Internal Audit of WFP Operations in Syria

Office of the Inspector General
Internal Audit Report AR/22/04

February 2022

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I. Executive summary

WFP Syria Country Office

1.   As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP's operations in Syria that focused on the country office's key processes: beneficiary management, cash-based transfers, supply chain, monitoring, and finance, and tailored reviews of the management of cooperating partners and humanitarian access.

2.   The audit covered the period from 1 October 2020 to 30 September 2021. Expenditure pertaining to the Interim Country Strategic Plan for the audit period amounted to USD 500.4 million. The audit focused on WFP's programme implementation under Strategic Outcome 1 the Interim Country Strategic Plan, which accounted for 90 percent of the plan's expenditure in the audit period.

3.   As defined in the Interim Country Strategic Plan 2019–2021,[1] WFP's operations in Syria aim to continue to provide unconditional food assistance to the most vulnerable people, with a gradual shift to livelihood activities designed and implemented with a view to supporting equitable and sustained recovery for men and women. WFP also aims to continue to implement education and nutrition activities, including capacity strengthening for food fortification initiatives.

4.   Since its inception in 2019, and with a one-year extension in 2020, the Interim Country Strategic Plan has been regularly revised to reflect increasing needs due to the deteriorating food security situation in Syria. The situation continues to worsen, as external and internal economic pressures, compounded by a dramatically deteriorating financial situation fuelled by rapid currency devaluation, have spurred massive food price increases. The budget of the original Syria Interim Country Strategic Plan has more than doubled, from USD 1.3 billion to USD 3.0 billion, and planned beneficiary numbers have increased from five to eleven million.

Audit conclusions and key results

5.   Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory / some improvement needed.[2]** 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.

6.   At the time of writing this report, the country office was reaching around 5.4 million girls and boys, women and men across all activities each month. In-kind food distribution remained the key activity throughout the implementation of the current Interim Country Strategic Plan, and the country office only covered approximately 13 percent of planned beneficiaries via cash-based transfers.

7.   The operational context in Syria remains challenging with a complex data protection framework affecting access to beneficiary personal information, constraints to distribution sites and other key field locations, continued conflict, economic collapse, and the COVID-19 pandemic. The country office has adapted its processes to address these challenges, including through reliance on cooperating partners for beneficiary targeting and beneficiary data management, and on contracted third parties for monitoring and warehouse management. These adaptations carry some associated risks, which are either accepted within

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[1] Syrian Arab Republic Interim Country Strategic Plan 2019-2021
[2] See Annex B for definitions of audit terms

the operational context or are being further mitigated by the country office. The majority of agreed actions raised in the audit report relate to strengthening, tightening or updating these existing processes.

8.   As noted above, in the Syrian context, the country office operates through cooperating partners for beneficiary data management, the largest being the Syrian Arab Red Crescent and the others being mostly national non-governmental organizations. Only these partners, and not WFP, have access to beneficiary personal data, which presents limitations in relation to verification and monitoring in activity implementation.[3] Some actions were identified by the audit to strengthen the existing beneficiary feedback mechanisms.

9.   Given the prominence of the in-kind distribution modality within Syria, the audit acknowledges the country office's effective response to supply chain challenges arising from contextual and economic factors during the audit period. The country office faced food quality issues related particularly to regionally procured commodities, and while it had established mitigation controls within Syria, the risk emanating from the source still posed a challenge to its operations and will necessitate a re-examination of regional commodity sourcing.

10. While the country office had set up a dedicated unit to manage retailers for cash-based transfers, some gaps were identified during the audit and relevant corrective actions were agreed with the country office to strengthen the retailer management process. As the country office was planning to change the nature of its cash-based operations and shift to a financial service provider as a delivery mechanism, the process was marked by contextual challenges, including approvals from the Government and limitation on the use of technology for authentication and beneficiary data management.

11. The implementation of monitoring practices was in compliance with corporate guidance. Considering the extensive use of third-party monitors given access constraints, the country office had initiated an analytical exercise to determine its ability to expand direct monitoring; completion of this exercise will be necessary to allow determination of the best balance between third party and direct monitoring. Further improvements were needed to strengthen oversight of issues identified through monitoring activities.

