# Internal Audit of Mobile-Based Transfers in West and Central Africa

Office of the Inspector General
Internal Audit Report AR/19/19

**October 2019**

# Contents

# Internal Audit of WFP's management of mobile-based transfers in West and Central Africa

## I. Executive Summary

### Overview of cash transfer programmes using mobile-based transfer solutions in West and Central Africa

1.    As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP's management of mobile-based transfers in West and Central Africa that focused on the period 1 January 2018 to 31 December 2018. The audit team conducted the fieldwork from 11 February to 5 July 2019. This included work at WFP headquarters in Rome and the regional bureau in Dakar, as well as audit visits to the Cameroon, Chad, Liberia, Mali, Niger, Nigeria and Senegal country offices. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

2.    In West and Central Africa, WFP has implemented substantial cash-based transfer delivery activities, based on open-loop digital payment solutions that connect beneficiaries with personal accounts and leverage local financial ecosystems: from three country offices in 2015 to eleven by end of 2018 (out of nineteen countries in the region). Cash transfer programmes utilising mobile-based transfers represented around 26% (i.e. USD 48 million) of the total amount transferred to the beneficiaries through cash-based transfer interventions during the period (i.e. USD 180 million). In 2018, mobile-based transfers were used in Cameroon, Chad, Cote d'Ivoire, Ghana, Guinea-Bissau, Liberia, Nigeria and Sierra Leone. New contractual arrangements had been set up recently or were being finalised to start cash transfer programmes in 2019 utilising mobile money accounts in Burkina Faso, Mali, Niger and Senegal. As of October 2019, WFP had set up its largest mobile money solution in the region in Nigeria (USD 21 million were directly transferred into beneficiaries' mobile money accounts in 2018).

### Audit conclusions and key results

3.    The audit report contains three high priority and seven medium priority observations, all of which have agreed actions directed at a corporate level. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory / major improvement needed**. The assessed governance arrangements, risk management and controls were generally established and functioning, but need major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues identified by the audit could negatively affect the achievement of the objectives of the audited entity/area. Prompt management action is required to ensure that identified risks are adequately mitigated.

4.    While still limited in their amounts, mobile transfer is a mechanism that WFP country offices are increasingly adopting, enabling flexible cash transfers at scale and connecting beneficiaries with personal accounts to leverage local financial ecosystems.

5.    Opportunities to improve the end to end process of the mobile-based transfers were noted throughout the audit, and some countries have managed to mitigate some of the risks highlighted by the audit as they were brought to their attention. In other cases, the decentralized set up of WFP, where country directors have the authority to sign off on the risks and set up, at times against the advice of regional bureau or headquarter experts, led to inadequate contracts and/or processes at best, or to unsustainable operations that were too complex for the expertise available. This has exposed the organization to a high level of fraud risk where gaps in the processes remained unidentified.

6.     Unclear definition of roles at headquarters, regional bureau and  in the country offices, with Supply Chain only remotely involved, delegations of authority left to interpretation, suboptimal external and interagency coordination and partnership, lack of skills and thorough due diligence to fully assess operational and financial risks and adapt processes and tools to mitigate these have impaired the quality of the roll out and delivery to beneficiaries. WFP's contribution to financial inclusion has de facto also been delayed.

7.     While limited in impact, the issues raised by the audit call for a rethinking at corporate level of WFP's proposal, structure and resourcing to advise and support country offices, as well as mechanisms to deliver.

## Actions agreed

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

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

**Kiko Harvey**
Inspector General

# II. Context and Scope

## Overview of mobile-based transfers in humanitarian cash transfer scenarios

10.  The emergence of innovative digital financial services, in particular the unprecedented rise of mobile-based transfers and, more globally, the rise of the mobile money industry, has enabled the shift to the digital distribution of cash. Mobile money is a service whereby customers use their mobile device to store, send and receive monetary value.

11.  Mobile-based transfers started out as a simple person-to-person transfer and airtime purchase service. As the industry matured, providers were increasingly offering a broad range of digital financial services, including bill payments, savings and lending, bulk payments, merchant payments, international remittances and even payment of government services, including education, health, taxes, and social security.

12.  In humanitarian contexts, bulk payments can be used by organisations (governments, businesses, and donors) to disburse funds to individuals. Generally, cash transfer programmes utilising mobile-based transfers take one of three forms: a fund transfer via a mobile voucher for the beneficiary to cash-out; a fund transfer via a mobile voucher for a pre-determined purpose, such as buying food from a specific merchant; and a fund transfer directly into a beneficiary's mobile money account. Each of these modalities offer different benefits. Implementing a mobile-based cash transfer programme using any of these three approaches is complex and requires significant planning to ensure beneficiaries can access their funds quickly and in a safe and user-friendly manner. These three transfer types can take place either as part of an open loop system, in which the recipient uses mobile money or a voucher at any agent or merchant associated with their service provider, or within a closed loop system where recipients only use funds at pre-approved merchant locations or cash points.

**Table1: Types of mobile-based transfers**

| Types of mobile-based transfers | How it works |
|---|---|
| **A - Voucher for cash-out:**<br>Fund transfer via a mobile voucher for the beneficiary to cash-out | Funds are transferred as a mobile cash-out voucher, which provides the recipient with the means to access a set value of cash that they can withdraw at an agent outlet. Recipients receive an SMS on their phone and use this and identity documents to cash-out at a nearby agent. The recipient does not need to open a mobile money account in order to access the funds. |
| **B - Voucher for purchase:**<br>Fund transfer via a mobile voucher for a pre-determined purpose, such as buying food from a specific merchant | Funds are transferred as a mobile merchant voucher, which provides the recipient with the means to acquire a product/service (e.g. food item or agricultural input) from designated merchants. The recipient does not need to open a mobile money account to spend the voucher, and cash cannot be withdrawn. |
| **C - Mobile money account:**<br>Fund transfer directly into a beneficiary's mobile money account | Funds are transferred from the organisation to the individual's mobile money account. The recipient must be registered for a mobile money account in order to access these funds, which they can then either cash-out at a mobile money agent outlet or spend using the range of financial services available via the mobile money account. If the sending organisation allows it, funds can even be stored in the account for future use. |

# Overview of cash transfer programmes using mobile-based transfer solutions in West and Central Africa

13.   In 2018, WFP used Cash-Based Transfers (CBT) mechanisms to deliver more than USD 180 million in sixteen countries in West and Central Africa. This represented an increase of 400% compared to 2016. WFP transferred CBT benefits to beneficiaries through partnerships with service providers and partners including banks, micro-finance institutions, Mobile Money Operators (MMOs), money transfer agents, non-governmental organisation (NGO) partners and retailers, in addition to using WFP's own delivery platform (SCOPE).

14.   In West and Central Africa, WFP had built a CBT delivery capacity based on open-loop digital payment solutions that connected beneficiaries with personal accounts and leveraged local financial ecosystems: from three country offices (COs) in 2015 to eleven by end of 2018 (out of nineteen countries in the region). Cash transfer programmes utilising mobile-based transfers represented around 26% (i.e. USD 48 million) of the total amount transferred to the beneficiaries through CBT interventions in the region during the period.

