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Internal Audit of WFP's Delivery through Non-Governmental Organizations and Cash-Based Transfers in Iraq

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World Food
Programme



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I. Executive Summary

Introduction

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP's delivery through non-governmental organizations and cash-based transfers in Iraq, focusing on the period from 1 January 2018 to 30 September 2019. The audit team conducted the fieldwork from 3 to 20 November 2019 at the country office premises in Baghdad and Erbil, and through on-site visits to project sites in Erbil, Dohuk and Sulaymaniyah. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

2. WFP launched its emergency operation in Iraq in 2014. In November 2017, this was reclassified from a Level 3 to a Level 2 emergency. WFP has worked to provide monthly food assistance to over 596,000 internally displaced persons and about 60,000 Syrian refugees in camps. Since internally displaced persons and refugees began to return from early 2018, their situation and needs have remained precarious.

3. The audit period was marked by the adoption in January 2018 of a Transitional Interim Country Strategic Plan, and the formulation of the 2020–2024 Country Strategic Plan approved at the WFP Executive Board session in November 2019. The Country Strategic Plan shifts WFP's role from a direct implementer to an enabler of national programmes, relying entirely on cash-based transfer delivery.

At the time of the audit, there had been ongoing civil unrest in Baghdad and in central and southern parts of the country since October 2019. Deteriorating security conditions in the north of Syria had led to an increase in Syrian refugees arriving in Iraq.

Audit conclusions and key results

4. Based on the results of the audit, the Office of Internal Audit came to an overall conclusion of **partially satisfactory / some improvement needed**. The assessed governance arrangements, risk management and controls were generally established and functioning well but needed improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues 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. The audit report contains one high priority and five medium priority observations, one of which has agreed actions directed at corporate level.

5. The country office was leading efforts to target assistance to the most vulnerable, and external stakeholders recognized and appreciated WFP's proof of concept approach in the provision of technical assistance to the national Public Distribution System. The country office uses SCOPE as its beneficiary information management system and has strong technical capacity with the provision of dedicated data management services and integration with programme delivery processes. Decentralization of SCOPE operations to distribute roles and responsibilities between the country office and sub-offices is a good practice that has strengthened accountability for programme delivery, especially at the sub-office level. In addition, the country office has supported the inter-agency call centre through provision of the Sugar case-management software.

6. The audit observed that the country office could improve and clarify linkages between programmatic decisions and objectives such as financial inclusion and operational risks of delivery. While cash programming has been undertaken in Iraq since 2014, modality decisions for cash-based transfers relevant to the audit period were not updated and supported by all required assessments and due diligence checks. This limits a comprehensive



assessment of risks to support the choice of intervention set-up and selection of partners prior to contracting. The country office could also improve evidencing strategic action points and key decisions taken on cash-based transfers.

7. Significant fluctuations and delays in distributions impacted beneficiaries and partners and limited the effectiveness of timely communication with stakeholders.

8. The audit observed weaknesses in data security and privacy for beneficiaries; in establishing adequate data management agreements; and in the oversight of partners, especially at the beneficiary identification and registration stages.

9. Several issues identified were linked to missing or evolving guidance and tools at the corporate level, such as guidance on spot checks and cash-based transfers through non-governmental organizations.

Actions agreed

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

11. 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

Iraq country context

12. Iraq is classified as an upper middle-income country, ranking 120th of 189 countries on the Human Development Index and 168th of 180 countries on the Corruption Perceptions Index in 2018. The country's economic situation is gradually improving following the territorial defeat of the Islamic State of Iraq and Levant (ISIL) and the resumption of oil exports. However, food insecurity has persisted particularly among internally displaced persons (IDPs), returnees and rural people in the south of the country. The challenges of rebuilding infrastructure; providing basic services; promoting social cohesion; demobilizing militias; creating jobs; and progressing towards gender equality while maintaining security have impeded the country's efforts to make progress towards the Sustainable Development Goals, including Goal 2 on zero hunger.

13. As the Government has retaken control over territories previously held by ISIL, IDPs have begun to return to their places of origin. In August 2019, there were 1.6 million IDPs, with approximately equal numbers of women, men, girls and boys; 4.3 million returnees; and 228,573 Syrian refugees.

14. According to the 2019 Humanitarian Response Plan (HRP), the most urgent needs are found in areas where past hostilities have led to destruction of infrastructure; a breakdown in services and the erosion of social fabric; or in areas indirectly impacted from hosting and providing for a sizeable displaced population. Limited livelihood opportunities in these locations are a key compounding factor keeping some of the most vulnerable people dependent on humanitarian assistance.