12. During the audit period, the country office engaged with 56 local and international non-governmental organizations to implement activities in Syria. The audit acknowledges that a thorough due diligence was performed on the cooperating partners sampled by the audit and that some progress had been made to address significant delays in signing field level agreements. Further, simplification of field level agreement processes was required, including possibilities to expedite payments more rapidly. Improvements were also needed to strengthen the cooperating partner capacity oversight tool and the timeliness of performance evaluations.

Actions agreed

13. The audit report contains one high and six medium-priority observations, one of which has actions directed at the regional bureau level. Management has agreed to address the reported observations and work to implement the agreed actions by their respective due dates.

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

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[3] This was raised already in Observation 2 of the Internal Audit Report of WFP's Implementation of GFA & Livelihood Activities in Syria AR/19/06 (February 2019)

II. Country context and audit scope

Syria

15. The Syrian Arab Republic has faced a prolonged crisis since 2011, which has caused severe damage to the country's economic and social fabric. In 2020 protracted conflict, economic collapse and the impacts of the coronavirus pandemic further exposed the Syrian people to food insecurity and eroded their livelihoods. As of late 2020, 12.4 million people, 60 percent of the population, were food-insecure, an increase of 57 percent from 2019, with households headed by women disproportionally affected. Some 6.7 million people remained internally displaced. In addition, there are an estimated 3.1 million people with disabilities. While acute malnutrition is not widespread, high stunting rates indicate that chronic malnutrition remains a problem nationwide.

WFP operations in Syria

16. WFP has been active in Syria since 1964. Since 2011, WFP has been providing food, nutrition, and livelihoods assistance to crisis-affected Syrian families in the country. The country office (CO) is implementing its activities under the 2019-2021 Interim Country Strategic Plan (ICSP). A one-year extension of the ICSP and budget revisions more than doubled the planned expenditure of the country office from USD 1.3 billion to USD 3 billion, and planned beneficiary numbers increased from 5 million to 11 million. At the time of the audit, the CO was in the process of developing a new ICSP for the next two years (2022-2023) with a budget of USD 2.8 billion, under which it plans to continue its large-scale provision of unconditional food assistance, refocus its education and nutrition activities, and expand its activities aimed at strengthening livelihoods, boosting household resilience, and restoring food systems.

17. WFP provides life-saving food assistance to 5.4 million people in Syria each month. This includes families who require emergency food during conflicts and displacement, and those who need help to improve their nutrition and take ownership of their food security. Each month, the CO supports children across the country to eat healthy meals and snacks at school; mothers and children to eat more nutritious diets; and families to gain new skills to earn an income and create brighter futures. Expenditure pertaining to the ICSP from 1 October 2020 to 30 September 2021 amounted to USD 500.4 million.

18. During the audit period, the deteriorating food security situation in Syria prompted a considerable scale-up of WFP's crisis response activities. This, however, did not considerably change the nature of programme activities and in-kind food distribution remained the key activity throughout the implementation of the current plan.[4] The CO has not been able to scale up cash-based operations in accordance with the current plan and only covers approximately 13 percent of the planned beneficiaries through cash-based transfers (CBT).[5]

Objective and scope of the audit

19. 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 Syria. 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. The audit fieldwork took place from 17 October to 4 November 2021 at the CO in Damascus and encompassed visits to sub-offices in Homs and Latakia. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

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[4] The CO distributed 565,720 metric tons (MT) of food to beneficiaries. Food commodities were sourced locally, regionally, or globally through procurements undertaken by the CO, Regional Bureau of the Middle East and North Africa (RBC) or WFP Headquarters in Rome, and were received through Latakia and Tartous ports in Syria or through a corridor using Beirut port in Lebanon.

[5] USD 27.2 million of CBT was distributed during the audit period to around 140,000 beneficiaries on average monthly.

20. The Office of Internal Audit (OIGA) developed a 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:

21. The audit focused on activities under Strategic Outcome 1 representing 87 percent of the ICSP requirements and 90 percent of the CO's expenditure in 2020:

- *Strategic Outcome 1: Food-insecure populations affected by the crisis, including host communities, internally displaced persons and returnees, in all governorates, have access to life-saving food to meet their basic food needs all year round[6].*

22. 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 and logistics to minimize duplication of efforts.