15.   In 2018, mobile-based transfers were used in Cameroon, Chad, Cote d'Ivoire, Ghana, Guinea-Bissau, Liberia, Nigeria and Sierra Leone. New contractual arrangements had been set up recently or were being finalised to start cash transfer programmes in 2019 utilising mobile money accounts in Burkina Faso, Mali, Niger and Senegal. As of October 2019, WFP had set up its largest mobile money solution in the region in Nigeria (USD 21 million were directly transferred into beneficiaries' mobile money accounts in 2018).

16.   Leveraging existing local mobile money ecosystems and services had been advantageous in many instances. However, where mobile money ecosystems were nascent (such as in northeast Nigeria), building out the necessary capacity to facilitate humanitarian cash transfers during a crisis added a layer of complexity. In the future, there may be a few examples (including various countries in the Sahel zone) where the use by humanitarian actors may drive investment in mobile money services as advance preparedness. Preparedness will remain key regardless of the forms of mobile-based transfers.

17.   If deployed effectively, cash transfers via mobile money could deliver benefits to the humanitarian sector, including traceability, efficiency, timeliness and cost-effective delivery of aid. Furthermore, where beneficiaries have access to a mobile wallet, Cash-Based Transfers could stimulate local economic growth and help build empowerment and resilience by giving users access to a broad suite of digital financial services, including savings and lending, utility bill payments, government service payments, and remittances.

## General mechanics of mobile money

18.   While different entities can own and manage mobile money systems, a MMO typically manages the mobile money service and in turn must hold WFP's funds in a trust or secured account. It can then issue e-money to WFP e-wallets, where e-money is the digital representation of the money being held in the trust or secured account. It is important to note that it is virtually impossible for non-bank MMOs to offer mobile money without a bank, as the physical cash stored by these MMOs usually must be kept in a licenced financial institution such as a commercial bank.

19.   Generally, a WFP beneficiary will register for the mobile money service by filling out an application and showing an accepted form of identification, and this will open an account associated with its phone number.

## Objective and scope of the audit

20.   The objective of the audit was to provide assurance on the effectiveness of internal controls, governance and risk management processes related to WFP's management of mobile-based transfers in West and Central Africa. Such audits are part of the process of providing an annual and overall assurance statement to the Executive Director on governance, risk-management and internal control processes.

21.   The audit was carried out in conformance with the *Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.* It was completed according to an approved engagement plan and took into consideration the risk assessment exercise carried out prior to the audit.

22.   The scope of the audit covered the period from 1 January 2018 to 31 December 2018. Where necessary, transactions and events pertaining to other periods were reviewed.

23.   The audit team conducted the fieldwork from 11 February to 5 July 2019. This included work at WFP headquarters (HQ) in Rome and the regional bureau in Dakar (RBD); specific audit visits to the Cameroon, Mali, Nigeria and Senegal country offices; and a review of audit work on country office's management of mobile-based transfers carried out during recent internal audit missions to Chad, Liberia and Niger.

# III. Results of the Audit

## Audit work and conclusions

24.   The audit work was tailored to the context and objectives set by WFP for the management of mobile-based transfers, taking into account RBD and COs' risk registers, findings of WFP's second line of defence functions, as well as an independent audit risk assessment.

25.   Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory / major improvement needed**[1]. The assessed governance arrangements, risk management and controls were generally established and functioning, but need major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues identified by the audit could negatively affect the achievement of the objectives of the audited entity/area. Prompt management action is required to ensure that identified risks are adequately mitigated.

## Gender maturity

26.   The Office of Internal Audit, in supporting WFP's management's efforts in the area of gender, separately reports its assessments or gaps identified in this area.

27.   Mobile money is a key tool for women's empowerment and can contribute to reducing the financial inclusion gender gap. In West and Central Africa, barriers to women's adoption of digital financial services are rooted in a complex set of social, economic and cultural barriers and require more targeted interventions by WFP and other stakeholders (including other UN agencies, implementing partners and financial institutions). It is important to address issues of social norms and ensure that mobile money services are accessible, affordable, relevant, safe and that users have the skills to use them.

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

## Observations and actions agreed

28.   Table 1 outlines the extent to which audit work resulted in observations and agreed actions. These are classified according to the areas in scope established for the audit and are rated as medium or high priority; observations that resulted in low priority actions are not included in this report.

| Table 1: Overview of areas in scope, observations and priority of agreed actions | Priority of issues/agreed actions |
|---|---|
| **A: Do corporate guidance and CO specific processes, tools and expertise facilitate and support processes to inform programme design and decision-making processes?** | |
| 1. Corporate guidance | Medium |
| 2. Coordination to strengthen mobile-based transfer programming | Medium |
| 3. Support and oversight from Regional Bureau in Dakar | Medium |
| 4. Risk assessments associated with working with MMOs | High |
| **B: Do mechanisms (including intervention set-up and execution mechanisms) put in place by COs to establish the framework for their mobile-based interventions enable timely, quality and effective deliveries?** | |
| 5. Assessment of project feasibility | Medium |
| 6. Procurement and contractual arrangements | Medium |
| 7. Planning pre-, mid- and post-distribution cycles in COs | Medium |
| 8. MMO platforms to manage humanitarian bulk payments | High |
| 9. Agent network availability, competency and liquidity | Medium |
| **C: Are country offices' assurance and oversight mechanisms effective in mitigating risks associated with the use of mobile-based solutions?** | |
| 10. End-to-end platforms | High |

29.   The ten observations of this audit are presented below in detail. Management has agreed to take measures to address them[2]. An overview of the actions to be tracked by internal audit for implementation, their due dates and their categorization by WFP's risk and control frameworks can be found in Annex A.

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

## A: Do corporate guidance and CO specific processes, tools and expertise facilitate and support processes to inform programme design and decision-making processes?

30.  The audit reviewed the corporate guidance, tools and expertise available to COs to support the processes to inform programme design and to drive decision making on the delivery modality via mobile–based transfers.

31.  The audit reviewed the current set up of RBD and HQ to ensure it was supporting and effectively facilitating the delivery of the necessary assessments and oversight.

32.  Overall limited guidance on mobile-based transfers, limited resources and expertise to ensure appropriate understanding of the context and risks, including to guide and support COs internally or externally through useful coordination and partnership mechanisms had not informed programme design and decision making effectively.

| .Observation 1: Corporate guidance |
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33.  The audit noted that the corporate guidance (including CBT Manual, Business Process Model and a clear delegation of authority for cash transfers) was not yet available to COs or fit for purpose to allow COs to support their decision making on the mobile-based transfer modality.

34.  *CBT Manual and Business Process Model (BPM)* - The corporate CBT Manual and the Business Process Model (BPM) for CBT programme implementation were endorsed by the CBT Steering Committee as the business model guiding WFP's CBT operations at the country level. The current CBT Manual was developed at a time when WFP was mainly implementing direct cash to beneficiaries or using value or commodity vouchers.

