to paragraph 47 of ISSAI 100, the External Auditor must include the risk of fraud in its checks.⁴ In addition, as recalled in the annex to the Financial Regulations (paragraph 6), cited in the AFAC policy of May 2015,⁵ the External Auditor must report “any case of fraud or presumptive fraud” to the Executive Board.

13. The specific aim of this audit was to determine whether WFP’s internal control mechanisms, particularly its Anti-Fraud and Anti-Corruption Policy, enable it to effectively prevent irregularities that could be detrimental to its performance.

² The deadline for responses was 15 March and the deadline for submission of the final report to the Board Secretariat was 29 March.

³ Standard ISSAI 100, paragraphs 22 and 26.

⁴ “Auditors should identify and assess the risks of fraud relevant to the audit objectives. Auditors should make enquiries and perform procedures to identify and respond to the risks of fraud relevant to the audit objectives.”

⁵ Circular AFAC 2015, paragraph 24.

14. To assess the quality of the anti-fraud and anti-corruption policy implemented, the External Auditor prepared a logical classification of underlying aims pursued by WFP comprised of immediate, operational and strategic aims. To achieve each type of aim, a programme focuses on different kinds of outcomes: immediate aims translate into factual outputs; operational aims assume that results are obtained that call for a more qualitative assessment; strategic aims manifest through long-term expected impacts, the analysis of which is more of an evaluation. The expected actions, results and effects identified in the logical framework constitute the basic criteria for assessing the performance of the policy. The degree of complexity when evaluating the achievement of aims varies according to their status and, in some cases, particularly as regards their ultimate effects, it often exceeds the limits of a performance audit and leans more towards an evaluation.

15. The approach of a programme based on a logical framework of aims is summarized in the diagram below.

Table 1: Aims of WFP's AFAC policy⁶

Immediate aims	Operational aims	Strategic aims
<ul style="list-style-type: none"> • Possess a definition of fraud suited to the activities. • Perform a fraud risk assessment and a risk appetite analysis. • Establish an AFAC policy and an action plan to combat fraud. • Include the fight against fraud in internal control and risk management and the risk of fraud in the risk register. • Set up a structure to coordinate the AFAC policy. • Apply the "three lines of defense" model to prevent fraud. • Train and raise the awareness of staff and hold managers accountable. • Develop a system to prevent conflicts of interest. • Establish due diligence for recruitment, contracts and procurement (declarations, standard clauses, etc.). • Carry out preventive actions and take a proactive approach. • Establish clear rules on the detection and reporting of cases of fraud (procedures, contact persons, etc.). • Set up a mechanism to protect whistleblowers. • Carry out the inspection, investigation and processing of errors quickly, in an objective and independent manner. • Establish sanctions regimes, methods for reporting to local authorities and compensatory actions for cases of proven fraud. 	<ul style="list-style-type: none"> • Efficiently identify, prevent, detect and punish fraud. • Display and disseminate credible data relating to fraud. • Develop an approach to the risk of fraud that takes into consideration local intervention contexts, processes and activities. • Act with legality and regularity. • Coordinate the AFAC policy with the other relevant policies (internal control and risk management) in a coherent manner. • Acquire sufficient human and material resources to effectively combat fraud. • Develop the necessary staff awareness and capacity to prevent and manage the risk of fraud. • Clarify stakeholders' roles and responsibilities. • Ensure that there are no fraud or corruption temptations for stakeholders. • Select employees and partners that are trustworthy and cooperative. • Ensure that reports relating to cases of fraud are drafted and monitored within a reasonable timeframe. • Compensate any potential losses related to fraud (retrieval of the amounts in question, etc.). • Cooperate with United Nations agencies, host countries and local authorities. 	<ul style="list-style-type: none"> • Effectively combat fraud at all levels and reduce the number of cases. • Reduce regulatory and legal risks of non-compliance. • Preserve the credibility and reputation of WFP. • Comply with international standards on probity and the processing of fraud. • Act in compliance with the principles of transparency and accountability. • Demonstrate an actual global anti-fraud culture and application of the principle of zero tolerance. • Be accountable to donors. • Protect resources, minimize and compensate financial losses. • Improve the effectiveness, reliability and resilience of operations. • Guarantee fair treatment of beneficiaries. • Establish a relationship of trust with staff members, contractors, partners, host countries and other stakeholders.
Actions	Results	Intended impacts

Source: External Auditor

⁶ The External Auditor took into account all the aims that, in its opinion, can contribute to the prevention, detection and handling of fraud, even if they are not specifically intended for that purpose. The same applies to the prevention of conflicts of interest.

II. LIST OF RECOMMENDATIONS

16. The recommendations are classified according to their level of priority:

- **priority 1**, fundamental issue, requiring the immediate attention of management;
- **priority 2**, less urgent control issue requiring management attention;
- **priority 3**, an issue brought to the attention of management, pertaining to which controls could be improved.

Field	Priority	Recommendations
Human resources	2	Recommendation 1. The External Auditor recommends including due diligence specific to the fight against fraud in the standard operating procedures (SOPs) currently being revised for the recruitment of staff and consultants.
Procurement	2	Recommendation 2. The External Auditor recommends setting a threshold or criteria beyond which WFP will carry out due diligence prior to adding a strategic supplier to the roster in order to assess the maturity of its anti-fraud system.
Conflicts of interest	2	Recommendation 3. The External Auditor recommends improving the effectiveness of the annual procedure for reporting conflicts of interest, particularly by ensuring better control of the target group, reducing reporting and processing timeframes, and penalizing excessive delays.
Conflicts of interest	3	Recommendation 4. The External Auditor recommends informing managers, in a confidential and appropriate manner, of cases of suspected conflicts of interest and fraud relating to staff under their responsibility.
Risk management	1	Recommendation 5. The External Auditor recommends standardizing the treatment of fraud in the risk registers of field offices and headquarters.
Risk management	3	Recommendation 6. The External Auditor recommends expanding the network of staff members trained in the anti-fraud policy in the most at-risk field offices (regional bureaux and country offices) and extending it to headquarters divisions.
Risk management	1	Recommendation 7. The External Auditor recommends producing guidelines on conducting fraud risk assessments covering the most exposed processes (information technology, cash-based transfers, NGOs, etc.) and countries (Yemen, Turkey, etc.).
Cooperating partners	2	Recommendation 8. The External Auditor recommends improving cooperating partners' awareness of their contractual obligation to report all cases of presumptive fraud by developing guidance documents to be used by country offices when training their partners. These documents should, in particular, emphasize the conditions of use of the confidential fraud reporting hotline.
Fraud reporting	1	Recommendation 9. The External Auditor recommends implementing in all field offices local mechanisms for reporting cases of fraud (complaints and feedback mechanisms, etc.) and ensuring that all allegations of fraud are effectively dealt with by the offices and reported to headquarters.
Fraud reporting	2	Recommendation 10. The External Auditor recommends producing a handbook for field managers to determine fraud reporting criteria.

Field	Priority	Recommendations
Investigations	1	Recommendation 11. The External Auditor recommends delegating the processing of simple fraud allegations involving an amount below a certain threshold to the responsible managers while maintaining the obligation to inform the Office of Inspections and Investigations.
Investigations	2	Recommendation 12. To improve the internal management of fraud risk, the External Auditor recommends associating each fraud investigation with an estimate of its financial impact based on a methodology established with the Resource Management Department.
Inter-agency coordination	3	Recommendation 13. The External Auditor recommends setting, for the country directors in the countries most exposed to the risk of fraud and corruption, the goal of adopting common positions and strategies at the United Nations country team level.

III. INTRODUCTION

17. WFP established its current anti-fraud framework in May 2015, when its Executive Board adopted an anti-fraud and anti-corruption (AFAC) policy,⁷ which was still in force at the time of the audit. WFP's AFAC policy originates from a previous circular approved by the Executive Board in November 2010. Although it was redefined in May 2015, it maintains the principle of “**zero tolerance**”. To compensate for growing exposure to the risk of fraud, WFP set up an organization and procedures that were considered to be particularly elaborate by the Joint Inspection Unit (JIU) in its 2016 report on fraud in the United Nations system.⁸ Since then, WFP has devoted an increasing amount of its resources to this policy.

18. WFP responded to the findings contained in this report with an update on the AFAC policy in February 2017.⁹ Of the 16 recommendations issued by the JIU, most were deemed by WFP as already having been implemented by that date¹⁰ and the two that had yet to be implemented were implemented, at least in part, in the first half of 2018:

- **fraud risk assessment** (recommendation No. 5), making it possible to differentiate between the processes, functions and activities concerned and to define mitigation actions, which was due to be carried out during the first quarter of 2017,¹¹ was not completed until early 2018¹² and only addressed four processes deemed high risk,¹³
- **the drafting of an action plan to combat fraud** (recommendation No. 6), which was expected in September 2017,¹⁴ gave rise to the drafting of a project for 2018-2020 in spring 2018, the latest version of which is dated July 2018.

⁷ *Anti-Fraud and Anti-Corruption Policy* (WFP/EB.A/2015/5-E/1) disseminated in the Executive Director's circular OED2015/019 of 9 October 2015.

⁸ *Fraud Prevention, Detection and Response in United Nations System Organizations* (JIU/REP/2016/4).

⁹ Update on the Anti-Fraud and Anti-Corruption Policy (WFP/EB.1/2017/11-B/1).

¹⁰ Ibid, paragraph 62.

¹¹ Ibid, paragraph 70.

¹² *WFP Fraud Risk Assessment Advisory Assurance Report* AA.2018.01, April 2018.

¹³ *Asset management, third parties, cash-based transfers and supply chain risks*.

¹⁴ Summary of the Work of the First Regular Session of the Executive Board, 2017, paragraphs 134-136.

19. The task of creating this policy was mainly entrusted to the Office of the Inspector General (OIG), which retained this responsibility until 2015. This task was then transferred to the Resource Management Department in order to comply with the general principles of internal control and the OIG charter, which stipulates that OIG must not assume any managerial responsibilities.¹⁵

20. In its previous performance audits, the External Auditor had already addressed the issue of fraud prevention and detection and had issued three recommendations on this subject.

Internal control	1	Recommendation 13. The External Auditor recommends that country offices systematically report to the Office of the Inspector General all losses reasonably likely to constitute cases of fraud.
Internal control	2	Recommendation 14. The External Auditor recommends ensuring that losses likely to constitute fraud are recorded and monitored at the local level in a summary table, and are reported to the Chief Financial Officer and the External Auditor in a consolidated form.

Source: Report of the External Auditor on Decentralization (WFP/EB.A/2017/6-G/1* of 2 June 2017).

Emergency preparedness	1	Recommendation 3. The External Auditor recommends broadening the scope of the preparatory measures, in particular by: [...] c) integrating into the risk registers mitigation measures specific to the potential risks of fraud and losses in an emergency situation.
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Source: Report of the External Auditor on the scale-up and scale-down of resources in emergency operations (WFP/EB.A/2018/6-H/1 of 11 May 2018).

21. In June 2018, the External Auditor agreed to close recommendations 13 and 14 of the report on decentralization, considering that it would have the opportunity to verify the functioning of the fraud reporting mechanisms during this audit. It considers that further effort must be made to achieve systematic reporting of cases of fraud and issues new recommendations in this respect (see Chapter II, List of recommendations). Recommendation 3 of the report on the scale-up and scale-down of resources in emergency operations is being implemented at the time of this audit.

22. To acquire **comparative data**, the External Auditor took advantage of the discussions held in December 2018 in New York by the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency (known as the “UN Panel”) and visited the European Anti-Fraud Office (OLAF) on 21 December 2018.

23. In January 2019, it carried out a **survey by questionnaire of regional bureaux and country office directors** to request their opinion on implementation of the AFAC policy, which received a satisfactory response rate (47 percent). The results of this survey are presented in Annex I to this report.

24. Many internal and external WFP stakeholders were surprised, despite the existence of a comprehensive policy, **at the low level of fraud-related losses observed by WFP**, speculating about the persistence of the underreporting of fraud within it.

¹⁵ Annual Report of the Inspector General (WFP/EB.A/2015/6-F/1): “OIG will have no direct operational responsibility or authority over any of the activities reviewed”.

25. This audit report has sought, as a priority, to verify the hypothesis of the underreporting of fraud and understand its causes by analysing each stage of the **fraud processing cycle**: definition, prevention, detection, processing, punishment and compensation. On this basis, it aims to issue recommendations on the operationalization of an AFAC policy, the principles of which it does not question.

IV. OBSERVATIONS AND RECOMMENDATIONS

1. Framework of the anti-fraud and anti-corruption policy

1.1 General approach

26. As in most international organizations, WFP's AFAC policy is inspired by **conceptual tools from the anti-fraud sector** developed by the main private auditor associations (the Institute of Internal Auditors and the Association of Certified Fraud Examiners [ACFE]). These tools aim to improve prevention, detection, processing and compensation strategies for a phenomenon that affects on average 5 percent of the budgets of major organizations according to the ACFE¹⁶ or between 1 percent and 5 percent of their resources according to the JIU.

