Internal Audit of WFP Operations in Somalia

Office of the Inspector General
Internal Audit Report AR/21/20

November 2021

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I. Executive summary

WFP Somalia Country Office

1.   As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP's operations in Somalia that focused on beneficiary management, cash-based transfers, supply chain, monitoring and finance, and which also incorporated tailored reviews of risk and fraud risk management, non-governmental organization partner management, budget management and stakeholder engagement. The audit covered the period from 1 January 2020 to 30 April 2021.

2.   As defined in the Interim Country Strategic Plan 2019–2021, WFP's work in Somalia assists shock and crisis-affected food and nutrition insecure people with food and cash-based transfers and provides logistics services to the humanitarian community. Expenditure pertaining to the Interim Country Strategic Plan from 1 January 2020 to 30 April 2021 amounted to USD 396 million.

3.   The audit focused on WFP's programme implementation of activities 1 and 2 under Strategic Outcomes 1 and 2 respectively, which accounted for 78 percent of the Interim Country Strategic Plan's expenditure in the audit period.

Audit conclusions and key results

4.   Based on the results of the audit, 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 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.

5.   Since its inception in 2019 and following the inclusion of the government rural safety net programme and increased relief, nutrition and livelihood requirements, the budget of the Somalia Interim Country Strategy Plan has doubled, from USD 961 million to USD 1.9 billion, and planned beneficiary numbers increased almost three-fold from 3.4 million to 9.1 million.

6.   Several audit issues identified derived from contextual challenges relating to complex traditional clan dynamics, COVID-19 restrictions as well as corporate guidance and tools gaps in partner management, corridor management and storage costs for corporate stocks. The pandemic impacted the implementation of resilience, school meal and livelihood interventions, and limited the presence of WFP staff in the field to carry out oversight and monitoring checks. In response to the COVID-19 restrictions, the country office adopted mobile money and scaled up the use of its innovative mobile application for the home delivery of groceries to beneficiaries, the E-shop, for both cash-based transfers and in-kind food modalities. The country office also increased its remote monitoring activities through a call center.

7.   The country office reached 4.5 million beneficiaries in 2020, with half of the beneficiary numbers assisted via cash-based transfers and the remaining through in-kind food. However, a coherent and comprehensive targeting strategy with defined eligibility criteria and responsibilities for all activities was not in place. This imposed some limits on assurance that WFP was consistently reaching the most vulnerable and that inclusion and/or exclusion risks were managed.

8.   The country office spent USD 169 million (43 percent of its 2020 expenditure) on cash-based transfers and USD 151 million (38 percent) on in-kind food assistance during the audit period. Biometric registration

and authentication,[1] suspended following the onset of the COVID-19 pandemic, proved challenging to reactivate for in-kind food beneficiaries. By the end of the audit period,[2] most in-kind beneficiaries were still managed offline. This prevented checks on duplicate beneficiaries and identity verification on receipt of assistance. In addition, system controls, as highlighted in the internal audit of WFP's digital management of beneficiaries,[3] could not be applied.

9. Implementation of regular assessment and treatment of fraud risks identified required urgent attention, especially relating to third-party risks and possible collusion. The country office has an opportunity to establish risk-based oversight of non-governmental organization partners and strengthen its digital oversight and anomaly-detection capabilities to mitigate the inherent high risk of fraud. As the next Country Strategic Plan (2022–2025) is prepared, the country office should assess the capacities and resources required for stronger third-party risk management, oversight, monitoring and analytics. The significant retailer contract management workload called for a process redesign, adjustments to team structure and responsibilities, and further digitization efforts. In addition, despite the scale and variety of interventions, meetings of the cash-based transfers working group were not frequent enough to ensure effective cross-functional oversight of risks.

10. The audit acknowledged the country office's efforts in having established its digital trail over assistance to beneficiaries since 2015. The Somalia country office was one of the first to adopt WFP's beneficiary information and transfers management system, SCOPE, for programme activities delivered through both cash-based and food transfer modalities. This enabled the country office to proactively identify incidents, propose solutions and contribute to corporate learning on related processes and controls. In addition, although the E-shop served a small caseload,[4] this solution provided a digital trail over the final stage of distribution to beneficiaries and their confirmation of food received, a long-standing corporate gap in WFP's food transfer modality.

11. Starting 2020, both internal and external stakeholders recognized the improvement in engagement and information sharing from management and the Risk and Compliance Adviser. In addition, there were strong vetting procedures for third parties and good levels of capacity and skills in several functional units. There were no reportable findings in finance and budget management.

Actions agreed

12. The audit report contains three high and four medium-priority observations, three of which have actions at corporate level. Management has agreed to address the reported observations and work to implement the agreed actions by their respective due dates.

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

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[1] With the use of fingerprints.
[2] Most recent system data analysed by the audit team.
[3] Internal Audit of SCOPE, WFP's Digital Management of Beneficiaries (AR/21/08), issued in May 2021 - link
[4] Monthly caseload of 180,000 beneficiaries, with 30,000 on in-kind food assistance and 150,000 on cash-based transfers, and accounting for about 7 percent of the total monthly caseload on average.

II. Country context and audit scope

Somalia

14. In 2020, the compounding effects of flash floods, dry weather conditions, desert locust infestation and the socioeconomic impact of the COVID-19 pandemic aggravated the food security situation in Somalia. in June 2021, an estimated 2.8 million[5] people spread widely across the country were in Integrated Phase Classifications 3 (crisis) and 4 (emergency) requiring emergency food assistance from July to September 2021.

15. Somalia presents a variety of contextual risks that impact programming and delivery; these include gender inequality, protracted displacements, the absence of a national identification system, climatic variability, security and access risks because of increased Al-Shabaab operations, and persistent conflict along clan lines. Fraud risk is inherently high, with the country currently at the bottom of the Transparency International Corruption Perception Index.

WFP operations in Somalia

16. Budget revisions doubled the planned expenditure of the country office's (CO) 2019–2021 Interim Country Strategic Plan (ICSP) from USD 961 million to USD 1.9 billion, and increased planned beneficiary numbers from 3.4 million to 9.1 million. At the time of the audit, the CO was in the process of undertaking an ICSP evaluation and developing a new 2022–2025 Country Strategic Plan (CSP) with a budget of USD 1.9 billion.

