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Internal Audit of WFP Operations in Ethiopia

Office of the Inspector General
Internal Audit Report AR/20/05

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I. Executive Summary

WFP Ethiopia Country Office

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP operations in Ethiopia that focused on the period 1 January 2018 to 30 June 2019. The audit team conducted the fieldwork from 16 September to 4 October 2019 at the country office premises in Addis Ababa and through onsite visits to sub-offices in Gode and Mekelle. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

2. Ethiopia represents a unique operational context for WFP. The Government of Ethiopia is by far the most important humanitarian actor and development investor in the country, defining and leading all policy processes, institutional structures, and organizational arrangements at federal, regional, and sub-regional levels. As is true for all humanitarian and development partners, WFP's activities and support for the Government are delivered exclusively in partnership with Government agencies, within defined boundaries, with strong implications for autonomy of action and enforcement of key standards of accountability and risk management.

3. The country office carried out a staffing and structure review exercise that spanned over 18 months, from 2016 to 2018, and was undergoing an organizational alignment exercise to ensure its readiness to meet its Country Strategic Plan objectives. WFP began implementing an 18-month Interim Country Strategic Plan in January 2019, pursuing three overarching goals to: (i) ensure continuity in meeting the needs of vulnerable people; (ii) lay the foundations to support the Government in the formulation of policies to achieve Sustainable Development Goal 2; and (iii) strengthen institutions and systems to enable them to deliver these policy goals. WFP was working in support of the Government's core priorities established in its second Growth and Transformation Plan, the national social protection strategy, the national nutrition programme, and the disaster risk management policy, among others.

4. Expenditure in Ethiopia totalled USD 289.3 million in 2018, representing approximately 4.9 percent of WFP's total direct expenses for that year. WFP operations in Ethiopia accounted for 12 percent of WFP's purchases of goods and services, reaching 8 million beneficiaries and covering 30 percent of Ethiopia's humanitarian caseload.

Audit conclusions and key results

5. 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. The audit report contains four high priority and six medium priority observations, two of which have agreed actions directed at a corporate level.

6. WFP in Ethiopia is recognized as a leading actor in the humanitarian sector, has developed close relationships with various government entities and NGOs, and is actively participating in the work of the UN country team. The audit received positive feedback from other United Nations agencies on WFP's programmes and commitment to support the country. Other initiatives included the: (i) supply chain draft strategic plan defining the location of logistic hubs and repositioning of operations; (ii) development of a nutrition sensitive strategy for the Country Strategic Plan; (iii) implementation of a streamlined physical inventory of assets facilitating the clean-up of its assets database; (iv) implementation of a Gender Action Plan; and (v) leadership of the National Cash Working Group. The Country Director was acting Resident and Humanitarian Coordinator for the United Nations system at the time of the audit.

7. WFP was working with the Government to implement the Interim Country Strategic Plan and built upon a partnership model that was already in effect before the current strategic plan. Some capacity assessments of partner government agencies had been undertaken, which according to the country office led to major



investments to boost capacities at federal and regional levels. However, these were not comprehensive and important gaps remained, which affected various aspects of programme implementation as identified by the audit. Given the Government's role in humanitarian and development operations in Ethiopia, the lack of corporate guidelines on the management of partnerships with government entities where they are WFP's implementing partners did regularly impact the operations. Such guidelines would need to cover aspects such as due diligence; capacity assessments; cash-based transfer operations; agreement templates; and minimum assurances that should be agreed with the government partners. These weaknesses were some of the underlying causes of the audit observations in various areas.

8. The office's staffing and structure review was driven by steadily falling funding alongside an increasing staffing level. Delays in the implementation of the staffing and structure review results and turnover of management were indicative of weaknesses in workforce planning, at the country office and corporate levels. This was aggravated by the complexities of the staff re-assignment process. The resulting instability in staffing at the country office negatively impacted the overall internal control environment.

9. The audit noted weaknesses related to reports received from cooperating partners, including the low quality of information reported; lack of internal procedures to monitor, enforce and review reporting requirements; and delays in the submission of project implementation reports. These gaps resulted directly from the unique operating environment in which a number of Government agencies are primary implementing partners, implying challenges in enforcing key standards of monitoring, accountability, and risk management. As a result, control design and implementation provided only limited assurance and did not satisfactorily mitigate the risks that food and cash assistance were not reaching the intended beneficiaries. The reporting weaknesses also reduced the control effectiveness on payments and liquidation of advances to partners. With donor support, the country office was reinforcing its monitoring efforts.

10. The Country Portfolio Evaluation 2012-2017 recommended the development of a monitoring evaluation and learning (MEAL) strategy. A comprehensive monitoring plan was developed in 2018 and launched in February 2019 to support implementation of the Interim Country Strategic Plan. Gaps requiring attention included standard operating procedures, activity-specific minimum monitoring requirements and finalization of some baselines and targets. As noted in the evaluation, these weaknesses constrained the country office's ability to monitor and manage its activities and to systematically gather data from various operational points. At the time of the audit, and as agreed with one main donor, the country office had begun deploying additional field monitoring assistants in the Somali region.

11. WFP's use of the government's system for cash-based transfers brought major challenges and lessons regarding significant operational gaps, including basic financial management practices that could not be put in place and/or be adequately enforced. While some operational reporting requirements were included in signed agreements with the Government, the country office did not consistently enforce these, resulting in incomplete traceability of fund flows from central to district levels. In the absence of adequate reports, bank statements and reconciliations from government partners, the risk of ineffective cash transfers, including misappropriation, required immediate attention and mitigation.

12. Over the audit period, the audit noted an upward trend in donor funding. Yet there were some expectations from the two main donors interviewed by the audit team for improved reporting and an increased level of accountability in activities involving government partners.

Actions agreed

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

Ethiopia

14. Ethiopia is the second most populous country in Africa, with a highly diverse population of about 105 million people (50.46 percent men and boys and 49.54 percent women and girls). It has an annual population growth rate of 2.6 percent. Approximately 83 percent of the population live in rural areas and depend entirely on rainfed agriculture for livelihoods. About 42 percent of Ethiopians are under 15 years of age. The country ranks 173rd of the 189 countries on the Human Development Index. Eighty-seven percent (89 million people) of the population is poor and suffers food insecurity; insufficient access to adequate education and health services; and there are inadequate employment opportunities for young people recently graduated from high school or university.

15. Ethiopia has made important development improvements over the past two decades, reducing poverty and expanding investments in basic social services. However, food insecurity and undernutrition still hinder economic growth. According to Government estimates, 7.88 million people require food assistance. The country is home to the second largest refugee population on the continent, hosting 928,600 registered refugees from South Sudan, Somalia, Sudan, Eritrea and Kenya. WFP and its Government partners provided assistance to 650,000 refugees residing in camps. Unrest in parts of the country has also led to a surge in the number of internally displaced people.