23. OIGA supplemented this predetermined scope with a risk assessment to identify any additional processes that should be in scope for the audit. Based upon this assessment, tailored reviews of the management of cooperating partners (CPs) and humanitarian access were included.

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[6] Strategic outcome 1 has a dual objective of providing humanitarian food assistance to the most food-insecure women, men, girls and boys affected by the prolonged crisis in the Syrian Arab Republic and implementing school meal activities in areas hosting large numbers of internally displaced persons and with low food security and education indicators.

III.Results of the audit

Audit work and conclusions

24. The eight 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 20), with an initial section to capture cross-cutting issues, plus a section related to management of CPs (see paragraph 23).

25. 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 indicated in the diagrams.

Cross-cutting issues

Observation 1: Delegation of authority

26. During the audit period, more than 70 percent of the purchase orders (PO) for logistics services, including inland and overland transportation, were released by Deputy Country Directors (DCD), at times acting in their capacity as officer-in-charge in the absence of the Country Director (CD) and, at other times, in their role as DCDs.

27. Such delegations and authority levels are granted based on the seniority of the CD, which – if largely delegated to a less senior official – require reconsideration at corporate level in OIGA's view. The authority to release POs related to inland transportation and associated services rests with the CD, and only the Executive Director can authorize the CD to sub-delegate this authority. Similarly, the authority to release POs related to overland transportation and associated services rests with the CD and any further sub-delegation needs to be authorized by the Director Supply Chain.

28. The audit noted there was an absence of such authorizations for the CD to sub-delegate his authority to the DCDs in relation to logistic services. This was also noted in in a management oversight report issued in 2020 by the Regional Bureau for the Middle East and Northern Africa (RBC).

29. During the audit period, the CO, in coordination with RBC and the headquarters Supply Chain division, submitted decision memos to headquarters seeking approval for sub-delegations for the period from June 2021 to June 2022 (seeking to apply approval retrospectively where necessary). At the time of finalising the audit report, the CO was awaiting approval of these memos.

<u>Underlying cause(s)</u>: Concentration of release authority with the CD resulting in a bottleneck; large number of transactions and POs requiring release.

Agreed Actions [Medium priority]

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

(i) Evaluate the process in place for creating purchase orders and identify ways to reduce the approvals under delegation of authority (for example by reducing the number of purchase orders).

(ii) Proactively seek proper authorization & approvals to comply with the 2018 Executive Director Circular on delegation of authority

Timeline for implementation

30 June 2022

Beneficiary management

30. During the audit period, the CO had engaged in a large-scale household vulnerability review exercise to refine its targeting strategy and to ensure that the most vulnerable households received food assistance. The exercise was implemented through the Syrian Arab Red Crescent (SARC) and local non-governmental organizations (NGOs) acting as WFP's CPs in the general food assistance (GFA) activity. Only these partners have access to beneficiary personal data, which presents challenges to the CO's verification and monitoring exercises in activity implementation. In effect, the CO partially accepted this contextual risk and started to complement the retargeting exercise with additional monitoring controls to ensure that data collection was conducted correctly. This included the anonymization of beneficiary data through unique identifiers to enable access to beneficiaries without compromising national data protection frameworks.

