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Internal Audit of WFP's Contributions Management

Office of the Inspector General
Internal Audit Report AR/20/16

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WFP
World Food
Programme

Contents

Internal Audit of WFP's Contributions Management

I. Executive Summary

Objective and scope of the audit

1.   As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP's contributions management, focusing on the period from 1 January 2017 to 31 July 2020. The audit team conducted the fieldwork from 7 September to 7 October 2020. The audit addressed physical access limitations imposed by the COVID-19 pandemic by carrying out analytical procedures and reviews, surveys and conference calls. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

2.   Contributions management – as opposed to funds management, which in WFP encompasses the obligation-to-payment process and aims at optimizing the utilization of available grants – refers to the life cycle management of grant agreements from resource mobilization to reporting.

3.   The audit aimed to give assurance that internal processes and systems:

      a.   timely and correctly reflect the funding available for WFP operations;

      b.   support grant utilization within foreseen delays and in accordance with accounting rules;

      c.   ensure adherence to any other agreement stipulations and earmarking; and

      d.   help WFP managers to effectively report and account for their obligations towards donors and the United Nations (UN) system at large.

4.   Building on the analysis and conclusions of the recent Strategic Evaluation of Funding of WFP's Work and the finding of the previous OIGA audit on the management of donor funding (AR/15/13) that found *"specific requirements (e.g. in reporting) to be increasing, challenging WFP's current processes and systems",* the sample of agreements selected for testing in this audit covered WFP's main donors without being representative of the current funding situation. Aimed at providing assurances about the adequacy of internal systems and processes, the sample was geared towards reflecting the diversity and complexity that WFP encounters when receiving cash and in-kind (commodities and services) contributions in USD as well as other currencies from a broad range of donors, including pass-through and other multi-donor arrangements as well as in consortia with other grant-participating partners.

5.   The audit scope complemented the evaluation's focus on upstream processes and strategy with a review of the downstream management of grant agreements with sample-based tests that covered key controls in the grant life cycle management relating to A: registration, B: programming, C: utilization, D: adjustments, E: reporting and F: monitoring and information management, whereby the latter represented the cross-cutting theme that was covered by this audit.

6.   Controls relating to forecasting and advance financing mechanisms and other funds management aspects, foreign exchange risk management for contributions received, revenue recognition accounting aspects and contributions receivables management were not covered by this assignment.

Audit conclusions and key results

7.   The audit work confirmed that contributions management has improved since the last internal audit, however, many standardization efforts and systems improvements that have been introduced over the last years have focused on a contributions management model which is no longer reflective of the diversity of funding and financing streams, not supportive of the commitments made by WFP and its partners in the ongoing United Nations reform processes and not optimized for the much more diversified programmatic and service offerings of WFP's current portfolio.

8.   Based on the results of the audit, which relied on a limited sample and remote testing, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory / some improvement needed**. The assessed governance arrangements, risk management and controls were generally established and functioning well but needed improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues identified by the audit were unlikely to significantly affect the achievement of the objectives of the audited entity/area. Management action is recommended to ensure that identified risks are adequately mitigated.

9.   The audit noted during field work that assessments based on system information are not fully reliable: additional supporting documentation and explanations are available in offline tracking and email threads and need to be consulted for getting a complete picture of the relevant information. The audit brings to management attention that with the current staffing structures and capacities, and with the available support through processes and systems, managing contributions in adherence to WFP's Rules and Regulations and in-line with grant stipulations needs further improvement to increase efficiency and effectiveness.

10.   The audit concluded that a one-size-fits-all contributions management approach is not adapted to current realities and needs. Different from other UN organizations, which separate development and emergency resources for distinct handling of different types of contributions and who further aligned in the course of UN reform some definitions and data categories, WFP finds itself with an enterprise resource planning system heavily customized to the food aid operating model, with fragmented manuals providing inconsistent guidance to the various stakeholders involved in the contributions management process and with poor access to information that is needed to facilitate the monitoring of grant conditions and information sharing obligations.

11.   The Integrated Roadmap reform process that positioned WFP with assistance across the humanitarian-development-peace nexus did not comprehensively review the contributions management processes and systems. Grants are not considered a master data in WFP's data governance which would facilitate information management and reporting practices. As a result, grant-specific requests from donors result in additional re-processing of information, that is not easily available with the activity- and results-focused reporting logic introduced by the reform.

12.   Addressing the risks that WFP management recognizes in the Corporate Risk Register, the 'failure to adapt to shifts in the funding landscape' and the fiduciary risk of 'breaching donor obligations', with a forward-looking approach requires reviewing the data model and systems support, for which the agreed actions outline a roadmap of short-term fixes and longer-term solutions.