27. The terms "fraud" and "corruption", as well as the associated terms "collusion", "coercion" and "obstruction",¹⁷ are defined in the AFAC policy defined in May 2015. These terms cover a wide range of risks, fraudulent practices through act or omission and potential perpetrators. **Fraud**, as defined by WFP, is understood as any act or omission, including any misrepresentation that knowingly misleads, or attempts to mislead, a party to obtain any financial or other advantage, or to avoid any obligation, to benefit the perpetrator or a related party.¹⁸ **Corruption**, which is a form of fraud, is understood as the offering, giving, receiving or soliciting, directly or indirectly, or attempt to do so, of anything of value to influence improperly the actions of another party.¹⁹

28. WFP has chosen a **definition of fraudulent behaviour in line with that of most international organizations**²⁰ and consistent with that contained in international audit standards.²¹ It is similar to that noted by the External Auditor in its consultation of the external auditors of 11 other international organizations within the framework of the United Nations Panel of External Auditors.²²

¹⁶ ACFE, *Report to the Nations, 2018 Global Study on Occupational Fraud and Abuse*, April 2018.

¹⁷ These two terms were added in 2015 to the first three terms contained in the original definition approved by the Executive Board in November 2010 (WFP/EB.2/2010/4-C/1). They use the definition provided in September 2006 by the main international financial institutions (Uniform Framework for Preventing and Combating Fraud and Corruption).

¹⁸ AFAC policy (WFP/EB.A/2015/5-E/1).

¹⁹ Ibid.

²⁰ Fraud prevention, detection and response in United Nations system organizations (JIU/REP/2016/4).

²¹ According to ISA 240 (The Auditor's responsibilities relating to fraud in an audit of financial statements), paragraph 11 a), fraud is "an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage".

²² *Fraud detection and reporting – 59th session of the Panel of External Auditors of the United Nations (3-4 December 2018)*.

29. In principle, the population concerned by this policy includes all **categories of WFP staff**²³ **as well as WFP third parties** whatever their status (vendors, cooperating partners, etc.). However, its scope does not extend to all of its partners and is not based on the distinction made by the ACFE between internal and external fraud.²⁴ Firstly, **non-state donors** are not explicitly addressed.²⁵ Secondly, **beneficiaries** are not mentioned as possible perpetrators of fraud against WFP.²⁶

30. The difference between fraud and theft can sometimes be difficult to establish. According to the annual report submitted to the Executive Board, the total amount of WFP losses relating to thefts was USD 845,514 in 2016 and USD 1,135,129 in 2017 (4.68 percent and 8.84 percent of the total of such losses, respectively²⁷). Yet, the total amount of losses relating to the misuse of food relief stood at USD 196,590 in OIG's memoranda to the Chief Financial Officer for the years 2016 to 2018. As noted by the United Kingdom's Department for International Development in a June 2017 report on WFP, this amount appears very low given the context of WFP interventions and the fact that transport and distribution arrangements are often delegated to cooperating partners, which, due to their nature, cannot be subject to the same level of control that WFP exerts over its own services. The difficulty of differentiating between fraud and theft (as theft can be carried out in a fraudulent manner) may be one of the factors leading to the understating of fraud while a loss is treated as a simple case of theft without a prior investigation. According to the 2016 Investigation Guidelines, responsibility for differentiating fraud from theft falls, in principle, to the Office of Inspections and Investigations (OIGI), which means that field offices should refer matters to OIGI when in doubt about the nature of the losses.

31. Since 2010, WFP's AFAC policy has been based on a certain **set of mechanisms**: internal controls, staff awareness actions, due diligence during the recruitment of staff and procurement, audits and internal and external inspections.²⁸ In its 2017 update, the AFAC policy covers **six fields of action**, which include these levers to varying degrees: i) prevention measures, ii) WFP staff responsibilities, iii) training and disclosure programmes, iv) reporting procedures, v) investigation procedures and vi) sanction procedures.

32. WFP's AFAC measures fall within the conceptual framework of the "three lines of defense" developed by international internal control standardization bodies. This model, adopted by WFP's High-Level Committee on Management in 2014, divides responsibilities between: i) staff in charge of risk management, ii) supervisory staff; and iii) staff in charge of independent controls.

33. Announced in July 2017 by the Executive Director as part of WFP's new organization, a **specific function to coordinate the AFAC policy** was created in September 2017 within the new Enterprise Risk Management Division (RMR), positioned within the Resource Management Department (RM) and including responsibilities that were previously shared by the Performance Management and Monitoring Division (RMP) and the Finance and Treasury Division (RMF).

34. This initiative to identify a structure dedicated to the management of risks, including fraud, is not yet commonplace in international organizations. Of the 11 international organizations

²³ Since 2010, staff and non-staff individuals, including consultants, temporary staff, service contract (SC) holders and special service agreement (SSA) holders, junior professional officers (JPOs), trainees and volunteers.

²⁴ See <https://www.acfe.com/fraud-101.aspx>

²⁵ Contrary to the United Nations Secretariat's practice as set out in paragraph 59 of its circular ST/IC/2016/25 of 9 September 2016.

²⁶ Annex V of "Fraud Risk Assessment – Advisory Assurance Report" of April 2018 analyses under point 3.3 "Fraud Tree" three fraudster profiles, one of which corresponds to beneficiaries.

²⁷ Reports on post-delivery losses, Annex III, page 14 (2016) and page 22 (2017).

²⁸ WFP Anti-Fraud and Anti-Corruption Policy (WFP/EB.A/2010/5-B).

studied by the Panel of External Auditors, only the Office of the United Nations High Commissioner for Refugees (UNHCR), the United Nations Population Fund (UNFPA) and the Food and Agriculture Organization of the United Nations (FAO) shared this feature with WFP, a feature that does not exist within the European Union either. Within FAO, the risk management unit is directly linked to the Deputy Director-General in charge of operations.

35. OIG remains responsible for the **assurance policy** introduced in 2017 in the AFAC policy, in accordance with its Charter, which gives it the role, *inter alia*, of conducting “investigations into allegations of fraud and of misconduct” and of “checking and reporting (...) the organization’s efforts to prevent, deter and detect fraud”, and particularly that “appropriate procedures are in place” to that end. As such, it conducts investigations and provides advisory reports, such as the fraud risk assessment performed in 2018.²⁹

1.2 Apparent exposure to fraud

36. If we only consider appearances, the **amount of fraud** suffered by WFP, which is presented to the Executive Board both in the report on the annual financial statements and in OIG’s annual report, is **low**: in the last two financial periods, this amount was USD 141,198 in 2017 and USD 747,286 in 2018.³⁰

37. These amounts are **much lower** than those observed in international organizations having a similar size and mandate. According to a recent comparison prepared by the External Auditor for the United Nations Panel of External Auditors based on 11 international organizations, within WFP fraud accounted for a smaller proportion of expenditure than in most organizations:³¹ **0.002 percent in 2017³² for proven fraud and 0.008 percent with the inclusion of presumptive fraud,³³** compared for example with 0.014 percent for the United Nations Development Programme (UNDP),³⁴ 0.037 percent for UNICEF,³⁵ 0.031 percent for UNHCR,³⁶ 0.11 percent for United Nations Peacekeeping operations³⁷ and 0.71 percent for the United Nations Secretariat.³⁸ On a similar note, the amount of fraud reported by the European Anti-Fraud Office (OLAF) represented 0.29 percent of expenditure in 2017. The first data available for 2018 show a slight increase as, based on the interim financial statements, the proportion of fraud identified in 2018 was around **0.011 percent for confirmed fraud and 0.020 percent including presumptive fraud.³⁹** Nonetheless, this percentage remains lower than that observed in most other organizations in 2017.

²⁹ The fraud risk assessment was conducted by the Office of Internal Audit (OIGA).

³⁰ Provisional figures at the time of the audit.

³¹ Source: audited financial statements for 2017 United Nations Development Programme (UNDP), United Nations Children’s Fund (UNICEF), UNHCR, volume 1 (United Nations Secretariat) and volume 2 (United Nations Peacekeeping operations).

³² Losses linked to proven fraud: USD 141,198/total expenditure: USD 6.219 billion.

³³ Losses linked to proven and presumptive fraud: USD 538,541/total expenditure: USD 6.219 billion.

³⁴ Losses linked to proven and presumptive fraud: USD 693,348/total expenditure: USD 5.09 billion.

³⁵ Losses linked to proven and presumptive fraud: USD 2.15 million/total expenditure: USD 5.863 billion.

³⁶ Losses linked to proven fraud: USD 1.23 million/total expenditure: USD 3.942 million

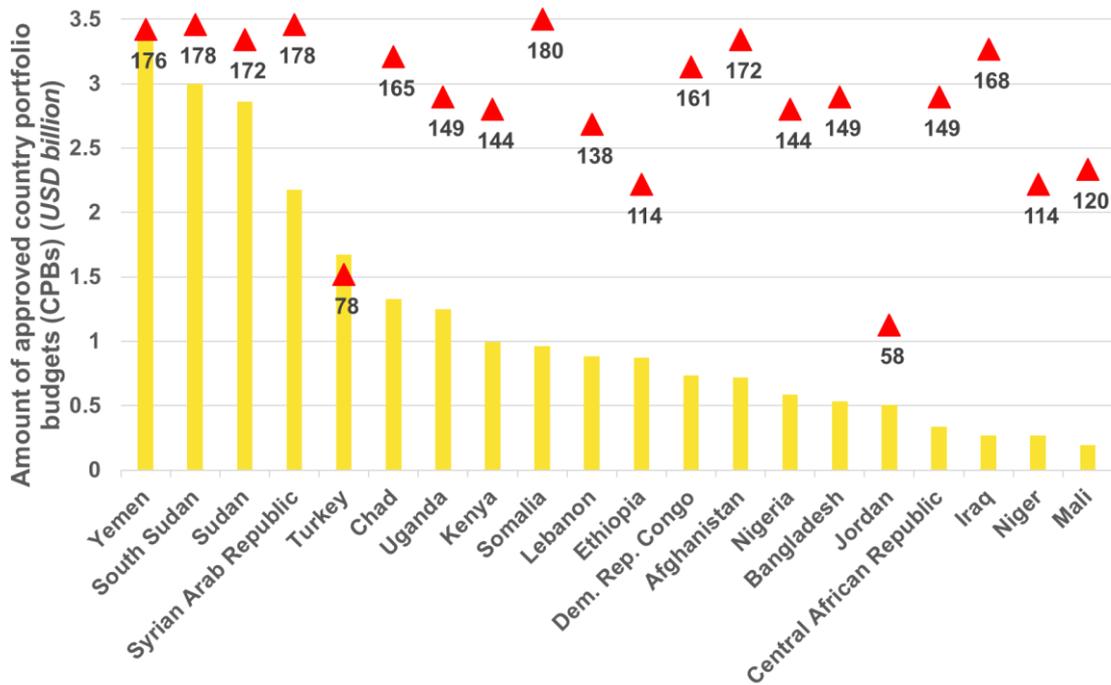
³⁷ Losses linked to proven and presumptive fraud: USD 9.40 million/total expenditure: USD 8.263 million

³⁸ Losses linked to proven and presumptive fraud: USD 42.27 million/total expenditure: USD 5.788 billion.

³⁹ USD 747,286/USD 6.639 billion and USD 1,328,637/USD 6.639 billion. 2018 interim financial statements.

38. Yet, given the nature of its activity (distribution of assistance in cash and in kind), the territories in which it operates (countries in crisis and/or with poor governance, regions isolated from urban centres) and the context of emergencies (L2 and L3) in which it acts, WFP can even be considered to be more exposed to fraud⁴⁰ than other organizations, as highlighted by the crossing of WFP's budget in its main countries of intervention with their ranking in Transparency International's global Corruption Perceptions Index (CPI) (180 countries).

Figure 1: 2018 CPI ranking of WFP's main countries of intervention



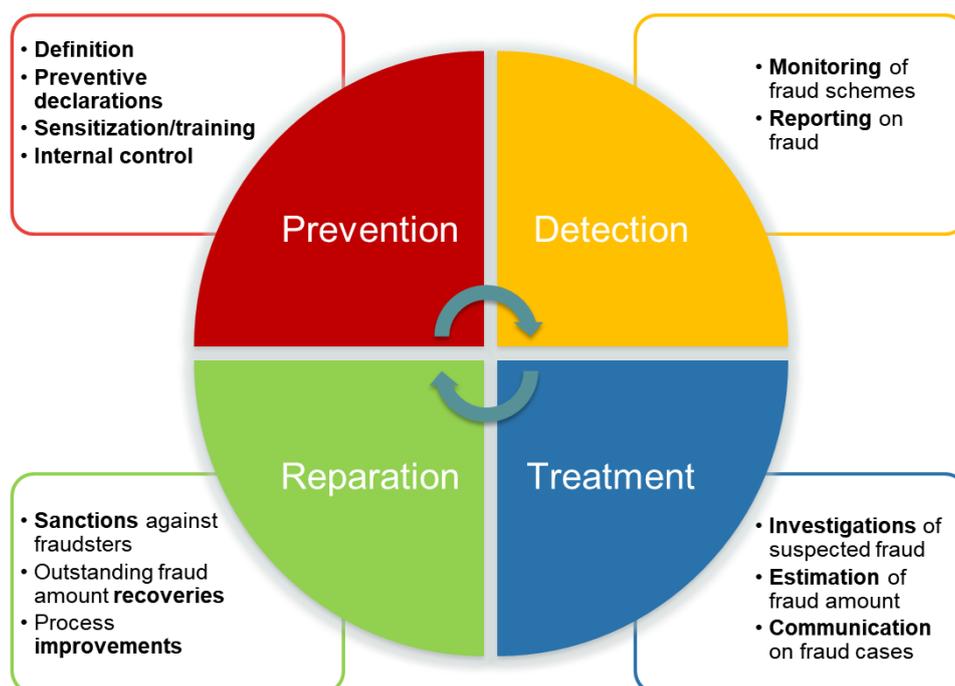
Source: External Auditor based on WFP data

2. Implementation cycle of the anti-fraud and anti-corruption policy

39. Taking inspiration from the main concepts used in public and private organizations, the External Auditor has reconstructed the anti-fraud cycle in force within WFP, which can be broken down into four phases: prevention, detection, processing and compensation (see figure 2).

