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# Internal Audit of WFP Operations in Iran

Office of the Inspector General  
Internal Audit Report AR/22/03





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## I. Executive summary

### WFP Iran Country Office

1. As defined in the Interim Country Strategic Plan 2018–2022, the status of the Islamic Republic of Iran (hereinafter Iran) in terms of nutrition indicators is satisfactory, with very low prevalence of undernourishment, stunting and wasting but for registered refugees. WFP's work in Iran aims to contribute to improving the livelihoods and food security of the most vulnerable refugees in settlements within the framework of the regional Solutions Strategy for Afghan Refugees.<sup>1</sup>

2. Interventions include the provision of: (i) unconditional food assistance to food-insecure refugees; (ii) conditional support to refugee women and girls to incentivize and facilitate educational and livelihood activities; and (iii) emergency food assistance through cash-based or in-kind transfers to shock-affected populations. Cumulative expenditure pertaining to the Interim Country Strategic Plan as of 31 July 2021 amounted to USD 19 million, 47 percent of which was incurred in 2020.

3. As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP operations in Iran that covered beneficiary management, cash-based transfers, supply chain, monitoring, and finance, covering the period from 1 January 2020 to 31 July 2021. The audit focused on the implementation of two activities under strategic outcome 1 of the Interim Country Strategic Plan that accounted for 87 percent of total cumulative expenditure up to 31 July 2021.

### 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 **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.

5. The operating context is marked by the impact of the economic sanctions on the country. WFP operations are heavily dependent on the role of the Government as the main partner of WFP. For example, the Government manages the receipt, storage, and distribution of food to beneficiaries, free of cost. The country office has no direct control over the related custody and records; as such, it relies on reporting from the partner and other detective controls. Similarly, the country office has a limited role in beneficiary targeting and registration and relies on regular updates from the Government for the planning and implementation of activities, regardless of transfer modality. The country office was aware of the risks related to its limited control on key programmatic aspects, and the audit noted that it proactively worked on establishing compensating controls when WFP standard controls and risk mitigation measures were not available.

6. The country office implemented detailed standard operating procedures tailored to its operational context and sought regular support from the Regional Bureau for the Middle East and Northern Africa and headquarters. Controls in the areas of supply chain and finance were generally established and functioning, and the issues noted in the audit related mainly to specific aspects of vendor management and processing of transactions in local currency. For programmatic areas such as beneficiary management, cash-based transfers and monitoring, procedures over the aspects within the control of the country office were generally established and functioning. The key issues identified related to the need to adapt or implement additional controls, mainly of detective nature, to mitigate the risks arising from the operational context and reliance

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<sup>1</sup> Available at <https://www.unhcr.org/uk/562a44639.pdf>



on controls under the responsibility of a third party with limited visibility to the country office. Risk monitoring and management were constrained by insufficient information and risks were not actively monitored and managed through the regular risk management process.

7. Due to the small size of the office, there was no adequate segregation of duties between the implementation and the monitoring of activities, both of which were carried out by the same staff. While acknowledging that corporate guidelines on the implementation of complaints and feedback mechanisms in WFP were recent and the processes were not fully supported by corporate applications, there was an opportunity to strengthen the country office's process to gather beneficiary feedback and timely detect issues affecting the activities. Other challenges resulting from the small size of the office related to the use non-standard roles in supply chain and the concentration of budget monitoring functions with the head of programme.

8. Programme implementation was supported mainly through manual processes, including the management of beneficiary lists and related analyses (such as deduplication and management of entitlements). The limited access to data from the financial service provider and the absence of automation of beneficiary databases and other data obtained from the Government constrained the ability of WFP to perform data analyses and detect exceptions or inconsistencies.

### **Actions agreed**

9. The audit report contains six medium priority observations. Management has agreed to address the reported observations and to work to implement the agreed actions by their respective due dates.

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



## II. Country context and audit scope

### Iran

11. The Islamic Republic of Iran is an upper-middle-income country with a population of 83 million and ranks 70<sup>th</sup> of 189 countries in the Human Development Index (2020). According to the Interim Country Strategic Plan (ICSP) 2018–2022, the country made satisfactory progress towards Sustainable Development Goal (SDG) 2. The SDG Index and Dashboards Global Report, which presented data on five SDG 2 indicators, indicates Iran's satisfactory status in terms of nutrition indicators, with very low prevalence of undernourishment, stunting and wasting. As a result, the Government did not identify zero hunger as a priority in its 2016–2022 National Development Plan, or as an area for cooperation under the 2017–2021 United Nations Development Assistance Framework (UNDAF) extended by one year to 2022 (thereafter referred to as 2017-2022 UNDAF).

12. The Government, however, identified the provision of food assistance to refugees as an important area of intervention for WFP. Such assistance aimed to supplement the free housing, health care, and education support provided by the Government to camp-based refugees. The country has hosted approximately one million documented refugees over the past 30 years; the majority of whom are from Afghanistan and Iraq and live in urban areas. WFP's beneficiaries under the ICSP are approximately 31,000 refugees living in 20 settlements throughout the country.

13. Iran has been under four decades of sanctions. According to the WFP Iran Country Office's (CO) 2020 Annual Country Report,<sup>2</sup> the two most recent rounds of sanctions imposed on Iran negatively affected the economic situation and increased poverty among vulnerable people, including refugees. The sanctions affected the operations of the CO, particularly with regards to the limited availability of financial service providers, the inflation and loss of purchasing power of the local currency, and the need to carry out all procurement locally. The situation was exacerbated by the COVID-19 pandemic, which brought additional pressure on the economy and limited the possibility to undertake monitoring visits.

### WFP operations in Iran

14. The implementation of the ICSP started in January 2018. The original plan covered the period from January 2018 to December 2020 with a total budget of USD 18 million; after six budget revisions, the total budget as of July 2021 was USD 33 million. The revisions aimed to implement operations in response to the flood emergency in 2019, adding an activity for that purpose, and to extend the duration of the ICSP up to December 2022 to align it with the extended UNDAF and the National Development Plan.