WFP operations in Iraq

15. WFP launched its emergency operation in Iraq in 2014. In November 2017, operations in the country were reclassified from a Level 3 to a Level 2 emergency. The audit period was marked by the adoption in January 2018 of a Transitional Interim Country Strategic Plan (TICSP) covering 2018–2019, and the formulation of the 2020–2024 Country Strategic Plan (CSP) approved at the November 2019 WFP Executive Board session. The CSP aims to shift WFP's role from a direct implementer to an enabler of national programmes, and the modality of delivery almost entirely to cash-based transfers (CBT). Management was already planning the inclusion of a contingency for in-kind programming in case of widespread shocks to markets and infrastructure as communicated to the Executive Board.

16. The TICSP contains three strategic outcomes (SOs) and five activities:

- SO1 addresses general food assistance (activity 1) and school feeding for insecure IDP households (activity 2) in affected areas providing access to life-saving and nutritious food;
- SO2 focuses on food assistance and resilience (activity 3) and livelihood support to Syrian refugees (activity 4) providing access to life-saving and nutritious food; and
- SO3 provides resilience and livelihood support for vulnerable returnees and conflict-affected communities to rebuild their assets and recover livelihoods (activity 5).

17. The TICSP has been revised four times. The last revision, approved in June 2019, brought the country portfolio budget (CPB) to USD 341 million to aid 0.9 million people.

18. During the audit period, the country office (CO) transferred approximately USD 80 million through mobile money transfers (MMT), e-vouchers and some immediate cash.¹ The CO partnered with two local financial service

¹ Source: WINGS Cashboard.



providers (FSPs): the main FSP (since July 2017) operating with cash advances; and a newly contracted FSP (since January 2019) which pre-finances delivery to beneficiaries and is subsequently reimbursed by WFP.

19. At the time of the audit, within Iraq some 170 organizations, including 85 national non-governmental organizations (NGOs), 74 international NGOs and 8 UN entities, were active in 420 locations spanning 107 districts, representing the biggest geographical reach of humanitarian partners since 2014. Of these, WFP was working with 23 NGOs, comprising 15 international and 8 national organizations.

20. The CO was on track in implementation of an organizational realignment, which resulted from a mission by headquarters and the Regional Bureau in Cairo (RBC) in May 2019, to support delivery of the CO's new CSP.

Objective and scope of the audit

21. The objective of the audit was to provide assurance on the effectiveness of internal controls, governance and risk management processes related to WFP's delivery through NGOs and CBT in Iraq. 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.

22. 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.

23. The audit scope considered the Office of Internal Audit (OIGA)'s 2018–2020 roadmap to strengthen its oversight of NGOs in conjunction with its annual risk assessment. The audit covered the period from 1 January 2018 to 30 September 2019. Where necessary, transactions and events pertaining to other periods were reviewed. The audit included review of one NGO and the benchmarking of inter-agency approaches to NGO management.

24. The audit team conducted the fieldwork from 3 to 20 November 2019 at the CO premises in Baghdad and in Erbil, and through on-site visits to project sites in Erbil, Dohuk and Sulaymaniyah.

25. As a result of security conditions during the mission (ongoing civil unrest), no testing was performed relating to security and access as initially planned, and visits initially scheduled to review local NGOs operating in Baghdad and the south of Iraq could not be carried out.

III. Results of the audit

Audit work and conclusions

26. Taking into account the CO's risk register and CSP risk summary, findings of WFP's second line of defence functions, as well as the independent audit risk assessment, the audit work was tailored to the country context and to the objectives set by the CO.

27. Based on the results of the audit, OIGA came to an overall conclusion of **partially satisfactory / some improvement needed**². 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. Issues 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.

28. OIGA, in supporting WFP management's efforts in the areas of gender and provision by management of assurance on CO internal controls, separately reports its assessments or gaps identified in both areas.

² See Annex B for definitions of audit terms.



Gender maturity

29. Although gender was considered in the TICSP and CSP, and while gender inequalities and inequities remain critical issues for WFP in delivering on its SOs and supporting government priorities in food security, there was no actual reporting on implementation of gender activities and achievement of gender-related targets (see observation 5).

30. The overall representation of women in the office was low (22 percent); at higher grades, less than 10 percent of available national officer positions were held by women. This was mainly because of the socio-cultural context in Iraq.³

31. The gender focal point position, which plays a crucial role in carrying out gender-related activities, had been vacant since 2018. The post was advertised twice with no success in identifying suitable national candidates. At the time of the audit, management had decided to pursue the recruitment of an international expert to support the CO on gender programming and planning.

Assurance statement

32. WFP uses first-line management certifications whereby all directors, including country and regional directors, must confirm through annual assurance statements whether the system of internal controls for the entity under their responsibility is operating effectively. At a consolidated level, the assurance statements are intended to provide a transparent and accountable report on the effectiveness of WFP's internal controls. The audit reviewed the annual assurance statement for 2018 completed by the CO for the specific areas in scope and compared the assertions in the statement with the audit findings.

33. The review indicated that the CO had assessed all programme and governance controls as strong, whereas the audit identified some gaps. Control weaknesses related to fraud risk assessments, CBT assessments, privacy risks and data sharing agreements. These issues have been raised in this report under observations 1, 2 and 4 respectively.