17. The CO assisted shock and crisis-affected food and nutrition insecure people with food and cash-based transfers (CBT). In addition, the CO had several resilience-building activities that included school meals, nutrition, safety nets and livelihood interventions. In 2020, the CO assisted 4.5 million[6] beneficiaries through CBT and in-kind food assistance, with a monthly average caseload of 926,363 beneficiaries for CBT and 941,312 for in-kind food.

18. Total cumulative ICSP expenditure in August 2021 was USD 817 million.[7] Expenditure in the audit period was USD 396 million, with USD 169 million (43 percent) for CBT and USD 151 million (38 percent) for in-kind food assistance. Of the total CBT expenditure, 60 percent was through electronic vouchers and 40 percent through cash at bank and mobile money.

19. In 2020, the CO distributed 99,000 metric tons (mt) of food to beneficiaries in Somalia. Food commodities were sourced through WFP's Global Commodity Management Facility (GCMF), with the Berbera port receiving record levels of throughput in the audit period.

20. The CO developed a COVID-19 response plan with business continuity strategies and a concept of operations. Programmatic adjustments included adoption of CBT mobile money from April 2020; scale-up of home deliveries using the E-shop application; remote monitoring[8] supported through a call center; and the deployment of take-home rations. CBT delivery through cash at bank was suspended due to overcrowding at banks. Beneficiaries were shifted first to the e-voucher modality, and subsequently assisted through mobile money once contractual arrangements with the financial service provider (FSP) were finalized. Biometric registration and authentication were discontinued for in-kind assistance from April 2020.

21. The CO managed some 100 non-governmental organization (NGO) partners, more than 200 vendors and around 700 to 800 active retailers. The upcoming CSP highlighted counterparty and/or third-party risks as

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[5] As per the Food Security and Nutrition Analysis Unit of the Food and Agriculture Organization, which undertakes food security and nutrition assessments twice a year. The assessments inform programmatic adjustments across agencies and actors working in Somalia.
[6] As per the CO Annual Country Report for 2020.
[7] Representing 58 percent of the implementation plan budget and 41 percent of the needs-based plan budget
[8] The CO had 23 WFP field monitors while the third-party monitor provided 54 staff to support programme monitoring.

significant. The CO in Mogadishu had area offices in Hargeisa, Garowe, Dolow, Berbera, Bosasso, Galkayo, Beletweyne, Baidoa, Kismayo and Dhobley as well as a liaison and support office in Nairobi, Kenya.

Objective and scope of the audit

22. 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 Somalia. 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.

23. The audit focused on activities 1 and 2 under Strategic Outcomes (SOs) 1 and 2 of the ICSP,[9] representing 78 percent of the CO's expenditure over the audit period, and 98 percent of beneficiaries reached in 2020:[10]

▪   SO1, Activity 1: Provision of unconditional food and/or cash-based food assistance, specialized nutritious foods (SNFs) and gender-transformative nutrition messaging and counselling to crisis-affected people through well-coordinated food security and logistics during humanitarian responses; and

▪   SO2, Activity 2: Provision of conditional and unconditional food and/or cash-based food assistance and nutritional messaging to food-insecure people through reliable safety nets, including school meals.

24. The Office of Internal Audit (OIGA) developed a new CO audit approach for 2021, focusing on five areas of the end-to-end CO delivery process. In this audit, the five functional areas of focus were as follows:

25. OIGA tested essential controls outlined for each of the five predetermined areas in scope. The essential controls built on existing procedures and manuals and, where appropriate, were discussed and validated with respective business units. Minimum controls as defined by the Management Assurance Project conducted by the Enterprise Risk Management Division at the end of 2020 were considered and included where relevant. Reliance was placed on second-line assurance work in the areas of finance/administration and logistics to minimize duplication of efforts.

26. OIGA supplemented this predetermined scope with a CO risk assessment, which led to further inclusion of fraud risk management, NGO risk management, budget management and stakeholder engagement in the audit scope. OIGA benefitted from the support of the Regional Bureau for Eastern Africa (RBN), who carried out an in-country oversight visit in support of the audit work. The mission was conducted by the Regional Risk and Compliance Officer and the CO Risk and Compliance Advisor between 4 and 11 July 2021 and covered Hargeisa, Berbera and Mogadishu.

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[9] Total requirements of USD 1.9 billion and direct operational costs of USD 1.6 billion as at June 2021.
[10] 3.2 million beneficiaries (71 percent of the overall total of 4.5 million) reached on Activity 1 and 1.2 million beneficiaries (27 percent) on Activity 2.

III. Results of the audit

Audit work and conclusions

27. The seven observations arising from the audit are presented below. They are grouped into sections corresponding to the five functional areas covered by the audit (see paragraph 24), with an initial section to capture cross-cutting issues.

28. For each of the five functional areas, a simplified standard process diagram is included to indicate the key control areas reviewed by the audit and, when exceptions or weaknesses were noted, the audit observations to which they relate and their respective priority rating (red for high-priority and yellow for medium-priority observations). Any other issues arising from the audit that were assessed as low priority were discussed with the CO directly and are not reflected in the report nor are they indicated in the diagrams.

Cross-cutting issues

Observation 1: Fraud risk management and digital oversight

Fraud risk management

29. Traditional clan affiliations are a driving factor in how business is conducted in Somalia. In the audit period, there were a significant number of alleged and confirmed fraud cases including in areas such as food diversions and sales, and beneficiary identity manipulation. The CO escalated all material cases of fraud it identified to the Office of Inspections and Investigations on a timely basis with appropriate follow-up support and information sharing. While management closely monitored contextual risks, there was no country-level fraud risk assessment covering internal, third-party fraud and possible collusion. This limited the visibility of: (a) anti-fraud controls established by the CO over the years and how effective these were and (b) where control gaps still existed. The CO's request for corporate support in specific fraud risk assessments for the E-shop scheme (prior to scale-up) was yet not addressed.

Segregation of duties

30. The CO outsourced to its NGO partners several programme tasks, including targeting, sensitizing and registering beneficiaries for all programmatic activities, as well as warehousing and distribution of in-kind food. This had led to segregation of duties conflicts, which increased fraud risks without sufficient compensating controls (see observation 2). Given the already large number of partners managed, OIGA recognized that it was not practical to fully separate duties by contracting different NGO partners to carry out different tasks; this, however, reinforced the need for compensating controls. The audit acknowledged the CO efforts[11] to address the segregation of duty risks and to strengthen controls with respect to NGO partners, both registering beneficiaries and distributing subscriber identity module (SIM) cards in CBT mobile money.