⁴⁰ Update on the AFAC policy (WFP/EB.1/2017/11-B/1, paragraph 65).

Figure 2: Anti-fraud cycle within WFP



Source: External Auditor.

2.1 Prevention

2.1.1 Preventive reporting

40. It appears that the AFAC policy is now well known to field managers. In response to the survey conducted by the External Auditor in January 2019, 83 percent of responding regional bureau directors and 92 percent of responding country office directors stated that they have sufficient knowledge of the policy, while 83 percent of regional bureau directors and 89 percent of country office directors responded that they have a grasp of its basic concepts.

41. Fraud prevention entails raising the awareness of internal and external stakeholders when formalizing their relationship with WFP. This task falls in particular to the Human Resources Division (HRM) during the recruitment of consultants and staff:

- as regards consultants (1,781 as of 30 September 2018), the due diligence practices set out in the 2015 AFAC policy (paragraph 9) remain limited to the risk of conflict of interest: in the sample⁴¹ of contracts analysed, the AFAC policy was never appended to the contract, contrary to what is stipulated in the terms of engagement, some clauses are not signed,⁴² recruitments are not subject to any automatic exchange with other United Nations agencies and no standard operating procedure (SOP) exists to detect fraud risks;
- regarding staff recruited locally, the field audits, particularly in the United Republic of Tanzania, Guatemala, Panama, Haiti and Bangladesh, revealed insufficient traceability regarding the checking of documents provided (e.g. diplomas) and potential conflicts of interest.

⁴¹ The sample studied consisted of the contracts of the 30 highest paid consultants.

⁴² Clauses 19 (*Conduct*), 20 (*Declaration of oath*) and 21 (*Affirmation*) of the standard terms of engagement of consultants were not signed in 7 of the 30 cases.

42. The standard operating procedures (SOPs) of HRM are currently being revised. In order to improve fraud prevention, **the External Auditor considers that these SOPs should include targeted due diligence practices**, taking into account risk appetite and available resources in a balanced manner.

43. Raising awareness of the risk of fraud also concerns WFP's **suppliers, distributors and contractors**, with the inclusion of a standard clause in contracts⁴³ since 2015, including for field-level agreements, in addition to a sanctions policy developed in December 2015.⁴⁴ This requirement is less stringent than that in place in organizations such as UNICEF, which requires that all suppliers report any suspicions of fraud during the internal audit.⁴⁵ As stated in an Organisation for Economic Co-operation and Development (OECD) council recommendation on public procurement, contracts with suppliers must contain clauses of this nature; moreover, such clauses must also **cover subcontractors and be actually verified**.⁴⁶ Yet, although the checks carried out by the External Auditor on a sample⁴⁷ of headquarters and field office contracts demonstrate that the stipulated AFAC clause appears in all the documents checked,⁴⁸ the treatment of **subcontractors**, who are potential perpetrators of fraud, is insufficiently rigorous, as suppliers' ability to supervise subcontractors in relation to fraud has not been assessed or any such assessment has not been traced. During its field audits, the External Auditor also found that awareness raising aimed at **cooperating partners** was variable.

44. The due diligence practices carried out by WFP staff in accordance with paragraph 28 of the 2015 AFAC policy consist of obtaining information about the commercial interests of the parties involved in the procurement process and ensuring that the suppliers do not engage in acts of fraud or corruption. However, the **maturity of the mechanism to combat fraud carried out by a supplier is not assessed** (implementation of prevention, detection and processing mechanisms, **annual amount of declared losses due to fraud**, internal control mechanism, etc.). The due diligence practices recently carried out by OIGA on some cooperating partners constitute a good practice for managing risks of fraud within third parties.

45. The Supply Chain Division (OSC) considers that, in practice, these verifications would not be manageable given the high number of suppliers, the qualification processes and resources required, and the decentralized nature of the procurement process. It considers that the additional work and resources needed would outweigh their added value. Consequently, the External Auditor suggests extending due diligence to **the main suppliers** and, if necessary, limiting it to checks that are easy to implement and do not require specific skills.⁴⁹

⁴³ Annex to the AFAC policy of 2015.

⁴⁴ OED circular OED/2015/022 of 15 December 2015 "WFP Framework for Vendor Sanctions" completed since March 2017 by a Vendors Sanctions Committee.

⁴⁵ At WFP, Article 4 of the standard clause appended to the AFAC policy invites stakeholders to report fraud to WFP and not specifically to OIG.

⁴⁶ *OECD Council Recommendation on Public Procurement*, 2015.

⁴⁷ Sample of 13 supplier contracts.

⁴⁸ However, the standard AFAC clauses are not part of the checklist and are not always signed by either the service provider or by the subcontractors.

⁴⁹ For example: a) provide documents detailing the fraud prevention, detection and response mechanisms in the firm; b) provide details of the annual amount of fraud detected over the last three years and the sanctions applied; c) social security statements, tax returns, certificate confirming the absence of disqualifications or convictions.

46. Fraud awareness also entails sensitizing to the **conflict of interest detection policy** entrusted to the Ethics Office (ETO) and based on the Annual Conflicts of Interest and Financial Disclosure Programme (ADP). The detection of conflicts of interest **indirectly contributes to fraud prevention**.

47. This office's activity is based on **Circular ED2008/004** "Disclosure of financial interests, outside activities and honours, decorations, favours, gifts or remuneration" of 21 April 2008.⁵⁰ A **draft update** has been circulating since November 2018 and should be approved in 2019 to frame the next conflict of interest reporting campaign.

48. The Ethics Office also plays the role of advisor to staff on matters relating to ethics, of which fraud and corruption are only one dimension. This activity is growing (advice given 606 times in 2018, compared with 252 times in 2015) and relates to conflicts of interest, the acceptance of gifts and invitations, employment, staff members' outside activities and the application of rules of good conduct. This activity is monitored in an Excel spreadsheet, the results of which are not accessible to third parties like OIG.

49. This Ethics Office produced a **detailed annual report** for the Executive Board,⁵¹ in which fraud and corruption are only mentioned incidentally. Identification of the risk of fraud and corruption is not one of the categories used to detail its advisory activity⁵² or its handling of reported cases.

50. The ADP programme, which does not exist in all international organizations, is an asset for WFP. It requires that some WFP staff complete a questionnaire on possible conflicts of interest, an eligibility questionnaire and, for some of them, a financial disclosure statement. Those required to do this are directors (D-1 and D-2), field office directors and their deputies, suboffice managers and all those who, through their roles in the areas of investment and procurement, are exposed to ethical risks. In total, 1,830 employees responded in 2018 (i.e. 11.4 percent of all employed staff) compared with 1,697 in 2017. To identify the staff concerned, HRM provides ETO with the names of the headquarters and regional bureaux staff, which totalled 549 employees in 2018 (30 percent of the total). For the remaining respondents, ETO relies on the field offices to complete the lists. For example, suboffice managers or staff in charge of procurement who should be on the list are decided by the country office directors.

51. In 2018, there were **significant delays** with the responses: according to ETO, 883 questionnaires (i.e. 48 percent of the total) had not been completed by the deadline of 29 June 2018. Having had to send out several reminders, the office considers that this situation is "unacceptable and reflects a mediocre culture of accountability".⁵³

52. Within this group, **21 D1- or D2-level staff members** out of 143 (**15 percent**) had not returned their responses by the deadline. At the end of January 2019, **four staff members had still not responded**, including one D2 director. The Ethics Office explained that this particular case did not constitute the management setting a poor example, but was due to a technical malfunction, as the response should have been considered as having been received in September 2018.

⁵⁰ Amended by circular OED2017/002 "Disclosure of gifts" issued on 31 January 2017.

⁵¹ Annual report of the Ethics Office for 2017 (WFP/EB A/2018/4-B).

⁵² In 2018, the breakdown of the type of advice given was as follows: 30 percent on conflicts of interest, 11 percent on employment, 28 percent on outside activities, 7 percent on the acceptance of gifts and invitations, 2 percent on rules of conduct and 12 percent on miscellaneous topics.

⁵³ Annual report of the Ethics Office for 2017 (WFP/EB.A/2018/4-B), paragraph 82.

53. The processing of these questionnaires was delegated, between 2009 and 2018, to an **external service provider** authorized to directly access the declarations database and intervening in the event of the reporting or detection of a possible conflict of interest. For 2018, at the time of the audit,⁵⁴ this service provider had reviewed 1,371 conflict of interest questionnaires and 1,319 financial disclosure statements.

54. The External Auditor observed **shortcomings in the service provided**:

- for the last cases analysed, the average processing time was in excess of three months and varied from one month to six months;
- at the time of the audit, 73 conflict of interest questionnaires (4 percent) had yet to be processed;
- differences in figures appeared when comparing the service provider's annual report with that of ETO.

55. This excessive processing timeframe, compounded by the delays observed in returning the questionnaires, **weakens ETO's work and limits its reach as regards preventing conflicts of interest** and therefore, indirectly, preventing fraud.

56. During this procedure, from collection of the responses through to the potential detection of conflicts of interest, **management** was not systematically informed or involved by ETO due to the confidentiality of this procedure. Although ETO sometimes takes the initiative of informally contacting the managers of staff concerned, several field office directors expressed dissatisfaction with this situation when questioned. According to the External Auditor, managers should be given this information, as a minimum, each time measures are required to mitigate a risk that is occurring.

Recommendation 1. The External Auditor recommends including due diligence specific to the fight against fraud in the standard operating procedures (SOPs) currently being revised for the recruitment of staff and consultants.

Recommendation 2. The External Auditor recommends setting a threshold or criteria beyond which WFP will carry out due diligence prior to adding a strategic supplier to the roster in order to assess the maturity of its anti-fraud system.

Recommendation 3. The External Auditor recommends improving the effectiveness of the annual procedure for reporting conflicts of interest, particularly by ensuring better control of the target group, reducing reporting and processing timeframes, and penalizing excessive delays.

Recommendation 4. The External Auditor recommends informing managers, in a confidential and appropriate manner, of cases of suspected conflicts of interest and fraud relating to staff under their responsibility.

2.1.2 Training

57. Fraud prevention measures also rely on a **training programme, which has been mandatory since 2015⁵⁵** as is the case in other international organizations (United Nations Secretariat, UNDP, FAO, etc.).

⁵⁴ 31 January 2019.

⁵⁵ 2015 AFAC policy, paragraph 29 f).

58. The **main component of this training is an awareness module**, which can be accessed via the WeLearn training platform. The External Auditor took this module, entitled “Prevention of fraud, corruption and exploitation and sexual abuse”. Lasting approximately two hours, this training, which is mandatory for all staff – but is not open to third parties such as cooperating partners or suppliers – covers a broader field than just fraud prevention, which is the subject of only one of the three modules. It aims to identify practices of fraud, corruption or collusion through concrete examples, identify and report conflicts of interest, explain how investigations are carried out following a report and teach about the whistleblower protection policy.

59. During its audit of field programmes within the framework of its 2018 work plan, the External Auditor observed a **satisfactory training completion rate**, although the rate of 100 percent has not been reached. Differences between field offices were noted, as highlighted by the relatively modest completion rate of 70 percent in the WFP office in Bangladesh, observed in December 2018. Nonetheless, in January 2019, 67 percent of field office directors considered that their staff were sufficiently aware.

60. This **training must be updated** every three years for all staff, in accordance with the AFAC policy (paragraph 32). Based on the list of active staff members provided on 29 January 2019 (17,233 entries), the number of individuals having completed the compulsory training in the last three years (10,485 people⁵⁶) showed a **training completion rate of only 61 percent**. The External Auditor noted, by way of example, that in the WFP office in Jordan and in the Nairobi Regional Bureau, updating of this training was not planned in practice. Although some of the staff that took the training in 2015 have already updated their training, the monitoring system had not yet taken this into account. Including those people, the staff training rate was **66 percent in 2018**, which confirms that there is room for improvement.

61. Other than this basic training and despite the RMR Division initiatives under way, in most of the field offices visited by the External Auditor, fraud prevention was not included in **training programmes** where such programmes exist.⁵⁷ In offices such as that of Bangladesh, a test carried out on a sample of 12 local staff members revealed that they had little knowledge of the basic concepts and principles of the AFAC policy. However, the RMR division has stated that, as part of its action plan, it is in the process of developing tailored training to be deployed in the field.

62. Furthermore, WFP provided a **certified fraud examiner (CFE) training** for specialized staff. Participants are selected by field offices based on their exposure to fraud risks (finance, human resources, programmes, logistics, procurement). The training costs USD 1,500 per person. At the end of 2018, **208 people** had been trained at an estimated cost of USD 312,000,⁵⁸ yet only 122 of them (46 in 2017 and 76 in 2018) had obtained the certification. This represented an exam success rate of 53 percent. By way of illustration, 11 risk and compliance advisors (RCAs), exactly half of all RCAs⁵⁹ and RCA focal points, are trained as CFEs.