34. Notwithstanding these issues, the audit did not highlight any material deviations from the management assertions included in the 2018 assurance statement. CO management was aware of most of the challenges and was working to address these at the time of the audit.

³ The country was ranked 123rd of 160 countries on the 2018 Gender Inequality Index.

Observations and actions agreed

35. 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: Governance | |
|------------------------------------------|--------|
| 1 Partner risk management | Medium |
| 2 CBT governance and intervention set-up | High |
| B: Delivery | |
| 3 CBT delivery challenges | Medium |
| 4 SCOPE and beneficiary data management | Medium |
| C: Cross-cutting | |
| 5 Gaps in gender and age reporting | Medium |
| 6 Communicating with stakeholders | Medium |

36. The six observations of this audit are presented in detail below.

37. Management has agreed to take measures to address the reported observations.⁴ 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.

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



A: Governance

38. CO delivery of CBT is through NGOs, totalling USD 31 million⁵ for the audit period. The audit reviewed the CO's management of NGO partnerships throughout the programme life cycle, its spot-check procedures and performed a spot check at a selected NGO. The audit also benchmarked partner risk management frameworks between agencies and reviewed information sharing on risks and controls (this will make for a separate information note to management detailing the inter-agency analysis that the audit team performed). Additional testing covered the mitigation of fraud risks; compliance with corporate guidelines; analysis of partnership agreements; and a review of the CO's framework for CBT modalities and key decisions associated with NGO contracting.

39. During the audit period, the CO carried out targeting and full count exercises in IDP camps, which aimed to address the risk of inflated beneficiary numbers. The CO incorporated employee verification checks as part of its spot-check procedures. Through its proof of concept work on the Public Distribution System (PDS), the CO enabled some visibility of the leakages and inefficiencies in the national safety net system. The CO used partnership analysis tools to scan for partners in support of delivery of its CSP. As the audit coincided with a call for proposals from NGOs, the CO immediately and proactively started to adjust its processes and tools in response to audit observations on due diligence checks, capacity assessments and improvement plans.

Observation 1: Partner risk management

Compliance with corporate guidance

40. While the CO had consulted with donors, other UN agencies and the Government, and shared the CSP concept note with NGOs in a 2018 workshop, it did not involve its main NGO partners when formulating its CSP as required by corporate guidance. Strategic meetings recently put in place by the new CO management were appreciated by some NGOs, noting that they helped identify opportunities for strategic alignment.

41. The CO's tailored capacity assessment questionnaire did not include key questions from the corporate tool. Risk scoring was not always supported by a review and analysis of supporting documents. Improvement plans were not established. In addition, documentary evidence for the performance of some due diligence checks was not systematically retained.

42. The CO was performing spot checks on NGOs with a team of programme and finance staff. While noting the absence of corporate guidelines, some areas for improvement in the CO's approach were as follows:

- A risk-based approach was not used to inform which NGOs to spot check.
- The CO planned to visit all NGO partners annually. In practice, it had only carried out four spot checks in the 20-month audit period.
- CO procedures duplicated capacity assessment and due diligence questions, and did not adequately capture programmatic checks.
- Narrative reports did not allow for easy identification of gaps or provide observations on transactional level checks.

Fraud and corruption risks

43. The CO had identified some potential fraud and corruption risks in its CSP and risk register; however, it had not captured possible fraud and corruption risks for FSPs, local authorities and NGOs. Mitigating actions were, at times, generically formulated and did not address identified risks. There was also scope to improve the understanding of potential contextually relevant fraud schemes.

⁵ Source: WINGS for the period of January 2018 to September 2019.



Information sharing with partners

44. While informal consultations occurred bilaterally at management level, there was an opportunity to learn and benefit from other partners' risk management practices with respect to common risk exposures, including relevant fraud schemes, assurance activities and appropriate mitigating controls to address such risks.

45. All agencies consulted during the audit reported that overall NGO risk rankings resulting from different tools used would benefit from a combined sense check and updates to incorporate known incidents and/or irregularities. The CO had recently subscribed to the adoption of the UN Partner Portal, a platform for sharing information on NGOs' due diligence and capacity assessments. However, until the portal is fully deployed and effective (expected to be in mid-2020) an alternative mechanism is required to provide access to common assessments to minimize duplication of efforts across agencies and to share other risk and assurance-related information.

Underlying cause(s): NGOs not involved during CSP consultations; delays in issuance of corporate guidance on spot-check procedures and absence of guidance on risk-based assurance activities; insufficient programmatic checks of CO procedures; absence of formal platforms for sharing partner risk management information on common risk exposures and assurance activities; and weaknesses in the formulation of effective detective and preventive controls to address fraud and corruption risks.