Digital oversight and anomaly detection

31. Biometric registration and authentication for in-kind interventions in December 2020 had not been fully reinstated, with only a slow gradual increase in beneficiaries coming online. By April 2021, enrolment levels were at 9 percent of pre-COVID-19 levels while authentication using fingerprints was at 16 percent of pre-COVID-19 levels. As such, controls on in-kind beneficiary lists and distributions to the right beneficiaries, especially for nutrition interventions, continued to be limited. While recognizing this as an area of management priority, the

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[11] These efforts consisted of strengthening the capacity and systems of the FSP, contracting an additional FSP, and strengthening controls over the distribution and activation of payment instruments.

CO was unable to confirm the number of beneficiaries and proportion of the caseload managed outside SCOPE. This showed that reactivation of biometric controls, once suspended, is not straightforward to implement.

32. The CO was uniquely placed to strengthen its digital oversight and anomaly-detection capabilities to address the inherently high fraud risk in the country. However, such analytics were still limited with respect to beneficiary payments, distributions, and retailer transactions.

Underlying cause(s): Insufficient analysis of and guidance update on NGO partner segregation of duty conflicts, related fraud risks and corresponding mitigation measures; recent revision to the Anti-Fraud and Anti-Corruption policy (July 2021) requiring an annual fraud risk assessment; corporate gaps in digital oversight/analytics on in-kind food; CO model and resource requirements for digital oversight and anomaly detection not assessed; absence of a mechanism to monitor in-kind beneficiaries managed offline and to enforce the uptake of biometric registration and authentication; and reluctance of partners to re-implement biometric checks.

Agreed Actions [High priority]

1. The NGO Partnerships Unit, in consultation with the Enterprise Risk Management Division and other relevant headquarters units, will update the NGO Partnership Guidance to include guidance on segregation of duty conflicts, related fraud risks and mitigation measures.

2. The country office will:

    i)   With the support of the Regional Bureau for East Africa and relevant headquarter units, complete a detailed fraud risk assessment on priority processes with periodic review of the effectiveness of anti-fraud controls; and undertake a mapping of non-governmental partner responsibilities to identify segregation of duties conflicts and programme areas which require oversight.

    ii) In consultation with the Headquarters Cash-Based Transfer Division and its Data Assurance Team, establish routine analytics and red flag monitoring of its CBT operational data, and implement this on a recurring basis as part of the country strategic plan.

    iii) Establish a data and digital oversight working group including programme, back-office, information technology and supply chain, and determine its resource needs for digital oversight and anomaly detection framework for in-kind food assistance.

    iv) Establish a mechanism to monitor, oversee and enforce beneficiary registration and authentication for the in-kind beneficiary caseload that is currently offline.

    Timeline for implementation
    1. 31 December 2022
    2. 31 December 2022

Observation 2: Risk-based oversight of non-governmental organization partners

33. The CO had planned NGO partners' spot checks by the area offices' monitoring staff in August 2021 but these were delayed. Spot checks were foreseen for all field-level agreements of more than one year and were therefore not risk informed. In addition, internal area offices' staff may not have the independent expertise required to undertake NGO spot checks given the contextual risks that exist.

34. In the absence of corporate guidelines, the CO did not have an NGO partner risk ranking that combined country context with entity-level risk factors.[12] Such a risk ranking can subsequently inform the extent and type of assurance and oversight checks on NGO activities,[13] which can include independent third-party audits, programmatic and financial spot checks, process monitoring, independent presence of WFP monitors or third-party monitors (TPMs), and stronger community feedback.

35. While there was some monitoring of distribution to beneficiaries by NGO partners, and some beneficiary feedback on issues with NGO partners, additional gaps were identified:

- The spot check tool was designed for staff to, physically verify several capacity and due diligence questions[14] at the assessment stage rather than perform checks on the actual implementation of programme tasks.

- The CO did not carry out financial verification spot checks, programmatic checks and joint spot checks with sister agencies for common NGO partners.

- The CO did not consider activation of the contractual audit clause and independent third-party audits of NGO partners.

- There was no RBN oversight of NGO partner management in the CO.

Underlying cause(s): Corporate gaps in NGO partner risk ranking and programmatic spot check tools; recent deployment of corporate financial verification spot checks; capacities, expertise and strategies for strengthening risk-based oversight of NGO partners not assessed or budgeted for in the new CSP; and joint spot checks for common partners constrained by COVID-19.

Agreed Actions [High priority]

The country office will:

i)   In consultation with the NGO Partnerships Unit, develop a country-specific non-governmental organization partner risk ranking methodology, incorporating contextual and entity-level risk factors, and establish a risk-informed oversight plan detailing which partners require enhanced oversight and assurance mechanisms.

ii) Based on the results of the non-governmental organization partner risk ranking (agreed action i above) and programme areas to oversee (observation 1, agreed action 2i), assess the required capacities, expertise, roles and responsibilities for non-governmental partner risk management in the country office and field offices, and adjust the planned country strategy plan budget as required.

iii) Review the design of its non-governmental organization spot check tool to align with the outsourced programme tasks on which it needs assurance (observation 1, agreed action 2i,) and implement financial verification and programme spot checks on a risk basis.

iv) Better leverage interagency risk and due diligence resources to develop and implement a joint spot check plan for key common non-governmental organization partners, considering the opportunity to use other United Nations agreements or other resources as needed.

Timeline for implementation

31 December 2022

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[12] Such factors include value at risk (e.g., transfers; funds flow; beneficiaries registered and reached), field-level agreement amounts, capacity assessments, performance issues, fraud issues and segregation of duty conflicts.
[13] These areas were gaps in the CO's SOP, which was otherwise detailed in the roles and responsibilities of the various actors for NGO management and in related systems.
[14] Questions were repeated in the United National Partner Portal and offline capacity assessment.

Observation 3: Third-party contract management

36.   There were several issues with third-party contract management, which was managed offline in the CO in the absence of corporate systems and tools.