⁵⁶ 3,932 in 2016, 2,592 in 2017 and 3,961 in 2018.

⁵⁷ Regional bureaux of Nairobi and Panama, country offices of Jordan, Bangladesh and Guatemala.

⁵⁸ Source: Internal Controls and Oversight Branch (RMRC).

⁵⁹ As of March 2019, WFP had 10 official RCAs, three of whom were dedicated full time to the subject of fraud in the Dakar and Cairo regional bureaux, while seven were partially dedicated to this subject in the nine country offices (one RCA was shared between three countries). Furthermore, there were twelve RCA focal points in the network.

2.1.3 Internal control

63. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) reference model,⁶⁰ internal control is comprised of five elements, broken down into 17 principles, the **eighth of which is specifically related to fraud risk**. Considering that combating the risk of fraud is one of the overall objectives of internal control, throughout this report the External Auditor has attempted to make an **overall assessment of WFP's AFAC policy in light of those five elements**. This is reflected in the summary table in Annex IV.

64. Since the introduction of an **internal control framework** at WFP in 2011, which was revised in 2015, each year the Executive Director signs a statement of internal control, based on the **assurance statements** submitted by the division directors and managers of external offices and on the Inspector General's opinion.

65. Directors' assurance statements must address: i) the areas most exposed to fraud; ii) comments on the AFAC controls in place; iii) actual or potential fraud losses; and iv) activities related to assessing fraud risk.⁶¹ Several operational managers surveyed by the External Auditor consider that this exercise is **relatively formal** and only requires them to address the issue once a year, when drafting the statement, which is largely perceived as an administrative obligation.

66. The internal control framework also involves the yearly drafting of **letters of representation** by the 135 senior managers within WFP. Based on a sample of letters of representation and assurance statements for the 2017 financial period from 20 countries,⁶² the External Auditor made the following observations:

- letters of representation and assurance statements are insufficiently checked, with errors appearing in some sections indicated as "not applicable",⁶³
- actions to identify fraud risks are not systematically and uniformly mentioned under section 2.4 of the assurance statements, although the signatories are invited to provide this type of information,⁶⁴
- the traceability of the statements is not ensured if the references for the fraud cases reported to OIGI are missing.

⁶⁰ COSO model, which is the commonly accepted reference on internal control.

⁶¹ Update on the AFAC policy of 2017, paragraph 17.

⁶² Armenia, Bangladesh, Benin, Plurinational State of Bolivia, Ecuador, Haiti, Honduras, Guinea-Bissau, India, Islamic Republic of Iran, Iraq, Jordan, Kenya, Malawi, Mali, Niger, Syrian Arab Republic, South Sudan, United Republic of Tanzania and Chad.

⁶³ Of the seven countries where figures for a proven or presumptive case of fraud were included in the OIG report of 15 January 2018 (Central African Republic, Haiti, Iraq, Kenya, Mali, Myanmar, South Sudan), none of the country office directors mention in paragraphs 8 d), 9, 10 or 16 of their letters the specific case of fraud and its possible financial impact, as indicated in the OIG report. Of the six countries where a potential case of fraud was forwarded to OIGI, one of them indicates for section 10 "not applicable", which constitutes an error. Of the seven countries that have not forwarded any cases to OIGI, two state that they forwarded cases to OIGI indicating "yes" in section 10, which should at least be harmonized, given that other country offices in similar situations indicated "not applicable".

⁶⁴ Article 2.4 of the assurance statement form states that if a country office director or regional bureau director responds "yes" to the statement: "the office/division considers the potential for fraud when identifying and assessing risks", it should list the measures taken as a consequence, in accordance with the obligation set out in the third column of the assurance statement form.

67. On the contrary, **some initiatives to prepare assurance statements** demonstrate good understanding by some field offices, such as the Haiti office, which accompanied its statement with a detailed description of the fraud prevention and internal control measures taken.

68. Fraud prevention within WFP is also supported by the **Enterprise Risk Management (ERM)** policy.⁶⁵ In this respect, WFP adopted a new policy in 2015 which sets out a method for detecting exposure to fraud and the risk appetite for fraud, corruption and collusion.⁶⁶ A new version was presented during the Executive Board session of November 2018,⁶⁷ which is based on a risk appetite statement.

69. The 2018 ERM policy contains a new risk categorization, divided into four categories and further divided into 15 risk areas, which are in turn broken down into 41 risk types. **Fraud and corruption are now one of these 15 risk areas, under the fiduciary risk category, and is divided into four components:** corruption, misappropriation of cash, misappropriation of other assets, fraudulent reporting.⁶⁸

70. Within WFP, the **corporate risk register** has been updated to now include the **risk of fraud and corruption affecting WFP operations**, the ownership of which was successively entrusted to the Chief of Staff and later to the Deputy Executive Director. The risk of fraud and corruption affecting WFP operations, classified as “orange” like most other risks, is presented in the form of a table listing 11 mitigation actions.

Table 2: Fraud and corruption affecting WFP operations (November 2018)

Mitigation actions	Owner	Status
Appointment of risk and compliance advisors in high-risk countries based on need	Regional/ country directors	ongoing
Rolling out accountability to affected populations (AAP) mechanisms globally	OSZ	86 percent
Create a corporate counter-fraud action plan	RMR	100 percent
Percentage completion of implementation of the counter-fraud action plan	RMR	12.5 percent
Enhance accountability and compliance in travel by developing analytical reports and tools	RMR	65 percent
Update administrative manual and guidelines to reinforce internal control and accountability	RMR	75 percent
Conduct a comprehensive review and update, as required, supply chain manuals and guidance to include new tools and reflect operational complexity	OSC	75 percent
Improve detection and management of situations that appear to constitute, or constitute, conflicts of interest among WFP vendors, posing a risk of fraud, corruption and collusion	OSC	60 percent
Strengthen contracts with vendors to protect against them unknowingly channelling funding to sanctioned entities (e.g. subcontractors)	OSC	100 percent
Develop and roll out a comprehensive vendor management system that includes supplier registration, performance monitoring and key supplier relationship management	OSC	started
Review and update training packages for the supply chain	OSC	40 percent

Source: WFP corporate risk register, update of November 2018.

OSC – Supply Chain Division; OSZ – Policy and Programme Division

71. This **approach to the risk of fraud** only covers part of the processes; it is not coordinated with the risks noted by the field offices in their annual documents.

⁶⁵ WFP/EB.A/2015/5-B.

⁶⁶ Risk Appetite Statement (WFP/EB.1/2016/4-C).

⁶⁷ 2018 enterprise risk management policy (WFP/EB.2/2018/5-C).

⁶⁸ These are the categories in the ACFE's Fraud Tree.

72. The External Auditor noted that some of the operational managers consulted considered that they **lack corporate guidance** as to which risks are acceptable in relation to fraud.

73. While WFP is preparing a new model for **local risk registers** (originally planned for 2017 but still in progress at the time of the audit), the External Auditor, who listed all the **risk registers** appended to annual performance plans (APPs) for 2018, noted **significant heterogeneity in fraud risk treatment** across the 74 registers examined.⁶⁹

- for country offices:
 - five countries, i.e. only 20 percent, have indicated fraud as an identified risk, classed as red in two cases and green in two others;
 - four countries, i.e. 6 percent, have indicated fraud as **the cause** of a risk;
 - seven countries, i.e. 10 percent, have indicated fraud as **the effect** of a risk;
 - only one country has indicated fraud as a **risk category** for a specific risk;
 - two countries have taken fraud into account in the risk analysis of the **nine APP functional areas** (programmes, supply chain, budget and programming, human resources, administration, finance, IT, security, donor relations) without listing it in the register.
- for regional bureaux:
 - only one bureau has indicated fraud as an identified risk;
 - one bureau has taken fraud into consideration in the risk analysis of one of the nine APP functional areas without listing it in the register.

74. Thus, **many WFP country offices have not formally identified an area exposed to the risk of fraud**. In the region covered by the Panama Regional Bureau, for example, only 3 of the 11 countries identified an area exposed to fraud risk.

75. This observation also applies to **headquarters divisions**. Two (Management Services – RMM and Supply Chain – OSC) of the 18 headquarters divisions have registered fraud as a risk, although the Finance and Treasury Division, the Human Resources Division and the Performance Management and Monitoring Division did not identify fraud in their 2018 registers.

76. Moreover, these local risk analyses, although regularly reviewed by headquarters, **are not consolidated in a specific document**. It would be useful for RMR, which is supposed to be the “designated focal point for management’s implementation of agreed actions and recommendations” according to OIGA’s 2019 Assurance Work Plan, to commit to exploiting and producing a summary of risk registers.

77. To that end, RMR can rely on the **risk and compliance advisors** operating from two of the regional bureaux at the time of the audit⁷⁰ and in nine country offices (Sudan, South Sudan, Turkey, Yemen, Afghanistan, Chad/Cameroon/Central African Republic, Uganda, Nigeria and Pakistan). **Their deployment is suited to apparent fraud risk areas and could be pursued** as a priority in countries where the financial impacts at stake represent a high risk

⁶⁹ The risk registers of the WFP offices of Pakistan, Democratic People’s Republic of Korea, Bhutan, Philippines, Timor-Leste, Libya, Eritrea and Guinea-Bissau were not produced in a timely manner, where they even exist.

⁷⁰ As of the date of the audit, the other regional bureaux had grade P-5 staff with compliance responsibilities. In light of the dissatisfaction expressed by the majority of country office directors in the region, the Panama Regional Bureau might perhaps benefit from the deployment of a full-time regional RCA (SRRCA).

of fraud for WFP: Lebanon, Somalia, Syrian Arab Republic, Democratic Republic of the Congo (DRC), Iraq, Ethiopia, Kenya, Jordan, Bangladesh, Mali and Niger, for example.

78. In the opinion of the External Auditor, these RCAs should be designated exclusively from among **CFE staff**, while those already in place should obtain CFE certification.

79. Their **duties**⁷¹ include assisting with the drafting of the main documents (APP, risk register, risk reports, assurance statements, compliance reviews) as well as supervising training, supporting fact-finding missions following a fraud allegation and offering advice to offices. These duties could be supplemented by systematic participation in committees dealing with sensitive matters (local purchase committees – LPCs, etc.) and include cooperation with other United Nations agencies in the country or region.

80. In order to effectively address the areas most exposed to fraud, RMR should have a **network of experts mobilized** not only in the field but also, if necessary, **in the headquarters' divisions**.

Recommendation 5. The External Auditor recommends standardizing the treatment of fraud in the risk registers of field offices and headquarters.

Recommendation 6. The External Auditor recommends expanding the network of staff members trained in the anti-fraud policy in the most at-risk field offices (regional bureaux and country offices) and extending it to headquarters divisions.

2.2 Detection

2.2.1 Process controls

81. OIG has a **risk assessment tool** that it uses for its Annual Assurance Work Plan, which it submits to the Executive Director. This risk assessment is based on an audit universe which is kept up to date (last updated in September 2018) and on a cross-analysis of probability and impact applied to all 172 WFP entities and processes.⁷² Fraud and corruption risk is described as one of the probability factors of overall risk and is assessed using international classifications (Transparency International's Corruption Perceptions Index) and internal data (Global Staff Survey, regional bureau evaluations, evaluation of headquarters by OIGA). WFP's periodic Global Staff Survey includes a confidential question ("I have witnessed fraud and/or corruption on the job within the past year") to which more than 10 percent of the staff of 31 offices responded in the affirmative in 2018.

82. In 2015, OIG introduced a new tool called the "**proactive integrity review**" (PIR) to detect the early signs of fraud, corruption or other behaviours in the activities of WFP units and to suggest risk mitigation measures for the Organization's finances and reputation.⁷³

⁷¹ In the summer of 2018, the terms of reference of regional RCAs (SRRCAs) had just been revised, while those of national RCAs were revised in autumn 2018.

⁷² The audit universe comprises 172 "organizational entities", including 109 field entities and 63 corresponding to headquarters entities and processes.

⁷³ OIGI 'inspections' are another tool that contributes to fraud detection.

Table 3: Summary of OIGI's PIRs 2016–2018 (years of publication)

2016	2017	2018	2019
Cash-based transfers (CBTs) in WFP Lebanon (PIR-01/16) – May 2016	Djibouti CO operations (PIR-01/17) – January 2017	Staff Entitlements in WFP (PIR-01/18) – August 2018	Chad CO Operations (02/19) – April 2019
CBTs in WFP Jordan (PIR-02/16) – June 2016	Follow-up Jordan CBT Programme (PIR-02/17) – April 2017	Vendor Information Management in WFP (PIR-02/18) – September 2018	Democratic Republic of the Congo CO Operations (planned for April 2019)
Democratic Republic of the Congo country office (CO) operations (PIR-03/16) – September 2016	Follow-up Lebanon CBT Programme (PIR-03/17) – April 2017	BP Operations in Haiti – Haiti CO Operations (PIR-03/18) – December 2018	South Sudan CO Operations (01/19) – April 2019
Central African Republic CO operations (PIR-04/16) – October 2016	Malawi CO 2017 (PIR-04/17) – July 2017		School feeding (upcoming)
Food Procurement for the Syria Regional Emergency Operations (PIR-05/16) – November 2016			Commodities Management (upcoming)
			Payroll in COs (upcoming)

Source: WFP

83. The **implementation** of PIRs was **slower than planned** in the autumn 2015 concept note.⁷⁴ Five PIRs were carried out in 2016, four in 2017 (including two monitoring missions) and three in 2018. The Chad PIR, planned for 2017, was still in the process of being completed at the time of the audit. Following the 2016 experimentation phase, OIG began a reflection on the particular status and methodology of this type of exercise. This reflection led to responsibility for PIRs being transferred from OIGI to OIGA in 2019. Five PIRs were planned for 2019, three of which (Chad, DRC and South Sudan) are due to be completed in spring 2019.

