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Internal Audit of WFP Operations in Myanmar

Office of the Inspector General
Internal Audit Report AR/20/11

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Internal Audit of WFP operations in Myanmar

I. Executive Summary

WFP Myanmar Country Office

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP operations in Myanmar that focused on the period from 1 January to 31 December 2019. The audit team conducted the fieldwork from 3 to 21 February 2020 at the country office premises in Yangon and Naypyidaw, and through visits to selected field offices in Kachin and Rakhine states. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.
2. WFP in Myanmar formulated its 2018-2022 Country Strategic Plan to increase capacity strengthening activities with a view to laying the groundwork for government ownership; however, higher than anticipated needs for relief assistance between 2017 and 2019 compelled the country office to revise its original budget and implementation plan. Expenditures in Myanmar totaled USD 46.6 million in 2019, representing approximately 0.7 percent of WFP's total direct expenses for that year.
3. An escalation of violence in Rakhine in August 2017 led hundreds of thousands of people into forced displacement, prompting WFP to activate a Level 3 emergency in September 2017, which was later downgraded to Level 2 in March 2018. The country office aims to provide assistance to 0.6 million people through crisis response, and to a further 2.3 million through resilience building activities.
4. During the audit period the country office continued to refine its programmatic design by accelerating the transition to cash-based assistance, and by introducing home-grown school meals programmes. At the organizational level, the Country Director and most programmes staff relocated to the nation's capital, Naypyidaw, and some field offices were closed to adjust to operational needs.

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.
6. WFP was, at the time of the audit, one of only two humanitarian organizations with access to conflict-affected areas in Rakhine state and was thus recognized as a leading actor in the humanitarian sector. Despite a challenging operational environment due to ongoing conflict and lack of access in some areas, the country office managed to provide life-saving assistance to over three hundred thousand beneficiaries while continuing to implement resilience activities.
7. The audit report contains five high and three medium priority observations, one of which has agreed actions directed at a corporate level.
8. Over the audit period, the country office implemented changes to its organizational structure. A number of staffing decisions, including nationalization of positions in the finance and supply chain units, were based on strategic shifts which have not always materialized. Some of the rationale for staffing levels were unclear or not sufficiently documented, and put pressure on the coordination mechanisms in place with respect to field offices, and on the country office's capacity to monitor the implementation of new programme modalities. Organizational changes had not been accompanied by a capability mapping exercise to ensure appropriate skills at all levels to achieve the aims of the Country Strategic Plan.
9. The multiplication of delivery modalities, each carrying specific risks, and relying on different processes that need specific capacity and expertise, had not been systematically accompanied by assessments to support informed decision-making and risk mitigation strategies. In particular, operational and counterparty risks associated with cash-based transfers had not all been identified nor consistently addressed. These included a number of segregation of duties issues which exposed the country office to increased fraud risks.
10. Restrictions on assessments continued to inhibit the country office's capacity to conduct vulnerability assessments in-line with WFP's corporate methodology. Beneficiary management processes had not evolved substantially since the last internal

audit in 2015 and required improvement to ensure assistance reached the intended beneficiaries. As such, the risk of not assisting the most vulnerable populations, particularly in Rakhine, remained significant.

11. Operational risks associated with beneficiary management processes and cash-based transfer activities were not mitigated by robust distribution monitoring processes. The country office's visibility of field offices' monitoring plans and coverage of distribution points was limited, while reporting, consolidation and follow-up of monitoring findings were not systematic.

12. Mobile-based transfers were piloted as an innovative delivery mechanism, however associated control activities such as financial reconciliations and segregation of duties were weak and presented opportunities for errors or fraud to go undetected. As part of the home-grown school meals programme, processes for cash transfers to schools presented similar control weaknesses.

Actions agreed

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

14. 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

Myanmar

15. A civilian government was established in early 2016 after decades of military rule. Myanmar is facing complex political and socio-economic challenges which compromise the achievement of the Sustainable Development Goal to end hunger (SDG 2). The country remains one of the least developed nations in the world with an estimated 38 percent of the population living near or below the poverty line. High food insecurity rates are particularly prevalent in isolated zones of Chin, Kachin, Rakhine, Sagaing and Shan states, which are predominantly inhabited by ethnic minorities, as well as in many areas of the Delta and Dry Zone areas which have higher population densities.