31. The controls tested in relation to beneficiary management are illustrated in the process diagram below. Controls tested were found to be working effectively. As indicated in the diagram, observation 2 discusses those reportable issues identified by the audit related to complaints and feedback mechanisms and to beneficiary data management related to cash-based operations.
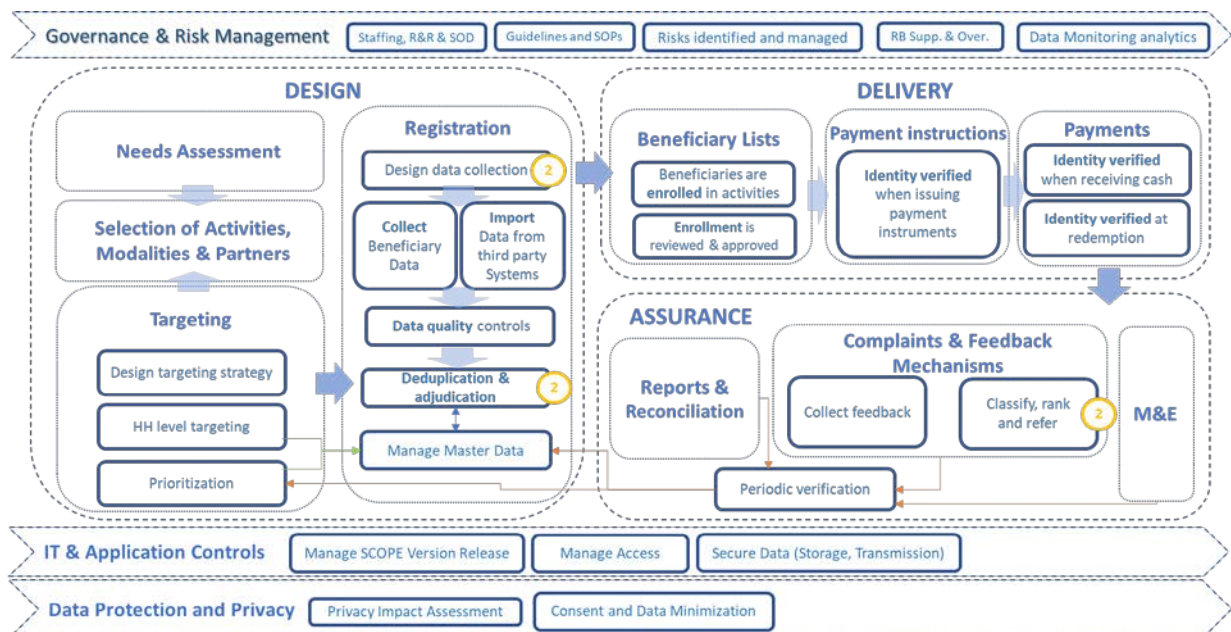
Observation 2: Beneficiary management

Accountability towards Affected Populations

32. A helpline was set up in 2020 with the objective of opening a direct channel of communication with WFP beneficiaries. The CO had proactively started to work on enhancement of this system to deal with an increasing volume of calls, including recruiting additional staff to distribute the calls to more channels, creating a new shift system, and addressing challenges related to the queueing system.[7] Despite these improvements, the set-up in

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[7] 12,000 calls were received in 2021 at the time of audit fieldwork. The feedback and complaints received were mostly related to humanitarian assistance, ranging from requests for information to amendment of personal information and further requests for assistance.

place did not allow the direct logging of calls received to SugarCRM,[8] WFP's corporate complaints and feedback mechanism (CFM) digital tool. There was therefore potential for calls received to be overlooked or lost.

Beneficiary data management for CBT

33. WFP's corporate SCOPE[9] platform is used by the CO to store household data and biometric data related to cash-based operations.[10] Partners are responsible for registering beneficiary data through the SCOPE mobile application and for uploading it to the SCOPE database. The systems and procedures in place for cash assistance were clear and generally functioning well. The audit noted some aspects in the management of beneficiary data that could be improved.

34. The CO had already identified key risks associated with a parallel data collection system that partners were adopting for potential follow-ups (including beneficiary communication and complaints management) and other operational issues. This system is necessary because partners do not have access to the beneficiary data collected and stored in SCOPE and may need immediate and offline access to their beneficiaries. Although the CO had begun working with partners to strengthen data security and protection for their own data collection systems, including by hosting the beneficiary data in access-restricted SharePoint folders provided by WFP, it still needed to work with field offices and partners to explore possibilities of creating more solid and safe storage systems. Such strengthening could include, for example, harmonization of the tools and minimization of the data fields required for programme implementation, as required by the privacy impact assessment (PIA)[11] conducted in 2020.

35. The audit noted that the CO had reviewed the nature of beneficiary personal data being collected and had made sure that only that data with a legitimate purpose was included. Despite this, the CO had not formalized the use of biometrics for future CBT set-ups (including in camps or as a contingency delivery mechanism) after the scale-up of the GFA hybrid modality[12] and the expected shift to a financial service provider (FSP) as a delivery mechanism, which will rely on alternative ways for authentication upon redemption.