84. According to the PIR Manual of December 2017, OIG and RMR are supposed to **follow the action plans** put in place following the PIRs. OIGI therefore kept a table of the PIRs it carried out between 2016 and 2017. After having taken back responsibility for PIRs, OIGA began performing its own monitoring: in January 2019, its table only concerned the three PIRs carried out in 2018 and showed that 23 of its 28 recommendations were still in the process of being implemented. OIG specified that the PIR Manual was adopted in December 2017 and so nine PIRs had been conducted before the manual existed.

85. OIG also drafts **reports on control weaknesses** which since 2018 have become internal control recommendation reports. These reports, which follow an investigation, allow to identify measures to be taken to strengthen controls. However, recommendations often only concern the local level and are not subject to any particular monitoring. OIG, which had not performed any **inspections** since 2016,⁷⁵ carried out one inspection in July 2018 following public allegations of fraud at the expense of WFP beneficiaries in Uganda.⁷⁶ Two further inspections have been conducted and are due to be completed in March 2019.

⁷⁴ Phase 4 of the roll out planned in 2015 for the 3rd quarter of 2016 did not take place until the 2nd quarter of 2017.

⁷⁵ Annual report of the Inspector General for 2017 (WFP/EB.A/2018/6-F/1).

⁷⁶ Report IR/01/2018.

86. As part of its advisory activity, at the end of 2017 OIGA set out a methodology for putting together fraud risk assessments inspired by COSO's method, with support from two external consultants. **Four processes** identified as being high risk were selected⁷⁷ and analysed through self-assessment. The report published in April 2018⁷⁸ highlighted four levels of risk: three risks were considered "very likely" and five were considered "likely" in the CBT process, while four were considered "likely" in the third-party process. It also developed a Fraud Tree based on the diagram created by the ACFE and adapted to WFP.

87. This exercise was designed to contribute towards implementing the AFAC strategy by facilitating the transition of its management to RMR. The consultant recommended **five areas for improving** AFAC actions: i) extend the method of fraud risk assessment to other processes and/or countries; ii) develop monitoring systems based on data analyses and data mining; iii) create a "fraud database" using OIGI investigation reports; iv) include the fraud approach in other policies and procedures in order to integrate it into control mechanisms and v) assist with the development of staff training on fraud prevention.

88. OIGA continued to carry out fraud risk assessments, applying them to two additional processes⁷⁹ as part of the PIRs carried out during summer 2018.

89. Significant progress can be expected as, by applying the general fraud risk assessment methodology within WFP, we observe that:

- the **identification of fraud risks** by management is not exhaustive (example of processes to open bank accounts, record beneficiaries or deliver food – see below);
- the assessment of the **likelihood and impact of fraud risks** is only partial (six processes have been analysed to date) and is weakened by the missing information observed in the risk registers in the field,⁸⁰
- the **determination of risk appetite** has still not been quantified,⁸¹
- the **determination of residual risks** through the application of existing controls is only partial;
- the development of a **risk profile** for the activity or programme using analyses from fraud risk assessments is non-existent.

Recommendation 7. The External Auditor recommends producing guidelines on conducting fraud risk assessments covering the most exposed processes (information technology, cash-based transfers, NGOs, etc.) and countries (Yemen, Turkey, etc.).

2.2.2 Control and supervision

90. As recalled by the JIU in 2016, fraud risks affect processes that are shared by United Nations agencies such as procurement, contract management, staff recruitment, payments to staff, project management and the selection and management of implementing partners, all processes that are central to the performance of WFP's mission.

⁷⁷ Asset Management, Relations with third parties, CBTs and Supply chain.

⁷⁸ WFP *Fraud Risk Assessment - Advisory Assurance Report AA-2018-01*.

⁷⁹ Staff entitlements and vendor information management.

⁸⁰ See paragraph 73, above.

⁸¹ Although general statements regarding risk appetite are made at the central or local level, there is no quantification of the risk assumed (for example x percent of fraud on distributions, etc.).

91. The Fraud Risk Management Guide (COSO/ACFE, 2016)⁸² lists fourteen generic criteria to measure fraud detection. In the guide, the term “detective controls” means any unexpected and clandestine control actions (“detective controls are clandestine in nature”) intended to detect the origin of a case of fraud. Those fourteen criteria include the number of employees not having signed their company's ethics statement and the number of suppliers not having signed anti-fraud clauses. Our tests on samples showed that while these criteria sometimes reveal weaknesses,⁸³ they are not subject to a systematic detection process.

92. **Oversight**, which usually falls to the second line of defense (financial control, risk management, legal department) could be more robust, as observed by OIG in its 2017 annual report submitted in June 2018⁸⁴ and as illustrated by several examples:

- By way of example, the External Auditor performed a test on the registration of **bank accounts**, which can be vectors for fraud. Identical bank account details between vendors and employees of WFP were identified in WINGS. Further checks found that these duplications were due to technical inconsistencies⁸⁵ rather than malicious acts and did not give rise to any double payments. Although the RMF division states that it carries out regular ex-post checks on these duplications, the creation of automatic alerts would strengthen the internal control.

- Similarly, the increase in the **number of waivers** of competitive bidding, which in 2018 accounted for 17 percent of food purchases in volume and 21 percent in value, could justify specific monitoring of the fraud risk, in the form of the performance of a fraud risk assessment, the implementation of mitigation actions and the drafting of a standard operating procedure (SOP).

- As demonstrated by the field visits carried out by the External Auditor, when triggered by the offices concerned, **cooperating partner audits**, which are provided for in the **agreements with these partners**, are rarely used to check proper application of the AFAC clauses contained in those contracts.

- Lastly, the **roll-out of biometric devices** to monitor CBT beneficiaries is still unevenly implemented, including in countries exposed to fraud risks: rolled out in Jordan and in progress in Bangladesh, these devices were non-existent in Haiti at the time of the External Auditor's visits.

93. Meanwhile, the **vulnerability of WFP's information systems** as regards fraud and cyber-fraud was highlighted in several audit reports and OIGA advisory reports in 2017 and 2018. First and foremost, these weaknesses relate to the management of logins to WFP's strategic applications as well as to the segregation of duties and the management of beneficiaries. The entity is also vulnerable, as are many other organizations, to cyber attacks.

94. Further to these observations, the Technology Division (TEC) implemented a series of actions aimed at strengthening the use of information systems as fraud detection tools, particularly by improving the management of access rights and the segregation of duties.

95. As the JIU had already stated in 2016 in its recommendation No. 10, **better integration of information systems** in the AFAC policy would improve fraud risk prevention and the use of these systems for prevention and detection in all WFP's operations. However, to date, there

⁸² Managing the Business Risk of Fraud: A Practical Guide. See: https://www.acfe.com/uploadedFiles/ACFE_Website/Content/documents/managing-business-risk.pdf, page 38.

⁸³ See paragraph 41 for employees and paragraph 43 for suppliers.

⁸⁴ WFP/EB.A/2018/6-F/1, paragraph 36.

⁸⁵ For example, when an external vendor becomes a staff member and keeps the same bank details.

is no such project in place between RMR and TEC and the **Corporate Risk Register for fraud makes no mention of information systems** as a point of vulnerability or as an answer. The performance of a fraud risk assessment of the information systems, as recommended by the Institute of Internal Auditors, would make it possible to partly remedy these shortcomings.

2.2.3 Reporting of cases of fraud

96. As noted by the Audit Committee in its last report,⁸⁶ the **new aspects of WFP's activity** (increased role of CBTs) expose it to increased fraud risks, which could impact its reputation. It therefore encourages sustained attention to be paid to the reporting of fraud.

97. OIG plays a central role through **detection measures**. These measures establish reporting procedures for any employee of WFP who knows of or suspects any fraudulent practices within WFP, who is required to "promptly" inform OIG. The scope of this obligation was specified in 2015 for WFP staff.⁸⁷ It complies with rule 1.2 c) ST/SGB/2016/1 of the United Nations Staff Rules and Regulations, which applies to United Nations Secretariat personnel but also provides for notification to management and to human resource managers, in addition to information on internal audits.

98. A confidential telephone hotline and email address⁸⁸ have been set up directly with OIG⁸⁹ to receive messages and calls from staff. Details of these reporting channels have been widely disseminated among WFP staff⁹⁰ but the AFAC policy did not **explicitly** open them to third parties (cooperating partners, suppliers, beneficiaries, etc.).⁹¹ The External Auditor has tested the telephone service and checked that it functions properly. The service is active 24 hours a day, seven days a week via a messaging system, but only two languages (French and English) are available to respond to users. In order to address this shortcoming, OIG has committed to redesigning the platform, including increasing the number of languages available as well as offering an internet portal and a mobile application. However, the necessary call for tenders took longer than planned and the new mechanism is not expected to be operational until the second quarter of 2019.

99. The number of **reports** has sharply increased, jumping from 136 in 2016 and 186 in 2017 to 364 in 2018.⁹² In 2018, a third of these reports (31.6 percent) concerned potential cases of fraud. The confidential reporting service, which encompasses both the telephone hotline and the email address, is not a major source of detection of suspected cases of fraud leading to investigations by OIG (13 percent of reports in 2017, 9.5 percent in 2018). In many cases, the information provided through this channel does not enable an investigation to be launched.

100. The External Auditor noted that in many country offices, such as those of Guatemala, Honduras and Bangladesh, **local complaints and feedback mechanisms exist for beneficiaries**. Even though these mechanisms were not designed exclusively to enable the

⁸⁶ *Annual Report of the Audit Committee (WFP/EB.A/2018/6-E/1)*, paragraphs 25 and 26.

⁸⁷ "All WFP personnel is required to report promptly any reasonably suspected case of fraud and corruption, or any related attempts of such practices, to his/her manager or to the Office of the Inspector General if confidentiality is desired. All managers shall report any such cases promptly to the Office of the Inspector General. Reports to the Office of the Inspector General shall be made at the telephone or fax numbers indicated above, or to the WFP confidential hotline at hotline@wfp.org". AFAC policy, paragraph 36.

⁸⁸ AFAC policy, paragraph 36. OIG receives reports through the dedicated address hotline@wfp.org or through a dedicated telephone line which has been operational since 2010.

⁸⁹ At UNDP, the hotline is run by an independent third party.

⁹⁰ Mainly through circular emails and online posts.

⁹¹ AFAC policy, paragraph 22.

⁹² OIG data, January 2019.

reporting of cases of fraud, they do contribute to it.⁹³ Consultation of the corresponding logs revealed the existence of unreported presumptive fraud allegations at the central level. However, no general survey of these mechanisms has been carried out.⁹⁴ Furthermore, OIGI does not have direct access to reports routed through these mechanisms and must rely on the information sent to it by the country offices.

101. The **obligation to immediately report** any presumptive fraud to OIGI poses a problem, as the External Auditor has already noted in several of its field audits. In January 2019, only 56 percent of country office directors who responded to the survey considered that they are required to systematically refer any case of presumptive fraud to OIGI. There are various reasons for this reluctance: the modest sums involved, the desire to handle the issue at the local level and to not overload OIGI, the subtle difference between fact-finding and investigation, fear about the length of time it takes to conduct an investigation, etc. Indeed, in several countries visited (Bangladesh, United Republic of Tanzania, Guatemala and Haiti in 2018⁹⁵), potential cases of fraud were not reported to OIGI. A methodological guide enabling a more objective approach could therefore be jointly drafted by RMR and OIGI.

102. The External Auditor summarized its observations made at headquarters and during its field audits in an analysis of **possible factors for underreporting fraud** within WPF.

Table 4: 11 possible factors for underreporting fraud

- | |
|---|
| <ol style="list-style-type: none"> 1. Lack of incentive to declare fraud: the zero tolerance principle might create reluctance to report fraud, as this could lead to a negative perception of the performance of an office. 2. WFP priority action on operations and the “zero tolerance” policy can prove difficult to balance in the field (at the regional and country levels) (see 3.1). 3. Local cases of fraud handled directly in the field without reporting them to OIG, particularly for cases involving modest amounts and perceived as insignificant. 4. Lack of incentive for cooperating partners or vendors to declare fraud: cooperating partners and vendors are not mentioned in the AFAC policy as having access to the hotline and the standard contractual terms do not mention this hotline either. 5. Limited estimate of the amount of the fraud loss in investigation reports (see 2.3.2). 6. Insufficient communication to headquarters of potential fraud cases registered through the complaints and feedback mechanism available in the field. 7. Perception that the anonymity of whistleblowers is not guaranteed or lack of trust in the whistleblowing mechanism. 8. Unclear understanding by field staff of the concept of fraud. 9. Weaknesses in the internal control system (bank accounts, IT system, losses seen as undetected fraud, etc.). 10. Room for improvement in terms of training and awareness on fraud and corruption. 11. Fears about donors’ behaviour when revealing fraud or corruption cases |
|---|

Source: External Auditor.