16. Ethnic conflicts and violence have left hundreds of thousands of people displaced in Kachin and Shan states since June 2011, and in Rakhine state since August 2012. The attacks on border outposts in October 2016 and August 2017 and ensuing violence forced nearly 700,000 Muslims living in Rakhine state to flee Myanmar and seek refuge in neighbouring Bangladesh, causing a humanitarian crisis.

17. The country's susceptibility to natural disasters has also led to massive displacement and destruction of livelihoods, crops and other food sources. Since 2002 more than 13 million people have been affected by natural disasters. Education remains inadequate at all levels. Seventy-four percent of children who enrol complete primary school, but less than half complete middle school and even fewer progress onward. Girls are more likely to drop out of school at an early age to serve family needs.

18. Despite these and other challenges, Myanmar achieved the Millennium Development Goal of halving hunger by 2015 and reached lower-middle income country status in the past decade. As the second largest country in Southeast Asia, Myanmar continues to be one of the fastest growing economies in the region. Industry and services continue to accelerate with increased foreign investment, rapid expansion of the telecommunications sector, and emerging financial service providers.

19. The remaining challenges to food and nutrition security and achievement of SDG 2 targets include continued population displacements resulting from conflict, vulnerability to extreme weather events, poverty, limited social protection coverage, high malnutrition, and persistent gender inequalities.

WFP operations in Myanmar

20. The country office (CO) is implementing its Country Strategic Plan (CSP) 2018-2022, aiming to continue WFP's direct implementation of programmes while increasing capacity strengthening activities with a view to laying the groundwork for government ownership of food and nutrition security programmes by 2030.

21. Budget revisions in 2018 and 2019 brought the Country Portfolio Budget to USD 425 million over the period 2019-2022, to provide assistance to 2.8 million people. This 77 percent increase from the original CSP budget accounts for higher than anticipated needs for relief activities, particularly in Rakhine state following the events of August 2017, and a shift to hot meals under the school meals programme.

22. The CSP focuses on the following:

Strategic Outcome 1: Crisis-affected people in food-insecure areas meet their food and nutrition needs all year round (activity 1);

Strategic Outcome 2: Vulnerable people in states and regions with high food insecurity and/or malnutrition have access to food all year round (activities 2, 3, 4 and 5); and

Strategic outcome 3: Children under five in Myanmar have improved nutrition in-line with national targets by 2022 (activities 6, 7 and 8).

23. During the audit period, the changes following the 2017 and 2018 structure and staffing reviews were finalized. They included the nationalization of some head of units' positions, a reduction or closure of some field offices, and the contract conversion of national staff. The country office also completed the move of most programmes staff from Yangon to Naypyidaw. The current management team (country director and deputy country directors) took up their duties in 2018 and 2019.

Objective and scope of the audit

24. 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 Myanmar. 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.

25. 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.

26. The scope of the audit, determined through an audit risk assessment, reviewed high and medium-priority rated processes and associated key controls within the areas of governance, programme delivery, resource management, support functions, partnership and advocacy as well as cross-cutting aspects. The audit covered the period from 1 January 2019 to 31 December 2019. Where necessary, transactions and events pertaining to other periods were reviewed. The audit mission was conducted before the unfolding of the COVID-19 pandemic, and did not cover the CO's response to the crisis.

27. The audit fieldwork took place from 3 to 21 February 2020 at the CO premises in Yangon and Naypyidaw and through onsite visits to selected field offices in Sittwe (Rakhine) and Myitkyina (Kachin). The audit team was denied travel authorization to visit the sub-office in Maungdaw, Northern Rakhine.

III. Results of the Audit

Audit work and conclusions

28. 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.