36. To avoid uploading beneficiaries twice into the system, partners used a deduplication tool which allowed them to check if a person was already receiving WFP assistance. Existing corporate solutions[13] based on biometric deduplication had been dismissed by the CO based upon a detailed risk assessment. Instead, the CO had decided to maintain an improved and encrypted version of the locally developed Identity Beneficiary Registered (IBR) tool to prevent duplicate registrations taking place at partners registration centres. This system is based on the analysis of non-biometric beneficiary data and, as such, there is potential for duplicates entered in SCOPE by partner staff to not be detected.

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[8] SugarCRM, a Customer Relationship Management (CRM) software, is WFP's corporate digital tool for complaints and feedback, allowing safe storage, accurate management, and detailed analysis of feedback received from users.

[9] SCOPE is WFP's beneficiary information and transfer management platform.

[10] Household data, ranging from addresses, documentation, age etc., is collected in SCOPE. Photos of the principal recipient and the alternate are taken to print them on the household's SCOPE card. Fingerprints are also registered and used to mitigate the risk of fraud as these will be used to authenticate the beneficiary upon distribution of the SCOPE card by WFP's partners.

[11] The purpose of a PIA is to identify, assess and mitigate the risk arising from the processing of personal data related to a specific activity or programme in WFP operations. It aims at weighing the harm and potential breach of confidentiality that might occur within specific programme related processes. It includes recommendations on how to mitigate or avoid these risks.

[12] The hybrid modality consists of a partial in-kind food ration combined with an electronic value voucher. This modality is designed as a mitigation measure in response to the unstable macroeconomic conditions in Syria; providing beneficiaries with the commodities with the highest price fluctuations and scarcity in-kind.

[13] SCOPE Real-Time Biometric Identification (RTBI) can capture biometric data in the field to verify the identity of a person by matching it against biometric data previously collected at registration. This can even be done without internet connectivity.

37. From a review of beneficiary data registered in SCOPE, the audit noted that the CO had not introduced a limit to the number of households in which a person can be registered. Preliminary audit analysis indicated instances of the same biometrics registered multiple times for principal and alternate recipients, which would require review by the CO.[14] Based on the information shared by the audit, the CO started to follow-up on biometrics individual ID values which were associated with more than two household IDs.

38. <u>Underlying cause(s)</u>: Contextual and technical constraints (including challenges to obtain the approval of the Government for the CO helpline system) challenging the necessary adaptations of the CFM system to at least ensure an automatic log for all calls; numerous partner set-ups and systems for beneficiary data collection to be reviewed and assessed; evolving operational context as a result of the introduction of new delivery mechanisms; operational context causing challenges to implement corporate deduplication solutions; deduplication and adjudication processes after registration not implemented by the CO.

Agreed Actions [Medium priority]

The country office will:

(i) Leverage on existing good practices within WFP for hotline management; and continue to explore opportunities for system automation and loop closure of referred cases.

(ii) Continue to assess partner data collection practices and make recommendations to ensure partners meet expected standards as specified in the privacy impact assessment.

(iii) In collaboration with the country office cash working group, formalize the use of biometrics for future cash-based transfers set-ups.

(iv) In collaboration with the SCOPE support desk in Nairobi, assess the opportunity of using existing post-registration deduplication facilities embedded in the SCOPE platform.

(v) Review the exceptions detected (as detailed in the observation above) and determine if these might be justified by specific programmatic decisions, or else take corrective actions as appropriate.

Timeline for implementation

31 December 2022

Point (iii) of the agreed action had been implemented by the country office prior to issuance of the audit report.

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[14] 19,082 persons registered during the period January 2020 to October 2021 had a biometrics ID that was associated with more than one person; 14 biometrics IDs were associated with more than 10 persons – of which one up to 371 persons.