⁹³ *Minimum Standards for Implementing a Complaints and Feedback Mechanism, requirement 10.*

⁹⁴ Recommendation 12 of the JIU report: “The executive heads of the United Nations system organization, if they have not already done so, should implement the good practice of establishing a central intake mechanism for all fraud allegations in their respective organizations. In the interim, for organizations with decentralized intake mechanisms, immediate action should be taken to: (a) establish an obligation for decentralized intake units to report to a central authority any allegations received, ongoing cases under investigation and closed cases, indicating the action taken; and (b) establish formal intake procedures and guidelines, including: clear criteria for the preliminary assessment, the official, office or function authorized to make the assessment, the process to be followed and the arrangements for reporting on the results of the preliminary assessments.”

⁹⁵ Five, four, three and six, respectively.

Recommendation 8. The External Auditor recommends improving cooperating partners' awareness of their contractual obligation to report all cases of presumptive fraud by developing guidance documents to be used by country offices when training their partners. These documents should, in particular, emphasize the conditions of use of the confidential fraud reporting hotline.

Recommendation 9. The External Auditor recommends implementing in all field offices local mechanisms for reporting cases of fraud (complaints and feedback mechanisms, etc.) and ensuring that all allegations of fraud are effectively dealt with by the offices and reported to headquarters.

Recommendation 10. The External Auditor recommends producing a handbook for field managers to determine fraud reporting criteria.

2.3 Treatment

2.3.1 Investigation

103. **Investigation procedures** are established by the Inspector General who is authorized to independently investigate any credible allegations of fraud or corruption. For this purpose, the Inspector General can use the services of OIGI, which, at the time of the audit, had 22 investigators (including consultants), 14 of whom are assigned to headquarters.

104. In June 2015, OIGI's **investigation procedure** was strengthened by improvements to the process of classifying reports and an update to the OIG's charter. It is committed to ensuring a **high quality of evidence** that holds up to recent jurisprudence.

105. **Report analyses** are carried out by an Intake Committee, whose task is to assess whether or not a case should be pursued (formal registration of a complaint), according to the thresholds and criteria set out in the Investigation Guidelines of November 2016 and following a specific procedure.⁹⁶ After this first stage, in light of the criteria defined in said guidelines, OIG decides whether or not to open an investigation.

Table 5: Review of reports and investigations opened each year⁹⁷

	2017	<i>Of which cases of fraud</i>	2018	<i>Of which cases of fraud</i>
Reports	186	66	364	115
Complaints	139	63	153	72
Investigations launched	55	38	72	38
Complaint/intake ratio	75%	95%	42%	63%
Investigation/intake ratio	30%	58%	20%	33%
Investigation/complaint ratio	40%	60%	47%	53%

Source: External Auditor based on OIG data, January 2019

106. An analysis of the due diligence carried out by OIGI as regards fraud since 2015 highlights the following points:

⁹⁶ SOP OIGI/17/01, under revision at the time of the audit.

⁹⁷ For ratio comparison purposes from one year to the other, this table only takes into account reports and investigations opened during the year.

- Although the total **number of annual reports** increased by 126 percent between 2015 and 2018 (from 161 to 364 cases), the number of investigations opened during the year has only risen slightly (from 69 to 72) and the number of new investigations into fraud has decreased (from 45 to 38).
- The **prioritization of cases** depends on **OIGI's resources**, although the Inspector General recalls that in this context she is required to set priorities (particularly prevention of harassment) which can impact processing times.
- The **average timeframe for processing cases of fraud was 4.1 months in 2017 and 5 months in 2018**.
- The **geographical origin of cases of fraud** is concentrated: in 2018, nine countries (Central African Republic, Kenya, Syrian Arab Republic, Democratic Republic of the Congo, Haiti, Italy, Pakistan, State of Palestine, Yemen) accounted for over 50 percent of the cases of fraud that resulted in an investigation and 30 countries accounted for all cases of fraud.
- **Cooperating partners** represent the category that generated the greatest actual financial losses in 2018.⁹⁸
- In 2017 and 2018, the number of cases involving staff (28) almost exclusively related to service contracts (SCs), national officers (NOs) and consultant contracts, with just one case concerning international professional staff.
- **In 2017 and 2018, no cases involving beneficiaries** were observed, even though such cases did in fact occur.⁹⁹

An example of an unreported suspicion of fraud: the double registration of Rohingya beneficiaries in Bangladesh¹⁰⁰

The External Audit of the Bangladesh country office carried out in December 2018 highlighted one case relating to beneficiaries that could be qualified as fraud by OIGI. During the Rohingya refugee crisis in the summer of 2017, the biometric registration of refugees was only completed after ten months. In spring 2018, a check using the SCOPE information system detected duplicate identities among beneficiaries. Of the total of 424,979 listed individuals, 17,018 duplicates were confirmed while approximately 34,000 identities required further investigation to determine whether they were duplicates or not. On 6 December 2018, 393,231 identities had been verified for certain, 22,076 had been confirmed as duplicate registrations and 1,750 remained to be analysed. Therefore, for the ten months preceding the end of the census, we can consider that beneficiaries unduly received double distributions of food by accepting to be registered twice. At the time of the audit, it was not possible to rule out the possibility that this constitutes a fraudulent practice within the meaning of the AFAC policy (paragraph 7, a)). Consequently, the External Auditor recommended in its management letter that the Bangladesh office¹⁰¹ report this case to the Office of the Inspector General; in March 2019, the Bangladesh office confirmed that it had acceded to this request, referring the case. The External Auditor also provided in its management letter to the office a **financial estimate of the losses incurred by WFP as a result of this case**, linking the duplicate registrations to the amounts spent on this activity in the country strategic plan. WFP contested the amount as the duplicate registrations were corrected prior to distribution. The processing time prevented the External Auditor from verifying this, so it will fall to the Inspector General to do so.

⁹⁸ This finding gave rise to recommendation 10 of this report.

⁹⁹ See management letters on Uganda and Bangladesh.

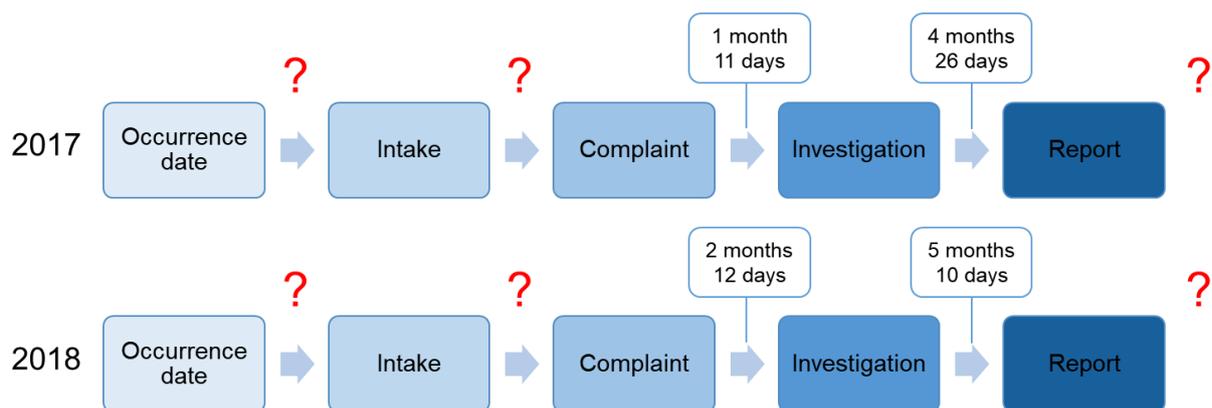
¹⁰⁰ External Auditor, based on a field audit of the Bangladesh country office.

¹⁰¹ Recommendation No. 22.

107. Almost a quarter (22 percent) of field directors who responded to the survey complain of a lack of information regarding **OIGI investigations** relating to their staff. According to OIG, this point should be resolved with the implementation of the new case management system, which will make it possible to better inform line managers, subject to compliance with confidentiality requirements. As indicated above, the External Auditor suggests better informing line managers about such cases.¹⁰² Better knowledge of situations under investigation would enable country directors and regional directors to more precisely focus their fraud prevention actions and save time.

108. The time between the date of the events and their reporting is not tracked by OIGI. The same applies to post-investigation follow-up times. A tool to follow a case's life cycle from start to end is, however, in the process of being implemented by OIGI. Such a cycle should start on the date of the events and not on the date on which they are reported. The aim is not to hold OIGI responsible for any delays between the date of the events, which by definition are unknown when they occur, and the date on which they are reported. Rather, the objective is to equip OIGI with tools to trace, following an investigation, the start of the events in question to better evaluate WFP's capacity to react to a case of fraud. Its operation should allow for better management of timeframes at each stage and, in particular, of the duration of investigations, which increased by 18.7 percent between 2017 and 2018 (see figure 3).

Figure 3: Duration of the processing of a case of fraud in 2017 and in 2018



Source: External Auditor based on information from OIGI. The timeframes indicated are the average duration of each stage of the 38 investigations into fraud opened in 2017 and 2018.

109. To rectify the risk of OIGI becoming overburdened, especially as the number of cases of suspected fraud looks set to increase, the External Auditor recommends **delegating to the responsible managers** authority to conduct investigations for the least complex cases or those representing a seemingly small amount of money, particularly given that some offices now have anti-fraud specialists.

110. The monopoly on investigations granted to the Inspector General is not an absolute rule within international organizations. For instance, the United Nations Secretariat reserves "complex matters and serious criminal cases" for the investigations department and entrusts programme managers with "lower risk cases".¹⁰³ Various arrangements for decentralizing the conducting of investigations have been discussed with the different departments: smaller cases could be delegated to either the regional bureaux or all responsible managers,

¹⁰² As an example, UNDP applies a principle of informing individuals about ongoing investigations by internal inspectors on a need-to-know basis and gives particular attention to the lessons learned from those investigations.

¹⁰³ United Nations Secretariat circular ST/IC/2016/25 of 9 September 2016, paragraphs 32 and 33.

or preliminary investigations aimed at establishing the facts could be delegated to the anti-fraud specialists based in the regional bureaux, with OIG remaining responsible for all investigations. The External Auditor considers that WFP should choose which approach to adopt, even though it has stated a preference for the first type of solution as the only way of really addressing the risk of overburdening OIGI.

Recommendation 11. The External Auditor recommends delegating the processing of simple fraud allegations involving an amount below a certain threshold to the responsible managers while maintaining the obligation to inform the Office of Inspections and Investigations.

2.3.2 Estimating the amount of fraud

111. Since 2017, the **amount of fraud declared in the report on the annual financial statements** has matched the figure indicated to the Resource Management Department (RM) by OIG in its annual declaration:¹⁰⁴ USD 538,541 in 2017 (USD 141,198 of which was for the only proven case of fraud) and USD 1,328,637 in 2018 (USD 747,286 of which was for the only proven case of fraud).

112. In its annual declarations, OIG distinguishes “Presumptive fraud – a fraud which, though not established clearly on documentary or testimonial evidence as having been committed by the perpetrator, causes loss of valuable resources to the organization”. According to the interpretation of the Finance and Treasury Division (RMF), **presumptive fraud** is that a) resulting from OIG investigations in progress, b) and that relates to events that cause the loss of valuable resources; while **proven fraud** is fraud confirmed following completed OIG investigations (regardless of the year with which it is associated) and proven by documentary or testimonial evidence, which results in a misrepresentation of the financial statements.

113. Estimates of the amount of proven fraud are limited by these declarations and result from **OIGI’s investigation reports**. Yet, only **26 percent of the reports produced in 2017 and 2018** contained such evaluations. Indeed, due to the absence of a method and the lack of proof in many cases, OIGI refuses to provide estimates that are not based on acceptable evidence. This cautious approach partly explains the low amounts declared each year and calls for a response in terms of methods. The External Auditor recommends drawing on the investigations to produce, for statistical purposes, an estimate of the amounts at stake. In response, WFP considered that **it would be inappropriate to inform the public of the amounts of losses linked to unproven cases of fraud, especially figures based on estimates**. However, it does acknowledge that to improve internal control and risk management it would be advisable to produce an estimate of its potential exposure to losses due to fraud. **This figure could be shared with the Audit Committee.**

Recommendation 12. To improve the internal management of fraud risk, the External Auditor recommends associating each fraud investigation with an estimate of its financial impact based on a methodology established with the Resource Management Department.

¹⁰⁴ Memo Cases and Presumptive Fraud 2017 of 15 January 2018 and Memo Cases and Presumptive Fraud 2018 of 17 January 2019.

2.3.3 Communication on fraud

114. As recently noted by the United Nations Panel of External Auditors, “*transparent reporting of fraud is a sign of a mature and open organization and can help secure improvements in controls, which in the longer term should serve to enhance donor confidence. Such transparency can facilitate more honest reporting to stakeholders as the system increasingly introduces statements on internal controls. In addition, the Panel considers that great consistency in fraud reporting would assist in assessing fraud risks and the adequacy of the internal control framework*”.¹⁰⁵

115. However, WFP is still **lagging behind with regard to communication** on fraud:

- it still does not keep a **fraud register** which would allow for appropriate analysis and internal communication;
- apart from the estimate of the amount of fraud and certain statistics in OIG’s annual report to the Executive Board and in the financial statements, it does not produce a **specific annual report on fraud**;¹⁰⁶
- the **communication of cases of fraud to local authorities**, as provided for by the AFAC policy, is almost never implemented (as the local authorities themselves may be involved): according to the Legal Office (LEG), only two cases of fraud and corruption have been reported, in 2015 and 2017 respectively.