15. The key partner of the CO was the Bureau for Alien and Foreign Immigrants Affairs of the Ministry of Interior. This government entity was responsible for the coordination of all matters related to refugees; management of settlements (including food storage and distributions); and the provision of beneficiary details required for cash-based transfers (CBT), including data for the registration and issuance of bank cards; and regular updates on beneficiary households and related changes. The CO also coordinated its monitoring activities with the entity.

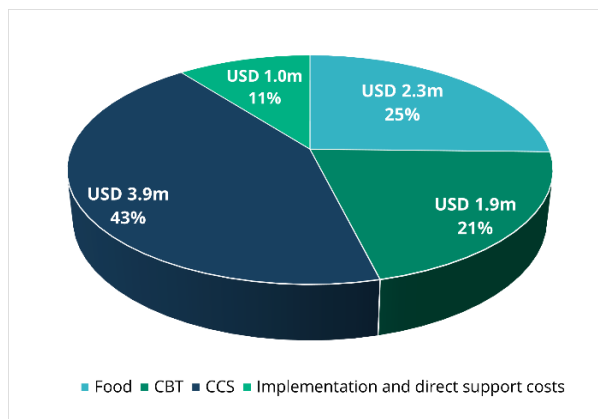
16. In 2020, the CO deployed its COVID-19 emergency response. As a result, and as indicated in Figure 1 overleaf, 43 percent of expenditure for that year (USD 3.9 million out of total USD 9 million) was for country capacity strengthening (CCS) and for the provision of personal protection equipment to staff and volunteers of the Iranian Red Crescent Society, who were at the frontline of the national response. WFP also augmented the support to refugees by doubling the cash transfer value and reintroducing vegetable oil to their food rations.

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<sup>2</sup> Available in [https://www.wfp.org/operations/annual-country-report/?operation\\_id=IR01&year=2020#/20903](https://www.wfp.org/operations/annual-country-report/?operation_id=IR01&year=2020#/20903)



Figure 1: Iran CO actual expenditure by transfer modality and cost category in 2020 (USD millions)



### Objective and scope of the audit

17. The objective of the audit was to provide assurance on the effectiveness of governance, risk management and internal control processes related to WFP operations in Iran. Such audits contribute to the annual and overall assurance statement to the Executive Director on governance, risk management and internal control processes.

18. The audit focused on activities 1 and 3 of the ICSP 2018–2022, representing 74 percent of the total ICSP requirements (USD 23 million out of a needs-based plan of USD 33.5 million). In terms of transfer value, the activities in scope represented 83 percent of total transfers (USD 21.4 million out of total USD 26.4 million).

- Activity 1 – Provide unconditional food assistance to food-insecure refugees
- Activity 3 – Provide emergency food assistance through cash-based or in-kind transfers to shock affected populations

19. The Office of Internal Audit (OIGA) developed a new audit approach for 2021 to adapt to COVID-19 constraints, while increasing its audit coverage of country operations and providing assurance on five key areas of the end-to-end CO delivery process, as detailed in the Figure 2 below.

Figure 2: Areas in audit scope





20. OIGA performed audit tests on essential controls outlined for each of these five predetermined areas in scope. The essential controls build 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 WFP's Enterprise Risk Management Division (ERM) at the end of 2020 were considered and included where relevant.

21. The audit involved remote work from headquarters and an on-site visit to the CO in Tehran, including a visit to one refugee settlement in Semnan. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Reliance was placed on second-line assurance work, where relevant, to minimize duplication of efforts.



## III. Results of the audit

### Audit work and conclusions

22. The six 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 19), with an initial section to capture cross-cutting issues.

23. For each of the five functional areas, a simplified standard process diagram is included which indicates the key control areas reviewed by the audit and, when exceptions or areas requiring improvement were noted, the audit observations to which they relate and their respective priority rating (red for high and yellow for medium priority observations). Any other issues arising from the audit which 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: Rules of engagement with the host Government

24. In line with the existing Letter of Understanding and technical agreement with the Government, the CO achieved its mandate to provide food assistance to beneficiaries despite the challenging operational context, mainly characterized by the impact of sanctions on the economy and the COVID-19 pandemic. In addition, the Government, as the main partner of WFP, played lead roles in key processes and activities along the programme cycle and over which the CO had limited or no control, including management of beneficiary information, targeting, registration of beneficiaries, food storage and distributions, and monitoring of activities. The overall arrangement had the following risk implications, which were not actively monitored through the CO's risk management process, potentially leaving residual risks unmitigated.

#### *Beneficiary information*

25. The CO was not directly involved in the targeting and registration of beneficiaries, as per the Letter of Understanding which outlines these activities as Government-owned. Despite the limitation, the CO conducted small scale beneficiary verifications during visits to the settlements, on a sample basis. The practice was halted in 2020 due to travel restrictions resulting from the COVID-19 pandemic and the CO planned to resume these activities as soon as conditions allow. While the CO documented such verifications in back-to-office reports, additional details covering the size of the samples drawn for verification, the type of information that was verified, and overall results of the exercise to provide enhanced assurance over the implementation of activities, were not consistently included in these reports.

26. Despite the limitations on the part of the Government regarding access to information,<sup>3</sup> the CO did not have a documented secure procedure for the collection of beneficiary lists to ensure the integrity of the data and segregation of duties, including a definition of staff authorized to collect the files and protocols for the safeguarding and access to information.

27. The process to clean the data, identify duplication or inconsistencies, manage entitlements, and process payment lists was manual, creating redundancies and impacting operational efficiency. These challenges were compounded by the Government's introduction of changes to beneficiary household identification numbers in late 2021. In absence of access to beneficiary databases, the Government agreed to provide both the old and

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<sup>3</sup> Such as the government partner not having access to the internet to facilitate the exchange of data with WFP.





new household numbers in the beneficiary lists to mitigate the risk of the CO being unable to properly track and identify errors or duplications.