Cash-Based Transfers

39. The CO has invested significantly in its CBT framework in recent years and will continue to emphasize the scale-up of CBT operations, primarily through expanded use of CBT in GFA where feasible and appropriate.[15] Over the course of 2020, the CO doubled the number of CBT contracted retailers and, as of end of September 2021, had contracted 176 retailers spread across 12 governorates.

40. The audit review focused on retailer selection and performance management, in addition to a limited review of the CBT setup in place, as the CO anticipates a shift to an FSP as a delivery mechanism. The audit found that a well-structured unit in the CO was established to manage retailers, reporting to the Head of Supply Chain. Other areas illustrated in the schematic map of key controls below were not covered.
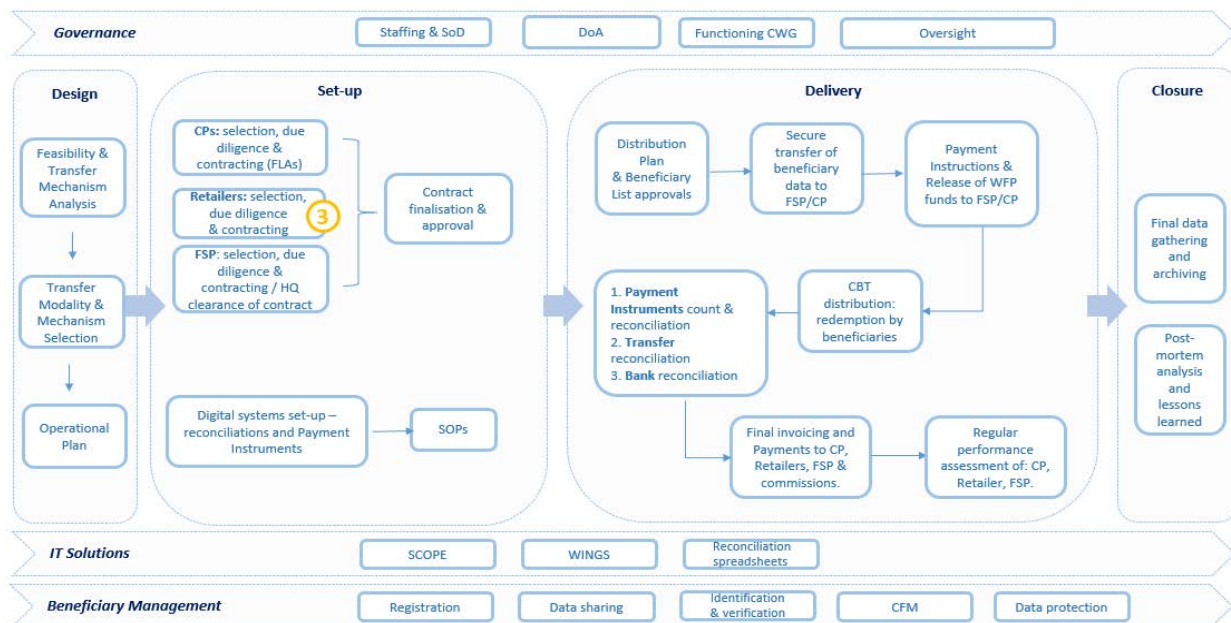
Observation 3: Retail management for cash-based transfers

Retailer assessments

41. Prior to contracting, assessments of retailers are carried out by field office staff from different functional areas/units (mainly CBT Logistics and Programme) and, subject to satisfactory assessment results, a retailer is added to the roster and contracted following endorsement by the Procurement Contracts Committee (PCC).

42. The audit observed that staff conducting the initial assessments were from the same field offices in which areas the retailers operated. Although the staff involved were required to sign a declaration of conflict of interest in accordance with the Shop Assessment and Contracting process, they were in frequent contact with the retailers (particularly those staff from CBT Logistics), which created a potential conflict of interest and might impact the objectivity of the initial assessments.

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[15] The CBT programme in the CO reached 682,082 beneficiaries in 2020 and 2021.

Retailer contract management

43. In some cases, retailers refer beneficiaries to a neighbouring or secondary retailer to provide goods that they do not stock, mainly fresh food. This process is referred to as business-to-business (B2B)[16] and is not formalized within the CO as still in a pilot phase. B2B shops constitute 10 percent of the contracted retailers and are currently logged only in an Excel sheet. Accordingly, there is a risk that not all secondary retailers are identified and undergo proper assessments/evaluations by the CO, especially in relation to food safety and quality (FSQ).