16. Recurrent drought and failed harvests have negatively impacted on many families, who have lost livestock and other productive assets. The Somali Region remains the epicentre of drought and has also been prone to flash floods, with an estimated 1.8 million people in need of life-saving food assistance. Inter-communal conflict and violence have led to surges of internal displacement. Despite these challenges, the government's five-year Growth and Transformation Plan aims to move the country to middle-income status by 2025, by sustaining rapid growth and speeding up structural transformation.

WFP operations in Ethiopia

17. Ethiopia represents a unique operational context for WFP. The Government of Ethiopia is by far the most important humanitarian actor and development investor in the country, defining and leading all policy processes, institutional structures, and organizational arrangements at federal, regional and sub-regional levels. As is true for all humanitarian and development partners, WFP's activities and support for the Government are delivered in partnership with Government agencies, within clearly defined boundaries, with strong implications for autonomy of action and enforcement of key standards of accountability and risk management.

18. The Country Office (CO) is implementing an 18-month Interim Country Strategic Plan (ICSP) 2019 – 2020, based on WFP's recognized strengths. While the bulk of operations continue to address the immediate short-term needs of refugees, internally displaced persons and other food-insecure and undernourished people, the interim plan aims to position WFP to undertake a gradual transformation of its role during implementation of the subsequent Country Strategic Plan (CSP). During this transformation, WFP will focus on the prevention of malnutrition; the achievement of increased resilience; and ultimately self-sufficiency for households and communities. The integration of nutrition concerns and women's empowerment into the design of all operations will also contribute to the development of national standards¹.

19. The ICSP is structured into five strategic outcomes (SOs) with nine activities, which are aligned with WFP's Strategic Results 1, 2, 5 and 8 and contribute to all the outcome pillars of the United Nations Development Assistance Framework (UNDAF) for 2016–2020. The main focus of the ICSP is on crisis response, through the provision of:

¹ Source: Ethiopia CO ICSP 2019 – 2020.



- (i) unconditional cash and food assistance, livelihood support and emergency school feeding to crisis-affected populations (activity 1);
- (ii) nutritional support and treatment of moderate acute malnutrition to crisis-affected children aged 6-59 months, pregnant and lactating women and girls and anti-retroviral treatment/ tuberculosis (activity 2); and
- (iii) unconditional cash and food assistance, school feeding and nutritional and livelihood support to refugees (activity 3).

20. Collectively, these activities represent 85 percent of the needs-based plan originally established for the ICSP, and 94 percent of actual expenditure from the beginning of the ICSP until 30 June 2019.

21. A budget revision to the ICSP was approved in July 2019 to incorporate a government request for WFP to purchase and deliver 200,000 metric tons of wheat on behalf of the National Disaster Risk Management Committee. The budget revision increased the budget of the ICSP by USD 76 million, of which USD 70.5 million corresponded to transfer costs (i.e. the cost of food); USD 1.3 million implementation costs; and USD 4.6 million indirect support costs (ISC). Nevertheless, the budget revision indicated that the CO was handling the agreement with the Government on a full cost-recovery basis, in which case ISC would not be applicable (refer to observation 9).

22. The CO was operating with 11 sub-offices, 3 field offices, an area office, and approximately 730 staff members. As reported by the CO, its operations reached 8 million beneficiaries across all activities, and covered 30 percent of Ethiopia's humanitarian caseload.

Objective and scope of the audit

23. The objective of the audit was to provide assurance on the effectiveness of internal controls, governance and risk management processes related to WFP operations in Ethiopia. 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.

24. 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.

25. The scope of the audit covered the period from 1 January 2018 to 30 June 2019. Selected transactions and events pertaining to other periods were reviewed. The audit reviewed: (i) the ICSP, focusing on activities 1 and 3 under SO 1 which represented a significant portion of the CO's operations; and (ii) high and medium-priority rated processes and associated key controls, determined through an audit risk assessment, within governance, resource management, programme delivery, support functions, partnership and advocacy, and cross-cutting aspects. The audit did not review information and communication technology, as the Ethiopia CO was included in the sample of a recent thematic audit in this area². The Office of Internal Audit (OIGA) carried out two separate thematic audits of WFP's nutrition activities and beneficiary targeting, which included visits to Ethiopia.

26. The audit field work took place from 16 September to 4 October 2019 at the CO premises in Addis Ababa and through onsite visits to sub-offices in Gode and Mekelle. In addition, work was carried out in liaison with relevant focal points from selected WFP headquarters units and the Regional Bureau in Nairobi (RBN).

² Report number AR/19/10 "ICT in Country Offices".

III. Results of the Audit

Audit work and conclusions

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

28. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory / major improvement needed**³. 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.

29. 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.

Gender Maturity

30. The cultural context in which the CO operates is complex and constrains the achievement of the CO's objectives and targets. At an organizational level, the representation of women in the CO remained a challenge, and management was implementing focused recruitment initiatives to reach a wider national female audience and to achieve the targeted gender parity. By November 2019, WFP Ethiopia reported that it had reached its 2019 target for representation of women (27 percent).

31. At a programmatic level, the CO had developed a Country Gender Action Plan and Gender Action Network, and integrated gender requirements into programme design and monitoring.

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, over the entity they have responsibility for, 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 Ethiopia CO and compared the assertions in the statement (based on the evidence that was available to the CO at that time) with the audit findings.

33. The audit review indicated that there were significant gaps in the design, implementation and operating effectiveness of internal controls, some of which were rated high priority: (a) partnerships with government entities for implementation of activities; (b) cooperating partners (CP) reporting and payments; (c) design and operationalization of programme monitoring; and (d) cash-based transfer (CBT) operations.

³ See Annex B for definitions of audit terms.

Observations and actions agreed

34. 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 and structure | |
|--|--------|
| 1. Partnerships with government entities for implementation of activities | High |
| 2. Organizational structure | Medium |
| B: Delivery | |
| 3. Selection of and agreements with cooperating partners | Medium |
| 4. Weaknesses in cooperating partners reporting and payments | High |
| 5. Design and operationalization of programme monitoring | High |
| 6. SCOPE and beneficiary lists | Medium |
| C: Support functions | |
| 7. Cash-based transfer operations | High |
| 8. Commodity management, including last mile solution and unconfirmed receipts | Medium |
| 9. Service provision | Medium |
| D: External relations, partnerships and advocacy | |
| 10. Donor management, fund implementation and reporting | Medium |

35. The ten observations of this audit are presented in detail below.

36. Management has agreed to take measures to address the reported observations⁴. 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

37. The audit reviewed the CO's strategic planning and performance activities including: the effectiveness of existing mechanisms to define and monitor its objectives; operational planning to achieve defined objectives and implement them in accordance with the ICSP; organizational structure to ensure effective delivery; internal coordination and relationships with external shareholders; and mechanisms for management monitoring and oversight of operations, including fraud prevention and ethical considerations.