35.  While WFP is increasingly leveraging mobile money, specifically beneficiary account and related bulk payment offerings, to facilitate the delivery of digital cash transfers, the usage of mobile money accounts and managing associated delivery processes have not been reflected in the CBT Manual. Operations in Nigeria already provided opportunities to learn from some of the weaknesses; and other COs in West and Central Africa covered under this audit were experiencing similar challenges in their mobile money activities. While noting that roles and responsibilities for managing mobile-based transfers have mainly been assigned to CO programme and finance officers, the audit observed that these teams had accumulated over time roles and responsibilities which did not always result in adequate segregation of duties as designed in the BPM.

36.  *CO organizational set-up* - The establishment of dedicated and independent teams/units functioning as 'back-offices' for the management of mobile-based transfers reconciliations of payment cycles had been considered by some COs, as it strengthened segregation of duties in reconciliation processes. However, in most COs resource constraints had hindered the set-up of these teams as they required additional staff for the management of beneficiary mobile money accounts, management of bulk payment instructions, custodian management of SIM cards and reconciliation. Supervision and reporting lines for these 'back offices' were also an issue, as COs would have to rethink the role of these teams/units in managing delivery and associated reconciliations (see observation 7). The opportunity to centralize the expertise and some of the back-office controls, as already discussed with WFP management following an OIGA advisory on CBT reconciliations, was not considered at corporate level as it was a deviation from WFP's decentralised model. Here again the audit pointed to the need to reconsider the adequacy and cost efficiency of the decentralized arrangement for CBT assurance operations.

37.  *Delegation of authority for contract signature and cash transfers* – The corporate guidance for delegation of authority for contract signature and cash transfers (purchase order type POCB) was ambiguous and interpreted differently by COs, leading to the delegation of authority being exceeded in many instances and requiring post facto approval at the corporate level. This issue was not specific to mobile-based transfers. However, the impact was exacerbated by larger amounts of cash being transferred to beneficiaries under long-term contracts with MMOs. Most Country Directors (CDs) in the West and Central Africa sub-region were approving cash transfers in WFP Enterprise Resource Planning system (WINGS) above their delegations of authority. This issue had been raised repeatedly in recent CO audit reports that included a CBT component. The organization needed to rethink where authority lies in the CBT process, whether at contracting with a provider, approving payments or else, and clarify delegation of authority in that regard.

Underlying cause(s): Corporate guidance not addressing specificities of mobile money, specifically beneficiary account and related bulk payment offerings. Lack of prioritization of resources and skills required, as well as structural implications related to mobile-based transfer operations.

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**Agreed Actions** [Medium priority]

HQ CBT in coordination with other HQ units as relevant will:

a)  Expedite the revision of the corporate CBT Manual and Business Process Model (BPM), particularly the responsibility for the Country Director to set up an organisation that ensures adequate segregation of duties for managing and reconciling beneficiary mobile money accounts;

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b) Develop simplified material, in addition to the existing corporate guidance, to facilitate knowledge sharing and to explain operational processes associated with mobile-based transfers and describe priority actions or organisational set-up for these to be established;

c) Reassess the organization's core responsibilities of existing internal stakeholders and consider whether dedicated delivery units functioning as 'back-offices' (including their centralization at headquarters) should be established; and

d) In coordination with RMFB, reassess and clarify the existing delegation of authority limits for contract signature and approving cash and voucher transfer purchase orders (type POCB) in WINGS.

**Timeline for implementation**

30 September 2020

## Observation 2: Coordination to strengthen mobile-based transfer programming

38. At the time of the audit, COs were not making the best use of common inter-sectoral coordination and collaboration mechanisms for assessment, delivery or monitoring of mobile-based transfer programming in the region. This was identified as a critical barrier to achieving global commitments on improving the scale, efficiency and effectiveness of digital cash assistance.

39. *National Cash Working Groups* - Increasingly, humanitarian organisations were forming Cash Working Groups (CWGs) at the national levels, for learning and exchanging experiences about humanitarian cash transfers in a country. These working groups ranged from informal voluntary coordination groups to longstanding mechanisms aimed at operational collaboration. Generally, WFP distributing the majority of cash transfers would be expected to be part of these groups. The audit noted, however, that CWGs were organized inconsistently by different UN agencies in the region, without stable resourcing or clear involvement of local actors. In some countries, the CWG met rarely during the audit period and coordination capacities and information sharing between agencies/NGO partners was weak, which was sometimes outside of WFP's control. The audit noted examples where different agencies managed programmes on the basis of different analyses, with gaps and duplications in service provisions. In Chad, Cameroon and Niger, WFP and the office of the United Nations High Commissioner for Refugees (UNHCR) selected different mobile money providers or different bulk payment set-ups for transferring mobile money to the same groups of beneficiaries based on different assessments and with poor coordination. Further exchanges on the performance of MMOs in Chad would have helped the CO identifying poor performance at an earlier stage.

40. *Collaboration with UNCDF* – RBD and the United Nations Capital Development Fund (UNCDF) signed a collaboration agreement in 2017 where UNCDF Senegal would help COs to promote financial inclusion. Pilot projects were established in Senegal and Niger. By digitalizing transfers in the two countries, WFP hoped to support financial inclusion of beneficiaries, who would be able to access an account and use it independently. The pilot projects were planned to involve various assistance programmes and UNCDF was expected to provide technical assistance to WFP. At the time of the audit, the collaboration between the parties had just started in the pilot countries. The audit noted several weaknesses including lack of adequate structures and mechanisms to involve UNCDF in improving the efficiency of Financial Service Provider (FSP) procurement criteria and contracting processes for digital transfers; little collaboration with UNCDF on the development of beneficiary awareness programmes; and little leverage on UNCDF's expertise on local regulatory environments. In particular, some CO CWGs had not been timely informed of situations where central banks had revised mobile money Know Your Customer (KYC) regulations, which would have allowed a UN-issued identification as acceptable KYC for use in mobile money account opening process.

41. *Partnerships with the private sector* - Delivering mobile-based transfers requires significant commitment of resources from both WFP and MMOs to meet the needs of vulnerable populations. The audit noted that several COs (including Cameroon, Chad, Niger, and Senegal) had signed or were intending to sign contractual agreements with more than one MMO mostly because they had experienced challenges in implementing assurance activities and wanted to lower counterparty or operational risks associated with one single MMO. In addition, some COs were trying to negotiate lower transfer fees, which could potentially send contradicting or negative messages to MMOs, impacting their willingness to invest in building an ecosystem for mobile-based transfers in geographical areas where mobile money was in its infancy. The audit noted that the COs did not collaborate with MMOs to build shared infrastructures. A positive example of partnership between WFP and one MMO was noted in Northern Nigeria where the collaboration helped addressing connectivity issues in Internally Displaced Persons (IDP) settlements.

Underlying cause(s): Limited commitment of agencies to use shared mechanisms; lack of clarification in UNCDF's role and key responsibilities for enhancing effectiveness of FSP selection and contracting; and primary focus on immediate emergency response when contracting with MMOs.