Actions agreed

13.   The audit report contains four medium priority observations, which management has agreed to address 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

Voluntary contributions to WFP

14.   A contribution to WFP is a donation of appropriate commodities, cash and acceptable services in accordance with the general rules made pursuant to WFP's General Regulations. Article XIII of the General Regulations states that all contributions to WFP are made on a voluntary basis. Each donor shall provide cash contributions sufficient to cover the full operational and support costs of its contributions according to WFP's full-cost recovery principle. Contributions are recognized when confirmed in writing by donors.

15.   When the Integrated Roadmap (IRM) change initiative introduced multi-year Country Portfolio Budgets (CPB) and a line of sight, linking resources to results outlined in Country Strategic Plans (CSP), trust funds were integrated into these structures with their needs- and resource-based planning cycles, as any other earlier project vehicles (Emergency Operations (EMOPS), Protracted Relief and Recovery Operation (PRRO), etc.). While all contributions remain to be credited to the WFP Fund, from which the cost of administration and operation of WFP shall be met, the CSPs became the main management and reporting structure. The new financial framework allowed earmarking at country strategic outcome and activity level.

16.   The audit period was marked by growth and diversification of WFP's programmatic and service provisions and of the contributions it received. WFP has grown from a $2 billion income per annum in 2002 to an organization with contributions of over $7 billion since 2018. Operational requirements (needs[1]) have risen at the same time, assessed at over $10 billion per annum since 2018, and now estimated at $12.3 billion. Financially, 2020 is predicted to be a record year for WFP, breaking the $8 billion contribution revenue ceiling. In light of shrinking economies, tight national budgets and reserves, the Executive Director highlighted in his speech at the United Nations General Assembly, that 2021 will be a "make it or break it" year with the outlook for a global hunger crisis caused by conflict and compounded by COVID-19.

Contributions management

17.   Contributions management – as opposed to funds management, which in WFP encompasses the obligation-to-payment process and aims at optimizing the utilization of available grants – refers to the life cycle management of grant agreements from resource mobilization to reporting.

18.   While the responsibility for contributions management and utilization lies with the Country-/ Regional-, or headquarters (HQ) Divisional-Directors, the Partnerships and Advocacy Department (PA) acts as the main donor facing expert for contributions, sets policy directions and oversees the organization's partnerships and resource mobilization activities with governments, UN agencies, International Finance Institutions (IFIs), private sector and other partners. Once confirmed, budgetary control (programming of funds) and financial monitoring and reporting are the responsibilities of the respective divisions in the Resource Management (RM) Department, with Regional Bureaux (RBx) staff in all functional areas tasked with operational oversight and support.

19.   The IRM has brought major changes to funds management under the CPB, introducing new budgetary responsibilities and management practices, all summarized in the *IRM manual*. Recent changes to contributions management, outlined in an up-to-date *'grants management and contributions framework'* manual, stem mostly from internal (AR/12/13 and AR/15/13[2]) and external audit recommendations: improvements comprised system enhancements, for example, for donor intelligence and forecast management; an industry standard Customer Relations Management (CRM) system now complements the Enterprise Resource Planning (ERP) system (WINGS), in which grant registration is a key control, triggering financial transactions. As advised by previous audits, these are exercised by trained partnerships officers in HQ positions.

20.   From a donor perspective, the IRM increased transparency over WFP's management of its financial resources, with the new CSP Data Portal for member states and an enhanced standard reporting through the Annual Country Reports (ACR). WFP is an early implementer of International Public Sector Accounting Standards (IPSAS) and fully compliant with the

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[1] "needs" (as the operational requirements expressed in planning documents and appeals) have been identified as WFP's main driver of funding, and while this resonates in the humanitarian context, rhetoric and management approaches differ from contributions to non-humanitarian contexts, incl. a wide variety of WFP donors and partners.

[2] https://www.wfp.org/audit-inspection-reports.

International Aid Transparency Initiative (IATI)[3]. However, the IRM did not result in further alignment of WFP's contributions framework with other United Nations organizations: WFP's General Regulations continue to define voluntary contributions to WFP to be 'multilateral', 'directed multilateral' or 'bilateral', which need to be mapped to the data standards for United Nations system-wide reporting of financial data[4], just as reporting[5] along the UN or other donors' budget/cost categories for WFP requires additional mapping efforts.

Objective and scope of the audit

21.   The objective of the audit was to provide assurance on the effectiveness of governance, risk management and internal control processes related to WFP's contributions management. Such audits are part of the process of providing an annual and overall assurance statement to the Executive Director on governance, risk management and internal control processes.

22.   The audit aimed to give assurance that internal processes and systems:

      a.   timely and correctly reflect the funding available for WFP operations;

      b.   support grant utilization within foreseen delays and in accordance with accounting rules;

      c.   ensure adherence to any other agreement stipulations and earmarking; and

      d.   help WFP managers to effectively report and account for their obligations towards donors and the UN system at large.