Agreed Actions [Medium priority]

- (a) The NGO Partnerships Unit (PGCN) will expedite corporate guidance on spot-check procedures and risk-based oversight and assurance plans.
- (b) The CO will:
 - i. Sustain strategic level engagement with its key NGOs as it delivers on the CSP;
 - ii. In the absence of corporate guidelines, consider assurance activities by other agencies in establishing risk-based oversight plans, and strengthen oversight of NGOs through programmatic spot checks;
 - iii. Establish a process for the regular review of relevant fraud and corruption risks, and formulate and implement effective mitigating actions; and
 - iv. In consultation with other relevant agencies, establish an effective platform for information sharing at managerial and technical levels on partner risk management and results of assurance activities on common partners.

Timeline for implementation

- a) 31 December 2020
- b) 31 December 2020

Observation 2: Cash-based transfer governance and intervention set-up

46. The CO was reviewing its FSP contracts through a request for proposal (RFP) process. In consultation with the RBC, some due diligence requirements of a new corporate tool (piloted at the time of the audit) had been captured in the RFP. However, the audit identified the following gaps in the governance and design of the intervention set-up.



Transfer modality and assessments

47. While cash programming has been undertaken in Iraq since 2014, modality decisions were not supported by all required due diligence and other assessments. This limited a comprehensive consideration of risks to support the choice of modality and intervention set-up in the country.

48. WFP beneficiaries have access to person-to-person transactions and a suite of mobile services on their e-wallet accounts. The CO monitored these transactions, which is not aligned with recent CBT reconciliation recommended practice for adhering to local data privacy regulations on beneficiary owned accounts (see observation 4) or with the programmatic objective of financial inclusion. The contracts required that the FSPs collect beneficiary consent forms on behalf of WFP, but in practice it was the WFP sub-offices which collected the forms.

Assessment of risks associated with FSPs

49. The CO had not performed full due diligence checks on FSPs. While less relevant for the newly contracted FSP which pre-finances CBT delivery, the micro-financial assessment (MiFA) for the larger FSP was still in draft and key inputs and financial ratios were either missing or had not been properly calculated. As a result, the decision on the level of performance bond from the FSP was not substantiated. In addition, the CO had not evaluated the FSPs' money agents and subcontracting arrangements⁶ to identify and assess related operational, compliance, liquidity and reputational risks. At the time of the audit report, the CO had opened a new full service bank account with the same bank that successfully serves other UN agencies.

Assessment of risks associated with NGO partners

50. The CO engaged NGO partners for the delivery of CBT, mainly through e-vouchers,⁷ in the audit period. The CBT manual highlights the need for a MiFA of NGOs in these circumstances, but no assessment was undertaken. The manual also recommends a Harmonized Approach to Cash Transfer (HACT) micro-assessment where feasible. The audit noted that there were ongoing discussions at corporate level on how to assess NGOs undertaking CBT, considering gaps at country level and shortcomings in the 2016 MiFA corporate tool.

51. A recent CO audit⁸ highlighted the Market Access Programme Unit (OSZIC)'s position on the use of NGO partners in CBT delivery as a 'last resort option'. In principle, this relates to contexts where other FSPs do not exist or are not functioning effectively, and extends to any NGOs used for the transfer of financial value (such as cash or value vouchers) to beneficiaries. The CO was unclear on the minimum assurances required should it need to engage NGOs in the transfer of cash to beneficiaries, and whether it should consider this option.

Cash Working Group (CWG)

52. A CWG was set up in the CO to facilitate an integrated and cross-functional approach to implementation of CBT activities. However, the CWG's terms of reference (TOR) had not been updated since October 2016, and its membership had not been updated to consider key staff who had left the office since the last update in July 2018. Between 2018 and 2019, the CWG met only six times although its TOR stated that monthly meetings should be held. Minutes of meetings reviewed reflected an absence of discussions on legal, reputational, fraud and/or compliance risks associated with CBT operations. While management stated that several discussions had been held in other fora such as programme meetings, the audit was not able to identify relevant items which related to advising managerial and strategic CBT decisions.

Underlying cause(s): insufficient headquarters and RBC support in undertaking required CBT assessments at country level; lack of FSP contract management and absence of corporate guidelines on implications of modality decisions for programme objectives and beneficiary data protection at the time of CO modality design decisions;

⁶ FSPs contract with super-agents which in turn contract with individual money agents.

⁷ Value vouchers with no restrictions on commodities purchased at shops through SCOPECARDS. Some level of unrestricted cash is noted from COMET data and FLAs.

⁸ Internal Audit of WFP Operations in Niger – report number AR-19-13.



evolving or missing corporate tools; absence of corporate guidance and unclear ownership and responsibility for NGOs undertaking CBT activities; and non-compliance with CWG TOR.