38. WFP is a recognized partner by the Government in the area of humanitarian response. In turn, the Government is WFP's main operational partner in the country, defining and leading all policy, strategic, and operational platforms at federal, regional, and sub-regional levels, with important implications for monitoring, accountability and risk management. As noted above, these unique arrangements and relationships with Government agencies affect the CO's programme, supply chain, financial and administrative decisions, and activities. The CO was actively participating in the work of the United Nations (UN) country team and positive feedback was given from other UN agencies on WFP's programmes and commitment to support the country. At the time of the audit, the Country Director was serving as the acting Resident and Humanitarian Coordinator for the UN system. The weekly operational meeting between the CO and the field offices provided a direct channel to escalate operational and programme support issues and was well received by field office staff.

Observation 1: Partnerships with government entities for implementation of activities

39. Except for the United Nations Humanitarian Air Service (UNHAS), the CO was implementing all its ICSP activities in partnership with various government entities, including assistance to affected populations, nutrition programmes, and assistance to refugees. Such partnerships entailed a dual role for the Government, both as a host to WFP and as an implementer of the activities. Regarding the collaboration with government counterparts as implementing partners, the audit noted that the CO had carried out some initial Capacity Gaps and Needs Assessments, leading to capacity strengthening investments at federal and regional level. However, these were not always comprehensive and important gaps remained (such as systematic identification of capacity gaps, related action plans agreed with the partners, and resource allocations to address the gaps). As evidenced by a number of related observations, this affected various aspects of programme implementation.

40. As noted by OIGA in recent audits, there has been an increasing demand for WFP to provide technical assistance and support to national programmes and governments, in line with the new CSP approach and direction. COs work with government entities, who maintain their role as hosts to WFP, in a range of activities from capacity strengthening and service provision to direct implementation. Yet some of the current WFP business models, processes and guidance were not adapted to this context.

41. In the absence of such corporate procedures, the CO adapted the practices and guidelines for NGO partnerships in its engagement with government entities. Specific aspects of working with the Government (such as the absence of a competitive selection process, performance expectations, and alignment of government objectives) could not be adequately addressed. This was the case for agreement templates and performance assessments, for which the CO had not developed tools and procedures tailored to the specific needs of these partnerships. The issue highlighted the need for WFP to address the gaps at the corporate level.

42. The CO also provided advances to government entities. In the case of regional government entities implementing the nutrition programme, advances amounted up to 100 percent of the CP direct support costs; 100 percent of capacity strengthening costs; and 70 percent of food modality costs. However, standard field level agreement (FLA) clauses, limiting advances to 30 percent of the budget or USD 100,000, had been used in the agreements with these entities. Such advances were required to deliver nutrition assistance to targeted beneficiaries whose health was at risk. In one sample reviewed by the audit, the advance amounted to USD 300,000. This situation highlighted both the lack of corporate guidelines on advances to government partners, and the need to undertake tailored capacity assessments of partners requiring significant advances from WFP, to possibly limit those advances or to have adequate assurance that the entity has the capacity to manage the funds, deliver as agreed and provide regular reports to WFP on the use of funds.

43. Various audit observations are related to the lack of corporate guidance on working with government entities as implementing partners. These concern aspects such as: (a) due diligence; (b) capacity assessments including ability to manage beneficiary feedback; (c) CBT planning and implementation activities through government partners (see Observation 7); (d) agreement templates; and (e) in general, the minimum assurances that should be agreed with partners, including donors, to ensure that risks are identified and mitigated to the extent possible and/or accepted. Key performance indicators and monitoring procedures to assess the government partners' performance and WFP's success in strengthening the capacity of these partners have also not yet been developed.



44. Existing WFP agreement templates with government entities are, and have always been generic, making it difficult to manage efficiently the partnerships with these entities. At the time of the audit, the Legal Office (LEG) was working on a new draft agreement template, but it was at an early stage and not yet ready for implementation. The Technical Assistance and Country Capacity Strengthening Service (OSZI) and the NGO Partnerships Unit (PGCN) were also working on related matters, but there was no joint effort from the various units to develop the necessary tools and guidance for the COs.

Underlying cause(s): Existing WFP business models assume that implementation of activities is mainly conducted with NGO partnerships, while governments only take the role of hosting WFP; and no joint effort by WFP corporate units to develop guidance, although CO challenges have been known for some years.

Agreed Actions [High priority]

- a) PD (though its Programme and Policy Development Department/Programme – Humanitarian and Development Division - PRO) will lead a corporate discussion on who could be responsible to consider various elements that are required when engaging with government entities as cooperating partners. Once clarified, the identified entity will be responsible for developing a business model for engaging government entities as implementing partners, and related processes and controls. It is envisioned that the model may cover aspects such as due diligence, risk assessment (appetite and mitigation/sharing), capacity gaps and needs assessments, tailored agreement templates, reporting requirements, and performance assessments. However, this is subject to the results of the aforementioned discussions that PD has committed to lead (the agreed target date relates to the timeframe within which these discussions shall take place; corporate decisions on the business model will be pending results of the discussions on responsibility).
- b) In the interim the CO will:
 - i) continue to engage with government partners aiming to reach agreement on capacity assessments addressing the specific needs of the ICSP activities, and the related capacity strengthening needs and plans, including the management of cash advances. These activities should be systematically documented; and
 - ii) continue to engage with all partners to ensure that operational and financial reporting and other formally agreed requirements are fulfilled.

Timeline for implementation

- a) 31 July 2020
- b) 30 June 2020

Observation 2: Organizational structure

45. The CO carried out a staffing and structure review exercise (SSR) between 2016 and 2018. The exercise was initially funding-driven and had limited consideration of future operational requirements. The SSR took 18 months longer than expected to complete and was not successful in ensuring an adequate structure. The CO changed Country Directors twice within the last three years. Further, key positions within the Programme Unit such as the deputy head of programme, the head of monitoring and evaluation (M&E), a new position, newly created positions within the Nutrition Team, and various positions in other operational teams were vacant at the time of the audit. These challenges were indicative of weaknesses in workforce planning at the CO-level, aggravated by the complexities of the staff reassignment process.

46. One donor expressed concern about the frequent changes in the leadership team, which also impacted the CO's ability to achieve its objectives. The current CD and DCD joined the CO in July 2018 and the second DCD joined in March 2019. At the time of the audit, the CO was proactively addressing the implications of the SSR while also responding to the staffing and structure needs of the ICSP and CSP. In the context of an OIGA internal audit in 2019⁵, the HR division agreed to: (a) develop mechanisms to ensure that reassignment decisions support continuity of operations, avoiding loss of key institutional knowledge; and (b) establish a procedure to provide adequate monitoring of and support for COs undergoing structural organizational changes. These actions, needing corporate solutions and relevant in the Ethiopia context, will be followed-up in the context of the aforementioned OIGA internal audit.