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

30. The Office of Internal Audit, in supporting WFP's 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

31. The CO was on track in mainstreaming gender in programmes and in achieving gender parity within the office. Gender representation in the CO was at 43 percent, a 3.7 percent increase from the 2018 baseline. Gender markers were adequately incorporated in programmatic activities. Participation and inclusion of women as heads of household or in the execution of programme activities was visible at distribution points.

Environmental management

32. In the absence of corporate environmental risk management tools and standards, the CO has taken its own initiative and introduced an environmental screening checklist based upon a draft corporate tool developed in 2018. Screening was performed on asset creation activities since these were the activities deemed most likely to have a potential environmental impact. The CO was also engaging in environmentally responsible and sustainable practices in its facilities and operations, such as power saving initiatives, recycling and reduction of plastic use.

Observations and actions agreed

33. 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

Priority of issues/agreed actions	
A: Governance and structure	
1. Organizational structure and governance	High
2. Risk management activities	High
B: Delivery	
3. Choice of programme modalities and delivery mechanisms	Medium
4. Targeting and beneficiary identification processes	High
5. Monitoring activities	High
6. Accountability to affected populations	Medium
C: Resource management	
No observations	-

¹ See Annex B for definitions of audit terms.

D: Support functions	
7. <i>Cash transfers</i>	<i>High</i>
8. <i>Field security</i>	<i>Medium</i>

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

35. Management has agreed to take measures to address the reported observations². 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.

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

A: Governance and structure

36. The audit performed a review of the CO's organizational structure, and its capacity to respond to emergencies in the context of a disaster-prone country. The CO had undergone a number of structure and staffing review exercises (SSRs) in 2017 and 2018, leading to the nationalization of a number of key positions.

37. Governance in the CO was audited through reviews and testing of the functioning of committees, delegations of authority, risk management activities, and management oversight.

38. A notable change in the audit period was the relocation of the Country Director and all programmes staff from Yangon to the nation's capital Naypyidaw, a move which WFP was one of the first to make amongst UN agencies. The audit reviewed coordination mechanisms between Yangon, Naypyidaw, and the six field offices.

Observation 1: Organizational structure and capacity

39. *Organizational structure* – The CO's current organizational structure is the result of successive annual structure and staffing review exercises conducted in 2017 and 2018. Although recognised as a healthy management practice to ensure continued organizational alignment with the CO's objectives, the audit observed that certain staffing decisions resulting from these exercises may have negatively impacted the capacity of some functional units.

40. The elements taken into consideration for the nationalization of key positions in the finance and supply chain units were based on strategic shifts which have not always materialized, such as the handover of implementation of activities to the government. The rationale for staffing levels of some functional units was not sufficiently supported, for instance security, Cash-based Transfers (CBT), and field monitoring.

41. *Skills and capacity* – In 2019, over half of the staff received an average ten days of formal training. It was noted however, that functional units and the CO as a whole did not have a documented training plan in place. A learning needs analysis mission, conducted in 2018 with support from headquarters (HQ), recommended the CO perform a capability mapping exercise. This was yet to be undertaken as of February 2020. Following the upgrade of several positions, and with national staff having taken more responsibilities following the nationalization of key positions, the need for a skills analysis was noted to be all the more essential.

42. *Oversight and support to field offices* – For a number of functional units, it was noted that tools used by field offices and reporting mechanisms to the CO were not consistent, therefore limiting the CO's ability to exercise consistent oversight over field offices. For instance, Vulnerability Analysis and Mapping (VAM) methodological components and tools were not streamlined, and monitoring processes were also varying significantly between field offices although partly due to context.

Underlying cause(s): New organizational structure and decentralized operational model; strategic shifts driven by the CSP; no defined process to follow-up on oversight recommendations; evolving operational context; lack of consistent tools; diverse operational contexts at the field level.

Agreed Actions [High priority]

The CO will:

- (i) Conduct a capability mapping exercise as a basis to develop training plans for all functional units.
- (ii) Consult with and seek guidance from the Regional Bureau in Bangkok (RBB) to identify functional units for which staffing levels may not be aligned with operational needs and address those misalignments, and consider the need for an organizational realignment exercise.
- (iii) Enforce the use of standard tools and reporting mechanisms from field offices to improve functional support and monitoring.