Agreed Actions [High priority]

- (a) RBC, in consultation with OSZIC, RMFB and other relevant units, will prioritize and deploy a cross-functional mission to address all gaps in assessments and due diligence checks, including an assessment of country financial and mobile money regulations, in line with updated corporate tools and recommended practice to inform on risks and appropriate intervention set-up for the delivery of mobile money in Iraq.
- (b) The headquarters CBT Coordinator will:
 - i. Clarify the corporate position on the applicability of person-to-person transactions to different types of beneficiary accounts and associated data privacy requirements in specific country contexts; and
 - ii. In consultation with PGCN, clarify the corporate position on the use of NGOs in lieu of formally regulated FSPs in CBT as a last resort option, and the minimum requirements and assurances, including risk assessment and mitigation measures, for COs to consider when this option is used.
- (c) The CO will:
 - i. Based on the results of the cross-functional mission referred to in point a) above, review and validate its CBT strategy and the design of its intervention set-up in support of 2020–2024 CSP delivery; and
 - ii. Update the CWG TOR and composition of the membership team to ensure its advisory role in supporting key managerial decisions

Timeline for implementation

- a) 30 September 2020
- b) 31 December 2020
- c) 30 September 2020



B: Delivery

53. The audit performed tests on CBT distribution plans, beneficiary lists, e-wallets and segregated accounts, and CBT reconciliations. It also reviewed the use and robustness of SCOPE in supporting delivery of CBT, and its use by NGOs and the Government. Audit tests included a review of the processes for transfers to beneficiaries and for money transfer assurance mechanisms; beneficiary enquiries; camp management; FSPs and NGO partners; together with a review of monitoring reports and other supporting evidence collected through visits to stakeholders and sub-offices in Erbil, Dohuk and Sulaymaniyah.

54. The CO uses the corporate CBT triangulation database to match WFP payment list instructions, FSPs' distributions to eligible beneficiaries and point of sales (POS) redemption data and reviews the accuracy of first-level reconciliations performed by FSPs to confirm benefit distribution to beneficiaries. Several controls are in place to check for duplicates and the integrity of beneficiary lists. The CO undertook successive exercises related to beneficiary targeting and validation such as the 2018 Joint Vulnerability Assessment with the United Nations High Commissioner for Refugees (UNHCR) of Syrian refugees in camps; a full count of IDPs in December 2018; and a targeting exercise of IDP camps in the second quarter of 2019. The CO coordinated its assistance with government entities such as the Ministry of Migration and Displacement through supplementing their resources to IDPs thereby enabling WFP's pipeline to provide support to beneficiaries for a longer period of time.

Observation 3: Cash-based transfer delivery challenges

CBT delivery fluctuations

55. There were significant fluctuations in CBT delivery within the audit period. The challenges giving rise to these fluctuations were linked to insufficient funding; difficulties in opening a local bank account; and in obtaining timely information on which camps received food assistance from the Ministry of Displacement and Migration to be then supplemented by WFP assistance.

56. From August 2018, the CO used another UN agency for the transfer of funds in the absence of a local bank account. Challenges with the timely distribution of benefits persisted, some of which were attributed to delays in the CO's reconciliation processes and delays in transfers by local banks.

57. Various distribution planning discussions were noted as taking place in different CO meetings. Some decisions for not carrying out distributions were not properly planned and were not supported by relevant documentation. Interviews with FSPs and NGOs highlighted recurring issues with WFP's distribution planning, which impacted the regular achievement of set target dates.

58. The audit identified discrepancies between actual transfers and the period in which they were recorded in the WFP Information Network and Global System (WINGS), resulting in non-compliance with accounting standards.

Integrity of beneficiary lists

59. The CO performed some duplication checks on the lists of refugees obtained from UNHCR but was not fully aware of the controls that UNHCR had in place over these lists. There was no independent process monitoring⁹ of beneficiary registration nor any additional checks on beneficiary movements in and out of camps. A Case Review Committee was established in October 2018 to assess the eligibility of new arrivals for targeted assistance, but in some cases the audit observed delays of up to nine months in approving new beneficiaries.

Stakeholder inputs into programmatic issues

60. Stakeholder interviews in three camps, and reviews of monitoring reports and beneficiary complaints, confirmed recurring and long-standing issues relating to: insufficient POS equipment; limited numbers of mobile transfer agents, which resulted in beneficiaries having to travel long distances at their own cost for cash-outs; poor

⁹ WFP monitors focused on distribution and post distribution while Third-Party Monitors (TPMs) covered outcome monitoring.

quality and low denomination notes; and agents charging commission. It was noted that FSPs had procedures for tracking, warning and suspending money agents charging commission.

61. Both NGOs and SO teams confirmed the difficulties in monitoring mobile money delivery, especially when the majority of beneficiaries cash out outside of camps during weekends (although the CO has now taken the necessary steps to address the timing of cash-outs), and because beneficiary identity checks are not systematically verified by money agents outside camps. NGOs indicated that it was impractical in terms of cost, timing and administrative arrangements with camp managers to undertake monthly tent-by-tent checks on the existence of beneficiaries, especially in larger camps, despite this being stipulated in Field Level Agreements (FLAs) and Standard Operating Procedures (SOPs).