23.   Based on an engagement-specific risk assessment, and with due consideration of the constraints imposed by the COVID-19 pandemic, this audit aimed also to complement on-going projects to simplify the grant management process and an upcoming review of WFP's ERP software, WINGS.

24.   Building on the analysis and conclusion of the recent Strategic Evaluation of Funding of WFP's Work[6] that assessed the quality and results of WFP's efforts between 2014 and 2019 to secure adequate and appropriate funding to contribute towards zero hunger; and found WFP's funding model to be "*risky and not fully suited to the changing funding environment in which it operates*", recommending, among others, that "*WFP should continue to fully explore, implement and invest in strategies for diversifying its sources of funding*", the audit complemented the more strategic, upstream-oriented evaluation with downstream-focused assurance, testing the efficiency and effectiveness of internal processes and systems for contributions management from the moment when contributions are confirmed in writing.

25.   Controls relating to forecasting and advance financing mechanisms and other funds management aspects, foreign exchange risk management for contributions received, revenue recognition accounting aspects and contributions receivables management were not covered by this assignment. The audit performed tests covering key controls in *A: registration*, *B: programming*, *C: utilization*, *D: adjustments*, *E: reporting* and *F: monitoring and information management* (refer to Figure 1).
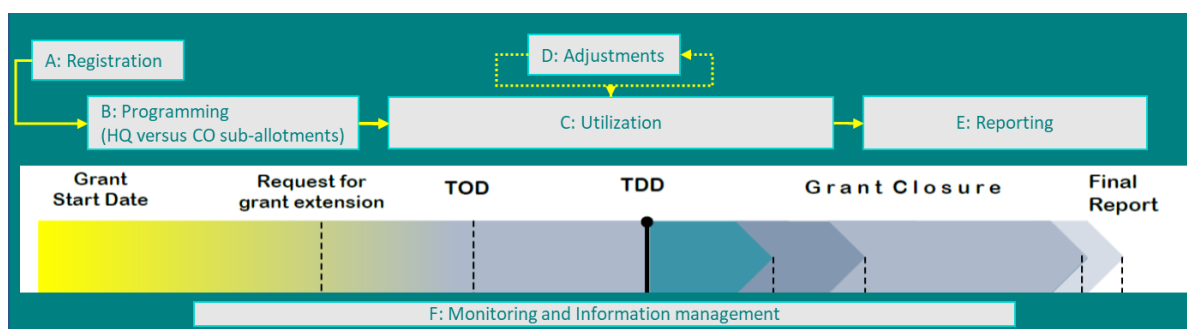

Figure 1: Processes (downstream), in scope of the audit – schematic diagram, not reflective of duration or efforts

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[3] WFP holds a leading role in the IATI summary statistics, achieving a record 99 percent compliance scoring in 2019. http://dashboard.iatistandard.org/publisher/wfp.html
[4] https://unsdg.un.org/resources/data-standards-united-nations-system-wide-reporting-financial-data
[5] WFP Rules and Regulations reiterate that contributions not falling under the standard operating model with full-cost-recovery are only acceptable provided that such contributions do not result in any additional reporting burden to the Programme.
[6] https://www.wfp.org/publications/strategic-evaluation-funding-wfps-work

26. The effectiveness of governance, risk management and internal control processes was assessed on a sample basis, whereby samples were selected to cover a broad variety of contributions from governments, intergovernmental bodies, as well as from other public and non-governmental sources, including from private donors. Considering that WFP's current funding does not fully meet operational requirements, the sample selection was not representative of the share of types of contributions within the overall population of contributions received to date. Instead, 25 funding agreements were selected to cover diverse grant management and reporting requirements including, but not limited to, in-kind and financial contributions (both US and non-US dollar), focusing on grants of the last three years (many operationally and financially closed), representing different implementation modalities, including joint programmes with, or service provisions for, WFP's partners.

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

28. The scope of the audit covered the period from 1 January 2017 to 31 July 2020. Where necessary, transactions and events pertaining to other periods were reviewed. In light of COVID-19 provisions and working arrangements at WFP HQ, all work was performed remotely, through analytical procedures and reviews, surveys and conference calls. The work programme was designed with these access restrictions in mind.

III. Results of the audit

Audit work and conclusions

29. The audit work confirmed that contributions management has improved since the last internal audit in 2015, with new systems, new reports, additional guidance and more training to professionalize the partnerships officer role, introduction of a fee for certified non-standard reporting, and general efforts to increase transparency and quality of external reporting.