#### *Food storage and distribution*

28. The Government was responsible for the overall management of commodities in the settlements. The CO provided the Government with a translated version of the standard WFP warehouse management guidelines to facilitate their work, while two workshops were also held in 2017 and 2019 to provide refresher trainings. The CO did not regularly monitor storage conditions and relevant stock records. The Government maintained manual records of stock movements and balances, and the CO relied on telephone calls to update distribution figures, with hard copies of approved reports verified only when the CO was able to visit the settlements once a year.

#### *Monitoring*

29. The agreements with the Government contained clauses regarding facilitation of the activities, including the safe and unimpeded access for assessment, implementation, and monitoring. The CO did not have field offices and travel restrictions related to the COVID-19 pandemic since early 2020 limited the ability of the CO to directly access beneficiaries. The CO initiated monthly remote monitoring through phone calls with beneficiaries in 2018. To do so, it relied on an arrangement (dating back to 2019) that beneficiary phone numbers be provided by the Government and the phone calls be made from the Government's premises, which resulted in limitations to carry out independent monitoring checks.

Underlying cause(s): Contextual risks arising from the nature of the agreements, relationship, and operational set-up with the Government; and limited use of technology and automation by government entities as per Government policy.

#### **Agreed Actions** [Medium priority]

The country office, with the support of the Regional Bureau for the Middle East and Northern Africa, and headquarters units as needed, will:

- i) Work with the Cash-Based Transfers Data Assurance Team in headquarters to develop and implement an automated process for beneficiary management and entitlement transfers adapted to the context and needs of the country office.
- ii) Enhance the risk management process by incorporating and assessing the potential risks arising from the nature of the agreements with government partners and implementing the required mitigations, including investments on capacity strengthening of partners through on-the-job and other refresher trainings.

#### **Timeline for implementation**

31 December 2022

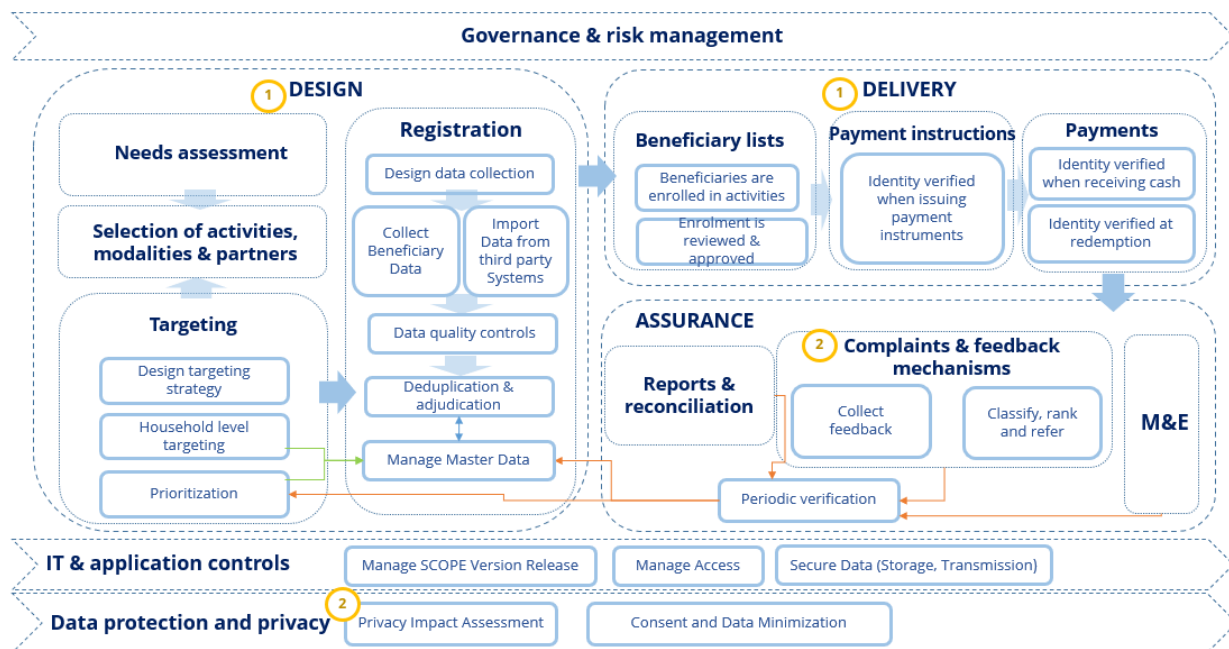


## Beneficiary management

30. The CO supported vulnerable Afghan and Iraqi refugees to meet their basic food and nutritional needs. All households with a source of income received cash and in-kind transfers equivalent to 80 percent of their basic food needs, while female-headed households with no sources of income were entitled to assistance to meet 100 percent of their nutritional requirements.

31. Some of the standard corporate controls related to the targeting, registration, and verification of beneficiaries were not applicable given the lack of access to beneficiary data. The CO made efforts to review the data provided by the Government in spreadsheets to identify inconsistencies and duplication; these procedures required automation to mitigate the risks associated to the use of non-protected spreadsheets. In the circumstances, the CO relied on detective controls, such as the complaints and feedback mechanism (CFM), to identify operational or other issues affecting the activities.

32. Other applicable controls related to the delivery of activities, assurance, and data protection were partially functioning, and the related risks are highlighted in [Observation 1](#) and [Observation 2](#) of this report.



### Observation 2: Beneficiary management

#### Complaints and Feedback Mechanism

33. A complaints and feedback mechanism or CFM is a formal process to gather information from people in the communities where WFP operates. WFP has established corporate requirements to ensure the implementation of effective and dignified mechanisms that do not put affected people at risk and provide relevant information for programmatic feedback. In the context of Iran, CFM was all the more important as, per design, WFP had limited control and access to beneficiaries' data.