CBT reconciliations

62. There were delays in monthly reconciliations of disbursements and payments to FSPs ranging from one to four months. Reconciliation files were missing for two months in the audit period, although the CO had approved the monthly distribution reports that confirmed reconciliations were carried out. Roles in the management of distribution lists and reconciliation reports were not segregated and were prepared by the same CBT Programme Unit.

Underlying cause(s): absence of analysis of distribution planning process resulting in issues and delays; insufficient monitoring of NGO activities with respect to registration of beneficiaries and tracking of movements in and out of camps; delays in Service Entry Sheet (SES) recording; insufficient monitoring and enforcement of FSP performance against contract requirements, especially with respect to POS numbers and mobile money agents; limited staff capacity to cover the full payment and reconciliation cycle as per new CBT guidance.

Agreed Actions [Medium priority]

The CO will:

- i. In consultation with partners, review distribution planning issues and delays to streamline planning processes with the aim of achieving regular distributions on set dates;
- ii. Consult with the headquarters Finance Unit to adjust for the incorrect recording and reporting of transfers of benefits in WINGS;
- iii. Strengthen process monitoring of beneficiary registration and movements, and enforce FSP performance against contract requirements; and
- iv. Given changes to the organizational structure and increase in the CO's decentralized SCOPE operations, assign new roles and responsibilities in the management of mobile money transfer reconciliations.

Timeline for implementation

30 September 2020

Observation 4: SCOPE and beneficiary data management

63. The audit noted several issues regarding SCOPE and beneficiary data management as detailed below.

Data governance and oversight

64. Although the CO exhibited strong technical capacity in data analytics in support of its programme response and decision making, management made limited use and review of the analyses undertaken. For example, the 2019 full count and recent targeting exercises indicated discrepancies (5 percent of no-shows and 7 percent variance respectively) and the audit noted gaps in beneficiary numbers between COMET and SCOPE. However, the rationale for these variations was not analysed or followed up to enable understanding of the root causes or potential control weaknesses behind the difference in numbers. At the time of the audit report issuance, the CO reported having reviewed the SCOPE–COMET variance in numbers and had identified the root cause and started to address this gap in data.



Beneficiary data sharing

65. There was no secured mechanism for data exchange between WFP, NGOs and other UN agencies. Emails and Excel files were used to transfer data among WFP offices and third parties, with no encryption in place for any medium used. In addition, there was no specific data sharing agreement between NGOs and WFP, and partners were not adequately trained on and aware of WFP's data confidentiality, data security, access and retention policies. However, the audit notes that corporate gaps in this area are yet to be addressed.

Privacy risks

66. While the CO had identified the need for a privacy impact assessment (PIA) with respect to the use of SCOPE in support of the PDS intervention, such an assessment is also relevant for NGOs subject to General Data Protection Regulation (GDPR) using the system and to overall data protection by the CO. At the time of the audit, the CO was pursuing its request for a PIA support mission to assess data privacy and data management risks.

67. Requests for beneficiary consent forms were inconsistently applied at beneficiary registrations and the opening of beneficiary owned mobile money accounts. The latter deviated from signed contracts with FSPs (see also observation 2).

Use of SCOPE by partners

68. SCOPE¹⁰ is used in support of the PDS and has been used by a European-based NGO with the prospect of extending its use to other NGOs in the future. In addition to privacy risks highlighted above, the main challenges in relation to PDS technical assistance include: (i) a lack of clarity on the process for disengagement from the proof of concept and pilot stages, and for transfer of ownership and accountability to national partners; and (ii) continuity and delivery of the project considering WFP's staff mobility process.

SCOPE user management

69. Assessing the list of SCOPE users in the CO and their associated roles, the audit identified at least five users with two or more roles in the distribution planning, payment list and/or retailer processes which were incompatible with segregation of duties requirements. A cross-check of the list of active users with the list of CO employees identified four active credentials requiring deactivation as the staff were no longer assigned to the Iraq CO, and temporary accesses which had never been deactivated. There were no designated back-ups or alternate staff to cover all critical activities involved in the SCOPE payments review and processing life cycle.

Underlying cause(s): absence of a data governance working group; risks associated with delivery, transition and handover of the PDS proof of concept not yet addressed; unclear corporate guidelines on data privacy and sharing agreements; SCOPE user roles and responsibilities not updated in a timely manner.

Agreed Actions [Medium priority]

The CO will:

- i. Establish a data working group to ensure a coordinated approach to governance, data-driven decision making and to follow up on gaps from data analyses to understand the root causes of differences identified and make necessary adjustments;
- ii. Articulate a clear exit strategy on the PDS technical assistance project and handover to the Government; and engage with headquarters on the continuity of critical skills for the effective delivery of the project;
- iii. Expedite the PIA and coordinate with the Legal Unit to include a data sharing agreement clause in all FLAs;

¹⁰ Through a different instance of SCOPE, Government beneficiary data is currently segregated from the CO beneficiary interventions.