47. Documentation and records available provided an overview of the basic principles followed during the SSR, the steps carried out in the process, and outlined the expected final products and results (in the form of draft organizational charts). However, some of the assumptions on which the exercise had been based did not materialize particularly the expected significant increase

⁵ Report No. AR/19/11 – Audit of WFP Operations in Pakistan – June 2019.



in the Government's capacity to manage direct implementation of food assistance programmes. Despite the Government maintaining its role as the lead responder in emergencies, it continued to need support from WFP and other partners to address relief food requirements. As a result, the CO had to retain or extend staff contracts whose positions had initially been abolished to ensure continuity under increasing operational demands.

48. The SSR did not include a skills audit nor a learning needs assessment. A formalized and detailed assessment of skills needed for programme implementation, and of the gaps within the CO that could affect the achievement of the ICSP objectives, was initiated at the time of the audit. To this end, the CO developed terms of reference (TOR) and was recruiting a consultant to assist with a staffing budget and review the CO's organizational structures, workforce composition and to help identify skills and other gaps. A review of the CO's structure and workforce was underway, focusing on the five-year CSP commencing in June 2020.

Underlying cause(s): The SSR was mainly driven by funding issues and took longer than expected; the need for WFP to play its assigned and expected role in humanitarian response diverted attention from several strategic and other HR management aspects such as learning and development; and lack of corporate visibility and oversight of COs undergoing organizational reviews.

Agreed Actions [Medium priority]

The CO will:

- a) Finalize the staffing budget process considering the CO's operational requirements; and
- b) Ensure that related aspects of HR management (such as learning and development, and maintenance of files and data) are included in the staffing budgeting exercise.

Timeline for implementation

30 June 2020



B: Delivery

49. The audit performed tests and reviews of key aspects of programme implementation, including beneficiary targeting and management, CP management and reporting, and programme monitoring. During the audit period, the CO faced several challenges, such as weak capacity of its partners (including government entities at the regional and federal levels); security and access restrictions; and funding reductions, which negatively impacted programme delivery. At the time of the audit, the CO was working on various initiatives to address the identified weaknesses.

Observation 3: Selection of and agreements with cooperating partners

50. For cases prior to October 2018, no documentation was provided to the audit to support the selection of CPs as part of the CO's risk management processes. There were delays in signing FLAs and in recording the related commitments (creation of purchase orders) in WINGS, WFP's Enterprise Resource Planning system. RBN had identified some of these issues through a programme oversight mission in September 2018 and some improvements were noted in a recent follow-up mission carried out in June 2019.

51. To address the weaknesses and mitigate the risks, the CO had established a CP committee (CPC) in October 2018 and revised its composition in February 2019. The CO also prepared a draft standard operating procedure (SOP) for CP and FLA management. Although the SOP was in line with the corporate NGO partnership guidance, it needed further tailoring to adapt to the context of the Ethiopia CO considering: (a) the definition of the roles of sub-offices and technical teams in the process; and (b) specific aspects related to the engagement with government entities (refer to observation 1). Further procedures, in line with corporate guidance, were needed to identify CPs to implement the CSP (in terms of profiles, experience, operational coverage), in addition to the existing policy on scoping and mapping partners under the ICSP.

52. At the time of the audit, the CO was recruiting a Partnership and Budget Management Officer to lead the Programme Operations team (tasked with FLA management among other responsibilities). The incumbent would report to the Deputy Head of Programme, who (due to the CO's inability to fill the post during two consecutive reassignment rounds) was also under recruitment. A Partnership, Planning and Reporting (PPR) team within the Operations team had also recently been established. The TOR of both the Head of Operations and members of the PPR needed to be revised and aligned with the SOPs to ensure consistency in the application of procedures.

Underlying cause(s): Lack of corporate guidelines on partnerships with government entities implementing WFP activities; as a result of staff reductions arising from the SSR, the CO focused on programme delivery and de-prioritization of risk management; and limited resources and skills for CP management and related risks.

Agreed Actions [Medium priority]

The CO will:

- a) With support from RBN, finalize and implement the SOP on FLA and CP management, incorporating capacity assessment aspects and maintaining an adequate audit trail of all decisions related to CPs, from their selection to their performance evaluation;
- b) Disseminate the new CP and FLA management procedures to sub-office staff and partners, and reinforce understanding through targeted communications and periodic meetings; and
- c) Align the TOR of the head of operations, members of the Operations and PPR teams with the SOP on CP and FLA management and ensure adequate segregation of duties.

Timeline for implementation

31 March 2020



Observation 4: Weaknesses in cooperating partners reporting and payments

53. The audit noted significant weaknesses related to reports received from partners (including NGOs and government entities) ranging from delays in receiving project implementation reports to lack of internal procedures to monitor compliance with reporting requirements and to reconcile and obtain assurance on the completeness and integrity of reported information. This impacted the visibility and assurance on delivery of food and cash assistance to intended beneficiaries.

CBT reports

54. The CO did not have adequate and sufficient procedures in place to ensure compliance with the reporting requirements agreed with partners for implementation of CBT as part of the support to the government's Productive Safety Net Program (PSNP), including the opening of dedicated bank accounts for the purpose of managing specific transfers from WFP, obtaining periodic bank statements and cash utilization reports to allow regular reconciliation of balances. Despite specific reporting requirements included in the Memorandum of Understanding (MOU) with the Government, reports from partners did not provide some basic information such as cash received from WFP; distributions to beneficiaries; outstanding balances; and transaction dates and other details.

55. As a mitigation measure, and in line with the agreement signed between the Government of Ethiopia and all UN agencies and donors, the CO relied on interim unaudited PSNP financial reports issued by the Ministry of Finance to the World Bank. The reports covering the multi-donor trust fund of the PSNP did not allow detailed tracking of funds related to the CO's CBT operations in support of the programme. The issues with CBT reports for the PSNP project and the associated risks were exacerbated by the structure of the various government entities involved in downstream implementation.

Food utilization reports

56. There were some delays in obtaining food distribution reports from some partners (mainly government entities). The quality and reliability of many reports were low. For example, partners for relief activities reported achievements of 100 percent, 101 percent or 106 percent (actual distributions versus planned) consistently throughout the audit period. The CO did not have procedures in place to crosscheck and verify all the information reported. Some partners dated their reports using the Ethiopian calendar, without reference to the equivalent international date. This made it difficult to validate the information against internal records.

57. The structure of government partners (from central, regional to district levels) caused further challenges to CP reporting. The government entities sub-offices reported to their regional offices who would then, in turn, compile reports and aggregate the information to be reported to WFP and other partners. The process limited WFP sub-offices' visibility over partner reporting and made it difficult for the CO to perform detailed and timely reviews of consolidated information at regional and central levels, and to assess the adequacy of the reports.