30. The previous internal audit had focused on traditional funding streams. Since then, many standardization efforts and systems improvements introduced have focused on a contributions management model that is no longer reflective of the diversity of funding and financing streams handled by the various Partnerships and Advocacy Department (PA) divisions, not supportive of the commitments made by WFP and its partners in the ongoing UN reform processes[7] and not optimized for the much more diversified programmatic and service offerings that WFP nowadays has in its portfolio.

31. Encouraged to live up to its reputation as the largest humanitarian organization with simple processes that provide for being an early responder benefitting from internal flexibility mechanisms (such as advance financing and internal resource allocation processes), the audit of the downstream management of contribution agreements highlights that a one-size-fits-all contributions management approach does not reflect existing complexities and requirements. Different from other UN organizations, which separate development and emergency resources for distinct handling of different type of contributions, recent internal reform processes that positioned WFP with offerings across the humanitarian-development-peace nexus did not comprehensively review the contributions management processes and systems. Grants are not considered a master data in WFP's data governance to drive information management and reporting practices.

32. Instead, WFP finds itself with an ERP system heavily customized to the food assistance operating model, and a fragmented system and tracking sheet landscape that does not facilitate the monitoring of grant conditions and information sharing obligations. As a result, the audit noted that the organization may be exposed to the risks to 'fail to adapt to shifts in funding landscape' and to 'breach donor obligations', monitored in the organization's corporate risk register, with its staffing, systems and processes not fully adapted. This may be exacerbated by accepting agreements and grant conditions without sufficient consideration of the capacity of WFP's systems and processes to adhere to them, or the cost of managing such conditions and contributions.

33. Following the objectives and scope of the audit, and the work performed, nothing came to the attention of the audit that caused us to believe that within our sample the above risks materialized. While the audit looked at downstream

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[7] The Secretary General's Strategy for Financing the 2030 Agenda for Sustainable Development (2018-2021), building on the Addis Ababa Action Agenda (AAAA), is being holistically worked on through the Quadrennial Comprehensive Policy Review of UN system operational activities (QCPR) and the Funding Compact, engaging both Member States and the United Nations Development System as a whole, but also through the United Nations Sustainable Development Group (UNSDG) and the High-Level Committee on Management (HLCM) and their efforts to harmonize UN system-wide financial data reporting and planning/ coordination processes (incl. joint funding mechanisms), as well as through the humanitarian-focused Inter-Agency Standing Committee (IASC) and the Grand Bargain.

management, some of the solutions for efficient and effective contributions management may need to be found in the upstream processes (opportunity management and agreement negotiations).

34.   Based on the results of the audit, the Office of Internal Audit (OIGA) has come to an overall conclusion of **partially satisfactory / some improvement needed.**[8] The assessed governance arrangements, risk management and controls were generally established and functioning well but needed improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues identified by the audit were unlikely to significantly affect the achievement of the objectives of the audited entity/area. Management action is recommended to ensure that identified risks are adequately mitigated.

Observations and actions agreed

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

Table 1: Overview of areas in scope, observations and priority of agreed actions	Priority of issues/agreed actions
A: Governance	
1 Access to information and to guidance to discharge accountabilities	*Medium*
B: Data	
2 Data model and data quality	*Medium*
C: Systems	
3 Systems support	*Medium*
D: Reporting and other (disclosure) obligations	
4 Information-sharing with donors and supporting processes and systems	*Medium*

36.   The four observations of this audit are presented in detail below. Management has agreed to take measures to address the reported observations.[9] An overview of the actions to be tracked by internal audit for implementation, their due dates and their categorization by WFP's risk and control frameworks can be found in Annex A.

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[8] See Annex B for definitions of audit terms.
[9] Implementation will be verified through the Office of Internal Audit's standard system for monitoring agreed actions.

A: Governance

37. The audit reviewed the existing manuals and guidelines that govern the contributions management process, and carried out interviews with staff involved in the implementation of activities and management of a sample of contributions at the field or spending unit level to discuss grant-specific observations from the sample testing; OIGA also conducted interviews with the donor-facing divisions within PA and other HQ units involved in the management of grants and related processes.

38. At the time of the audit there was an ongoing project (Simplify 2020) that aimed to streamline and simplify processes, and to further decentralize certain tasks related to grants management. The project has been on hold since May 2020 as a result of the Covid-19 pandemic. PA, recognizing the limitations outlined below, had also agreed with the Technology division (TEC) an "Improving Grant Lifecycle Visualization" project, planned to start in January 2021 to establish on an internal reporting platform an end-to-end view on grant lifecycle management.

Observation 1: *Access to information and to guidance to discharge accountabilities*

39. Grant management requires collaboration and information sharing between different staff roles at HQ and field levels, who have access to different systems, follow different internal manuals and insufficiently linked guidance material, and receive contributions-related information from differing perspectives. The audit noted the following challenges that may reduce the efficiency and effectiveness of the processes:

- Not all COs or spending units have a functioning Resource Management Committee (RMC); Partnerships Officers, Budget and Programming Officers and Finance staff are not always present/appointed and collaborating in RMCs.