37.   Management of 700–800 active retailer contracts was a high-priority risk area identified in the RBN's logistics oversight report. The audit reconfirmed[15] multiple retailer contracts approved on a retroactive basis and invoices paid without a valid contract. Efforts were under way to advance document requests for contract renewal when delays arose because retailer business licences had been issued on a short-term basis. While the CO applied segregation of duties as per corporate guidelines, delays and inefficiencies nonetheless arose from the split responsibilities between logistics and procurement teams for managing at scale.[16]

38.   A retailer contract management system is in development at corporate level with inputs from selected COs, but did not involve the Somalia CO. This was a missed opportunity for WFP's most significant retailer operation to contribute to potential process streamlining efforts and ensure that the digital solution meets the needs of COs globally.

39.   There were three cases in which vendor contracts were renewed retroactively after the service period had been initiated. In addition, the CO had contracted with the same TPM since 2011.[17] The CO initiated a competitive tendering process in October 2020,[18] but an alternative TPM identified was found, on physical check, to be unsound, and the CO had to revert to the TPM already in use. Delays in contract amendments and extensions at CO and headquarters levels resulted in interruptions to monitoring activities by the TPM.

Underlying cause(s): Structural alignment of accountabilities and responsibilities for retailer management at scale not adjusted; potential contribution to corporate efforts in digitizing retailer contracting not recognized; procurement strategy and advanced planning not sufficiently monitored for efficient contract renewals; and physical check on alternative TPM not timely as carried between committee endorsements and final contracting.

Agreed Actions [High priority]

1. The Regional Bureau for East Africa will support the involvement of, and inputs from, the country office in the development and piloting of the retailer contract management system tool with a view to strengthening the digitization efforts and the streamlining of the retailer contract management process in the region.

2. The country office will:

   i)   Review its retailer management responsibilities and accountabilities, integrating capacity from procurement and logistics to enable process optimization.

   ii)   Strengthen its procurement strategy and advanced planning to monitor and improve the timely management of long-term agreements and contracts where the country office experiences delays.

   iii) Monitor and track physical checks for new vendors at the due diligence and capacity assessment stage.

Timeline for implementation

1.   31 December 2022
2.   31 December 2022

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[15] Through sample testing and physical visits to retailers in July 2021.
[16] Reconfirming an analysis undertaken in 2020 by the logistics team.
[17] With a two-year LTA covering the period 2017–2019 but extended through successive amendments up to February 2021.
[18] Implemented with a view to identifying other potential TPMs while balancing the risks of long association, and loss of capacity and institutional knowledge built up over the years.

Beneficiary management

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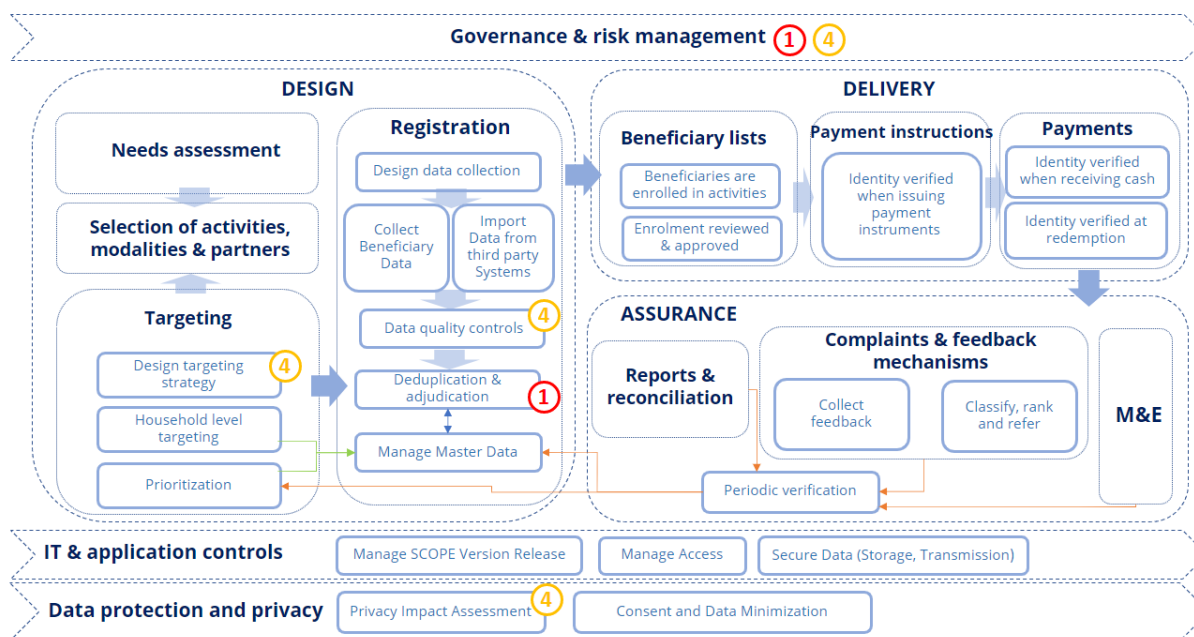
Observation 4: Beneficiary management

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40. The audit noted issues with the beneficiary targeting strategy, roles and responsibilities, data management and quality and the privacy impact assessment (PIA). Issues relating to beneficiaries managed outside SCOPE are covered in observation 1.

41. While targeting guidelines for activities were at times established, the CO did not have a coherent and comprehensive targeting strategy to help meet CO objectives in reaching the most vulnerable across all its programme activities. Eligibility and selection criteria were unclear or inconsistently applied, and responsibilities of the selection committee were not properly articulated.

42. The CO staff established responsibilities in SCOPE for data upload, data checks by the Transfer Management Team and payment list approval in the system. NGOs were responsible for beneficiary identification and registration among other programme tasks as identified in their field level agreements. However, the roles and responsibilities assigned to CO and partner staff were not comprehensive and there were gaps, especially in relation to beneficiary identification, distribution and data checks.

43. The CO had a deduplication strategy which was being implemented; however, the SOP was not yet finalized at the time of audit reporting.

44. A PIA for the use of beneficiary data for both CBT and in-kind food, as required by recently issued corporate guidance on the protection of beneficiaries' personal data, was not performed due to the limited availability of technical support in RBN to augment CO capacity in this area. Beneficiary data for the CBT electronic voucher delivery mechanism were transmitted to NGOs through email without password protection, and data-sharing protocols with third parties had not been assessed.