Payments to partners

58. In addition to the issue of advances to government partners in observation 1, the audit noted that the weaknesses in the CP reporting process limited the effectiveness of the internal controls for payments to partners. The CO indicated that the programme and finance units were working on an SOP for payments to partners.

Underlying cause(s): Lack of corporate guidelines on partnerships with government entities implementing WFP activities – see agreed action (a) in observation 1; lack of internal procedures and capacity in the CO to monitor and analyse information reported by CPs; and the CO's inability to fully enforce reporting requirements agreed with government partners.



Agreed Actions [High priority]

The CO will:

- a) Finalize the SOP on payments to partners, in alignment with the SOP on FLA and CP management (agreed action (a) under observation 3). This SOP should ensure that: (i) reports from CPs are received in a timely manner and are shared with relevant CO units for verification; and (ii) the information reported therein is analysed and crosschecked against other sources of information prior to making payments or liquidating advances; and
- b) Agree with partners, and systematically document, measures to enforce clauses in the agreements related to periodic reporting.

Timeline for implementation

- a) 31 March 2020
- b) 30 June 2020

Observation 5: Design and operationalization of programme monitoring

59. The ICSP was supported by a comprehensive Monitoring, Evaluation and Learning (MEAL) plan, developed in 2018 and launched in February 2019 (the ICSP was launched in January 2019). The programme monitoring SOP dated April 2016 was not updated and did not include: (a) corporate minimum monitoring requirements (MMR) updated in March 2018; and (b) requirements and indicators for each ICSP activity.

60. Nine months into the ICSP, baselines and targets were still being developed for some indicators. Outcome mid-year data were not collated for various indicators due to delays in distribution, lack of community household survey results, and pending reports from CPs. This constrained the CO's ability to monitor its activities and to systematically gather data from various operations in the field. Lack of baselines will eventually challenge the assessment of outcomes and results. In their review of the ICSP, donors commented that the CO should strengthen its programme monitoring to enhance accountability and provide evidence on the impact of assistance.

61. Process monitoring was decentralized across the sub-offices where various ICSP activities were implemented. In one sub-office visited by the audit, field monitoring assistants (FMAs) for one activity were recruited and supervised by a government CP acting as the implementing partner. Monitoring coverage at final distribution points (FDPs) was not in line with the monitoring plan. As reported in the CO's monitoring tool (ONA), actual coverage in some sub-offices was below the target. The audit noted monitoring coverage below 20 percent of the planned FDPs in certain sub-offices for several months. Due to connectivity challenges in the field, data were not regularly uploaded into ONA. Data were not regularly analysed at the CO level to identify monitoring gaps and establish action plans to address inadequate coverage.

62. In the monthly situation reports prepared by sub-offices, programme monitoring issues across various ICSP activities were reported to the CO and discussed in weekly operations meetings. The current process for recording and following-up on action points (captured in meeting notes) needed to be strengthened.

63. The CO performed weekly reconciliations of the Country Office Tool for Managing (programme operations) Effectively (COMET) distribution data and CP reports across activities. However, there were delays in the review and validation of data entered into COMET from the CP reports.

64. As agreed with a main donor, the CO was deploying an additional 147 FMAs in the Somali region through an outsourced recruitment company. The company experienced delays in recruiting and deploying the additional FMAs for various reasons, mainly the lack of qualified candidates and WFP's request for a minimum of 30 percent female monitors. Due to these challenges, as of 30 September 2019, only 35 FMAs (24 percent) had been deployed compared to the initial plan of 50 percent by the end of August. The CO had sourced the necessary equipment for the monitoring activities (e.g. tablets and motorbikes) but these had yet to be distributed. In the interim, the new FMAs were using cell phones and paper-based checklists. This reduced visibility of monitoring results and led to challenges in consolidating data. The project was supervised and coordinated by the Head of Programme in the Somali region area office and the CO's Monitoring, Evaluation and Learning unit.

65. The CO piloted a Complaints and Feedback Mechanism (CFM) hotline in four locations within the Somali region following a CFM needs assessment in September 2017. In the months of July and August 2019, 74 percent and 80 percent, respectively, of the complaints received were pending resolution. According to the CO, this was mainly due to challenges in recruiting a CFM

manager and misunderstandings about when to close complaints. As reported by the CO in November 2019, 10 percent of complaints were pending resolution. An international CFM manager was to be onboarded in November 2019.

Underlying cause(s): Connectivity challenges in the field had led to irregular uploading of data into ONA.; the M&E team was not fully resourced; the CO had difficulty filling the position for the head of M&E and Vulnerability Assessment Mapping (VAM) unit through the regular reassignment process and had to recruit an external candidate; delays in aligning M&E activities and procedures with corporate framework; data limitations and challenges of annualizing some indicators in ICSP; limited number of field monitors in some regions; Inadequate coordination between sub-offices and CO affecting monitoring activities as FMAs became involved in other tasks; delays in contracting the FMA recruitment company; and feedback on complaints escalated/referred to focal points or partners concerned not forthcoming.

Agreed Actions [High priority]

The CO will:

- a) Finalize the M&E Strategy to support implementation of ICSP and CSP objectives;
- b) Update M&E SOPs to include the current corporate MMR and specific requirements of ICSP activities;
- c) Finalize baselines and targets for all indicators;
- d) Resolve connectivity challenges and analyse ONA data and trends more frequently to identify gaps and outliers and establish an action plan to address monitoring coverage issues;
- e) Assess additional review and validation procedures for CP data prior to data entry into COMET;
- f) In coordination with the outsourced company, continue to regularly track and monitor the recruitment status of FMAs to facilitate communication with stakeholders; and
- g) Finalize the draft CFM SOPs incorporating escalation criteria and protocols to relevant CO units depending on the nature of complaints and close tracking of complaints received.

Timeline for implementation

- a) 30 April 2020
- b) to f) 31 March 2020
- g) 31 December 2020

Observation 6: SCOPE and beneficiary lists

66. The CO has access to various beneficiary lists through its partners and has a process to verify the general food distribution (GFD) beneficiaries as part of its process monitoring. However, the CO only received consolidated beneficiary numbers from CPs and there was no systematic baseline analysis of beneficiary numbers to verify fluctuations during the year and to validate the number of beneficiaries reported by CPs in distribution reports. According to the CO, WFP has been providing financial and technical support to its government partners in the Somali and Oromia regions to establish master beneficiary lists for relief activities (general food distributions). The lack of detailed information affected downstream financial (for example, liquidation of advances to government CPs) and operational reporting.

67. The audit found that insufficient checks were carried out to: (a) validate whether the consolidation process of beneficiary numbers by government CPs at the regional levels ensured accuracy and completeness of beneficiary numbers; and (b) measure recovery and eventual graduation of beneficiaries under nutrition activities (specifically for first generation targeted supplementary feeding beneficiaries).