116. **Externally, WFP’s image with regard to fraud** is still good. The director of the WFP Division of Communications, Advocacy and Marketing (CAM) recognizes that fraud is an issue that is currently much less sensitive than harassment. Indeed, the various studies carried out by service providers on WFP’s image in the opinion of several countries do not mention fraud as one of the factors that negatively influence the public’s perception of WFP. However, no study was available, at the time of the audit, on the periods after the third quarter of 2018.

2.4 Compensation

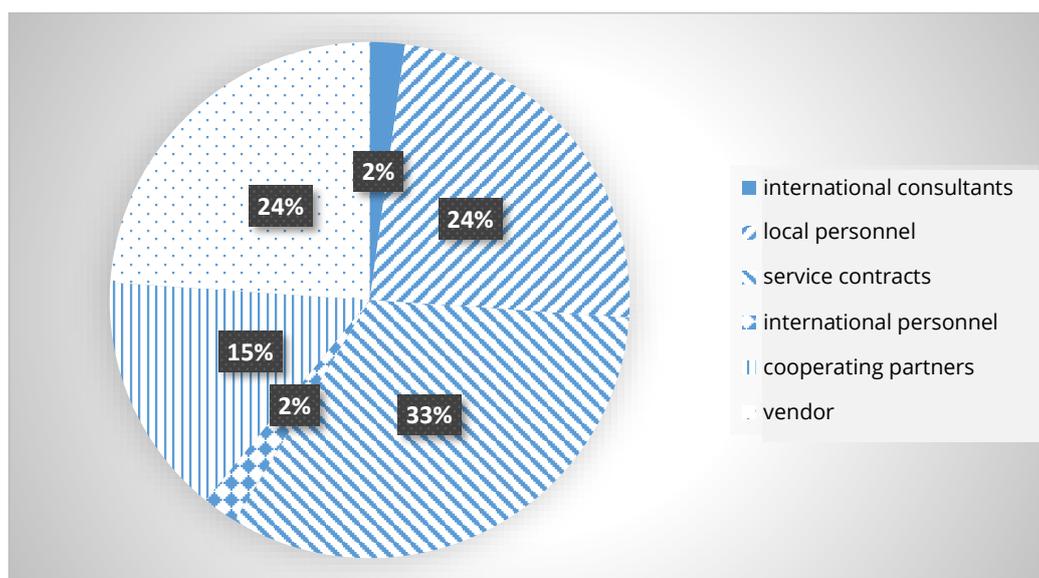
2.4.1 Sanctions

117. An analysis of the content of 46 investigation reports between 2017 and 2018¹⁰⁷ shows the following distribution of **convicted fraudsters**.

¹⁰⁵ Letter of the Chairman of the United Nations Panel of External Auditors to the Secretary-General of 4 December 2018.

¹⁰⁶ This practice, which can be observed for example in the European Union, where OLAF provides key performance indicators (number of investigations opened and in progress, preliminary analyses, amounts recovered) and highlights certain complex investigations, was already recommended by the JIU in its Recommendation 15. Nonetheless, OIG’s annual report can be considered to contain some of this information.

¹⁰⁷ 24 investigation reports produced in 2017, 4 of which were opened in 2016, and 22 in 2018, 13 of which were launched in 2017.

Figure 4: Breakdown of staff originating fraud 2017-2018

Source: External Auditor based on OIGI reports

118. In principle, there are various **sanctions**. Dismissal is systematically recommended in the event of fraud or corruption involving staff members. The termination of contracts is also recommended for third parties with whom WFP works. According to the annual Report on Practice in Disciplinary Matters published by WFP, disciplinary measures for fraudulent acts accounted for 50 percent of such measures in 2015, 40 percent in 2016 and 58 percent in 2017. At the time of the audit, the proportion of cases of sanctions related to fraud in 2018 was not known by the External Auditor.

119. An analysis of the **last 20 cases of staff sanctions for fraud**, nearly all of which concern field office staff and involve modest financial sums, shows that although report **processing times** are improving they remain relatively long at **an average of 16 months between reporting and the effective imposition of a sanction**, whether for cases giving rise to relatively limited investigations or for particularly serious cases. The analysis of the processing times did not make it possible to determine the cause of the sometimes significant differences from one case to another. Furthermore, the decision-making process is not traced. In this respect, HRM's intention to **make a compilation of all past sanctions imposed and the corresponding grounds of doctrine** would provide further visibility to the procedures commenced and could possibly accelerate their processing. Lastly, the content of the case files does not make it possible to determine the nature of the contact between headquarters and the field office – particularly the office director – during the sanction procedure.

120. The procedure to **sanction vendors** suspected of fraud is set out in the circular entitled WFP Framework for Vendor Sanctions (OED2015/022) of December 2015. The External Auditor was informed of **seven cases relating to 2017 and one case in 2018** (which is still in progress). Two types of sanctions were imposed in 2017: permanent or temporary removal (two years in this case¹⁰⁸) from the list of suppliers with the possibility of applying this sanction to the company but also to the manager *intuitu personae* to prevent any future contracts through another company. For both of the cases studied in detail, **no financial**

¹⁰⁸ Cases of fraud committed by vendors and penalized by the Sanctions Committee. First case: fraud linked to the billing of car repairs in the Central African Republic. Second case: fraud linked to the nature of products resold and their non-compliance with environmental rules (false health, safety and working conditions certificates) in Turkey.

sanction or recovery of the amounts was demanded. The **procedure timeframes** appear very long as, since 2018, the processing times of the five cases still pending before the Vendor Sanctions Committee range from three years to now over five years since the occurrence of the events. This Committee has not met since April 2018. In the seven cases analysed by the External Auditor, the timeframes observed between the date of the events and the sanction decision was **at least three years**.

2.4.2 Recovery

121. Although it is not always easy, the **recovery of sums misappropriated** by WFP staff or partners contributes to the credibility of the AFAC policy and the fulfilment of commitments to donors.

122. According to the annual notifications sent by OIG to the Chief Financial Officer (CFO), the amounts recovered from sums misappropriated through fraud was USD 234,174 for the 2015 financial period and USD 23,100 for the 2016 financial period. However, these same declarations **do not indicate any amounts for the 2017 and 2018 financial periods**, even though the cumulative amount of confirmed losses apparently totalled US 817,042 for those two years, not to mention the unrecovered amounts from previous years.

123. The External Auditor considers that the **recovery procedures** implemented by WFP should be followed better, even when the sums in question are modest, and that the outcome of these procedures should be explicitly documented.

3. Lessons to be learned

3.1 On the strategy applied

124. The core of WFP's anti-fraud policy is the principle of "**zero-tolerance**", which is well established by doctrine and on which other international organizations (UNDP and FAO in 2015, United Nations Secretariat in 2016, etc.) also base their anti-fraud policy. As recalled by professional associations,¹⁰⁹ this principle primarily offers benefits in terms of policy and communication. Taken literally, it can lead to a strong aversion to risk, a fear expressed by some field managers, as management may wish to protect itself against any risk of fraud, regardless of its likelihood, amount or nature, without taking into account the cost of mitigation actions.

125. WFP rightly claims in its Risk Appetite Statement¹¹⁰ submitted to the Executive Board of November 2018 that it is "**highly risk averse**" as regards fiduciary risks, the category into which fraud risk falls. However, based on the exchanges with field managers, particularly in the countries most exposed to this risk, this **intransigence is not really applicable in the field**, which threatens the credibility of the whole AFAC policy and further adds to the underreporting of fraud. It is therefore essential that, at the same time as improving the effectiveness of its strategy to reduce fraud risks, WFP prepare a **strategy for accepting residual risks**, which would be determined for each of the priority processes and countries, approved by management and shared with donors.

126. To do this, WFP must build on its **strategy** and its **2018–2020 action plan against fraud and corruption**, developed by RMR; for comparison, FAO has only just adopted an action plan, in October 2018, for the 2018–2021 period. The strategy gives priority to prevention rather than detection, stating that "it is easier to prevent fraud than to detect it",

¹⁰⁹ Institute of Internal Auditors, Association of Certified Fraud Examiners.

¹¹⁰ Risk appetite statements (WFP/EB.2/2018/5-C/2).

which is not entirely certain for an organization destined to operate in a high-risk environment. In its summer 2018 version, the plan sets out three aims: i) develop awareness and the ability to prevent and manage the risk of fraud; ii) clarify roles and responsibilities as regards the AFAC policy, and iii) improve processes, information and reporting as well as tools (metrics, indicators and dashboards) and the capacity to provide advice.

127. WFP's plan is divided into three phases:

- from August 2018 to May 2019: train the most exposed staff members (through field missions and the deployment of four specialized P-4s in regional bureaux), gather internal feedback, make comparisons with other organizations and plan;
- from June 2019 to February 2020: improve the AFAC policies and tools and build capacities at the regional level;
- from March 2020 to July 2020: raise awareness of all staff to AFAC standards.

128. The **first phase** of the plan was launched in autumn 2018 with training missions being carried out in Nigeria in November 2018 and South Sudan in December 2018. Further training missions are planned for 2019.

129. According to this plan, fraud prevention tools will not be implemented until the third phase, which will begin in March 2020. However, the External Auditor noted **high expectations from field managers** in its respect: when surveyed in January 2019, while only 44 percent of country office directors expected training support from the division, 86 percent of them requested concrete guidance to implement the policy, with half of directors stating that there are difficulties in the implementation of this policy.

130. Consequently, it seems appropriate to **speed up the pace of implementation and focus this strategy on priorities**. In order to determine these priorities geographically, the External Auditor carried out an exercise using the tool developed by OIGA for its own programming. Based on financial impact factors and fraud and corruption probability factors, **a list of 20 countries for which the risk of fraud is highest**, from among the 84 countries where WFP operates, was established:

Table 6: The 20 WFP countries of intervention subject to the highest fraud risk

<i>Country office</i>	<i>Financial impact factor</i>	<i>Fraud and corruption probability factor</i>	<i>Total score (max. 10)</i>
<i>Yemen</i>	5.0	3.6	7.1
<i>Turkey</i>	5.0	3.2	6.5
<i>Central African Republic</i>	4.0	4.0	6.4
<i>Lebanon</i>	4.0	3.8	6.2
<i>South Sudan</i>	4.0	3.8	6.0
<i>Chad</i>	4.0	3.6	5.7
<i>Somalia</i>	4.0	3.6	5.7
<i>Nigeria</i>	4.0	3.6	5.7
<i>Afghanistan</i>	4.0	3.6	5.7
<i>Syrian Arab Republic</i>	4.0	3.5	5.6
<i>Sudan</i>	4.0	3.4	5.5
<i>Dem. Rep. of the Congo</i>	4.0	3.3	5.4
<i>Uganda</i>	4.0	3.3	5.3
<i>Iraq</i>	4.0	3.2	5.2
<i>Ethiopia</i>	4.0	3.2	5.1
<i>Kenya</i>	4.0	3.0	4.8

<i>Country office</i>	<i>Financial impact factor</i>	<i>Fraud and corruption probability factor</i>	<i>Total score (max. 10)</i>
<i>Jordan</i>	4.0	2.8	4.5
<i>Bangladesh</i>	4.0	2.8	4.5
<i>Mali</i>	4.0	2.7	4.3
<i>Niger</i>	4.0	2.1	3.4

Source: External Auditor based on OIGA data

131. To manage this risk, WFP has several mechanisms that it can mobilize.¹¹¹ However, it appears that **for these 20 most exposed countries**¹¹²

- **in 30 percent of cases, fraud does not appear as a risk in the risk registers** and in only 10 percent of cases this risk is assessed as “high” in the risk registers;
- all country office directors confirm that they have taken fraud into account in the risk assessment in their annual declaration for 2017, while for the **80 percent of them who were investigated** for fraud by OIGI in 2017 or 2018, no mitigation measures have been identified;
- only **45 percent** of these offices **have an identified risk and compliance adviser (RCA)** on site.

3.2 On the cost of the policy

132. According to an estimate (see Annex III), it appears that the **budget allocated to the fraud prevention, detection and response policy** has increased considerably since 2016. In 2016, expenditure was **USD 2.37 million** and could be around **USD 3.83 million in 2019**.¹¹³

133. The factors **that have increased the cost** of this policy are the rise in power of the RMR division and especially the increase in the number of OIGI staff assigned to presumptive fraud investigations. In 2019, over half of the estimated budget allocated to the AFAC policy was used by OIGI (USD 2.58 million out of USD 3.83 million).

134. To implement the 2018–2020 draft action plan, RMR considers that it needs a larger budget, as suggested in the WFP Management Plan (2019–2021) approved by the Executive Board in November 2018, which allows it two additional international staff posts in the field and one professional post responsible for following up on recommendations.

135. Despite this growing investment, and unlike the anti-harassment policy, the AFAC policy does not give rise, in the management plan, to the development of key performance indicators (KPIs) regarding management. In the absence of such indicators, the External Auditor is not always in a position to state whether additional efforts would improve the effectiveness of the AFAC policy.

3.3 On the sharing of responsibilities

136. WFP bases its anti-fraud and anti-corruption strategy on the concept of three lines of defense. While not questioning this approach, the resultant division of labour could prove to be a source of complexity for those involved when **first and second line responsibilities can**

¹¹¹ Risk and compliance advisor (RCA), risk registers (RRs), proactive integrity reviews (PIRs), annual assurance statements, various OIGI outputs (investigations, internal control weakness reports (CWRs), management letters (MLs), internal control recommendation reports (ICRRs).