**Agreed Actions** [Medium priority]

1) HQ CBT will:

   a) Provide guidance to COs about options for engaging and non-engaging more meaningfully in different kinds of CWG scenarios; and

   b) In coordination with RMFB, identify key service providers and consider entering into strategic partnerships with the mobile and financial sectors to build sustainable and digital payment systems; make use of key partners' expertise to help WFP assess operational risks associated with clearing, settlement and custody services, to allow time efficient and solid contracting in country.

2) RBD will gather lessons learned from the UNCDF pilot initiatives and review the current collaboration framework between the two agencies, specifically clearly define the scope of the collaboration and identify focal point units for implementing the agreement at RBD and CO levels.

**Timeline for implementation**

1) HQ CBT: 30 September 2020

2) RBD: 31 March 2020

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## Observation 3: Support and oversight from HQ and the Regional Bureau in Dakar

42. *Planning support and oversight missions* - The audit observed an inconsistent approach of RBD units involved in planning, implementation and coordination of support and oversight missions for CBT interventions. This resulted in an ad hoc and reactive approach to challenges faced by COs. More globally, RBD did not have an annual oversight mission plan for all units involved in CBT interventions. Criteria and triggers for selecting support or oversight missions to COs were not defined and were not based on sufficient risk analytics, data sets and dashboards. The missions were also dependent upon ad hoc requests from COs and their availability and willingness to accommodate them. The audit observed that RBD did not analyse red flags in COs' reports which should have triggered timely support or oversight missions. The audit noted that RBD put more efforts to cover the Sahel region as compared to the coastal countries, some of which had implemented complex mobile money interventions (including Cameroon and Liberia COs).

43. *Coordination with HQ units* - Coordination with CBT units in HQ was limited, leading to gaps in some cases, while other COs were assessed, supported and visited more frequently. Consequently, while some CO interventions benefitted from support and knowledge sharing in the set-up phase for mobile money interventions, other COs' interventions, although complex, led to risks not being timely addressed.

44. *Resources for support and oversight* - Overall with regard to the scale-up of the CBT operations in the region, the audit noted gaps between the draft regional CBT Roadmap and resources allocated by the RBD for support and oversight. The prevailing reactive approach to issues was partially due to staffing constraints. The complexity of increasing digital transfers required specific skillsets that were not available at RBD to be able to provide effective support and oversight.

Underlying cause(s): Lack of an accountability framework to enforce oversight findings and actions; lack of corporate guidance on coordination of support and oversight based on the levels of complexity and risks of operations and skills gap analysis; and absence of staff skillset identification.

**Agreed Actions** [Medium priority]

RBD in consultation with HQ will:

a) Ensure a consistent approach of units involved in planning, implementation and coordination of support and oversight missions for CBT interventions;

b) Improve coordination with HQ units and consider the planning of support and oversight missions with HQ, based on the levels of complexity and risks of operations and skills gap analysis; and

c) Reassess the levels of resources needed for support and oversight and develop a plan to ensure support and oversight teams, in size and skills, that cater to diverse CBT processes and complex delivery modalities.

**Timeline for implementation**

31 March 2020

## Observation 4: Risk assessments associated with working with MMOs

45.   COs cooperated with a few key MMOs (including banks and Mobile Network Operators). Some COs in the region (including Burkina Faso, Chad, Mali and Niger) were exploring opportunities to work with additional MMOs. The COs conducted financial and operational risk assessments of these potential vendors.

46.   *Assessment of financial risks* – The Micro Financial Sector Assessment (MiFA) provides an indication of the individual performance of FSPs and it should help determine the financial risk associated with various FSPs. RMFB planned to expedite the introduction of a revised MiFA tool along with guidance to enhance financial risk identification of FSPs during the selection and contracting process. Based on assessments of the financial sector of the country of operation and the MiFA results, COs should take different measures (including asking MMOs to provide a financial guarantee) to mitigate the risk that they are unable to access their funds upon demand or lose funds stored on the electronic accounts. However, the audit noted that COs often lacked expertise to interpret the results of the MiFAs, which often concluded to high risk profiles for MMOs. Safeguarding mobile money customers' funds was legally complex, with significant variations from country to country thus the levels of financial guarantees could not only be based on MiFAs. In the case of the Liberia CO, the audit noted that no MiFA had been carried out prior to contracting with MMOs.

47.   *Assessment of operational risks* – No detailed assessment of operational risks associated with MMOs (including system failure and human errors) was conducted in countries reviewed during this assignment. This resulted in COs accepting operational set-ups, which could generate operational risks, related to CBT delivery disruption, that were not yet defined in WFP's corporate risk register. As a response to past challenges, the Nigeria CO conducted, in collaboration with RBD and HQ, a due diligence review and assessment of operational risks and capacity of its FSPs in 2018, at the time of the launch of a new request for proposal (RfP).

48.   Various challenges related to the assessment of operational risks were noted in the sample COs, including the Cameroon CO accepting to internalise back-office functions associated with the management of bulk payments to beneficiaries without assessing operational risks associated with WFP staff accessing a mobile money platform; the Nigeria CO signing a contract with a mobile money provider that turned out to have no adequate set-up for institutional clients to monitor their bulk payments on the online platform; Niger and Mali COs planning to sign agreements with the same large mobile money provider without assessing all operational and regulatory risks associated with their respective set-up.

*49.   Assessment of the risk of fraud* - In most cases, COs' staff were not very familiar with how to assess the risk of fraud associated with mobile money services. They did not ensure MMOs dedicated enough resources to manage their fraud and assurance activities. Through various interviews with both banking regulators and MMOs in the region, the audit assessed how providers were mitigating the risks of fraud in mobile money contexts (including vulnerabilities in their respective mobile money platforms or agent networks). Some MMOs' risk management strategies were not robust enough for identifying fraud risk exposures, especially the e-money reconciliation process. Fraud cases involving MMOs' employees or agents were reported by some COs. Beneficiaries were sometimes victims of fraud due to insufficient financial education and awareness of risks, e.g. not protecting their mobile money account details, PINs or other personal identification information. This resulted in cases where agents transferred beneficiary funds to their personal accounts. Some cases of vendor fraud were reported where employees of mobile money operators colluded for fraudulent financial gains.

Underlying cause(s):  Gaps in the MiFA and financial risk assessment; lack of clarity of corporate methodology for assessing financial risks and interpreting its results; and lack of CO expertise coupled with a lack of consistent guidance from HQ/RBD and the lack of a corporate tool to assess regulatory, financial and operational risks associated with FSPs.

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**Agreed Actions** [High priority]

1)   HQ CBT will:

   a)   In coordination with HQ units as relevant, expedite the revision of the corporate guidance to include the necessary due diligence reviews and visits in order to obtain a detailed understanding of financial and operational risks associated with service providers' back-office processes, including managing beneficiary-owned accounts, managing and reconciling bulk payments and managing reports to bulk payment organizations;

   b)   Explore options to engage with major providers (including banks and MMOs) at their HQ level to access financial service providers' expertise and help assess operational risks when such an expertise is not existing internally;

   c)   Establish dedicated teams to conduct due diligence processes as well as the involvement of other HQ units as relevant.