34. The CO established various channels for beneficiaries to reach out to WFP including a hotline, a suggestion box, a dedicated e-mail account, and social media.



- The hotline was the main mechanism for collecting feedback and complaints from beneficiaries. The CO recorded and tracked complaints received through the hotline and e-mail in its CFM log.
- Suggestions and complaints received through the suggestions box were not collected due to access constraints caused by the COVID-19 pandemic.
- Complaints received through social media were answered directly by the communications team or referred to the hotline when necessary, and these were not recorded or tracked.

35. There was no adequate record of the follow-up of these specific issues up to resolution and closure. The absence of a proper audit trail supporting effective management of reported cases and evidence-based closure of actions limited the CO's capacity to analyse and make informed decision making.

#### *Privacy impact assessment*

36. A privacy impact assessment is a review aimed at identifying, evaluating, and addressing the risks arising from the collection and utilization of personal data. The CO finalized its assessment in October 2021. Due to access constraints related to COVID-19, the CO was unable to consult with beneficiaries as part of the process. Therefore, the assessment report included recommendations to carry out a second phase to incorporate such consultations. The CO had yet to define the timeline for implementing the recommendations and risk mitigating actions resulting from the assessment.

Underlying cause(s): Limited access to settlements to collect complaints from suggestion boxes due to COVID-19 restrictions; small-sized office where exchange of information occurred through routine immediate communication; and recent completion of the privacy impact assessment not allowing a timeline for implementing recommendations to be defined.

#### **Agreed Actions** [Medium priority]

The country office, with the support from headquarters and the Regional Bureau for Middle East and Northern Africa as necessary, will:

- i) Strengthen the existing tool to track the status and resolution of beneficiary feedback and complaints, to ensure that all sources of feedback and complaints are documented and monitored, including evidence-based closure of issues, and that the status of complaints is accurately reflected in reports for management visibility.
- ii) Develop a timeline for implementing the recommendations from the privacy impact assessment.

#### **Timeline for implementation**

30 September 2022



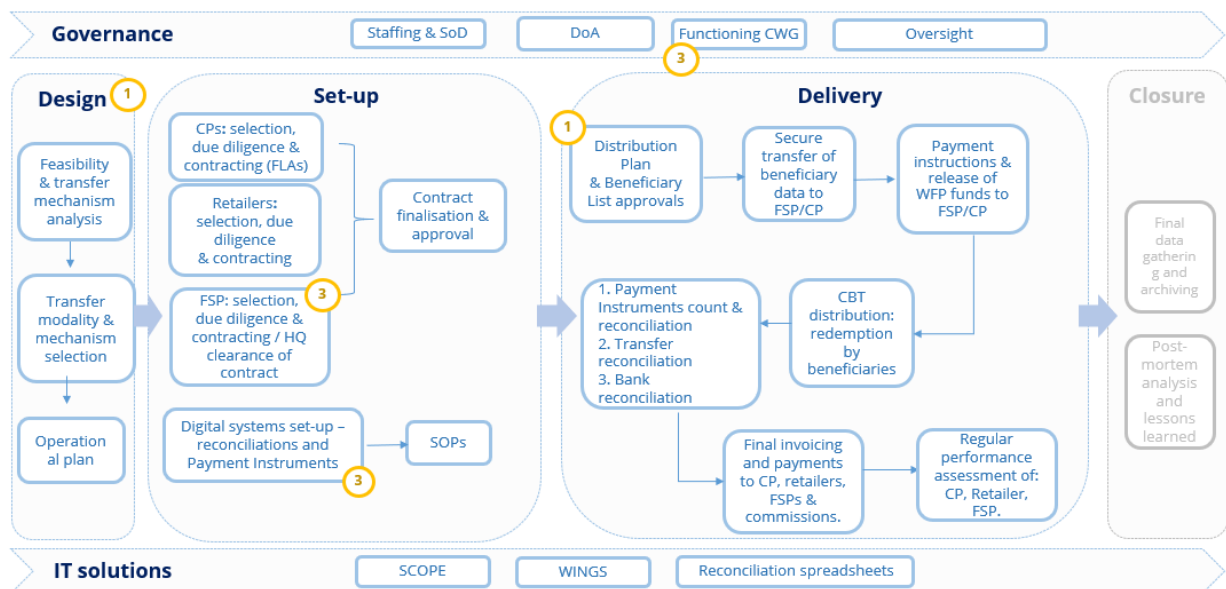
## Cash-Based Transfers

37. The CO introduced cash-based transfers in 2018 as part of a hybrid modality to supplement in-kind food assistance to the beneficiaries of the ICSP. The introduction of CBT was based on contextual and feasibility analysis and recommendations at the time. The CO developed a detailed standard operating procedure (SOP) in August 2018 that outlined the roles and responsibilities and the key controls over the process; an assurance framework was also developed and implemented as part of these procedures. The CO updated the SOP in September 2021.

38. Cash transfers to beneficiaries between January 2020 and September 2021 amounted to USD 2.8 million, 95 percent of which were distributed as unconditional entitlements under activity 1 of the ICSP.

39. Cash was transferred from a regular bank account in the name of the CO to a pooled account in the same bank, also in the name and under full control of the CO, against which beneficiaries withdrew their entitlements using debit cards issued by the bank.

40. Controls related to the oversight of the activities, authorisation, and approval of payment instructions, monitoring of regular distribution, verification of benefit receipt, transfer and bank reconciliations, and final invoicing and payment were established and functioning. The key risks identified related to the operational context (including the economic sanctions on the country, the manual nature of data processing on the part of the Government, and limited choice of financial service providers), which reduced the ability of the CO to implement specific procedures outlined in corporate guidelines.