¹¹² See Annex II for an overview of the use of these instruments by each of the 20 countries.

¹¹³ See Annex III of this report.

be combined (e.g. by field office directors or directors of headquarters divisions) and an **overly radical interpretation of segregation between the third line and the first two lines could lead to a distancing of management from fraud cases involving its own teams** (see recommendation 4).

137. Although **WFP has greatly strengthened its third line of defense in recent years**, it now appears necessary to **strengthen the second line** in order to better involve managerial staff in fraud management, to react faster to cases of fraud and encourage more regular reporting in exchange for information that is useful for steering activities.

138. This action does not necessarily require an **increase in the resources and capacities of the first and second lines** for combating fraud and corruption. Rather, significant progress can be made through concrete responses and well-established and clearly understood procedures.

139. Without prejudice to the discussions under way regarding their positioning, **the contributions of the WFP regional bureaux** to the AFAC strategy should be more decisive given that some of them now have one or more trained, specialized staff members. During its field office audits, the External Auditor noted the positive contribution of the oversight work carried out by regional bureaux in country offices. However, there is still scope for improvement as only half of country office directors surveyed in January 2019 said that they were satisfied with the support received from their regional bureau as regards the AFAC policy, with 18 percent stating that they were dissatisfied.

140. This development of a more decentralized approach should also be supported by the adoption of **joint stances and strategies by United Nations organizations in the field** that face the same fraud and corruption problems, as demonstrated by the cases encountered in Bangladesh or Uganda in 2018. However, in January 2019, 50 percent of regional bureau directors and 58 percent of country office directors stated that they had never addressed the issues relating to combating fraud and corruption at the United Nations country team level. Given its position and activities, in future WFP should play a leading role in combating fraud and corruption within United Nations agencies in the field.

Recommendation 13. The External Auditor recommends setting, for the country directors in the countries most exposed to the risk of fraud and corruption, the goal of adopting common positions and strategies at the United Nations country team level.

V. ACKNOWLEDGEMENTS

141. The audit team wishes to express its thanks to the Enterprise Risk Management Division and to the Office of the Inspector General, which greatly contributed to this report, as well as to the field offices audited by the auditors, whose directors agreed to share their views and experiences.

End of the audit observations.

Annex I: Opinions of field managers

Based on the answers from six regional bureau directors (100 per cent of the total) and 36 country office directors (43 per cent of the total) gathered by the External Auditor in January 2019:

- 1) 83 percent of regional bureau directors and 92 percent of country office directors consider that they have **sufficient knowledge of the AFAC policy and its implementation**.
- 2) 83 percent of regional bureau directors and 89 pe cent of country office directors state that they **understand the basic concepts of the AFAC policy**.
- 3) Only 44 percent of country office directors **expect support from RMR with training**, while 86 percent expect various **guidance**.
- 4) 67 percent of regional bureau directors and 67 percent of country office directors consider that their **staff are sufficiently aware of and trained in the AFAC policy**.
- 5) 50 percent of country office directors state that they are **satisfied with the support received from their regional bureau** as regards the AFAC policy, with 18 percent of them stating that they are dissatisfied.
- 6) Only 56 percent of country office directors consider that they are **required to systematically refer any case of presumptive fraud to OIGI**.
- 7) 22 percent of country office directors state that they are **insufficiently informed of OIGI investigations** involving staff from their office and 22 percent say that they are **insufficiently informed of possible conflicts of interest affecting staff from their office**.
- 8) 39 percent of country office directors find that the **timeframes for the processing of fraud allegations by OIGI** are too long.
- 9) 50 percent of regional bureau directors and 58 percent of country office directors state that they **have never addressed the issues relating to combating fraud and corruption at the United Nations country team level**.
- 10) 83 percent of regional bureau directors **do not report any particular difficulty**, while 50 percent of country office directors acknowledge one or more difficulties.
- 11) 100 percent of regional bureau directors **do not have any particular suggestions**, while 53 percent of country office directors express one or more suggestions.

Source: External Auditor.

Annex II: Efforts to combat fraud and corruption in the 20 most vulnerable countries in which WFP operates

Country	Score out of 10	Presence of an RCA	Fraud risk in the 2018 risk register	2017 assurance statement 2.4*	PIR	OIG investigations 2017 and 2018	Investigations in progress	CWRM/ICRR 2017 and 2018
Yemen	7.1	Yes	Medium	Yes	Investigation in progress	7		
Turkey	6.5	Yes	Medium	Yes		2		1
Central African Republic	6.4	Yes	Missing	Yes	2016–2017	6		1
Lebanon	6.2		Effect of another risk	Yes	2016–2017			
South Sudan	6.0	Yes	Medium	Yes	Scheduled 2019	1		1
Chad	5.7	Yes	Missing	Yes	Scheduled 2019	3		
Somalia	5.7		Cause of another risk	Yes		1	1	
Nigeria	5.7	Yes	Effect of another risk	Yes				
Afghanistan	5.7	Yes	Medium	Yes		1	1	
Syrian Arab Republic	5.6		Red	Yes	2016	7		1
Sudan	5.5	Yes	Red	Yes				
DRC	5.4		Effect of another risk	Yes	2016 – scheduled 2019	4	3	
Uganda	5.3	Yes	Red	Yes	Investigation in progress	1	2	
Iraq	5.2		Medium	Yes		2		1
Ethiopia	5.1		Missing	Yes				
Kenya	4.8		Missing	Yes		7		2
Jordan	4.5		Medium	Yes	2016			
Bangladesh	4.5		Missing	Yes				
Mali	4.3		Missing	Yes		1		
Niger	3.4		Medium	Yes		1		

*2.4 The office/division considered the potential for fraud when identifying and assessing risks. The Executive Director requires assurance that risk assessments have included a review of potential fraud risks

Source: External Auditor.

Annex III: Estimate of the cost of the AFAC policy 2016–2019¹ (in USD)

	2016	2017
OIGI	2 000 000.00	1 803 019.58
OIGA	-	82 700.00 ²
RMR/RMF ³	6 262.00	213 315.00
Travel costs for RMR missions	-	-
ETO ⁴	106 000.00	121 000.00
Risk and compliance advisors (RCAs)	313 561.00	452 136.00
Certified fraud examiner (CFE) cost	-	94 500.00
Total	2 425 823.00	2 766 670.58

	2018	2019 (estimate)
OIGI	2 244 212.57	2 578 228.20
OIGA ⁵	184 008.09	184 008.09 ⁶
RMR	213 315.00	436 590.00
Travel costs for RMR missions	37 237.00	27 080.00
ETO	121 000.00	137 000.00
Risk and compliance advisors (RCAs)	437 181.40	464 284.80
CFE cost	217 500.00	
Total (USD)	3 454 454.06	3 827 191.09

¹ Figures provided by the divisions concerned. Where no figures were available, the External Auditor provided an estimate.

² Cost of fraud risk assessments (FRAs).

³ The RMR division was not created until 2017.

⁴ Total costs related to the management of conflicts of interest and annual payments to the office responsible for analysing reported conflicts of interest.

⁵ Cost of proactive integrity reviews (PIRs).

⁶ Figure corresponding to the cost of the PIRs in the previous year.

Annex IV: Overview of WFP's performance in relation to anti-fraud internal control

Components of COSO internal control and the associated fraud risk management principle ¹	Anti-fraud internal control actions	WFP performance ²
1) Control environment Governance relating to the risk of fraud: WFP sets out and disseminates a fraud risk management programme that meets the expectations of the Board and Management and demonstrates their commitment to a high level of integrity and ethical values as regards fraud risk management.	- Develop an anti-fraud culture within WFP, in particular through the "tone at the top" principle	+ WFP has established an AFAC policy in line with the best principles and regularly communicates on this policy
	- Affirmation process	+ Affirmation procedures set up in the recruitment process
	- Conflict disclosure process	-15% of D1s/D2s did not comply with the ADP timeframes in 2018 = 4 out of 1,830 staff members had still not responded in January 2019, - Slowness of the procedure as line managers did not systematically report conflicts of interest
	- Document this culture in codes of conduct/professional ethics	= Code of conduct in place but insufficient understanding of the requirement to report cases
	- Define and evaluate internal audit functions	+ External Quality Review in 2018, External Auditor in 2019
	- Develop training courses	= 66% of staff underwent compulsory training in 2018 = 122 CFEs between 2017 and 2018 (success rate of 58%) but targeting of staff and training content to be reviewed
	- Investigate allegations or suspicions of fraud	= SOP in place, but timeframes increased in 2018 - Insufficient reporting of cases (see 2.2.3)
	- Promote controls aimed at preventing, deterring and detecting fraud	= Weakness of due diligence practices in recruitment of personnel and procurement processes
- Set up a hotline and a mechanism to protect whistleblowers	- Insufficient feedback from local complaint and feedback mechanisms	
2) Risk assessment Fraud risk assessment: WFP carries out overall assessments of fraud risk to identify fraud risks that are unique to it, estimates their likelihood and scale, assesses existing control activities and implements mechanisms to manage residual fraud risks.	- Implement a fraud risk assessment (FRA) process taking into account fraud risks, factors and scenarios.	= Assessments carried out in 2018 but further assessments pending - Risk assessments are not performed for all processes - Weaknesses in the control of risk registers and annual performance plans of country offices by the regional bureaux and headquarters, limitations of the reporting process
	- Involve appropriate staff in the FRA process	- Limited geographical deployment of risk and compliance advisors
	- Carry out FRAs on a regular basis	= Last FRA in September 2018 (6 carried out in total) + Fraud risk is addressed in a dedicated section of each internal audit report
3) Control activities Fraud control activities: the organization selects, develops and rolls out preventive and detective fraud control activities to manage the risk of occurrence or non-detection in a timely manner.	- Define and document controls and mitigation actions and link them to identified fraud risks	+ WFP has defined and documented WINGS control in the e-guide - Example of the lack of automated control on opening bank accounts
	- Process controls (reconciliations, reviews, inventories, analyses, audits)	= Few automated controls specific to fraud integrated into the information system
	- Change existing controls, develop and implement new detection and prevention controls where necessary, and accompanying technology	- No feedback, lack of involvement of the Technology Division (see 2.2.2)

¹ The five general principles are those contained in the COSO reference model, which have been developed based on the External Auditor's interpretation.

² Key for reading the table: + strength; = average performance; - weakness.

	- Set up proactive detection procedures	+ Third line of defense has growing resources = Reduction in the number of PIRs in 2018 – Weaknesses in the segregation of duties noted in the control weakness reports
	- Limitations of delegations of authority	+ Delegations of authority for procurement, treasury management and human resources revised in 2018
	- Supervision of transactions with third parties	– No specific feedback from the field on the controls set up for transactions with suppliers and partners
4) Information and communication Investigations and corrective measures: WFP has set up a communication process to obtain information about potential cases of fraud and implements a coordinated approach for investigations and corrective measures to handle fraud in an appropriate and timely manner.	- Promote the importance of the FRA programme and the organization's position concerning fraud risk both internally and externally through communication programmes	= No specific report on fraud and the AFAC policy, although OIG activity reports address this subject – The donors surveyed do not consider the number of cases of fraud reported to be very credible
	- Develop and offer training to raise awareness about the risk of fraud	= 66% of staff underwent compulsory training in 2018, in competition with the policy on harassment – Poor understanding of the concept of "immediate reporting" by staff
	- Implementation of corrective actions (disciplinary actions, etc.)	= Control weakness reports and management letters only used by OIGI, slowness of disciplinary sanctions, lack of follow-up + Annual circular emailed to all staff on International Anti-Corruption Day
5) Monitoring activities Monitoring fraud risk management: WFP selects, develops and carries out evaluations to ensure that the five fraud risk management principles are implemented and work, and communicates any shortcomings in the fraud risk management programme in a timely manner to those responsible for taking corrective measures, including management and the Board, as appropriate.	- Periodically evaluate anti-fraud controls	– Absence of periodic systematic review, except in OIGI thematic reports and country reports – The PIRs are designed to evaluate the anti-fraud controls but they do not periodically review a process
	- Use of external evaluations of fraud risk management by internal audit teams or other actors	+ Private firm and OIGA in 2018 and External Auditor in 2019; 4 PIRs in 2018
	- Develop techniques/technology to support permanent monitoring and detection activities	– Expectations not met by field managers

Source: External Auditor based on document – The Institute of Internal Auditors (IIA)/The American Institute of Certified Public Accountants (AICPA)/Association of Certified Fraud Examiners (AICFE) – Managing the Business Risk of Fraud: A Practical Guide (2008)

Acronyms used in the document

ACFE	Association of Certified Fraud Examiners
ADP	Annual Conflicts of Interest and Financial Disclosure Programme
AFAC	Anti-Fraud and Anti-Corruption (policy)
CFE	certified fraud examiner
COSO	Committee of Sponsoring Organizations of the Treadway Commission
ERM	enterprise risk management
ETO	WFP Ethics Office
FAO	Food and Agriculture Organization of the United Nations
JIU	Joint Inspection Unit
OIG	Inspector General and Oversight Office
OIGA	Office of Internal Audit
OIGI	Office of Inspections and Investigations
OSC	Supply Chain Division
OSZ	Policy and Programme Division
RCA	risk and compliance advisor
RMR	Enterprise Risk Management Division
SOP	standard operating procedure
TEC	Technology Division
UNDP	United Nations Development Programme