2)   RMFB will expedite the introduction of the revised MiFA tool along with the guidance to further enhance risk identification of an FSP during the selection and contracting process.

**Timeline for implementation**

1)   HQ CBT: 30 June 2020

2)   RMFB: 30 June 2020

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## B: Do mechanisms (including intervention set-up and execution mechanisms) put in place by COs to establish the framework for their mobile-based interventions enable timely, quality and effective deliveries?

50.   The audit reviewed mechanisms (including intervention set-up and execution mechanisms) put in place by COs to set up the frameworks for their mobile-based interventions and to ensure that they were enabling timely and effective deliveries. The audit reviewed preparedness and ongoing collaboration between the COs, RBD and HQ units to create and support the WFP mobile-based infrastructure required to serve the beneficiaries. The procurement planning process for contracting with FSPs was reviewed to ensure clear allocation of roles and responsibilities that allows for operational synergies and efficient use of resources.

51.   In general, the audit noted that mobile-based transfers were delivered, yet not with the quality and assurance of integrity expected. Opportunities for more efficient delivery, optimized benefits for the beneficiaries and reduced fraud exposure were identified.

| Observation 5: Assessment of project feasibility |
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52.   Mobile money is not always a suitable option for humanitarian cash transfer programmes. A number of enabling factors are required to make mobile money feasible, especially in situations where beneficiaries are displaced and/or require immediate humanitarian assistance.

53.   There is a need to establish a common understanding of service delivery between WFP and mobile money service providers. This includes an understanding of network and agent coverage, agent liquidity, device ownership, digital and financial literacy, the gender gap in access to mobile devices and the lead-time to establish partnerships. The cost of investing in complex delivery mechanisms required to be taken into account as well. These factors determine whether mobile money is a feasible or appropriate channel for aid delivery in any given humanitarian context.

54.   More specifically, cash transfer programmes utilising mobile money take three different forms. Each of these modalities (including fund transfer via a mobile voucher for cash and commodities, and fund transfer into a beneficiary mobile money account) offered different benefits and has different requirements. The COs reviewed by the audit rarely considered the differences between the modalities. Most of the time mobile money accounts were opened for beneficiaries although the CO had no immediate means to address financial inclusion.

55.   WFP's ambition in the region to support financial inclusion were hindered by operational challenges in implementing the existing agreements with MMOs. The audit noted that while required in the contracts with MMOs, the necessary training was often not provided by their agents to WFP beneficiaries on how to use mobile money accounts. The audit also noted that written material relating to beneficiary protection and to be provided to and used by FSPs had not been developed by COs. Due to operational challenges in the planning and management of distributions of SIM cards and beneficiary account opening processes, MMOs opted for bulk registrations of beneficiaries and subsequently did not undertake the required efforts to provide minimum financial education to beneficiaries. Consequently, various issues were observed related to client and data protection. COs reported cases where beneficiary funds were diverted by MMO agents because of the lack of protection of the access to the beneficiary accounts.

56.   In the context of the Liberia emergency flooding crisis in 2018 the CO selected mobile money as the main preferred modality. However, the lead-time required to establish effective partnerships with MMOs was not taken into consideration for the planned two-month duration for the cash component of the emergency assistance. It took six months, until January 2019, for the CO to complete the transfer of CBT assistance because of a lengthy process to establish partnerships combined with additional operational challenges. Procedures required for the implementation of any intervention using mobile money were not carried out and documented. In particular, no SOPs had been developed to address key CO/MMO responsibilities for beneficiary account management, preparation of payment instructions and post distribution assurance activities.

Underlying cause(s): Limited use of HQ and RBD support to help COs to assess their capacities to implement complex CBT operations; and lack of corporate guidance on the use of CBT in emergencies.

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**Agreed Actions** [Medium Priority]

HQ CBT will:

a)   In coordination with HQ units and RBD as relevant, assess the need and opportunity to review the existing set-up to provide support on COs' capacities to implement complex CBT interventions; and

b)   Review the corporate guidance by highlighting the minimum requirements for implementing CBT.

**Timeline for implementation**

30 September 2020

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## Observation 6: Procurement and contractual arrangements

57.   There was no structured procurement planning process for contracting with FSPs/MMOs with clear allocation of roles and responsibilities that allowed for operational synergies, efficient use of resources and audit trail and obtaining expertise throughout the process in a seamless manner.

58.   *Research and infrastructure phase* - The research and infrastructure phase marked the start of operations; yet the audit noted that many providers only became involved once the RFP was advertised. This was too late, as RFPs often had short advertisement periods and multiple requirements, which did not leave much time to design new services or operations. In many instances the audit found that providers were not proactively involved in this phase. General public tenders issued to potential providers were not realistic and detailed enough, lacking information needed in the scoping (e.g. network coverage, mobile usage, and mobile money regulations), and they did not specify any customized services for the disbursement of transfers. The audit noted lengthy procurement processes in some COs (including in Chad, Mali, Niger and Nigeria), which lasted more than two years. The research and infrastructure phase was all the more essential as the West and Central Africa sub-region hosts the most fragmented mobile markets in Sub-Saharan Africa.

59.   Among the most important areas of concern for WFP: the COs should be able to identify MMOs using mobile money platforms that were offering sufficient functionality and capacity for humanitarian cash transfers. The audit noted that some MMOs were unable to scale up their platforms and meet the specific demand of humanitarian bulk payment transfers. MMOs were often selected under time pressure, during the first wave of deployment of mobile money by the COs. In a rush to get access to services, not enough time was devoted to the research and assessment phase. This resulted in unsuitable platforms, poorly defined processes, controls and reports, and difficult relations between WFPs and MMOs.

60.   *Contractual arrangements* - Mandatory templates for the different CBT modalities, including for beneficiary mobile money accounts, were available. While most COs reviewed used the corporate standard templates and requested clearance by the Legal Office (LEG), deviations from these best practices were noted in one case. Standard Operating Procedures (SOPs) detailing descriptions of operational processes or platform set-ups provided by the MMO, and other separate legal entities to whom services had been outsourced, were not existing in contracts that were signed prior to 2018.

Underlying cause(s): Lack of corporate guidance on how to conduct the research and infrastructure phase; and skillset gaps.

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**Agreed Actions** [Medium priority]

HQ CBT will:

a)   In coordination with HQ units as relevant, ensure a research and infrastructure phase is carried out in countries and regions where WFP is planning to set-up CBT interventions; specifically, this phase should include an initial landscape scoping, stakeholder consultations and advocacy efforts in the case where initial scoping identified policy or infrastructure challenges that must be addressed before a service provider is selected; and

b)   In coordination with LEG, strengthen communication on the use of new legal templates and the necessity for COs to include SOPs in all contractual arrangements detailing operational processes or platform set-ups provided by the MMO or other separate legal entities to whom services have been outsourced.

**Timeline for implementation**

30 September 2020

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## Observation 7: Planning pre-, mid- and post-distribution cycles in COs

61.   Mobile-based transfers are much more complex to set-up than direct cash to beneficiaries. Both COs and MMOs need to be operational immediately with adjusted resources and operational plans. Planning is a key element for the success of interventions using mobile-based transfers.