Timeline for implementation

30 June 2021

Observation 2: Risk management activities

43. *Risks related to CBT* – Corporate guidance requires that CBT operations should be designed following the performance of sectoral assessments; however, the CO had not completed some mandatory assessments for security, IT, and retailer assessment. As a result, the audit noted that several key risks had not been properly considered and documented, nor addressed by appropriate mitigating actions. These included the security risks to which WFP and Cooperating Partner (CP) staff were exposed during cash distributions; fraud risks related to the introduction of mobile based transfers; and an appropriate retail strategy to accompany the shift to full cash entitlements in internally displaced persons (IDP) camps.

44. Overall residual counter-party risks remained significant, either due to lack of assessment or to lack of effective mitigating actions:

- i. The micro-financial assessment undertaken for the mobile operator used in CBT activities recommended a 70 percent performance bond, which could not be obtained in the context of the country. In the absence of a performance bond to cover default risk, the CO had not put in place alternative mitigating measures, as recommended by the Micro Financial Assessment (MIFA).
- ii. Funds advanced to CPs for CBT operations amounted to approximately USD 8.5 million in 2019, without proper due diligence performed to assess associated risk levels.
- iii. CPs were not required systematically to obtain cash-in-transit insurance for cash in envelope operations, and one CP had not opened a dedicated bank account for CBT funds.

45. *Oversight recommendations* – In recent years the CO received a number of support and oversight missions, largely from RBB whose involvement was noted as a positive practice, as well as from HQ units including OIGA.

46. However, despite efforts to follow-up on these reviews, and in the absence of a corporate system allowing feasibility and follow-up on all second line oversight recommendations, the CO did not have a consolidated overview of recommendations which led to gaps in how issues were addressed. The audit identified several weaknesses which had been identified previously, but not systematically acted upon, including segregation of duties.

Underlying cause(s): Lack of mandatory assessments; inconsistent mitigation measures of counterparty risks; no defined process to follow-up on oversight recommendations.

Agreed Actions [High priority]

The CO will:

- (i) In coordination with RBB and HQ, finalize all mandatory CBT sectoral assessments.
- (ii) Identify where necessary alternative mitigating measures to address counterparty risks.
- (iii) Appoint a focal point for the follow-up of implementation of oversight recommendations.
- (iv) Identify, consolidate, prioritize, and periodically review outstanding oversight recommendations.

Timeline for implementation

30 June 2021

B: Delivery

47. The audit reviewed the CO's programmatic activities portfolio, focusing on where assistance is provided, to whom, and how. This included a review of vulnerability assessments and geographical targeting, beneficiary management processes (targeting, registration, and identification), and activities related to accountability to affected populations (AAP). The audit also reviewed monitoring processes, including output monitoring and distribution reports as the basis for payments to CPs.

Observation 3: Choice of programme modalities and delivery mechanisms

48. In 2019, the CO delivered USD 30 million worth of assistance to beneficiaries through different means. In recent years new modalities have been introduced such as a mix of in-kind plus cash assistance; school feeding activities, progressively transitioning from delivery of high energy biscuits to a home-grown meals model; and cash-based transfers increasing to USD 11 million, mostly through cash in envelopes (90 percent), while continuing the pilot of mobile based transfers.

49. The audit noted that the CO sought alignment with socio-economic contexts and stakeholders' expectations, and had conducted analysis following pilot initiatives. However, factors mandated by corporate guidance were not sufficiently documented as highlighted below, and the CO was not able to fully demonstrate how selected transfer modalities (cash or in-kind) and associated delivery mechanisms addressed programmatic objectives.

50. *Cost efficiency* – Analysis conducted by the CO suggested that cash modalities were less cost-efficient than in-kind assistance. However, given the fragmentation of the context and the use of different modalities, the analysis was not sufficiently comprehensive to conclude on this issue.