### Observation 3: Contracting and performance of financial service provider

41. The CO faced a limited choice of financial service providers that could meet its requirements, primarily due to the operational context of the country. Within the limitations, the CO completed the relevant macro and micro financial assessments to support its operations. Issues persisted related to contract management and the operational set-up.

#### *Contract management*

42. The CO obtained clearance from headquarters and the Regional Bureau for the Middle East and Northern Africa (RBC) to renew its contract with the bank, under the same terms and conditions, for an additional period of two years (up to January 2023), thereby waiving the requirement for a full due diligence and a performance bond.

43. To address the risks identified through the contract renewal process, the Business Development - CBT Unit in headquarters recommended the CO to monitor the financial performance of the bank every six months; however, there was no defined plan on how the CO should respond to any risks identified through the regular performance monitoring, how these risks should be escalated, and the related risk appetite and limits that would trigger different risk management responses.

#### *Operational set-up*

44. There were discrepancies between the agreed-upon and actual operational set-up with the bank. Despite the CO's regular engagement and follow-up, the bank was not able to meet the agreed reporting requirements, nor did it implement dual approval for exchange of data through the secure file transfer protocol. As a result, and despite the CO's capacity and facility to generate these reports for active payment instruments, the CO was unable to perform regular analyses of transactions to identify trends or inconsistencies, to support its monitoring of activities, and to implement a proper payment instrument management process.

45. These instances of non-compliance and how to address them were not discussed at the purchases and contracts committee meeting of the CO at the time of the extension, nor at the cash working group meetings.

Underlying cause(s): Non-compliance on the part of the bank with agreed contractual terms and conditions; absence of a defined risk appetite related to the implementation of cash-based transfer activities; and small office and some decisions and deliberations occurred through routine immediate communication rather than formal meetings.

#### **Agreed Actions** [Medium priority]

The country office, with the support from the Regional Bureau for the Middle East and Northern Africa, will work with the Business Development – Cash-based Transfers unit and the Legal department to identify whether additional risk mitigations to address contractual non-compliances are required. This would also inform a risk management strategy to establish a risk appetite and adequate responses to identified risks.

#### **Timeline for implementation**

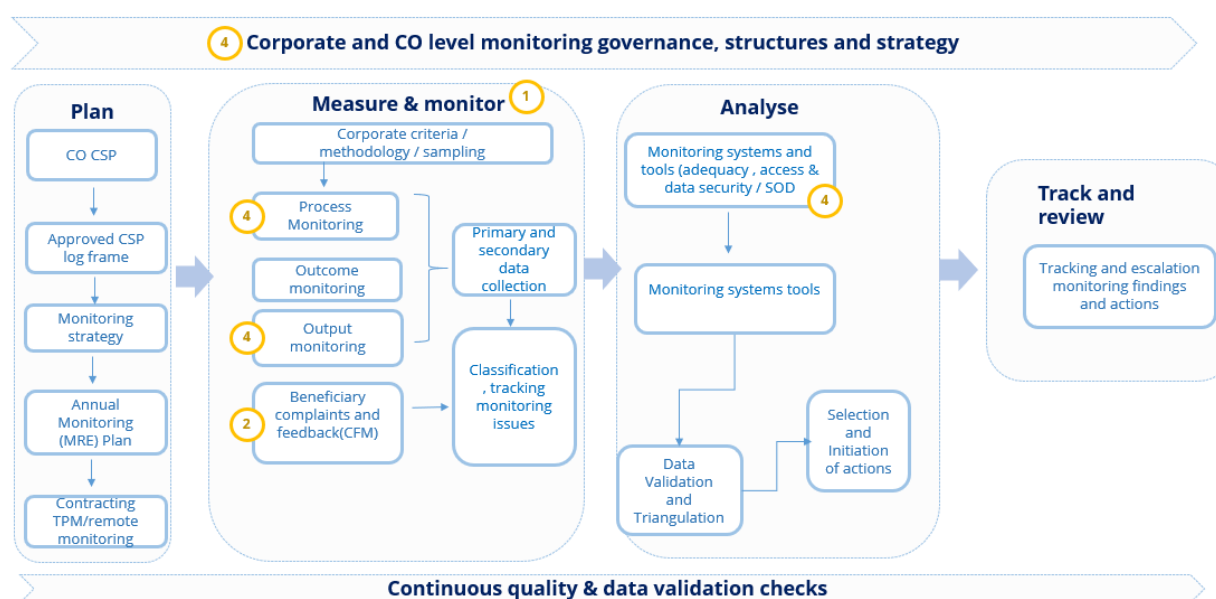
31 July 2022



## Monitoring

46. The CO coordinates its monitoring activities with the Government. Given the limited control of the CO over specific aspects of beneficiary management and implementation of activities, monitoring is key detective control, central in informing management decisions. Controls related to the approval of a logical framework and annual monitoring plans, completeness of monitoring reports, and data validation and triangulation were established and functioning.

47. The issues noted related to the controls on the governance and organizational set-up of the monitoring function; the use of systems and tools to ensure segregation of duties; and the tracking and escalation of monitoring results. Other control gaps related to the operational context of the CO are noted in [Observation 1](#) of this report.



### Observation 4: Programme monitoring and reporting

#### *Roles, responsibilities, and segregation of duties*

48. The CO used the corporate monitoring and evaluation planning and budgeting tool to estimate the resources required to monitor the ICSP activities. From the estimate generated from the tool, further consideration that additional monitoring would have been required to compensate for the CO's limited control over processes such as beneficiary management, CBT and commodity management (see [Observation 1](#)).

49. Due to the small size of the CO, programme staff had overlapping roles and responsibilities for implementation and monitoring of activities, which impacted the effectiveness and independence of monitoring and created perceived conflicts of interest. There was a concentration of responsibilities at the head of programme and programme associate levels and, although planned by the CO, reallocation of tasks within the unit as a compensating control had not yet been actioned.