62.   In a few instances the audit noted that COs did not properly plan in advance pre-, mid- and post-distribution activities and responsibilities, negatively impacting the distribution. COs were not informing MMOs sufficiently in advance of cash-out days impacting the MMO's liquidity management (e.g. Chad and Nigeria). More often, registration and awareness raising were not properly planned by COs and MMOs. The goal of this phase was to ensure beneficiaries and agents (in cases temporary agents are used, including IDPs and refugees) were registered and had the tools to receive funds. They also needed to have a preliminary understanding of the mobile money programme. SIM cards were usually distributed during centralised registration events which were not always well coordinated between COs and MMOs. In a few instances the audit observed that COs' national and international staff working on mobile money projects had generally not interacted with MMOs in the past and were not familiar with how they worked. This resulted in increasing capacity building needs, slowing down the process of registration and distribution.

63. Common interventions planned with MMOs and UNCDF lacked provision of joint material for MMOs' agents to increase beneficiary awareness on mobile money, including PIN security, mobile money fraud risks, general safety and security.

64. <u>Underlying cause(s):</u> Lack of resources allocated to CBT delivery; and lack of skills and technical expertise.

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**Agreed Actions** [Medium priority]

HQ CBT will:

a)  In coordination with HQ units and RBD, leverage on its workforce and communication strategy to support the COs to assess their resources and skills' gaps to manage the delivery processes associated with their mobile-based transfer interventions; and

b)  Update the corporate guidance to include COs roles and responsibilities for the key processes to be carried out during the planning of mobile money interventions.

**Timeline for implementation**

30 September 2020

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## Observation 8:  MMO platforms to manage humanitarian bulk payments

65.  Bulk payments are mobile money products designed for organisations to carry out large numbers ('bulks') of small value payments. For many WFP providers bulk payments represented only a small proportion of their total transaction volume and value. Therefore, these providers had only small teams dedicated to managing the transactions and a relatively small amount of resources were earmarked for their expansion. Bulk payment systems were at the same time not specifically designed for the humanitarian sector, and consequently some features were not adapted to the requirements in this field.

66.  The audit noted some instances where providers' services were too generic, or not meeting necessary minimum requirements. The COs lacked the capacity to fully understand the limitations of the providers and their ability to provide ad hoc solutions, while also trying to negotiate low cash transfer fees. In Nigeria the CO could not directly access the provider's mobile money platform, since the provider had not yet secured the access to the client's bulk payment portfolio in its platform. Weaknesses were noted with regard to the internal controls of service providers posing risks to access controls and availability of information.

67.  Generally, mobile money platforms were maintained by only a few providers, which were not open for customization to WFP's needs (e.g. Cameroun, Chad and Nigeria). Person-to-person (P2P) transfers were a common functionality proposed to MMO customers, which, however, WFP did not authorize yet for transfers to beneficiaries. The audit noted instances in Nigeria where IDPs were able to send funds to other individuals although the contract with the provider stipulated that beneficiaries were restricted to cash out only.

68.  Access to the platforms may include back-office functions, e.g. where the CO decides not to outsource bulk payment management to their provider. In that case, access management to the platform should have been role-based, requiring that the CO follows a strict segregation of duties of payment initiator, verifier and validator. The CO in Cameroon opted for carrying out back-office functions, increasing operational and fraud risks, as the workforce and processes had not been put in place to meet the segregation of duties and control requirements.

<u>Underlying cause(s):</u> Lack of capacity and lack of dedicated resources; and level of complexity of operations.

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**Agreed Actions** [High priority]

HQ CBT will:

a)  In coordination with HQ relevant units propose models to the Leadership Group for providing specialist support during the planning and set up phase, as well as propose models for back-office support to address CO specific setup requirements of MMO platforms (people, systems, and internal controls); and

b)  Reassess HQ CBT core responsibilities and prepare a business case for corporate decision on the resourcing and specialist capacity of the team which would provide back-office support to the COs, without jeopardizing other critical capacities that are also needed to support CBT operations.

**Timeline for implementation**

30 June 2020

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## Observation 9: Agent network availability, competency and liquidity

69. Availability of mobile solution agents in beneficiary locations and sufficient liquidity of these agents are key to the success of mobile-based transfers. Both requirements were often not fulfilled, particularly in refugee and IDP settlements.

70. In the countries reviewed mobile money agents could be found in various shapes, including small shops, bank branches, bill-payment counters, refugees in settlements and other individuals. They were crucial in educating customers on the uses of mobile money. In the Sahel emergency, almost all users learned about the existence of mobile money and how to use the services from mobile money agents. The audit noted that mobile money agents in charge of the initial awareness trainings of beneficiaries on the mobile-based transfer programme did not always provide sufficient instructions on the use of handsets and the mobile money system in general. COs in coordination with the MMOs were organising centralized registration events where MMOs carried out bulk-registering of beneficiaries. The audit noted that in some cases MMOs that lacked sufficient geographical presence in the target area temporarily assigned junior agents with limited experience (e.g. in Northern Nigeria). Pressure to complete SIM card and handset distributions during mass registrations prevented agents from dedicating sufficient time to initial awareness trainings of beneficiaries.

71. Being accredited a licence as cash-out agent is generally a rigorous process, in which prospective agents are required to provide certain documentation (e.g. business licence, identity document). MMOs are in charge of identifying, contracting and evaluating agents. The audit observed in a few instances in Cameroon and Nigeria that non listed agents were able to provide cash-out to beneficiaries outside planned hours for the distribution. They were arbitraging the insufficient numbers of cash-out agents and provided overnight cash-out in exchange for large transaction fees.

72. Evaluating how many cash-out agents should be registered by the MMO is often difficult, depending on how many agents are already in the location, their liquidity, the values of the transfers, the number of beneficiaries, and the MMO's agent network management strategy. The audit noted that contractual agreements were not clearly mapping agents to beneficiaries. Therefore, COs did not always have a clear and full view of existing MMO agents and cash-out demands, and locations where new/additional cash-out points were needed. Liquidity challenges had been effectively addressed in the Nigeria operations in 2017, where the MMO and the CO injected extra liquidity via master agents. The audit noted however that this good practice had not been extended to similar challenges in Cameroon and Chad mobile money interventions.

Underlying cause(s): Cost cutting pressure from WFP on MMOs; lack of established fixed agents networks; and control weaknesses at the MMOs for vetting and providing access to agents.

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**Agreed Actions** [Medium priority]

HQ CBT will provide support to the COs to help them to assess FSPs' agents in terms of coverage, liquidity and responsibilities for beneficiary awareness and training for mobile money interventions.

**Timeline for implementation**

30 September 2020

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## C: Are country offices' assurance and oversight mechanisms effective in mitigating risks associated with the use of mobile-based solutions?