- Activity or Strategic Outcome Managers at COs are responsible for implementation but may not have proper financial or grant management skills or training (including understanding of accrual accounting concepts for raising and closing commitments aligned with grant life cycles).

- Directors, and other budget owners ultimately accountable for grant management, do not have easy access to some key information needed to fulfil their responsibilities (such as some specific donor conditions); and while at the local level they are increasingly involved in resource mobilization and negotiation activities, they often lack visibility of some of the conditions that should be complied with during implementation.

40. Related to the share of work and the definition of roles and responsibilities in the context of contributions management the audit noted delays, and in a few cases errors (refer to Observation 2), in the registration and/or programming of grant agreements resulting from:

- Back and forth between local negotiation of grants and subject matter experts at HQ, and in instances where adjustments were required to grants. This may be indicative of a need for more timely and effective information sharing to enable correct handling of increasingly complex and diverse funding arrangements.

- Information available to COs on grants has improved but remains fragmented, resulting in offline tracking sheets and other tools developed for local needs; such tailored reporting and information management solutions do not facilitate the monitoring of contributions management by RBx and other second line functions.

- Subject matter experts (such as the Legal Office (LEG), the Enterprise Risk Management Division (ERM), the Office of the Inspector General (OIG), Corporate Finance (FIN) and the Corporate Planning and Performance division (CPP)) may not have sufficient visibility of obligations entered into or information disclosed in the course of negotiations with donors and during the implementation of grants (refer to Observation 4).

PPR indicated that the "Improving Grants Lifecycle Visualization Project", that aims to create a dashboard for WFP to capture and harmonize the complete lifecycle of a grant, would address some of the above points related to visibility of key aspects of grants.

Underlying cause(s): Staff turnover and workforce structure at local/CO discretion; limited amount of licenses for/lack of standard access to corporate systems; unclear requirements for internal consultation of experts ahead of information disclosure or entering into commitments.

Agreed Actions [Medium priority]

PA, in collaboration with other business units involved in grants management, will:

(i)   Define minimum coordination and clearance arrangements and clarify the roles and responsibilities for contributions management, including defining also the support and oversight roles for RBx and HQ; and

(ii)   Develop and/or update guidance material, internal reporting tools and field empowerment initiatives through trainings to address knowledge gaps and to enhance information accuracy and completeness of documentation.

Timeline for implementation

31 December 2021

B: Data

41.   The audit performed data quality and consistency checks between the stipulations in agreements and the information captured in corporate systems, testing for inaccuracies, omissions, and delays along the grant life cycle.

42.   The audit recognizes the results of the investment in the professionalization of the Government Partnerships Officers (GPO) role and system improvements (introduction of a CRM system and further customization of WINGS), noting that with the diversification of funding streams the traditional government partnership operating logic outlined in WFP's General Regulations[10] no longer fits all partnership realities, which the different teams in PA manage with specialized donor-facing partnership officers. Detailed guidance and mandatory training are available for all staff with SAP WINGS profiles to register grants (or to confirm forecasts and grant information entered by HQ assistants or local GPOs) to ensure that subsequent processing of the grant is aligned to the stipulations in the agreement.

Observation 2: *Data model and data quality*

43.   Registration and programming of grants in WINGS are key controls since they: 1) trigger accounting entries of revenue recognition; and 2) ensure that donor conditions (such as budget ceilings, commodity or packaging restrictions, and similar) are factored into the downstream grant utilization processes.

44.   The audit noted inconsistencies in the capturing of information and in the use of the corporate systems, WINGS and the CRM system, resulting in:

a) inaccurate information or delayed visibility for analysis and decision-making, for example:

- *Related to funding outlook and forecasts*: a) while the requirement to use the CRM system was introduced in 2019 through a corporate directive[11], not all global offices currently use the system to capture funding outlook and forecast information, which implies work around and manual reprocessing in the planning and reporting processes, including at regional and country office levels; b) CO forecasts entered by local GPOs in the CRM system were not reviewed, instead advance financing information was directly entered in WINGs by central GPOs.

- *Related to revenue recognition and available funding*: Instances where the Indirect Support Cost (ISC) rate or, in the case of grants with performance obligations, the availability of future tranches of multi-year agreements deviate between system and contract information.

b) Insufficient supporting documentation in WINGS on the valuation of in-kind contributions to ensure clear accountabilities and traceability, aggravated by the fact that GPOs record these valuations based on input from other functions.