51. *Effectiveness* – The CO had not consistently evaluated pilot activities to inform programmatic decisions with, for instance, no documented lessons-learned following the mobile-based transfers pilot. Effectiveness of the cash-in-envelopes mechanism was assessed after rolling-out initiatives (cash for oil, rice plus cash) based on limited post-distribution monitoring data prior to scaling-up cash distributions in Rakhine.

52. *Feasibility* – Although training for financial and/or IT literacy was carried out and field support was provided by Camp Management Committees, financial literacy remained a key factor contributing to challenges with mobile-based transfers and the use of cash in general. Interviews and monitoring information showed instances where training and field support were not sufficient for some vulnerable categories such as elders.

53. Consultation with communities showed that there were instances of limited acceptance of some forms of assistance by beneficiaries. The audit noted reports of beneficiaries selling nutrition commodities (wheat soya blend) as these were not adapted to the local context. Likewise, beneficiaries voiced their concerns regarding a full cash entitlement (as opposed to rice plus cash).

Underlying cause(s): Transfer modality selection framework not used; irregular Cash Working Group meetings; limited training and sensitization initiatives; limited follow-up on oversight recommendations from internal audit and RBB.

Agreed Actions [Medium priority]

The CO will:

- (i) Document the rationale for decision-making on the choice of modalities based on corporate guidance.
- (ii) Align CBT strategy with selection analysis.
- (iii) Carry out training to enhance the financial and/or IT literacy of beneficiaries where needed.

Timeline for implementation

30 June 2021

Observation 4: Targeting and beneficiary identification processes

54. *Targeting in Rakhine state* – A needs assessment to identify food-insecure populations is an essential component of programme design to ensure that the most vulnerable are targeted. In Rakhine state, assessments and data collection to inform beneficiary targeting could not be conducted as per WFP standards due to restrictions imposed on the humanitarian community.

55. Consequently, and due to the authorities' concern that helping more populations would be a 'pull factor' to the camps, the CO had to limit its assistance to existing IDPs from the 2011-2012 displacement waves, while excluding host communities and IDPs displaced since 2017. While the CO made continuous efforts to assess the needs of non-assisted populations, the risk of exclusion errors (i.e. the risk of assistance not reaching the most vulnerable populations) remained significant. The audit could not identify how this risk had been shared with the UN Country Team (UNCT) and the strategy for a common approach in-line with the joint principles agreed with United Nations High Commissioner for Refugees (UNHCR)³.

56. *Beneficiary identification controls* – Beneficiaries were identified by means of ration cards only, with limited or no personally identifiable information; there was therefore reliance on a relatively weak control to ensure assistance reached those for whom it was intended. In Rakhine IDP camps, this weakness was exacerbated by fluid and constant movement of beneficiaries who did not have national ID cards. During field visits, the audit observed entitlements being collected by individuals who were not recorded as heads of household or alternates. In areas where beneficiaries did have ID cards, the details of these were not included in distribution lists to strengthen identification controls.

57. *SCOPE implementation* – The CO started implementing WFP's beneficiary information and transfer management platform (SCOPE) in 2016, in support of mobile based transfers, with 3,600 households registered at the time of the audit. Noted as a positive practice, privacy impact assessments were conducted in 2019 in Kachin and Rakhine to inform decision-making on beneficiary data collection.

58. Despite strong engagement at government level, the CO faced resistance from the authorities to deliver on its SCOPE implementation plan, and could not roll out the system in areas other than Kachin. Existing SCOPE functionalities were not leveraged to improve controls over beneficiary management processes, for instance biometrics data collection, or the issuance of SCOPE cards.

Underlying cause(s): Access restrictions; statelessness status for a part of the population and lack of proper identification documents for some IDPs; beneficiary identification activities poorly designed; limited resources.

Agreed Actions [High priority]

The CO will:

- (i) Engage with the UNCT and UNHCR to define a common strategy in-line with the Joint Principles for targeting assistance.
- (ii) Update distribution lists and Standard Operating Procedures (SOPs) to ensure beneficiary identities can be verified, in cases where beneficiaries have ID cards.
- (iii) Review SCOPE implementation plans in view of operational constraints, including by identifying which system controls will enhance beneficiary management processes.