- iv. In consultation with the TEC division in headquarters, establish a dedicated secure platform to be used for beneficiary data exchange between WFP and its partners; and
- v. Amend and/or delete SCOPE accesses and rights where required and review the list of CO roles and potential back-ups to ensure adequate segregation of duties.

Timeline for implementation

30 September 2020



C: Cross-cutting

70. The audit performed tests and reviews on the collection and reporting of age and gender-related information; reviewed the effectiveness of WFP's communication with stakeholders; and analysed beneficiary complaints from the feedback mechanisms in place.

71. The United Nations Office for Project Services (UNOPS) manages a toll-free hotline for beneficiary complaints and feedback, called the United Nations Iraq Information Centre (UNIIC). In September 2019, the CO introduced the Sugar customer relationship management system, a software application to manage complaints and feedback received from various sources such as UNOPS, beneficiaries, NGO hotlines and help desks in camps. An SOP was issued in September 2019 and is in the process of being implemented.

Observation 5: Gaps in gender and age reporting

72. Within WFP's Corporate Results Framework (CRF), the cross-cutting result of "improved gender equality and women's empowerment among WFP-assisted populations" is included in all CSPs, as is a commitment to disaggregating person-related data by gender and age.

73. While gender is considered in the TICSP and CSP, and gender programming is cross-cutting in the upcoming CSP, there was no reporting on implementation of gender activities and achievement of gender-related targets.

74. Reporting in the CO's 2018 Annual Report and other ad hoc reports was based on outdated official ratios¹¹ on gender and age, rather than actual data collected. In addition, gender and age-related information had not yet been captured in SCOPE, although NGOs and monitoring staff confirmed that this information was collected at field level and significant efforts were made to collect this data in the recent targeting exercise.

Underlying cause(s): ongoing action to update SCOPE with detailed data on beneficiaries collected through registration and targeting exercises to provide baseline information on WFP's beneficiary population; and gender and age information collection not a requirement in FLAs with corporate partners since 2018.

Agreed Actions [Medium priority]

The CO will:

- i. Amend the beneficiary data collection template and monitor NGOs to ensure complete beneficiary data information is collected at registration, and ensure complete beneficiary data is uploaded into SCOPE; and
- ii. Finalise the update of SCOPE with detailed and complete beneficiary information from registration and targeting exercises.

Timeline for implementation

30 September 2020

¹¹ Dating from the 1997 Iraq population census.

Observation 6: Communicating with stakeholders

75. The following challenges relating to communication with stakeholders were noted.

External Communication

76. While the CO regularly prepared key messages for a variety of stakeholders, delivery of these messages was not always timely or consistent. Beneficiaries and NGOs were unclear about the reasons for some changes, fluctuations or delays in cycles, and for lack of assistance in certain months. This limited partners' ability to sensitize beneficiaries. FSPs also confirmed a communication gap between WFP and beneficiaries on cash-out plans, and on the level and timing of WFP assistance. In some instances, beneficiaries reported that their concerns were taking a long time to resolve.

Effectiveness of hotlines

77. Beneficiary awareness of the UN toll-free hotline in the camps visited by the audit was limited, despite telephone numbers being on display and CO messages regularly communicating the number. Analysis of complaints compiled by FSPs, which were not consolidated in Sugar, indicated a significant number of queries about the hotline number. NGOs confirmed that beneficiaries' preferred approach was to log their concerns with camp management and NGOs in person. Donors and other UN agencies also questioned the effectiveness of the UN complaints and feedback mechanism (CFM). An SOP for beneficiary complaints management was issued in early November 2019 and implementation was under way.

Digital financial literacy of beneficiaries

78. Though corporate CBT guidelines and FSP contracts underline the need for basic digital and financial literacy training to address beneficiaries' limited literacy, the audit observed that beneficiaries were in many cases reliant on other more digitally/financially literate beneficiaries, money agents or intermediaries to navigate the mobile money system, and in some instances needed to pay a commission for these services. The level of digital and financial literacy in camps, which is central to achieving the programmatic objective of financial inclusion, was not captured and monitored by the CO to assess the effectiveness of FSP training efforts, to make programmatic adjustments and to address recurring issues.

Underlying cause(s): low levels of digital/financial literacy in some camps; lack of monitoring of NGO effectiveness in delivering key messages to beneficiaries; insufficient capacity in WFP and NGOs for effective communication with communities; and absence of prioritization and escalation of complaints in Sugar.

Agreed Actions [Medium priority]

The CO will:

- i. Analyse reasons for the low level of awareness of the UN CFM hotline number by beneficiaries and determine appropriate channels for capturing beneficiary complaints;
- ii. Analyse and monitor digital/financial literacy levels in camps to assess the effectiveness of FSP training efforts; design effective channels of communication with beneficiaries; and strengthen awareness of cash recipients on their rights in relation to money agents and FSPs;
- iii. Strengthen capacities in WFP and NGOs to enable regular and timely communication sessions with beneficiaries; and
- iv. Consolidate all complaints from different sources through the Sugar system and ensure they are prioritized based on the new SOP for escalation to management on a regular basis.