45.   The audit noted that while errors and inconsistencies call for mechanisms to ensure coherence, differentiated approaches for different income streams may be needed as not all contributions follow the same funds management logic and predictability, which can result in potential differences between donor expectations and WFP's grant utilization. As such, commitments to report according to UN cost/data categories have not been integrated into the data models with which WFP systems operate, but are being addressed through mapping efforts, the same way as other donor-specific reporting requirements are being implemented, all of which complicate the contributions data processing and information sharing for spending units.

46.   The above processing challenges for grant information are exacerbated by the lack of a grant ID hierarchy or roll-up structure or other mechanisms that facilitate linking grant IDs in use for one and the same contribution (e.g. use of separate grant IDs once a contribution gets confirmed, not easily linkable to an associated advance grant ID; a contribution may also be split into multiple grants for programming purposes or one contribution may be associated with several grants IDs when carried forward from earlier projects).

47.   Grant utilization and reporting processes, when not automated or driven by registration and programming controls, are highly dependent on the spending unit's capacity and capabilities for contributions management (refer to Observations

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[10] WFP Rules and Regulations refer to 'pledges' and 'duration of appeals', and with the delegations of authority and operational plan approvals outlined, assumes an alignment between board approvals and funding support which provides for flexibility for WFP in allocation and allotment decisions; funding support, however, is negotiated bilaterally and the multilateral resources and contributions not earmarked beyond the highest CSP-level, providing for the assumed flexibility, are decreasing.
[11] Partnerships and Advocacy (PA) and Resource Management (RM) Departments Joint Directive: PA2019-003 / RM2019-005

1 and 4) and require, with the current data model for certain data processing activities, manual interventions (mapping and data re-organization) with limited automated controls to detect errors.

Underlying cause(s): Data model and databases have not kept pace with internal information and external reporting needs; grants are not classified as 'master data' and without an owner driving the data model, grant information is not easily linkable to other (operational) information; PA reporting lines and staffing resources available not adequate to support coherent application of practices and guidance; and a one-size-fits-all approach imposed by system landscape while more differentiated management of funding and financing streams may be required.

Agreed Actions [Medium priority]

PA will:

(i) In collaboration with TEC and other business functions as relevant, clarify if grants should be defined as Master Data with the aim to facilitate data management, -analysis and -reporting; and

(ii) Ensure that all offices consistently apply existing directives and systems, clarify which systems hold which information, who is the custodian, and which procedures are to be followed.

Timeline for implementation

31 December 2021

C: Systems

48.   The audit reviewed the system support for contributions management, including situations where the corporate CRM and WINGS systems were complemented with local tracking and data processing solutions, and hard-coded controls (incl. four-eye-principles for grant registration) designed to drive the downstream grant utilizing process were not effective or poorly designed for the intended purposes.

49.   The audit noted that with the introduction of the corporate CRM system, a platform was introduced to capture the wealth of donor intelligence collected at local level. Through the organization-wide roll-out of the CRM system, an off-the-shelf software solution for client relationship management that was customized and integrated with WINGS, the collection of forecast information from the local levels benefitted from better system support.

Observation 3: *Systems support*

The audit noted the following system-related challenges:

50.   The system integration between WINGS and the CRM system is only one-way (CRM to WINGS), which does not allow for information added subsequently to be visible in both systems, or to be cleared by an authorized officer. Together with the lack of clear master data concepts (refer to Observation 2), this contributes to the risk of inconsistencies and errors as well as to limitations of access to one source of truth (outlined in Observation 1).

51.   Heavily customized to WFP's contributions management practices at the time of the ERP introduction, and further adjusted to meet IPSAS and revenue recognition principles for the not-for-profit context, WINGS continues to be considered the system carrying all financial transactions, but WFP finds itself constrained with the need to further adapt the system to increasingly complex requirements and the ability to perform software updates without increasing costs. New fields have been introduced to more correctly reflect revenue recognition principles as recommended by the External Auditor, but for many new grant stipulations and conditions that agreements carry, WINGS does not provide fields to manage such information the same way as food-related restrictions or obligations (such as acceptability of genetically modified organisms or bag marking) are entered into other parts of the ERP system.

52.   While terminal obligation and disbursement dates (TOD/TDD) are used as system controls to inform the expenditure certification process, no automated alerts and easily understandable corporate solution for reports exist to help spending units complete the obligation-to-pay process[12]. When programme implementation is affected by external events, as during the Covid-19 pandemic, the process to request donor approval for TOD/TDD extensions has limited systems support and requires action by the central GPOs following an email exchange with supporting documentation. This further creates delays and inaccuracies in the outlook of funding availabilities.