Timeline for implementation

30 June 2021

³ In December 2017, UNHCR and WFP agreed on [Joint Principles](#) for targeting assistance to meet food and other basic needs to persons of concern.

Observation 5: Monitoring activities

59. Distribution monitoring activities are a key component of a CO's portfolio of activities as they provide key information for programme design, while acting as a fraud deterrent. Monitoring processes in Myanmar needed improvement in view of the operational environment:

- i. A monitoring strategy was not in place to guide the coordination and execution of monitoring activities in line with the CSP.
- ii. The number of field monitors in field offices was not aligned to operational needs. In one field office, field monitors dedicated up to 50 percent of their time to direct implementation of relief activities, impacting their availability to perform monitoring tasks.
- iii. Standard operating procedures and tools used for data collection were not standardized across field offices; checklists and questionnaires used for post-distribution monitoring had not all been finalized and uploaded to the online monitoring tool. For some programmatic activities, field offices used manual checklists with data fields which were incomplete to inform programme activities.
- iv. There was a lack of visibility on overall monitoring coverage, such that the audit could not determine how many distribution points had been visited over the audit period.
- v. Tracking and follow-up of monitoring issues were not systematic. Monthly reports from field offices were in differing formats hindering consistency of information flow, and often delayed. At CO-level these reports were not consolidated and the audit could not ascertain whether actions were taken to address the gaps reported.

60. RBB formulated recommendations in May 2019 to strengthen the CO's evidence base to better demonstrate performance against expected results of the CSP. The CO had only started to take action in respect of some recommendations related to monitoring processes.

Underlying cause(s): Lack of continuity in the Head of Monitoring position; lack of strategy for monitoring activities; monitoring processes largely decentralized to field offices; limited implementation of recommendations from the RBB support mission.

Agreed Actions [High priority]

The CO will:

- (i) Reach out to RBB for support missions or temporary support capacity.
- (ii) Revamp its standard operating procedures to ensure consistency across field offices of monitoring plans and coverage, tools, reporting and follow-up mechanisms of monitoring issues.

Timeline for implementation

30 June 2021

Observation 6: Accountability to affected populations

61. *Asset creation activities* – In 2017, WFP recommitted to ensuring AAP through the adoption of the Commitments to AAP. While the CO's asset creation and livelihood activities procedures included feasibility assessments, community consultation and due diligence over land ownership, some of the planned activities had to be cancelled due to insufficient consideration of protection risks in the programmatic design phase.

62. *Complaints and Feedback Mechanisms (CFMs)* – The CO implemented CFMs to enable beneficiaries to raise concerns and report any issues that might affect them or their communities. Existing CFM channels were WFP's email and helpline, and CPs' suggestion and complaints boxes. While the helpline number was clearly displayed in IDP camps and beneficiaries interviewed confirmed awareness and understanding of the tool, it was not toll-free in contradiction with corporate guidance, representing a disincentive to call. Issues noted in monitoring processes for the reporting, consolidation and follow-up of issues were also applicable to the CFM.

63. In one field office, one staff member was in charge of both reviewing CFM cases and managing beneficiary lists, representing a segregation of duties and fraud risk. Complaints reported through CPs were also exposed to similar risks as the same CP staff were providing assistance and reviewing letters from the suggestion box.

Underlying cause(s): Involvement of the protection unit not systematic in project design; lack of an SOP for CFM, including definition of, inter alia, management review processes and required duty segregations.

Agreed Actions [Medium priority]

The CO will:

- (i) Ensure systematic review of projects by the protection unit at the design phase.
- (ii) Implement a toll-free helpline wherever possible.
- (iii) Roll-out a CFM management system.
- (iv) Finalize a CFM escalation protocol.