68. SCOPE had been implemented to a limited extent in recent years. At the time of the audit, a SCOPE scale-up strategy was being finalized, prioritizing targeted activities with a phased approach. To ensure successful implementation, the CO aimed to prioritize:

- Government buy-in as critical in rolling out the SCOPE strategy while considering the existing beneficiary registration systems being used in the major programme activities. Complementarity and enhancing the functionalities of current systems needed to be reinforced;
- a comprehensive approach to fund and sustain the scale-up strategy;
- updating the original roadmap and timeline taking into account the delays in various implementation activities;
- updating the risk register and risk management section to include emerging risks and lessons learned from the pilot project as discussed in paragraph 73;



- interface of the Mobile Data Collection and Analysis, WFP's corporate monitoring tool, with ONA, the CO's current monitoring tool.

69. In line with the first phase, an agreement was signed between WFP and the Somali Regional Government to scale-up registration of relief beneficiaries totalling 1.85 million in SCOPE. The audit noted that the roll-out of the agreement was ambitious with regard to the agreed timeframe. The government CP was already experiencing delays in recruiting enumerators to support the registration process. Considering that WFP was supposed to provide financial support for this activity, financial management and operational arrangements had yet to be agreed with the CP before advance payments should be made.

Underlying cause(s): Constraints in accessing government CP records of beneficiary lists in the past; multi-level reporting structure of government CPs; SCOPE implementation was not a priority in the past; funding constraints to fully implement the scale-up strategy; weak government capacity to support implementation of the strategy.

Agreed Actions [Medium priority]

The CO will:

- a) Review procedures to systematically obtain beneficiary information from the various sources that will help in analysing future distribution planning, beneficiary statistics and inform programme decisions;
- b) Review and revise the SCOPE strategy to articulate realistic timeframes and a feasible and sustainable implementation plan aligned to the government's priorities;
- c) Carry out a gap assessment of capacity, hardware, software and planning prior to rolling out the SCOPE implementation plan and revise the implementation plan with a defined and reduced scope similar to the phase 1 approach and with greater involvement of the CO IT unit;
- d) Integrate a comprehensive funding approach for the SCOPE scale-up strategy which supports the strengthening of government systems through technical support;
- e) Evaluate the effectiveness of ONA as the CO monitoring tool and how it can support ICSP and CSP programme monitoring requirements; and
- f) Update the following sections of the SCOPE strategy: implementation roadmap, timeline, risk register and risk management.

Timeline for implementation

a) to e) and f) 31 March 2020

e) 30 June 2020



C: Support functions

70. The audit reviewed CO activities related to CBT operations including governance and delivery; transport and logistics, particularly the implementation of the Last Mile solution; and service provision to the Government of Ethiopia for the purchase and delivery of 200,000 tons of wheat to support the government's food assistance programmes.

71. In collaboration with government partners, the supply chain unit was working on a draft strategic plan to define the location of logistics hubs and re-position the CO in the operational context of the country. The structure of the supply chain will drive part of WFP's staffing requirements and field presence. The CO has also rolled out GEMS Mobile, a new mobile application to simplify the physical inventory of assets. This facilitated the clean-up of the asset database and initiated asset disposal activities in coordination with the headquarters Asset Management Unit. Further, the programme unit had developed a nutrition-sensitive strategy in preparation for the country strategic plan which will integrate nutrition sensitive approaches across strategic outcomes and associated activities.

72. During the audit period, RBN carried out oversight and support missions on programme, including nutrition activities, finance, logistics, and administration which identified areas for improvement. The ICT function was also audited in 2018. At the request of the CO, the Global Commodity Management Facility (GCMF) team from headquarters carried out a planning mission with the aim of addressing governance and pipeline issues; existing gaps between demand planning, sourcing and delivery strategies; and funding.

Observation 7: Cash-based transfer operations

73. The CO used CBT as a transfer modality to support various activities in its ICSP, including support to vulnerable populations and refugees, nutrition and resilience activities. In addition, the CO supported a pilot initiative to integrate responses under the Government's Humanitarian Response Plan (HRP) and PSNP, using cash as the transfer modality (the "cash pilot"). The CO's lessons learned from the "cash pilot" were reported to donors and stakeholders by the CO through periodic reports. These indicated the need to strengthen government systems, including timely bi-annual assessments; client targeting and registration; and performance review and coordination across government ministries including at federal and regional levels. However, the audit noted the following gaps in governance, risk management and internal controls:

Governance and implementation models

74. A key aspect of the "cash pilot" was to ascertain the readiness of the Government's system to integrate the HRP and PSNP. Capacity gaps and needs assessments in the structures and partners involved in the support to PSNP (including the Ministry of Agriculture, Ministry of Finance and the NDRMC) were carried out and became a central learning pillar. Based on these lessons, which were shared with donors and partners, the CO implemented CBTs for relief beneficiaries through PSNP structures in the Oromia and Somali regions. The Government and development partners supporting the PSNP (including WFP) conducted Joint Review and Implementation Support missions twice a year and identified implementation bottlenecks, including capacity gaps at kebele, woreda, region and Federal levels. In 2019, WFP trained more than 200 government staff on the different skills at different levels in the Afar and Somali regions.

75. The CO's Cash Working Group met on an ad hoc basis to discuss and resolve operational challenges and opportunities. No evidence was found of strategic discussions on such challenges as: (a) the capacity of relevant partners to manage the funds centrally and transfer these to regional and local levels; (b) poor quality of reporting; (c) lack of enforcement of reporting requirements; and (d) limited monitoring of outstanding advances and distributions. A recent report on Ethiopia's Federal Contingency Budget utilization (prepared on behalf of the World Bank) highlighted some of the challenges faced by the PSNP, especially with regards to delays in transferring funds through government structures from the central level to the regional and woreda levels. At the WFP corporate level, there was no framework for CBT planning and implementation activities through government partners.

Risk management and internal controls

76. Minimum assurances required to mitigate risks related to the implementation of CBT with government partners were not defined corporately. Basic financial management practices had not been followed, such as the use of dedicated bank accounts at the Ministry of Finance to manage the downstream flow of funds; requesting copies of bank statements supporting detailed financial reports; and regular reconciliations. Some specific requirements included in the signed MOU with the Government were not sufficiently enforced to mitigate the risks, particularly those supporting the traceability of funds throughout implementation.



Unspent donor contributions

77. Due to the reliance on the Government's system, the CO was facing challenges in using the unspent balance of a contribution amounting to USD 18 million. At the time of the audit, USD 10.6 million (of the USD 18 million total) remained unspent, including USD 6.1 million already transferred to the CP, but not yet distributed to beneficiaries. At the time of the audit, the remaining balance of USD 4.5 million had yet to be disbursed to the Government, using an updated plan of operations developed by the CO signed with the Somali regional Government. The goal was to distribute the remaining USD 4.5 million in the last quarter of 2019. In the absence of adequate reports, bank statements and reconciliations from the government partner on the status of the initial USD 6.1 million advance, the risk of ineffective implementation of this CBT operation including misappropriation, remained high considering that no changes to the current operational model and conditions, nor additional conditionalities, were included in the new plan of operations. The audit raised concerns that the additional funds would be distributed without adequate assurance on the use of the initial transfer.