Retailer monitoring

44. Prices set by retailers are monitored through monthly on-site visits by monitors, in addition to a price monitoring dashboard. Retailers are required to upload on a daily basis an extract of their point of sale (POS) transactions, which are then displayed in the dashboard and compared to prices collected independently by the Vulnerability Analysis and Mapping (VAM) unit. The aim of this step is to ensure that actual retailers' prices (POS) are aligned with the market (VAM-collected prices). The dashboard covered less than 50 percent of the contracted retailers and, as such, did not provide a completely accurate overview of the prices charged to beneficiaries (especially in the context of continuous price fluctuation in Syria). Moreover, there were cases of retailers uploading prices, which were not reflected in the dashboard due to technical issues; these issues had been reported to the headquarters Technology Division (TEC) in charge of the back-end process.

45. The CO was using several other dashboards to monitor retailer performance and sales. The enhancement of an anomaly detection dashboard was still under process with the headquarters Data Assurance Team (DAT). Leveraging on the use of data analytics to quickly spot irregularities to investigate is a priority given the onboarding of numerous new retailers.

Underlying cause(s): Limited availability of CO staff to conduct all assessments; challenges of governmental approval for all field visits; assessment of B2B retailers conducted informally/not systematically; 10 percent of all retailers having B2B, which is considered by the CO to be in a pilot stage; retailers (especially in rural areas) not uploading commodity prices; technical issues in the back-end process for reporting; CO requests not prioritized by DAT.

Agreed Actions [Medium priority]

The country office will:

   i) Ensure that independent retailer assessments are conducted with the support of the country office supply chain unit.

   ii) Complete the risk assessment of business-to-business processes, and should the country office decide to continue using this model update both guidance to address risks associated with monitoring processes, and roles and responsibilities for retail management.

   iii) Strengthen the process of price monitoring and improve the coverage of retailers/data quality.

   iv) In collaboration with the Cash-Based Transfers Data Assurance Team in headquarters, finalize the development of retailer dashboards (including an enhanced transaction anomaly dashboard) leveraging on good practices observed in the region.

**Timeline for implementation**

31 December 2022

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[16] Business-to-business (B2B) refers to business that is conducted between retailers, rather than between a retailer and individual beneficiary.

Supply Chain

Logistics

46. Key controls related to logistics function were generally implemented and functioning well, including key committees related to contracting and operations; exceptions identified by the audit are indicated in the diagram below, and are described in the corresponding observations.