73.   The audit reviewed internal control frameworks developed by COs to include preventive and detective controls in all key processes for the execution of the programme:; i.e. country offices are expected to set up preventive controls which are designed to prevent errors or irregularities from occurring in the first place and which are generally built into internal control systems at the initial design phase; and they are expected to set up detective controls which are designed to find errors or irregularities after they have occurred. In particular, the audit reviewed how COs were using end-to-end platforms to simplify control processes.

74.   CBT operations imply much data processing and WFP had already started to work on data protocols to allow for efficient management and assurance of the process through automated controls in systems, SCOPE mostly. Much of the assurance activities have the opportunity to be automated and apply to the whole population, yet require flexible systems, data protocols and interfacing functionalities (as COs are provided with much flexibility on the set up and arrangements for their mobile money operations). Much of these were not provided by SCOPE in its current state and would require further consideration on what the adequate platform may or should look like to guide TEC's further development efforts.

| Observation 10: End-to-end platform |
| --- |

75.   Assurance activities were not all integrated in SCOPE at early stages of development. Application controls are controls that should pertain to the scope of individual business processes within the SCOPE application, including data edits, separation of business functions, balancing of processing totals, transaction logging, and error reporting. These controls should include among others input, processing, output and integrity controls.

76.   The audit noted that processing and output controls were incomplete in countries where SCOPE was used for the management of bulk payment instructions to MMOs (i.e. Chad and Nigeria). There were insufficient controls to provide programme and finance officers an automated means to ensure processing is complete and authorized. For instance, no exception reports were issued to programme officers to allow checking households' payment lists against the list of beneficiaries and individual cash entitlements. Therefore, programme officers were approving payment lists in the system based on totals balancing. The audit analysed the data and found that creation, review and approval of batches of payment instructions were often approved in a few minutes, which could be indicative of controls not being effectively carried out.

77.   The existing reconciliation module from SCOPE was not utilized for effective management of mobile-based solutions, including oversight. It was deployed in Nigeria in 2018 but the CO stopped using it from quarter one 2019 and it decided to deploy the triangulation database which has been used in the WFP operations in Jordan.

Underlying cause(s): Lack of business client unit for delivery services.

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**Agreed Actions** [High priority]

HQ CBT will:

a)   In coordination with HQ units as relevant, decide and communicate on the SCOPE platform, confirming whether it is the only long-term solution for WFP's 'front-end' and 'back-end' CBT processes, including CBT reconciliation processes;

b)   Decide whether other systems or applications in integration with SCOPE need to be developed to participate to the end to end assurance process;

c)   Support close collaboration between the IT Beneficiary Service (TECB) and the business owners (functional units) to ensure that the on-going development of SCOPE is rooted in well-defined business requirements, including adequate application controls; and

d)   In coordination with TECB, initiate a lessons learned exercise to identify challenges for COs to implement and use existing SCOPE's reconciliation functionalities.

**Timeline for implementation**

30 September 2020

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# Annex A – Summary of observations

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

| High priority observations | | Categories for aggregation and analysis: | | | |
|---|---|---|---|---|---|
| | WFP's Internal Audit Universe | WFP's Governance, Risk & Control logic: | | Implementation lead | Due date(s) |
| | | Risks (ERM) | Processes (GRC) | | |
| 4 | Risk assessment associated with working with MMOs | Risk management | Programme risks | Risk management | HQ<br><br>RMFB | 30 June 2020<br><br>30 June 2020 |
| 8 | MMO platforms to manage humanitarian bulk payments | Activity/project management | Business process risks | CBT service providers | HQ | 30 June 2020 |
| 10 | End-to-end platforms | Technology | Business process risks | Technology | HQ | 30 September 2020 |

| Medium priority observations | | Categories for aggregation and analysis: | | | |
|---|---|---|---|---|---|
| | WFP's Internal Audit Universe | WFP's Governance, Risk & Control logic: | | Implementation lead | Due date(s) |
| | | Risks (ERM) | Processes (GRC) | | |
| 1 | Corporate guidance | Governance | Governance & oversight risks | Risk management | HQ | 30 September 2020 |
| 2 | Coordination to strengthen mobile based transfer programming | Governance | Programme risks | Partner management | HQ<br><br>RBD | 30 September 2020<br><br>31 March 2020 |
| 3 | Support and oversight from regional bureau in Dakar | Governance | Governance & oversight risks | Risk management | RBD | 31 March 2020 |
| 5 | Assessment of project feasibility | Activity/project management | Business model risks | CBT service providers | HQ | 30 September 2020 |
| 6 | Procurement and contractual arrangements | Procurement - goods & services | Business process risks | CBT service providers | HQ | 30 September 2020 |
| 7 | Planning pre-, mid-, and post-distribution cycles in COs | CBT | Business process risks | CBT service providers | HQ | 30 September 2020 |

| Medium priority observations | Categories for aggregation and analysis: | | | Implementation lead | Due date(s) |
|---|---|---|---|---|---|
| | WFP's Internal Audit Universe | WFP's Governance, Risk & Control logic: | | | |
| | | Risks (ERM) | Processes (GRC) | | |
| 9    Agent network availability, competency and liquidity | CBT | Business process risks | CBT service providers | HQ | 30 September 2020 |

# Annex B – Definitions of audit terms: ratings & priority

## 1    Rating system

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

**Table B.1: Rating system**

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

## 2    Priority of agreed actions

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

**Table B.2: Priority of agreed actions**

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

Low priority recommendations, if any, are dealt with by the audit team directly with management. Therefore, low priority actions are not included in this report.

Typically audit observations can be viewed on two levels: (1) observations that are specific to an office, unit or division; and (2) observations that may relate to a broader policy, process or corporate decision and may have broad impact.[3]

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[3] An audit observation of high risk to the audited entity may be of low risk to WFP as a whole; conversely, an observation of critical importance to WFP may have a low impact on a specific entity, but have a high impact globally.

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

## 3    Categorization by WFP's audit universe

WFP's audit universe[4] covers organizational entities and processes. Mapping audit observations to themes and process areas of WFP's audit universe helps prioritize thematic audits.

**Table B.3: WFP's 2019 audit universe (themes and process areas)**

| A | Governance | Change, reform and innovation; Governance; Integrity and ethics; Legal support and advice; Management oversight; Performance management; Risk management; Strategic management and objective setting. |
|---|---|---|
| B | Delivery | (Agricultural) Market support; Analysis, assessment and monitoring activities; Asset creation and livelihood support; Climate and disaster risk reduction; Emergencies and transitions; Emergency preparedness and support response; Malnutrition prevention; Nutrition treatment; School meals; Service provision and platform activities; Social protection and safety nets; South-south and triangular cooperation; Technical assistance and country capacity strengthening services. |
| C | Resource Management | Asset management; Budget management; Contributions and donor funding management; Facilities management and services; Financial management; Fundraising strategy; Human resources management; Payroll management; Protocol management; Resources allocation and financing; Staff wellness; Travel management; Treasury management. |
| D | Support Functions | Beneficiary management; CBT; Commodity management; Common services; Constructions; Food quality and standards management; Insurance; Operational risk; Overseas and landside transport; Procurement – Food; Procurement - Goods and services; Security and continuation of operations; Shipping - sea transport; Warehouse management. |
| E | External Relations, Partnerships and Advocacy | Board and external relations management; Cluster management; Communications and advocacy; Host government relations; Inter-agency coordination; NGO partnerships; Private sector (donor) relations; Public sector (donor) relations. |
| F | ICT | Information technology governance and strategic planning; IT Enterprise Architecture; Selection/development and implementation of IT projects; Cybersecurity; Security administration/controls over core application systems; Network and communication infrastructures; Non-expendable ICT assets; IT support services; IT disaster recovery; Support for Business Continuity Management. |
| G | Cross-cutting | Activity/project management; Knowledge and information management; M&E framework; Gender, Protection, Environmental management. |

## 4    Categorization by WFP's governance, risk & compliance (GRC) logic

As part of WFP's efforts to strengthen risk management and internal control, several corporate initiatives and investments are underway. In 2018, WFP updated it's Enterprise Risk Management Policy[5], and began preparations for the launch of a risk management system (Governance, Risk & Compliance – GRC – system solution).