Payments and expense recognition

78. Documents and reports supporting liquidation of advances and payments to partners of CBT activities under the PSNP were accepted by WFP and all other members of the PSNP Donor Working Group. The audit found that this commonly accepted document was deficient for the same reasons noted under other CP payments applied (refer to observation 4). Delays in receiving and processing distribution reports from partners resulted in delayed expense recognitions, compounded by the poor quality of the reports issued by government partners. In view of the evidence available it is uncertain that the cash was actually distributed to beneficiaries.

79. The audit further noted that the distribution reports used by the CO to clear the advances amounting to USD 12.5 million did not provide basic details such as the dates, reporting period, and balances in USD properly reconciled to a bank statement (refer to Observation 4).

Underlying cause(s): The CO implements a significant portion of CBT through government partnerships, but the capacity of these partners was generally weak; lack of corporate guidelines on implementation of CBT through government partners or programmes; and lack of procedures at CO level to enforce implementation and reporting requirements agreed with government partners.

Agreed Actions [High priority]

The CO will:

- a) Carry out updated cash feasibility studies with government partners implementing CBT activities;
- b) Review options for integration of beneficiary management and CBT distribution for efficiency, effectiveness, transparency and accountability;
- c) With the Government, other partners and donors jointly review the conditions under which CBT operations are to be implemented in the CSP, including: conditions on good financial management; use of funds; transparent and regular reporting; periodic reconciliations; detailed distribution reports; and options for increased digitization and accountability modalities across the CBT portfolio;
- d) Further strengthen procedures to ensure that there is regular monitoring of advances and that advances are only cleared on receipt of satisfactory distribution reports; and
- e) Revise the TOR of the internal CBT working group to include substantive review of the current operational models and ongoing monitoring of PSNP or other CBT operations implemented with government partners.

Timeline for implementation

- a), b) and c) 30 June 2020
- d) and e) 31 March 2020



Observation 8: Commodity management, including last mile solution and unconfirmed receipts

80. The Logistics execution support system (LESS) allows for tracking, monitoring and management of all WFP commodities online and in real-time, along the supply chain down to the batch number. However, confirmation of deliveries at FDPs and CP warehouses which are outside of WFP's network and operational grid remained a challenge. As of September 2019, deliveries of commodities amounting to 24,508 tons (with a cost of approximately USD 15 million) were pending confirmation receipts from CPs, potentially due to connectivity, access and security issues. The aging of the pending, unconfirmed deliveries ranged between 1 and 270 days: 20,888 tons (of 24,508 tonnes) were within 60 days and the balance of 3,625 tons (or 10 percent of monthly food deliveries) aged more than 60 days.

81. Confirmation of deliveries is a requirement for payment of transporter invoices. Significant delays in the transporters' submission of confirmed delivery waybills to the CO gave rise to concerns about potential delivery issues (for example, late delivery affecting food quality, or non-delivery). To mitigate these risks, the CO started labelling boxes/bags with information about the specific waybill and destination when commodities were loaded onto trucks at WFP warehouses.

82. The Last Mile solution, which introduces Quick Response (QR) codes on WFP-printed waybills to be scanned using a mobile application, aims to close the loop by streamlining the delivery confirmation process at CP warehouses or FDPs without any manual data entry. At the time of the audit, the CO was piloting the solution in the Somali region and was facing technical issues around internet connectivity on-site and training of CP staff to use the last mile platform to confirm waybill receipts. The roll-out depended on the FMAs currently being recruited to augment monitoring team capacity. While additional FMAs may be useful in the short term, there may be long-term funding challenges with the use of FMAs.

83. The CO needed to enhance the assessment of CP's logistics capacity. Storage practices at loading and offloading zones for the targeted supplementary feeding programme (TSFP) commodities that were delivered from CP warehouses and later transferred to FDPs were not up to standard in some locations with potential implications for the safety and quality of the commodities.

Underlying cause(s): Challenges of getting reliable transporters in some regions; access and security challenges affecting delivery; lack of internet connectivity and infrastructure at FDPs; and high turnover of CP staff making it difficult to rely on government counterparts for implementation of the last mile solution.

Agreed Actions [Medium priority]

The CO will:

- a) Fully implement the Last Mile solution, mitigating delays in receiving delivery confirmations from transporters and government partners; and
- b) Map out storage and offloading locations, particularly TSFP-related commodities (supporting the Ministry of Health), to help build partner capacity where needed and to mitigate potential risks to food safety and quality.

Timeline for implementation

- a) 31 December 2020
- b) 30 June 2020

Observation 9: Service provision

84. The CO supported the Government through the provision of supply chain services to purchase and deliver 200,000 tons of wheat under a service level agreement (SLA). The SLA entailed a transaction amounting to USD 71.9 million, inclusive of USD 1.3 million (or 1.5 percent) as WFP management cost recovery (MCR). The audit noted the following issues with regards to this activity:

Determination of MCR:

85. The criteria for cost analyses to determine the MCR amounting to USD 1.3 million were unclear. While the CO recovered the estimated costs for the service (USD 280,000), the procedure and basis for the calculation of the costs and MCR were unclear.

Corporate guidelines on service provision:



86. Guidelines on service provision were not corporately defined. The Integrated Roadmap (IRM) team in headquarters was working with business units to replace the interim guidelines with a final food service provision solution and was planning to have the system ready by November 2019.

87. Due to the lack of corporate guidelines and procedures, the service was accounted for as a contribution to the ICSP and recorded as a grant in the WINGS Grants Management module. The implication of this accounting treatment was that it required manual adjustment to the WFP regular financial information and reports. It also overestimated the ICSP budget and provided a distorted view of the CO's funding levels, as the related funds were meant for the payment of the related service and were not utilized to serve WFP's direct beneficiaries. In the absence of corporate solutions regarding accounting for commodities under service provision agreements, the commodities purchased through the SLA were recorded in LESS, also potentially distorting the CO's inventories.

88. The BR memo issued to incorporate the transaction into the ICSP included the standard Indirect Support Costs (ISC) of 6.5 percent (USD 4.6 million) in addition to the MCR referred to above. This was not aligned to the SLA and further distorted the ICSP budget in WINGS, as the ISC remained in WINGS as an un-resourced budget item. This was the result of lack of flexible corporate budget templates to incorporate service provision or other activities with differential ISC rates. At the time of the audit, an amendment to the BR memo had been drafted and was pending approval.

Underlying cause(s): IRM guidance has not addressed service delivery models; and lack of flexible models to engage in this type of activities.