45. Several SCOPE user profiles had two or more conflicting roles in the registration, enrolment, distribution planning, payment list and retailer settlement processes. Although these users were all members of the Transfer Management Team and authorized through waiver by the Country Director for business continuity reasons, their activities were not monitored with a compensating control. Holding conflicting roles on a regular basis was not in accordance with the least privilege and separation of duties principles in application security.

Underlying cause(s): Comprehensive targeting strategy with defined eligibility criteria to identify beneficiaries not established; roles and responsibilities for beneficiary management not fully defined; recent guidance on the need for a PIA and insufficient resources and expertise to support the assessment; and absence of monitoring of conflicting roles for critical SCOPE users.

Agreed Actions [Medium priority]

The country office will:

    i)   Develop and implement a comprehensive targeting strategy with defined eligibility and selection criteria to identify the most vulnerable beneficiaries across activities and clarify the roles and responsibilities of selection committee members.

    ii)   Establish a responsibility assignment matrix for the beneficiary management process for country office and partner staff.

    iii)   Coordinate with relevant regional and headquarters units to undertake a privacy impact assessment.

    iv)   Implement automated monitoring of SCOPE user activities to detect instances of creation, verification and approval actions performed by the same user.
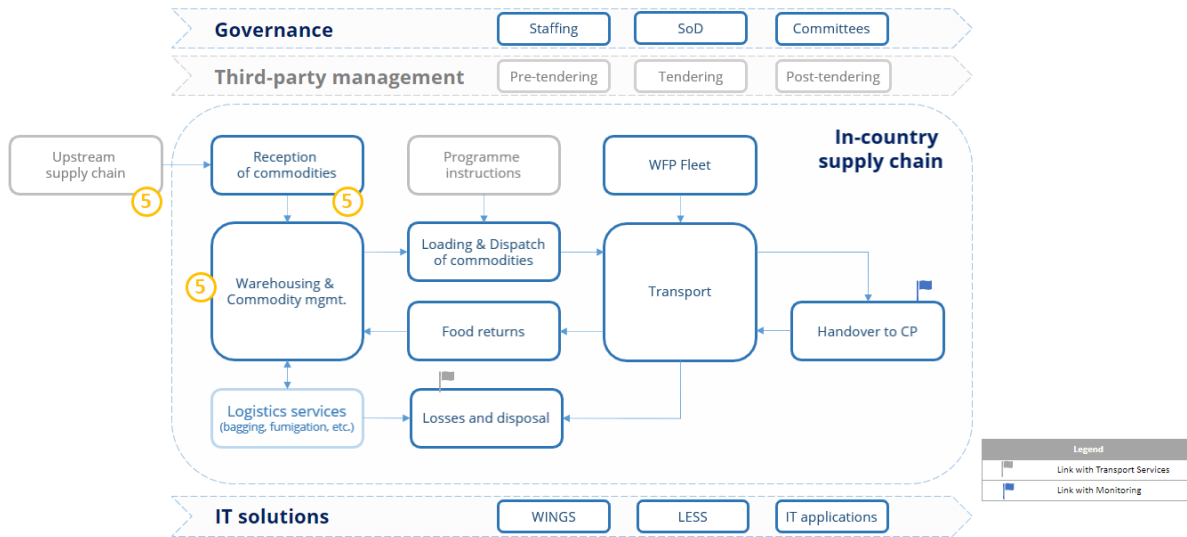
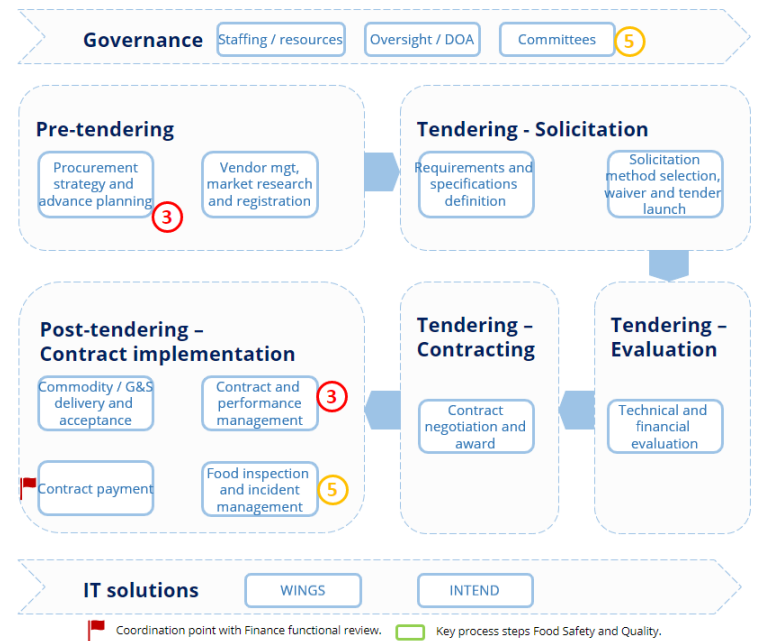**Timeline for implementation**

31 December 2022

Supply Chain

Logistics

Procurement

Observation 5: Supply chain management

46. Supply chain committees were functioning effectively and the CO, leveraging the country-wide Contractor Information Management System and WFP's checks, established strong vetting of its vendors. There were efforts to revalidate the roster of vendors[19] and address several gaps identified by the RBN oversight mission conducted in July 2021.[20] Since March 2021, the newly appointed Food Safety and Quality (FSQ) Officer issued a monthly report on food inspections, exceptional releases, incidents, compliance testing and other support activities. Sourcing SNFs from international vendors through the GCMF was challenging for the CO, as the requirement from its top donor to source nutritious foods locally or regionally had to be waived. The audit acknowledged efforts at the regional level to expand its regional supplier base for nutritious foods and consider alternative products in the region. The following issues warranted management attention.