### *Implementation of remote monitoring*

50. Due to COVID-19 constraints and the related travel ban, the CO did not carry out onsite process monitoring in 2020 and 2021. Remote post-distribution monitoring was completed only once in 2020 as designed.

51. In the absence of onsite monitoring, the CO instituted and planned to increase remote monitoring through phone calls with beneficiaries as a compensatory control. Although all monitoring activities were carried out remotely through phone calls with beneficiaries, there were limitations on the number of calls that could be made. The actual volume of calls was eventually smaller than planned because of COVID-19 limitations.

52. The process for escalating, tracking, and updating monitoring findings could be further streamlined. It was not systematic nor consolidated and lacked an adequate audit trail. The CO recorded all findings in the monthly monitoring reports. The responsibilities for following up, evidencing and closing issues were not systematically documented.

Underlying cause(s): Limited workforce assessment to estimate the monitoring resources required to address the specific risks related to the operational context; travel bans and COVID-19 constraints; limitation from the Government on remote monitoring; and a small office with some decisions made through informal immediate communication rather than formal mechanisms with defined accountabilities.

#### **Agreed Actions** [Medium priority]

The country office will:

- i) Reassess the monitoring requirements considering the country context, allocate adequate resources thereon, implementing a plan for the reallocation of roles and responsibilities to ensure appropriate segregation of duties between implementation and monitoring of activities.
- ii) Assess and agree with the Government, in light of the pandemic, when and how to re-establish regular visits to settlements and remote monitoring; and support the monitoring process with robust data analyses.
- iii) Develop a comprehensive monitoring tracking system and enhance the audit trail for the tracking, review, analysis, and evidence-based closure of monitoring issues.
- iv) Carry out a comprehensive lesson learned exercise to strengthen and mainstream remote monitoring as an alternative to face-to-face monitoring

#### **Timeline for implementation**

30 June 2022



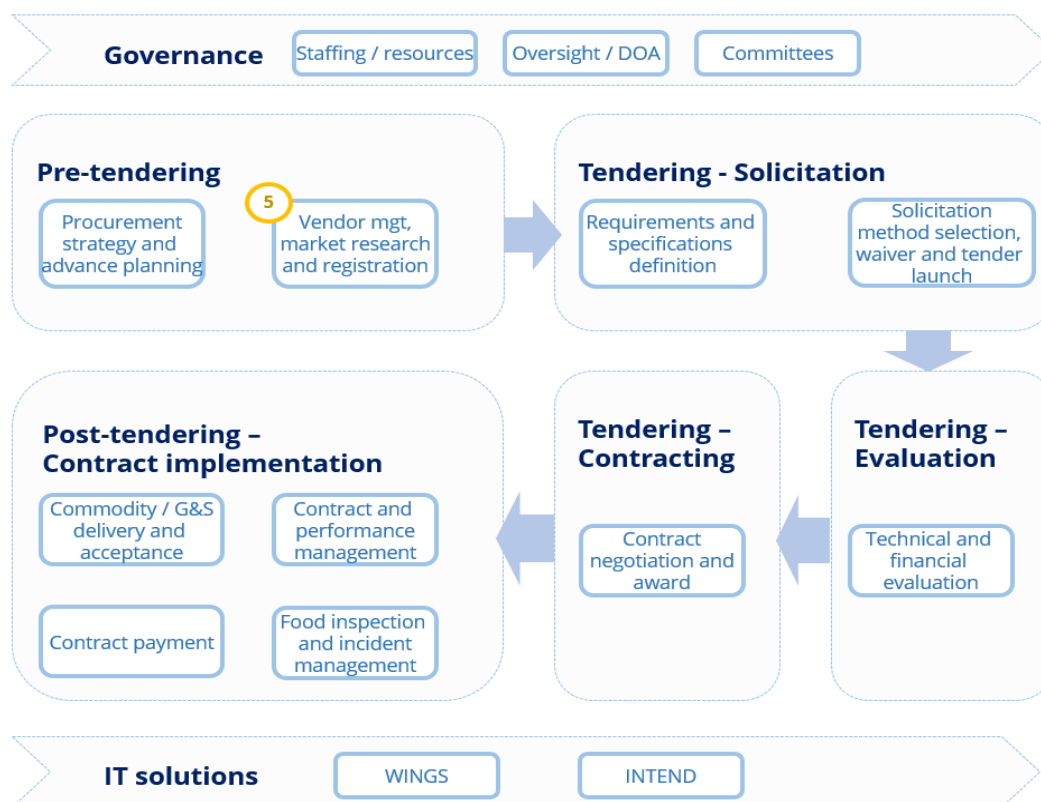
## Supply Chain

53. The supply chain unit consisted of one head and one assistant with non-standard roles. With the economic sanctions on international purchases, all procurement was local and on a “delivery-at-place” basis to the settlements. Under the activities in scope for the audit, the CO supplemented the basic food basket with vegetable oil and lentils during the pandemic; purchased food items for the school feeding programme and non-food items for livelihood projects; and distributed, through the Iranian Red Crescent Society, family food packages to beneficiaries. The Iranian Red Crescent Society highlighted positively the proactive collaboration and timely support of the CO to the COVID-19 national response to address common challenges.

### Procurement

54. CO procurement processes were well defined. The CO implemented all the recommendations raised by the 2018 RBC procurement oversight mission. Local procurement committees were established, meetings and decisions were documented and risk-informed. The CO established and operationalized procurement plans and updated its vendor rosters. Food vendors identified went through a comprehensive due diligence process prior to registration in the vendor roster. The CO monitored contract execution and vendor performance and established appropriate documentation and justifications for contract renewals and extensions.