Agreed Actions [Medium priority]

IRM in coordination with CPP will:

- a) Finalize guidelines on service delivery;
- b) Define criteria for cost estimation and analysis under service provision; and
- c) Revise the budget templates to ensure that service provision and other activities with differential ISC rates can be adequately managed and accounted for.

Timeline for implementation

31 March 2020



D: External relations, partnership & advocacy

89. The audit reviewed the activities related to donor management and the mechanisms in place to monitor fund implementation and to report on programme implementation to donors. At the time of the audit, the CO had established monthly tracking of confirmed donor contribution forecasts that were discussed in monthly resource management meetings. The Country Office convened monthly meetings with all donors to discuss programme implementation and operational challenges. In addition to these meetings, bilateral meetings were convened with donors who required additional details.

Observation 10: Donor management, fund implementation and reporting

90. Donor management and relations, including reporting, are critical components of CO operations, also because of donors' increasing accountability requirements. While an upward trend in donor funding was noted during the audit period⁶, delays in the receipt of donor contributions impacted the CO operations.

91. Two donors interviewed by the audit expressed the need for more transparency in the reporting on programme implementation activities, particularly on programme monitoring and commodity management issues, with an increased level of accountability especially for activities involving government agencies as WFP's CPs. According to the CO, this is a systemic issue affecting all of the Government's operational partners. The CO's ongoing initiatives, which aim to increase the level of donor engagement through regular meetings and updates, did not yet fully meet expectations as confirmed through the audit team's meetings with the two donors.

92. Additional concerns raised in these two interviews were: (a) delays in finalizing FLAs with NGOs and WFP procedures for finalizing MOUs with the Government, which were delaying programme delivery; (b) delays in utilizing donor contributions for PSNP activities (as explained in observation 7); (c) WFP's corporate-level lack of flexibility in satisfying donor's new financial reporting requirements; and (d) insufficient engagement with some donors in programme implementation activities.

93. The donors relied on WFP's risk management and control systems for implementation of their funded activities, particularly implementation of CBT through an existing government programme. Factors and risks beyond WFP's control point however to the need to: (a) establish a corporate risk appetite and a risk-sharing arrangement with the donors for engaging government entities (implications and agreed actions discussed in observation 1); and (b) regularly discuss project implementation risks and challenges with donors.

Underlying cause(s): Weaknesses in programme monitoring not fully informing operational reports and periodic updates to donors (see observation 5); gaps in FLA and MoU processes (see observation 3); delays in donor funding impacting finalization of FLAs; weaknesses related to monitoring of donor contributions, exacerbated by capacity weaknesses of government counterparts; and increased donor-specific reporting requirements at country level.

Agreed Actions [Medium priority]

The CO will expand and intensify its ongoing efforts to reduce delays in receipt of donor contributions and provide relevant and timely strategic, programmatic, and operational information to all donors.

Timeline for implementation

31 March 2020

⁶ Contributions from the CO's 18 donors amounted to USD 422 million over the audit period.

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: | | | | Implementation lead | Due date(s) |
|--|--|---|-----------------------|----------|--|-------------|
| | WFP's Internal Audit Universe | WFP's Governance, Risk & Control logic: | | | | |
| | | Risks (ERM) | Processes (GRC) | | | |
| 1 Partnerships with government entities for implementation of activities | Host government relations | Business model risks | Partner management | HQ CO | a) 31 July 2020 b) 30 June 2020 | |
| 4 Weaknesses in cooperating partner reporting and payments | Activity/project management | Programme risks | Partner management | CO | a) 31 March 2020 b) 30 June 2020 | |
| 5 Design and operationalization of programme monitoring | Monitoring & evaluation | Programme risks | Assessments | CO | a) 30 April 2020 b) to f) 31 Mar 2020 g) 31 Dec 2020 | |
| 7 Cash-based transfer operations | CBT | Business model risks | Intervention planning | CO | a) and b) 30 June 2020 c) and d) 31 Mar 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) | | | |
| 2 Organizational structure | Human resources management | Governance & oversight risks | Human resources | CO | 30 June 2020 | |
| 3 Selection of and agreements with cooperating partners | NGO partnerships | Partner and vendor risks | Partner management | CO | 31 March 2020 | |
| 6 SCOPE and beneficiary lists | Beneficiary management | Programme risks | Beneficiaries management | CO | a) to d) and f) 31 March 2020 e) 30 June 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) | | | |
| 8 | Commodity management, including last mile solution and unconfirmed receipts | Commodity management | Business process risks | Warehousing | CO | a) 31 Dec 2020 b) 30 June 2020 |
| 9 | Service provision | Service provision & platform activities | Business model risks | Service delivery | HQ | 31 March 2020 |
| 10 | Donor management, fund implementation and reporting | Contributions & donor funding management | External relationship risks | Resource mobilization and Partnerships | CO | 31 March 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.⁷

⁷ 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 universe⁸ 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 Policy⁹, 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 as introduced¹⁰ 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

⁸ 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.

⁹ WFP/EB.2/2018/5-C

¹⁰ As per 1 January 2019, subsequent changes may not be reflected in 2019 audit reports.

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

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| CBT | Cash-based Transfers |
| CFM | Complaints and Feedback Mechanism |
| CO | Country Office |
| COMET | Country Office Tool for Managing (programme operations) Effectively |
| CP | Cooperating Partner |
| CPC | Cooperating Partner Committee |
| CSP | Country Strategic Plan |
| FDP | Final Distribution Point |
| FLA | Field Level Agreement |
| FMA | Field Monitoring Assistant |
| GCMF | WFP Global Commodity Management Facility |
| HR | WFP Human Resources Division |
| HRP | Humanitarian Response Plan |
| ICSP | Interim Country Strategic Plan |
| IRM | Integrated Road Map |
| ISC | Indirect Support Cost |
| LEG | WFP Legal Division |
| LESS | Logistics Execution Support System |
| M&E | Monitoring and Evaluation |
| MCR | Management Cost Recovery |
| MEAL | Monitoring, Evaluation and Learning Strategy |
| MMR | Minimum Monthly Requirement |
| MOU | Memorandum of Understanding |
| NGO | Non-governmental Organization |
| OIGA | Office of the Inspector General Internal Audit |
| ONA | Ethiopia country office's monitoring tool |
| PSNP | Government of Ethiopia's Productive Safety Net Program |
| RBN | Regional Bureau in Nairobi |
| SCOPE | WFP's beneficiary information and transfer management platform |
| SLA | Service Level Agreement |
| SO | Strategic Outcome |
| SOP | Standard Operating Procedure |
| SSR | Staffing and Structure Review |



Office of the Inspector General | Office of Internal Audit

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|-------|---|
| TOR | Terms of Reference |
| TSFP | Targeted Supplementary Feeding Programme |
| USD | United States Dollar |
| VAM | Vulnerability Assessment Mapping |
| WFP | World Food Programme |
| WINGS | WFP's Enterprise Resource Planning System |