47. There were FSQ issues and food losses[21] arising from weaknesses in warehouse capacity and suboptimal storage conditions (temperature and humidity controls) in Mogadishu and Berbera. Although storage capacity constraints were escalated at corporate level, GCMF stocks were stored outside in Berbera in the audit period. Corporate investments to upgrade the Berbera storage conditions were recently agreed upon. Recent blasts had damaged the roof of the government-owned warehouse in Mogadishu. This resulted in regular leaks and significant damage to nutritious foods. Discussions were ongoing between the CO and local authorities to address issues relating to the Mogadishu warehouse. In addition, both warehouses had inadequate fire prevention and safety measures as plans to upgrade the fire prevention capabilities had been delayed due to the COVID-19 pandemic but were reinitiated in June 2021.

Corridor management and receipt of corporate stocks

48. Issues in the Berbera and Douala corridors,[22] reconfirmed the ongoing challenges with WFP's framework for corridor management, which had been raised in 2019 in the internal audit report of WFP's Djibouti corridor management.[23] Since then, through extensive internal consultations, RBN had developed a pilot model for corridor management addressing key concerns on governance, budget and cost transparency, and oversight, among others. However, a corporate decision on the way forward in managing and investing in strategic corridors and port operations was yet to be agreed.

49. GCMF commodities were at times stored for more than one year, resulting in recurring infestations and deteriorations. However, storage and FSQ-related costs on unsold cargo had to be funded by the CO as part of its food transfer costs, which inflated its supply chain matrix rates. OIGA acknowledged that, in some cases, the GCMF had paid storage costs in advance, but these decisions were not applied consistently. The GCMF reported savings on purchasing at scale under favourable conditions but did not consider end-to-end supply chain budgets and costs, especially on receipt of commodities.

Food safety and quality

50. The corporate Food Incident Management Committee (FIMC) memorandum dated 28 January 2019 was unclear when and in what specific situations the committee should convene, and through which management platforms COs should regularly monitor, analyse and follow up on FSQ risks and related incidents. In addition, the food incident tracker was completed by regional bureau and headquarters staff and not by the CO; and not all incidents were captured.

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[19] Reducing the number of vendors from 1,200 to some 200 suppliers.
[20] These efforts included the relaunch of an expression of interest for logistics service providers, revised due diligence assessments with details of subcontracting arrangements, and performing an E-shop reconciliation on receipts and deliveries.
[21] Corroborated by the RBN logistics oversight mission and physical visit in support of the audit.
[22] Internal Audit of WFP operations in Cameroon (AR/21/15) link
[23] Internal Audit of WFP Djibouti corridor management (AR/19/12) link

Non-food item management

51. The RBN's audit support mission in July 2021 confirmed significant numbers of non-food items (NFIs) stored under suboptimal conditions in Mogadishu and awaiting disposal.

Underlying cause(s): Corporate framework and review of the RBN's pilot model for corridor management not finalized; insufficient coordination between GCMF, procurement units, and regional bureaux' logistics teams on storage costs when purchasing GCMF commodities at scale; reluctance of regional suppliers to invest in supplying SNFs to WFP and delays in alternative regional product assessment; unclear criteria for convening the FIMC and analysis of FSQ incidents and risks at CO level; responsibility for complete incident and deviation tracking not assigned; and NFI management and disposal process not reviewed and actioned.


Agreed Actions [Medium priority]

1. The Supply Chain Operations Division will, in consultation and coordination with the Regional Bureau for East Africa, other regional bureaux and recipient country offices, review the pilot model and finalize the corporate framework of accountabilities and responsibilities for decisions and controls over the management of and investments in strategic corridors and port operations.

2. The Strategic Financing Branch will coordinate with regional bureaux logistics teams and relevant procurement units to consider storage costs in their Global Commodity Management Facility replenishments when purchasing food at scale under favourable conditions.

3. The Headquarters Food Safety and Quality Unit will clarify the criteria and triggers for the Food Incident Management Committee meetings and the platform for regular monitoring, analysis of and discussion on food safety and quality risks and incidents.

4. The country office will:

    i)   Incorporate into the Terms of Reference of the Food Safety and Quality Officer the responsibility for completely documenting and recording food safety and quality incidents and deviations; and
    ii) Undertake a non-food item management process review to strengthen responsibilities and accountabilities for monitoring items under storage and requiring disposal and/or write-offs.

Timeline for implementation

1. 31 December 2022
2. 30 June 2022
3. 31 March 2022
4. 31 December 2022

Cash-Based Transfers
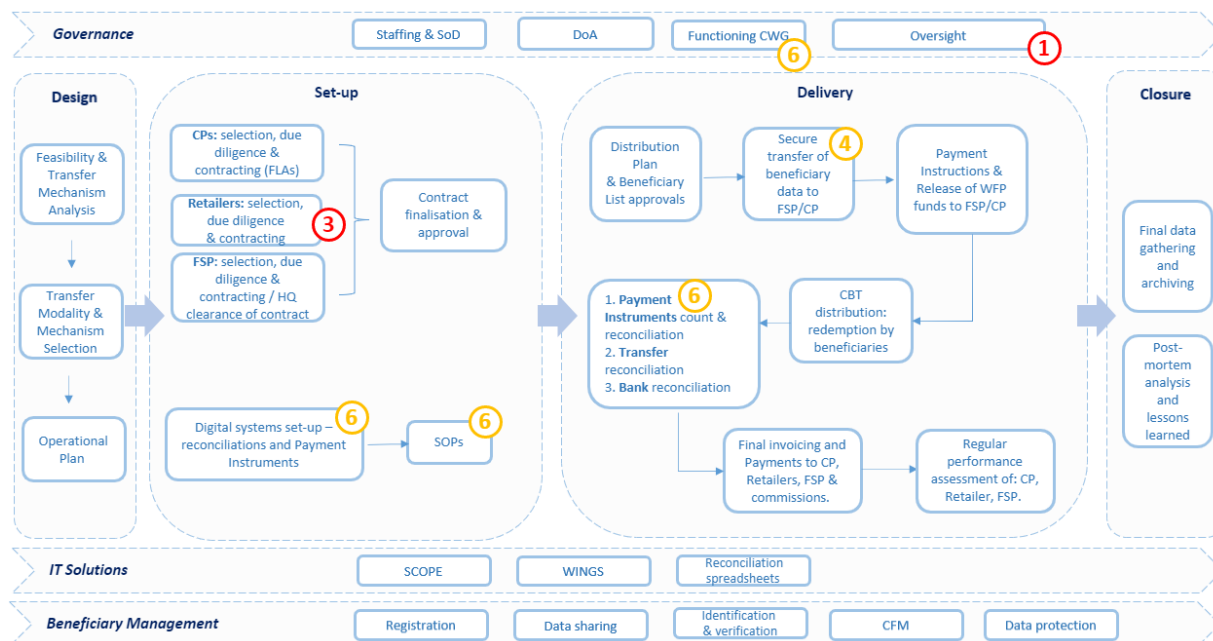
| | Observation 6: Cash-Based Transfers governance and systems |

52. CBT controls were functioning, with some gaps noted in governance, payment instrument systems and SOP maintenance detailed below. Gaps in oversight and segregation of duties in reconciliations are highlighted under observation 1; and in retailer contracting under observation 3.