55. Given the need to carry out all procurement locally, the CO followed the Iranian national standards for food commodities instead of the WFP global specifications. For the period audited, inspection services were generally appointed for a quality and quantity survey on commodities before taking possession of the goods. The CO proactively sought corporate support and guidance on food safety and quality issues and the deployment of a temporary staff to the CO. The CO made efforts to address potential food safety and quality issues during the year and shared English translations of the Iranian food specifications with RBC and headquarters to support the CO request for clearance where deviations arose.

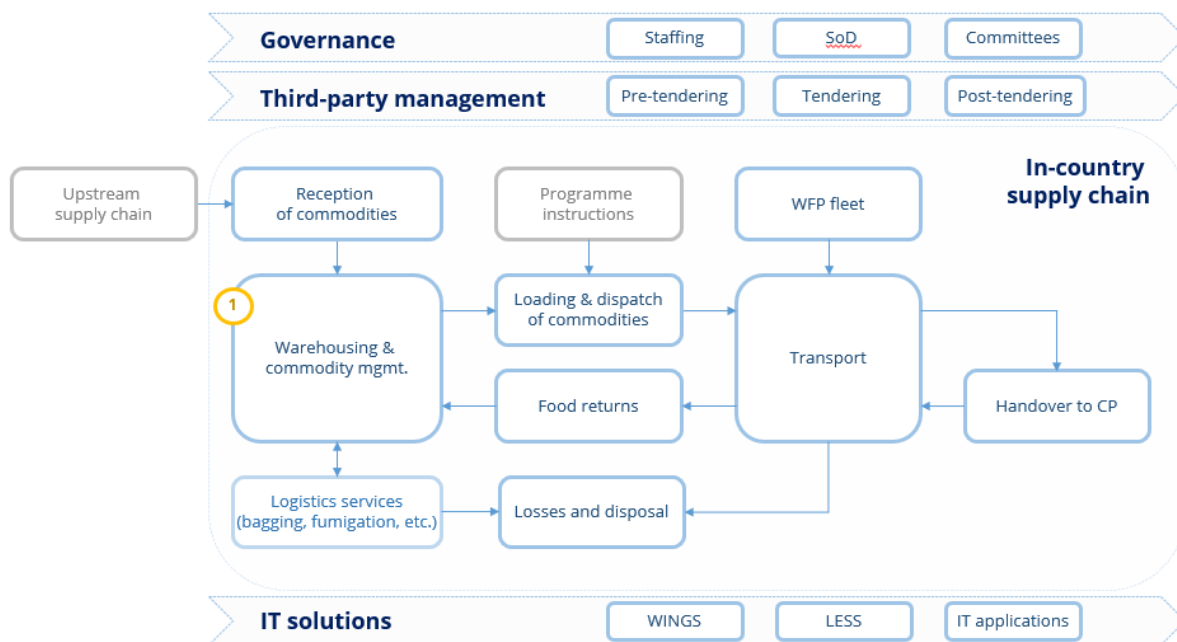






**Logistics**

56. Key controls related to committees, confirmation of commodity receipts, verifications and reconciliations of commodities were established and functioning. Controls over tendering and performance evaluation of transport services, and commodity management, were not relevant to the operating context. The CO established a logistics and transport committee, which met annually and on ad-hoc basis for the review of transporter rosters, as a proactive emergency preparedness measure. The CO completed a logistics service assessment and concept of operations to support the region in case of emergency, in line with the inter-agency Refugee Response Plan for Afghan refugees led by the United Nations High Commissioner for Refugees (UNHCR). One issue was noted on the vendor management process.



**Observation 5: Vendor management process**

57. Due to banking constraints in the country, the CO made payments through checks. The CO therefore did not maintain banking details of its vendors at the time of the vendor creation in WINGS. Vendor name, address, and banking details are key information used for vendor duplicate checks. In the absence of such information, verification could not be performed, which would have allowed the identification of an actual duplicate vendor. No process was in place to ensure vendor identification through on-site visits. The CO did not implement a process for vendor balance confirmations, an internal control activity that is to be carried out twice per year and represents an external source of evidence for asserting the existence, completeness, and accuracy of vendor balances. In some instances, goods and services suppliers were not checked against the United Nations Security Council sanctions list in 2020 due to a staffing gap in the CO. The CO carried out those checks subsequently, and at the time of the audit mission, all vendors were checked, and the process regularized.

Underlying cause(s): insufficient understanding of Goods and Services (G&S) vendor management controls, and non-compliance with the finance and treasury directive on vendor and customer master-data management due to banking constraints in the country.



**Agreed Actions** [Medium priority]

The country office, with the support from the Regional Bureau for the Middle East and Northern Africa, will:

- i) Update missing vendor details in the vendor master data and complete a vendor records duplicate check ensuring full compliance with the vendor and customer master-data management directive.<sup>4</sup>
- ii) Liaise with the headquarters Vendor and Customer Management Unit and arrange for refresher training of staff involved in vendor management and controls.