53.   Although efforts were made to attach the underlying donor agreements in WINGS and the CRM system, framework agreements and agreements regarding associated grants are not easily traceable, as the systems follow the data model outlined in Observation 2 with its limitations. A comprehensive database for grant agreement contracts does not exist. Some, framework agreements are published on the intranet, and there are tracking sheets and/or databases available in certain units for internal management which are incomplete, resulting in redundancy and duplicate efforts not only for information, but also for document management. It this context it was noted that:

- Initial efforts to incorporate the tracking database of a Global Office into the CRM system did not result in discontinuation of a local database no longer compatible with WFP's system landscape, but to duplicate data entry efforts to maintain the ad-hoc reporting capability that the CRM system does not offer. The referred tracking database was used to monitor and provide quality assurance over specific reporting obligations, plus as a management information system to provide background information about funding windows, consortia partners and complementary funding (not foreseen for tracking in WFP systems, refer to Observation 4).

- Other databases are maintained by the different donor-facing offices and other subject matter experts at the central level such as LEG, ERM, OIG as well as by RBx and by spending units themselves, none complete nor accessible by others, creating not only inefficiencies but also the risk of inconsistent handling of donor requests, and inaccurate and inconsistent donor reporting, potentially decreasing donors' reliance on standard WFP processes.

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[12] The details of funds management processes and controls were outside the scope of this audit.

54. As a result of the systems limitations, information produced for non-standard reporting requires manual processing (refer to Observation 4) and extensive collaboration of various units to overcome access constraints to information (refer to Observation 1), impeding effective and efficient data-driven management.

Underlying cause(s): WFP systems and internal processes have not evolved with the funding environment and donor expectations; heavy customization of off-the-shelf software over the years without facilitating data-driven management with adapted information structures and systems landscape.

Agreed Actions [Medium priority]

TEC will:

(i) In collaboration with PA and other relevant functions, in the short-term support finding solutions to capture relevant information through the Grant Lifecycle Visualization Project; and

(ii) Develop a roadmap for a medium-to-long term solution that will provide a cost-effective systems support for contributions management in the context of the "ERP Roadmap" project (including information to facilitate grant management by all relevant stakeholders and visibility of non-standard clauses or other requirements – refer to observation 4).

Timeline for implementation

31 December 2021

D: Reporting and other (disclosure) obligations

55.   The audit reviewed a sample of contribution agreements and the reporting and other key obligations attached to them, and analyzed and discussed the reporting procedures that staff in COs and HQ spending units follow to ensure that reports are issued in a timely manner to meet donor conditions.

56.   External reporting to donors and stakeholders is done mainly through the ACR, the standard format for countries to report on results achieved through the CSP framework. The ACR fulfils a contractual agreement with donors and informs them how the resources donated to WFP have been used to achieve results during the reporting year.

Observation 4: *Information-sharing with donors and supporting processes and systems*

57.   Approximately 80 percent of WFP's total funding over the last 18 years came from its top ten donors[13]. However, there have been increasing demands from both traditional and new donors for customized, detailed reporting, including the use of specific cost categories, need for interim reporting (in some cases as a condition to release tranche payments), and overall enhanced visibility on the utilization of resources.

58.   In some cases, reporting requirements are agreed locally at CO level without clearance from or information of relevant HQ units, or, in some cases, without an understanding of the implications for all stages of the grant life cycle management. In the case of pass-through funds, certain requirements from the source donor may not be explicitly described in agreements creating delays or difficulties in fulfilling the related commitments. As highlighted by PA, circulars specifying the delegations of authority to accept contributions in WFP exist, however these are not widely known and may be outdated (OED98/003 and RE002/001).

59.   While WFP introduced a corporate process to prepare certified reports that deviate from the ACR, the quality of grant-specific and/or otherwise more detailed financial reports is strongly dependent upon effective and timely grant utilization in the course of the programme implementation. However, this may not be aligned to the funds management objectives that a spending unit may pursue for liquidity optimization. Furthermore, non-standard financial reporting is not always prepared centrally by FIN, but also by COs and spending units (not qualifying in such cases as 'certified reports'), with and without templates and/or support and quality assurance from RBx or HQ, with increased risks for errors.

60.   While the IRM line of sight allows for linking resources to results at the level of activities and strategic objectives, with grant-specific output information that is more commonly asked by donors, grant-specific impact- or outcome-oriented reporting is not necessarily supported by the data model in place; the latter complicates the linking of grant information to operational data (such as geographic areas targeted or beneficiary numbers reached) and results in additional mapping efforts for reporting along donor-driven budget structures or cost categories that deviate from those of WFP.

Non-financial reporting or access to supporting documentation, which some donors negotiate through verification or audit clauses, as well as other obligations to disclose information (related to partnerships or procurement decisions, anti-fraud and corruption, etc.) deviate from WFP's standard processes and procedures, most of which derive from EB-approved policies. While a coordinating function has been established in HQ, the Anti-Fraud, Anti-Corruption and Donor Review Management branch (ERMC), their regular and proactive involvement to ensure consistency in handling add-on requirements and institutional learning was not always timely requested. In addition to the lack of a contracts database to track agreement stipulations (Observation 3), limited analysis is carried out centrally on the degree of earmarking and other donor restrictions, and available information is not fully used to inform negotiation of agreements and to ensure internal process adjustments to adapt to evolving funding and financing opportunities.