Cash-based Transfers Working Group

53. The internal CBT Working Group (CWG) convened only twice in the audit period.[24] This did not provide assurance on cross-functional oversight of risks and issues with the scale and variety of interventions implemented through CBT.

Systems and manual workarounds

54. The CO used spreadsheets to manually track SIM cards, which increased the risks of errors, potential manipulation and lack of traceability in data entry and changes to the SIM card log. The absence of integration and automation between SCOPE and the mobile money FSP portal led to several manual workarounds,[25] which did not ensure the secure transfer of files although consultations are ongoing with headquarter units to address this issue. In addition, this increased the risks of errors and potential manipulation.

Procedure updates

55. Some CBT SOPs were not yet updated to reflect actual processes and control improvements or adjustments, namely: (a) the SCOPECARD SOP to reflect digital trail improvements in the reconciliation of SCOPECARDs distributed by NGOs; and (b) the mobile money SOP to reflect additional controls in the review and approval of beneficiary payment lists. This increased the risk of knowledge loss on staff turnover or reassignment.

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[24] In May and September 2020, and more recently in May 2021.
[25] The SCOPE payment list was downloaded in Excel by programme staff and uploaded to the FSP's platform by finance staff.

Underlying cause(s): CWG meetings not prioritized; recent deployment of corporate payment instrument tracker solution; ongoing assessments with headquarters CBT units on implementation of the corporate payment instrument system and automated secure file transfer with partners; and regular updates to SOPs not enforced.

**Agreed Actions** [Medium priority]

The country office will:

i) Implement monthly Cash-Based Transfer Working Group meetings.

ii) Finalize assessment with headquarters Finance Business Development, Cash-Based Transfer Branch, to implement the payment instrument tracker.

iii) In consultation with Cash-Based Transfers headquarters finalize the integration of SCOPE and the FSP systems to implement secure transfer of files.

iv) Establish the periodic review and update of standard operating procedures as necessary to reflect actual practices.

Timeline for implementation

31 December 2022

Monitoring
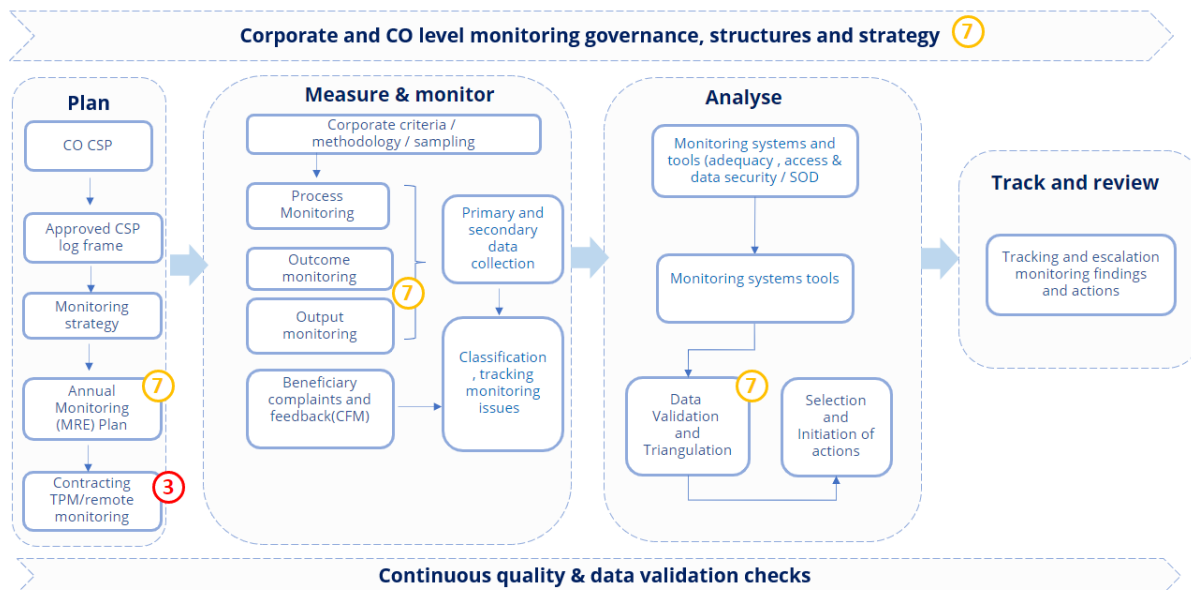
Observation 7: Programme monitoring and reporting

56. The CO developed a monitoring strategy and related objectives, processes, roles and responsibilities to cover all ICSP activities,[26] aligned to its overarching principle that it implements activities only where it can monitor. It adjusted its monitoring plan because of the COVID-19 pandemic and increased its number of call centre enumerators to strengthen its remote monitoring. As per its strategy and SOPs, every month, each area office visits a minimum of 30 percent of its active food distribution points and 30 operating retailers.[27] In addition to the TPM contracting issue highlighted in observation 3, the audit identified the following gaps:

- Despite the evolution of the CO's portfolio,[28] the increase in programmatic activities and delivery mechanisms, the COVID-19 pandemic and access challenges, the 30 percent threshold and the technical skills gaps of its internal staff for monitoring specialized activities had not been re-assessed.

- Between 2019 and 2020, the monthly average coverage for food distribution points was 25 percent in all five regions, which, given the operational context and the COVID-19 pandemic, the CO deemed satisfactory. Of this coverage however, 27 percent and 73 percent of all distribution points were monitored by WFP field monitors and the TPM respectively. This is indicative of the reduced presence of WFP field monitors interacting with beneficiaries, and increased reliance on the TPM in informing programmatic changes during the audit period. In addition, the CO field monitors were involved in programme implementation, which impacted the prioritization of monitoring tasks and the principle of segregation of duties.