Timeline for implementation

30 September 2020



Annex A – Summary of observations

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

| High priority observations | Categories for aggregation and analysis: | | | | Implementation lead | Due date(s) |
|------------------------------------------|------------------------------------------|-----------------------------------------|-----------------------|---------------------|------------------------------------------------------------------------|-------------|
| | WFP's Internal Audit Universe | WFP's Governance, Risk & Control logic: | | | | |
| | | Risks (ERM) | Processes (GRC) | | | |
| 2 CBT governance and intervention set-up | Governance | Governance & oversight risks | CBT service providers | RBC CBT HQ CO | (a) 30 September 2020 (b) 31 December 2020 (c) 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) | | | |
| 1 Partner risk management | NGO partnerships | Programme risks | Partner management | PGCN CO | (a) 31 December 2020 (b) 31 December 2020 | |
| 3 CBT delivery challenges | CBT | Governance & oversight risks | CBT service providers | CO | 30 September 2020 | |
| 4 SCOPE and beneficiary data management | Beneficiary management | Business process risks | Beneficiaries management | CO | 30 September 2020 | |
| 5 Gaps in gender and age reporting | Beneficiary management | Business process risks | Beneficiaries management | CO | 30 September 2020 | |
| 6 Communicating with stakeholders | Communication & advocacy | Programme risks | Partner management | CO | 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 objective of the audited entity/area should be achieved. Issue(s) identified by the audit were unlikely to significantly affect the achievement of the objectives of the audited entity/area. Management action is recommended to ensure that identified risks are adequately mitigated. |
| Partially satisfactory / major improvement needed | The assessed governance arrangements, risk management and controls were generally established and functioning, but need major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues identified by the audit could negatively affect the achievement of the objectives of the audited entity/area. Prompt management action is required to ensure that identified risks are adequately mitigated. |
| Ineffective / unsatisfactory | The assessed governance arrangements, risk management and controls were not adequately established and not functioning well to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area. Urgent management action is required to ensure that the identified risks are adequately mitigated. |

2 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.¹²

¹² 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 universe¹³ 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 its Enterprise Risk Management Policy¹⁴, 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 categorizations as introduced¹⁵ by the Chief Risk Officer to define and launch risk matrices, identify thresholds and parameters, and establish escalation/de-escalation protocols across business processes.

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 |
|---|-----------|------------------------------------------------------------------------------------------------------|

¹³ A separately existing universe for information technology with 60 entities, processes and applications is currently under review, its content is summarized for categorization purposes in section F of Table B.3.

¹⁴ WFP/EB.2/2018/5-C

¹⁵ As per 1 January 2019, subsequent changes may not be reflected in 2019 audit reports.

| | | |
|---|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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 mobilization 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 (OIGA) 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 actions 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 Transfer |
| CFM | Complaints and Feedback Mechanism |
| CO | Country Office |
| COMET | Country Office Tool for Managing Programme Operations Effectively |
| CPB | Country Portfolio Budget |
| CRF | Corporate Results Framework |
| CSP | Country Strategic Plan |
| CWG | Cash Working Group |
| FLA | Field Level Agreement |
| FSP | Financial Service Provider |
| GDPR | General Data Protection Regulation |
| HACT | Harmonized Approach to Cash Transfer |
| HRP | Humanitarian Response Plan |
| ICT | Information and Communication Technology |
| IDP | Internally Displaced Person |
| LEG | WFP Legal Office |
| MiFA | Micro-Financial Assessment |
| MMT | Mobile Money Transfer |
| NGO | Non-Governmental Organization |
| OIGA | Office of Internal Audit |
| OSZIC | WFP Market Access Programme Unit |
| PDS | Public Distribution System |
| PGCN | NGO Partnerships Unit |
| PIA | Privacy Impact Assessment |
| POS | Point Of Sale |
| RBC | Regional Bureau Cairo |
| RFP | Request For Proposal |
| SCOPE | WFP's beneficiary information and transfer management platform |
| SES | Service Entry Sheet |
| SO | Strategic Outcome |
| SOP | Standard Operating Procedure |
| Sugar CRM | Sugar Customer Relationship Management |
| TICSP | Transitional Interim Country Strategic Plan |
| TOR | Terms of Reference |
| UN | United Nations |



Office of the Inspector General | Office of Internal Audit

| | |
|-------|-----------------------------------------------|
| UNDP | United Nations Development Programme |
| UNFPA | United Nations Population Fund |
| UNHCR | United Nations High Commissioner for Refugees |
| UNIIC | United Nations Iraq Information Centre |
| UNOPS | United Nations Office for Project Services |
| WFP | World Food Programme |
| WINGS | WFP Information Network and Global System |