Underlying cause(s): Reporting process and systems have not evolved at the same pace as donor requirements / landscape; flexibility mechanisms such as automated expenditure certification and advance financing reduce reporting capabilities; poor mechanisms to ringfence additional cost requirements for non-standard reporting and other obligations (audit, evaluation); capacity constraints at all levels to fulfil donor-specific requirements that deviate from standard WFP processes and procedures; WFP's disclosure policy is outdated and not supplemented with contributions management-specific policies and guidance throughout the grant life cycle.

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[13] Source: Strategic Evaluation of Funding WFP's Work – May 2020

Agreed Actions [Medium priority]

PA in coordination with other business units as relevant will update and communicate existing circulars and guidance for negotiating locally confirmed contributions and on addressing donor information requests.

Timeline for implementation

31 December 2021

Annex A – Summary of observations

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

	Categories for aggregation and analysis:				
Medium priority observations	**WFP's Internal Audit Universe**	**WFP's Governance, Risk & Control logic:**		**Implementation lead**	**Due date(s)**
		Risks (ERM)	**Processes(GRC)**		
1 Access to information and to guidance to discharge accountabilities	Governance	Governance & oversight risks	Resource mobilization and Partnerships	PA	31 December 2021
2 Data model and data quality	Knowledge & information management	Business model risks	Resource mobilization and Partnerships	PA	31 December 2021
3 Systems support	IT Enterprise Architecture	IT & Communications risks	Resource mobilization and Partnerships	TEC	31 December 2021
4 Information-sharing with donors and supporting processes and systems	Contributions & donor funding management	Breach of obligations	Resource mobilization and Partnerships	PA	31 December 2021

Annex B – Definitions of audit terms: ratings and 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.[14]

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

3   Categorization by WFP's audit universe

WFP's audit universe[15] covers organizational entities and processes. Mapping audit observations to themes and process areas of WFP's audit universe helps prioritize thematic audits.

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[14] 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.
[15] A separately existing universe for information technology with 60 entities, processes and applications is currently under review, its content is summarized for categorization purposes in section F of table B.3.

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 Policy,[16] and began preparations for the launch of a risk management system (Governance, Risk & Compliance – GRC – system solution).

As a means to facilitate the testing and roll-out of the GRC system, audit observations are mapped to the new risk and process categorizations as introduced[17] by the Chief Risk Officer to define and launch risk matrices, identify thresholds and parameters, and establish escalation/de-escalation protocols across business processes.

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[16] WFP/EB.2/2018/5-C
[17] As per 1 January 2019, subsequent changes may not be reflected in 2019 audit reports.

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

5   Monitoring the implementation of agreed actions

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

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

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

Annex C – Acronyms

AAAA	Addis Ababa Action Agenda
ACR	Annual Country Reports
AFAC	Anti-Fraud, Anti-Corruption
CBT	Cash-based Transfers
CO	Country Office
CPB	Country Programme Budgets
CPP	Corporate Planning and Performance Division
CRM	Customer Relations Management
CSP	Country Strategic Plan
EMOPS	Emergency Operations
ERM	Enterprise Risk Management
ERMC	Anti-Fraud Anti-Corruption and Donor Review Management branch
ERP	Enterprise Resource Planning
FIN	Corporate Finance
FRMM	Financial Resource Management Manual
GPO	Government Partnerships Officers
GRC	Governance Risk and Compliance
HLCM	High-Level Committee on Management
HQ	Headquarters
IASC	Inter-Agency Standing Committee
IATI	International Aid Transparency Initiative
ICT	Information and Communication Technology
IFI	International Finance Institutions
IPSAS	International Public Sector Accounting Standards
IRM	Integrated Road Map
ISC	Indirect Support Cost
LEG	Legal Office
NGO	Non-governmental organization
OIG	Office of the Inspector General
OIGA	Office of Internal Audit
PA	Partnerships and Advocacy Department
PD	Programme and Policy Development Department
PRP	Programme Review and Approval Process
PRRO	Protracted Relief and Recovery Operation

QCPR	Quadrennial Comprehensive Policy Review
RBx	Regional Bureaux
RM	Resource Management Department
RMC	Resource Management Committee
TDD	Terminal Disbursement Date
TEC	Technology Division
TOD	Terminal Obligation Date
TOR	Terms of Reference
UN	United Nations
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNOPS	United Nations Office for Project Services
UNSDG	United Nations Sustainable Development Group
USD	United States Dollar
WFP	World Food Programme
WINGS	WFP's enterprise resource planning system