Timeline for implementation

30 June 2021

C: Resource management

64. As a follow-up to the last internal audit in 2015, the CO treasury management operations were reviewed, including processes for local foreign exchange transactions. A sample of staff advances were also audited.
65. The management of human resources was reviewed insofar as selected procedures informed the work carried out on the organizational structure and staff capacity.
66. The audit noted that the CO's on-demand service delivery activities were not reported under a stand-alone activity in the CSP. This situation should be addressed in the next budget revision.
67. The audit also performed a limited review of the funding situation and compliance with donor conditions.

D: Support functions

68. The audit performed a review of the vendor rosters related to transporters in the CO and sub-offices, and to food and goods and services vendors. A sample of purchase orders was reviewed with a focus on how vendor performance assessment was considered and followed up. Vetting of suppliers against sanction lists and the impact of the independent fact-finding mission carried out by the Human Rights Council were also considered.

69. CBT delivery was tested through a process walk-through, focusing on internal controls in place and appropriateness of segregation of duties. Monthly reconciliation processes were reviewed, and testing was complemented with interviews with CPs and beneficiaries.

70. The audit also reviewed relevant process and documents related to security management including the security incident reporting, follow-up of a 2017 security assessment mission, and key performance indicators developed by the corporate unit.

Observation 7: Cash transfers

71. *Mobile based transfers* – Mobile-based transfers represented just under ten percent of CBT to beneficiaries in 2019, reaching USD 1 million of transfer value. The CO plans an expansion to a larger caseload and the provision of a cash platform as on-demand services to other humanitarian partners.

72. The audit identified gaps in the CO's standard operating procedures. For instance, the financial service provider (FSP) was not sharing beneficiaries' cash collection records with WFP as required by contractual terms, impeding the performance of key reconciliations as well as clarity on cash that should be recovered and actual beneficiary numbers and needs. A few tasks were assigned to positions which had been abolished. Also some controls were missing to reduce the opportunity for fraud; PIN codes were not used and there were no restrictions regarding forwarding of electronic vouchers, both of which increase the possibility that entitlements are redeemed by non-beneficiaries.

73. Segregation of duties issues were noted. The same finance officer was in charge of downloading the payment advice file and uploading the FSP reconciliation report in SCOPE, with both documents in editable Excel format. In one field office beneficiary enrolment in SCOPE and monitoring activities, including over the CFM, were not segregated. In addition, several SCOPE profiles were outdated and the former Head of Finance still had access to approve, download and send a payment list to the FSP.

74. *Cash transfers to schools* – The CO was transitioning to a home-grown school meals model involving cash transfers to parents-teacher associations to reimburse food items and cooking costs. These transfers were inadequately recorded as operational advances to staff. Individual bank statements from schools were not obtained and the CO performed the reconciliation of distributed amounts based on distribution reports only.

75. Segregation of duties issues were also noted in this area. Field monitors were in charge of preparing payment requests to schools before processing by Finance, whilst being also responsible for monitoring these same schools. At the finalization of the report stage, in May 2020, the CO was drafting a new standard operating procedure for cash transfers to schools which should address the above concerns.

Underlying cause(s): Gaps in controls over mobile-based transfers; SOP not aligned with existing structure and processes; lack of skills and skills gap analysis not carried out; new business model for home-grown school meals; roles and responsibilities for school meals programme not established with the Government counterpart; inadequate accountabilities and segregation of duties.

Agreed Actions [High priority]

The CO will:

- (i) Review the mobile based transfers SOP, ensuring alignment with the current structure and strengthening segregation of duties.
- (ii) Obtain necessary documentation to perform adequate reconciliations (from the FSP the list of redeemed vouchers, and from schools bank statements).
- (iii) Review SCOPE profiles to ensure alignment with current roles and responsibilities.
- (iv) Finalize a framework with the relevant line ministry to clarify roles and responsibilities in cash transfers to schools.

- (v) Explore alternative transfer mechanisms to schools other than staff advances.

Timeline for implementation

30 June 2021

Observation 8: Field security

76. A significant caseload of WFP beneficiaries is located in conflict-affected areas with lack of access due to both security considerations and authorities' restrictions.