- Area offices' monitoring staff did not consistently analyse monitoring needs and/or apply corporate monitoring tools. Discussions with monitoring partners also indicated the absence of training on WFP's protection and accountability framework and transfer modality mechanisms.

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[26] Final version dated 18 February 2021; the CO is now finalizing its monitoring strategy for its upcoming CSP.
[27] The AO monitoring and evaluation team is responsible for ensuring that the coverage requirements are met.
[28] To include peacebuilding and resilience priorities.

- There were inconsistencies in the data triangulation and validation process, especially given the reliance on the TPM in remote areas of the country, and area office staff did not periodically meet the TPM to discuss monitoring issues and provide feedback.

Underlying cause(s): Coverage targets and monitoring requirements not re-assessed in light of the inability to deploy field monitors during the pandemic; Internal staff and technical capacity needs not properly assessed and budgeted for; technical skills training for staff and partners; and inconsistent monitoring data validation processes.

Agreed Actions [Medium priority]

The country office will:

i) With the support of headquarters and the regional bureau, review and update its monitoring strategy and plan considering all programme activities with respect to reporting requirements and timelines, minimum monitoring requirements and coverage targets.

ii) Assess and budget for the internal human resource needs for monitoring activities and for technical skills development to deliver on its monitoring plan.

iii) Finalize and implement a training programme to strengthen the technical capacities of staff and partners.

iv) Establish a process to systematically validate and triangulate information and data obtained from different sources to corroborate monitoring reports from third-party monitors.

Timeline for implementation

31 December 2022

Finance

57. The finance and resource management processes were effectively managed. Both functions were well staffed with the knowledge and skills to implement controls, monitor and report in a timely manner on financial and budget activities. The November 2020 RBN finance oversight mission made a few recommendations, which the finance team is working on, including the review of outstanding receivables and payables, at the time of audit reporting.
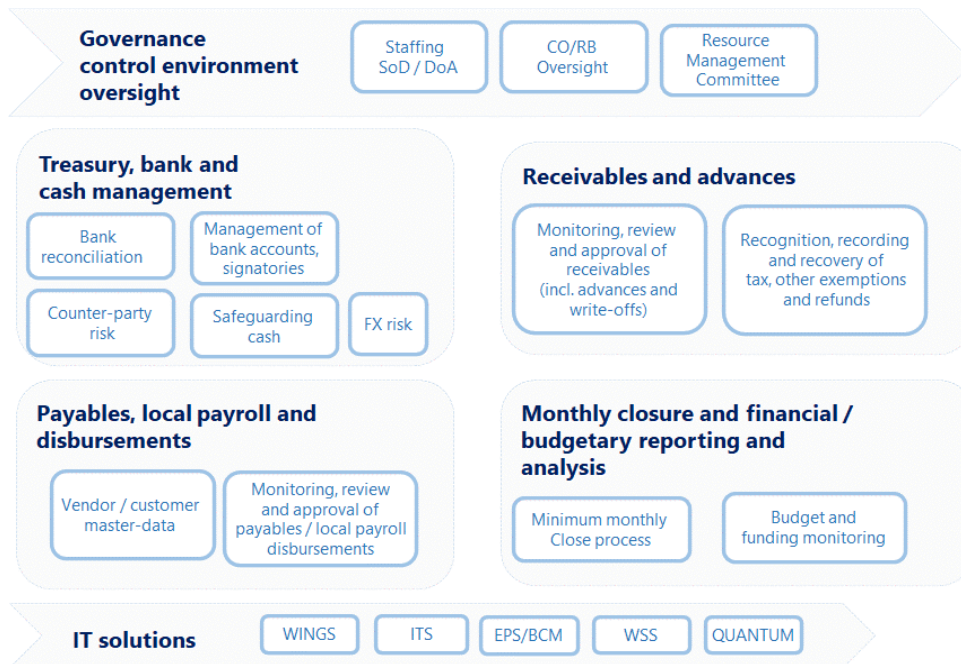
Annex A – Agreed action plan

The following table shows 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.

The agreed action plan is primarily at the CO level with corporate level actions for headquarters and RB attention in observations 1, 3 and 5.

#	Observation (number / title)	Area	Owner	Priority	Timeline for implementation
1	Fraud risk management and digital oversight	Cross-cutting	NGO Unit CO	**High**	31 December 2022 31 December 2022
2	Risk-based oversight of non-governmental organization partners	Cross-cutting	CO	**High**	31 December 2022
3	Third-party contract management	Cross-cutting	RBN CO	**High**	31 December 2022 31 December 2022
4	Beneficiary management	Beneficiary management	CO	**Medium**	31 December 2022
5	Supply chain management	Logistics and procurement	SCO CPPF SCOQ CO	**Medium**	31 December 2022 30 June 2022 31 March 2022 31 December 2022
6	Cash-based transfers governance and systems	CBT	CO	**Medium**	31 December 2022
7	Programme monitoring and reporting	Monitoring	CO	**Medium**	31 December 2022

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.[29]

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[29] 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   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 Enterprise Risk Management Division is copied on such communication, with the right to comment and escalate should they consider the risk accepted is outside acceptable corporate levels. OIGA informs senior management, the Audit Committee and the Executive Board of actions closed without mitigating the risk on a regular basis.

Annex C – Acronyms

CBT	Cash-based transfer
CO	Country Office
CSP	Country Strategic Plan
CWG	CBT Working Group
FIMC	Food Incident Management Committee
FSP	Financial Service Provider
FSQ	Food Safety and Quality
GCMF	Global Commodity Management Facility
ICSP	Interim Country Strategic Plan
LTA	Long-term Agreement
NFI	Non-food Item
NGO	Non-governmental Organization
OIGA	Office of Internal Audit
PIA	Privacy Impact Assessment
RBN	Regional Bureau in Eastern Africa
SCOPE	WFP's beneficiary information and transfer management platform
SIM	Subscriber Identity Module
SNF	Specialized Nutritious Food
SO	Strategic Outcome
SOP	Standard Operating Procedure
ToR	Terms of Reference
TPM	Third-party Monitor
USD	United States Dollar
WFP	World Food Programme