As a means to facilitate the testing and roll-out of the GRC system, audit observations are mapped to the new risk and process categorisations to define and launch risk matrices, identify thresholds and parameters, and establish escalation/de-escalation protocols across business processes.

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[4] A separately existing universe for information technology with 60 entities, processes and applications is currently under review, its content is summarised for categorisation purposes in section F of table B.3.
[5] WFP/EB.2/2018/5-C

**Table B.4: WFP's new ERM Policy recognizes 4 risk categories and 15 risk types**

| 1 | Strategic | 1.1 Programme risks, 1.2 External Relationship risks, 1.3 Contextual risks, 1.4 Business model risks |
|---|---|---|
| 2 | Operational | 2.1 Beneficiary health, safety & security risks, 2.3 Partner & vendor risks, 2.3 Asset risks, 2.4 ICT failure/disruption/attack, 2.5 Business process risks, 2.6 Governance & oversight breakdown |
| 3 | Fiduciary | 3.1 Employee health, safety & security risks, 3.2 Breach of obligations, 3.3 Fraud & corruption |
| 4 | Financial | 4.1 Price volatility, 4.2 Adverse asset or investment outcomes |

**Table B.5: The GRC roll-out uses the following process categories to map risk and controls**

| 1 | Planning | Preparedness, Assessments, Interventions planning, Resource mobilisation and partnerships |
|---|---|---|
| 2 | Sourcing | Food, Non-food, Services |
| 3 | Logistics | Transportation, Warehousing |
| 4 | Delivery | Beneficiaries management, Partner management, Service provider management, Capacity strengthening, Service delivery, Engineering |
| 5 | Support | Finance, Technology, Administration, Human resources |
| 6 | Oversight | Risk management, Performance management, Evaluation, Audit and investigations |

## 5    Monitoring the implementation of agreed actions

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

OIGA monitors agreed action from the date of the issuance of the report with regular reporting to senior management, the Audit Committee and the Executive Board. Should action not be initiated within a reasonable timeframe, and in line with the due date as indicated by Management, OIGA will issue a memorandum to Management informing them of the unmitigated risk due to the absence of management action after review. The overdue management action will then be closed in the audit database and such closure confirmed to the entity in charge of the oversight.

When using this option, OIGA continues to ensure that the office in charge of the supervision of the Unit who owns the actions is informed.  Transparency on accepting the risk is essential and the Risk Management Division is copied on such communication, with the right to comment and escalate should they consider the risk accepted is outside acceptable corporate levels. OIGA informs senior management, the Audit Committee and the Executive Board of actions closed without mitigating the risk on a regular basis.

## Annex C – Acronyms

| | |
|---|---|
| CBT | Cash Based Transfers |
| CO | Country Office |
| CSP | Country Strategic Plan |
| CWG | Cash Working Group |
| FSP | Financial Service Provider |
| HQ | WFP Headquarters |
| IDP | Internally Displaced Persons |
| MiFA | Micro Financial Sector Assessment |
| MMO | Mobile Money Operator |
| NGO | Non-governmental Organization |
| RBD | Regional Bureau Dakar |
| SCOPE | WFP's beneficiary information and transfer management platform |
| SOP | Standard Operating Procedure |
| TECB | WFP IT Beneficiary Service |
| UN | United Nations |
| USD | United States Dollar |
| WFP | World Food Programme |
| WINGS | WFP Enterprise Resource Planning Systems |

# Annex D – Glossary of technical terms

| | |
|---|---|
| **Agent** | A person or business that is contracted to facilitate transactions for users, the most important of these for WFP being cash-out. Agents usually earn commissions for performing their services. They also provide front-line customer service for beneficiaries - such as teaching beneficiaries how to initiate transactions on their phone. Individuals or businesses that can serve as agents are sometimes limited by regulations. Small-scale traders, microfinance institutions, chain stores, and bank branches serve as agents in some markets. In some countries, refugees are allowed to serve as agents in refugee settlements. For WFP large scale interventions, MMOs may use master agents who are responsible for managing the cash and electronic-value liquidity requirements of a particular group of agents. |
| **Bulk payment** | A simultaneous transfer of funds from one entity to many recipients. In humanitarian contexts, bulk payments can be used by organisations (governments, businesses, and donors) to disburse funds to beneficiaries. |
| **Cash out** | The process by which a customer deducts cash from his mobile money account. This is usually via an agent who gives the beneficiary cash in exchange for a transfer from the beneficiary's mobile money account. |
| **E-money** | Short for "electronic money," is stored value held in the accounts of users, agents, and the provider of the mobile money service. Typically, the total value of e-money is mirrored in bank account(s), so that even if a provider of mobile money service would fail, users could recover 100% of the value stored in their accounts. |
| **Know Your Customer (KYC)** | Approaches to conducting customer identification, verification, and due diligence (collectively referred to as "Know Your Customer" or KYC). Identity is a recurring theme in mobile money cash aid delivery. Beneficiaries need a form of identification accepted by the regulatory authority to register for a SIM card and mobile money account. A refugee who cannot legally activate a SIM card or open a mobile money or bank account in his or her own name may become marginalised as access to money transfers is severely limited. |
| **Mobile Money** | A service in which the mobile phone is used to access financial services. |
| **Mobile Money Account** | A beneficiary-owned account that is primarily accessed using a mobile phone. |
| **Mobile Money platform** | The hardware and software that enables the provision of a mobile money service. The transactional functionality of mobile money platforms must support three types of activities: customer activities (including bulk payment customer such as WFP), agent activities and the activities performed by the MMO offering the service. |
| **Mobile Money Operator (MMO)** | A licensed mobile money service provider that develops and deploys financial services through mobile phones and mobile telephone networks. |
| **Mobile Network Operator (MNO)** | A company that has a government-issued license to provide telecommunications services through mobile devices. |
| **Person-to-person (P2P) transfer** | A transfer made from one person to another person. |
| **Regulator** | In the context of mobile money, this typically refers to the regulator who has supervisory authority over financial institutions within a particular country, usually the central bank or other financial authority. |