**Timeline for implementation**

31 July 2022

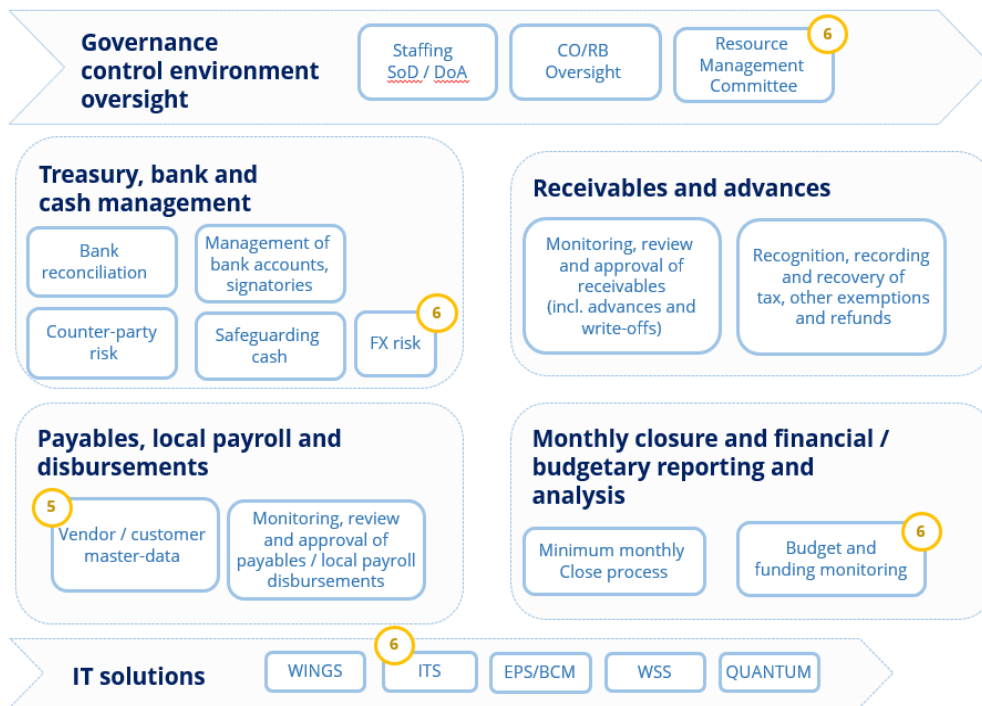
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<sup>4</sup> Document reference: RMF2011/011



## Finance

58. Key controls related to the organizational structure, treasury, bank and cash management, receivables and advances, payables, local payroll and disbursements, and monthly closure were generally established and functioning. The CO made efforts to implement the recommendations of the finance and budget programming oversight mission carried out by RBC in July and August 2021.



### Observation 6: Resource management

#### Resource management committee

59. The CO established a resource management committee, comprising staff from the finance, supply chain, programme, and partnerships units. The committee monitored all contributions and oversaw pipeline and supply chain actions. A sample review of some committee decisions confirmed their effective implementation.

60. One of the main recommendations of the RBC oversight mission in 2021, yet to be implemented, is for an efficient distribution of resource management roles and responsibilities with associated costs managed by finance; food transfer costs managed by supply chain; and overall oversight and reporting by the budget and programming officer. With the small CO size, the audit also identified that the multiple roles of the head of programme as budget and programming officer and the chairperson of the RMC have implications for segregation of duties when budget monitoring, oversight and activity implementation are performed by the same individual.

#### Foreign exchange exposure

61. The CO minimized exposure to the risk of local currency exchange rate fluctuations against the United States Dollar (USD) and market volatility by maintaining amounts in Euros for immediate operational needs. The CO created food purchase orders in USD despite the contracts being issued in local currency, due to local currency devaluation, compounded by restrictions in the WFP’s WINGS system. This was done in consultation with RBC



and as an interim solution. The related invoices were processed at the exchange rate fixed at the time of the purchase order, which is not in line with the financial resource management manual.

62. The interim solution resulted in variations of purchase order values, currency exchange variances for general financial reporting purposes, and in bottlenecks at the time of processing payments.

#### *Invoice tracking system*

63. The 'Invoice tracking system' is the corporate online application designed to track invoices, approve the match with purchase orders, and check payment status of third-party vendor invoices, centralizing invoices within finance for control purposes. The CO maintained the receipt of invoices within finance through a lotus notes application, which was not a corporate solution.

Underlying cause(s): Small CO resulting in over-reliance and significant time commitments to budget monitoring by the Head of Programme and absence of compensating controls; Insufficient skills for budget management in the CO; limited understanding of the WFP financial guidelines for field offices; and system limitation of the corporate solution WINGS.

#### **Agreed Actions** [Medium priority]

The country office will:

- i) Finalize the review of the roles and responsibilities in resource management as recommended by the Regional Bureau for the Middle East and Northern Africa and establish periodic regional bureau oversight checks to compensate for the absence of segregation of duties.
- ii) Seek guidance from headquarters units as needed and establish a standard procedure in compliance with the International Public Sector Accounting Standards, to address the currency exchange variations and system limitations on its reporting of local currency transaction
- iii) In consultation with the headquarters Accounts Payable branch, assess its readiness to implement the corporate invoice tracking system, and develop a roll-out plan, with the support from the Regional Bureau for the Middle East and Northern Africa.

#### **Timeline for implementation**

30 June 2022



## 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.

#	Observation (number / title)	Area	Owner	Priority	Timeline for implementation
1	Rules of engagement with the host Government	Cross-cutting	CO	Medium	31 December 2022
2	Beneficiary management	Beneficiary management	CO	Medium	30 September 2022
3	Contracting and performance of financial service provider	Cash-based transfers	CO	Medium	31 July 2022
4	Programme monitoring and reporting	Monitoring	CO	Medium	30 June 2022
5	Vendor management process	Supply Chain	CO	Medium	31 July 2022
6	Resource management	Finance	CO	Medium	30 June 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.
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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.<sup>5</sup>

### 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 Independent Oversight Advisory 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 Independent Oversight Advisory Committee and the Executive Board of actions closed without mitigating the risk on a regular basis.

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<sup>5</sup> 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.



## Annex C – Acronyms

CBT	Cash-Based Transfers
CCS	Country Capacity Strengthening
CFM	Complaints and Feedback Mechanism
CO	Country Office
ERM	Enterprise Risk Management Division
ICSP	Interim Country Strategic Plan
G&S	Goods and Services
OIGA	Office of Internal Audit
RBC	Regional Bureau for the Middle East and Northern Africa
SDG	Sustainable Development Goals
SOP	Standard Operating Procedure
UNDAF	United Nations Development Assistance Framework
UNHCR	United Nations High Commissioner for Refugees
USD	United States Dollar
WFP	World Food Programme
WINGS	WFP Information Network and Global Systems – WFP’s enterprise resource planning system