77. The audit noted a number of compliance issues related to the management of field security processes:

- i. Security incidents were not systematically reported in corporate systems.
- ii. Thirty-five percent of recommendations from a 2017 security assessment mission, commissioned by WFP's corporate security division (SEC), had not been implemented, and 42 percent were indicated as 'no longer applicable', in some cases without adequate justification.
- iii. Mandatory security assessments had not been conducted, in particular in conflict areas where WFP and CP staff were carrying out cash distributions, due to a lack of capacity.

78. While the CO was in discussion with other UN agencies for co-funding an international professional based in Rakhine, there was no immediate plan to increase the CO's capacity to comply with mandatory security requirements.

Underlying cause(s): Lack of capacity due to absence of a security function in the country office; limited audit trail to change status of security recommendations in corporate systems; increasing conflict in some areas of the country.

Agreed Actions [Medium priority]

The CO will:

- (i) In coordination with RBB, reassess the need and resources required for dedicated CO security staff, and expedite the recruitment of the international professional on a cost sharing basis.
- (ii) Review protocols for escalating and reporting security incidents.

SEC will:

- (i) Re-emphasize to regional security officers the need to document the rationale for closing recommendations.

Timeline for implementation

30 June 2021

Annex A – Summary of observations

The following tables show 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.

Categories for aggregation and analysis:						
High priority observations	WFP's Internal Audit Universe	WFP's Governance, Risk & Control logic: Risks (ERM) Processes (GRC)		Implementation lead	Due date(s)	
1	Organizational structure and capacity	Human resources management	Governance & oversight risks	Human resources	CO	30 June 2021
2	Risk management activities	Management oversight	Governance & oversight risks	Risk management	CO	30 June 2021
4	Targeting and beneficiary identification processes	Beneficiary management	Programme risks	Beneficiaries management	CO	30 June 2021
5	Monitoring activities	Monitoring & evaluation	Programme risks	Evaluation	CO	30 June 2021
7	Cash transfers	CBT	Business model risks	CBT service providers	CO	30 June 2021
Categories for aggregation and analysis:						
Medium priority observations	WFP's Internal Audit Universe	WFP's Governance, Risk & Control logic: Risks (ERM) Processes (GRC)		Implementation lead	Due date(s)	
3	Choice of programme modalities and delivery mechanisms	Activity/project management	Programme risks	Intervention planning	CO	30 June 2021
6	Accountability to affected populations	Beneficiary management	Governance & oversight risks	Beneficiaries management	CO	30 June 2021
8	Field security	Security	Governance & oversight risks	Risk management	CO SEC	30 June 2021 30 June 2021

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.⁴

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

⁴ 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.

3 Categorization by WFP's audit universe

WFP's audit universe⁵ 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; Non-governmental organization (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 Policy⁶, and began preparations for the launch of a risk management system (Governance, Risk & Compliance – GRC – system solution).

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

⁵ 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.

⁶ WFP/EB.2/2018/5-C

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

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

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

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

5 Monitoring the implementation of agreed actions

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

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

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

Annex C – Acronyms

AAP	Accountability to Affected Populations
CBT	Cash-based transfers
CFM	Complaints and Feedback Mechanism
CO	County Office
CP	Cooperating Partner
CSP	Country Strategic Plan
ERM	Enterprise Risk Management
FSP	Financial Service Provider
GRC	Governance, Risk & Compliance
HQ	WFP Headquarters
HRM	WFP Human Resources Division
IDP	Internally Displaced Person
MIFA	Micro Financial Assessment
NGO	Non-governmental organization
OIGA	Office of the Inspector General Internal Audit
RBB	Regional Bureau Bangkok
SCOPE	WFP's beneficiary information and transfer management platform
SDG	Sustainable Development Goal
SEC	Security Division
SOP	Standard Operating Procedure
SSR	Staffing and Structure Review
UN	United Nations
UNCT	United Nations Country Team
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children Fund
UNOPS	United Nations Office for Project Services
USD	United States Dollar
VAM	Vulnerability Analysis and Mapping
WFP	World Food Programme