47. The CO faced additional challenges due to currency depreciation and fuel shortages during the audit period. The CO generally responded effectively by establishing tariff system contracts for primary transportation and by floating requests for quotations (RFQ) for both primary and secondary transportation frequently (twice a year instead of once a year). For logistics functions, the CO works with various service providers, including to support commodity management in all WFP-managed warehouses.
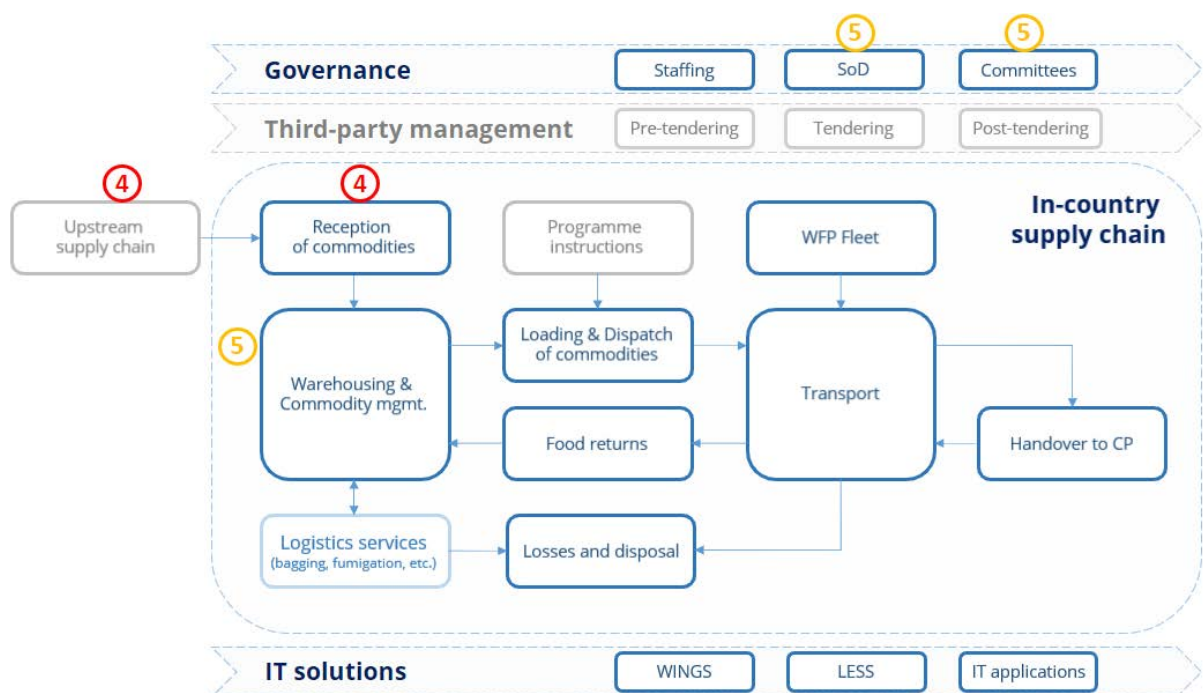
Observation 4: Supply chain optimization related to commodity sourcing

48. The CO distributed 565,720 MT of food commodities during the audit period sourced locally, regionally and globally, including commodities procured by RBC on behalf of the CO. For procurement undertaken by RBC, third party inspectors were used in the country of origin to certify the quality of commodities at different stages of the supply chain process. The CO received commodities into two Syrian ports where strict quality checks were conducted by local authorities.

49. During the audit period, certain commodities received by the CO were declared by local authorities at the port of discharge to have quality issues caused by the presence of insects or were found to be in such a condition, upon further inspection, by staff at WFP warehouses after port clearance. During the audit period, there were 80,000 MT of commodities which were fumigated in WFP warehouses, in addition to fumigation by authorities on vessels before clearance. This was particularly significant for one commodity, wheat flour, received from Egypt and procured by RBC. Affected commodities were fumigated on vessels by local authorities or by the third-party service provider at WFP warehouses, with repeated inspections until declared clean.

50. As the risk and ownership for food commodities is transferred to WFP when the commodities are received at the port of loading, WFP had to bear all additional costs related to food quality issues from the source; these amounted to USD 289,000 for fumigation, sieving and spraying of commodities in warehouses for the period January 2020 to September 2021. These additional measures to ensure that commodities were fit for distribution resulted in supply chain delays. These challenges were repeatedly escalated to RBC, resulting in multiple missions during the audit period by RBC staff to Syria.

51. The audit observed that the CO had put in place additional local detective measures downstream, including contracting of service providers for fumigation, arrangement of separate isolated locations for fumigation, and regular inspection of stored commodities at warehouses, thereby attempting to minimize residual risks. No instances were identified by the audit of quality-impacted commodities having been distributed to beneficiaries.

52. Yet supply chain processes at the source, including procurement and quality and quantity inspection, were not effectively minimizing WFP's exposure upstream in a preventive manner. It was observed that RBC procurement decisions were primarily driven by price; other factors such as those related to potential quality issues due to insects, climatic conditions, and preference of overland transport instead of shipping to avoid aggregating commodities, were not embedded in decision-making. On a few occasions, the audit also observed that the CO had requested to modify such decisions and to split procurement between Egyptian and Jordanian sources with a preference for Jordanian sources which avoid the need for shipping.

Underlying cause(s): Supplier aggregating commodities over time, sourcing from various mills in climatic conditions suitable for potential insect presence; climatic conditions & longer time in storage (while aggregating) increasing the risks of quality issues; factors relating to potential additional cost, climatic conditions and control of delivery process not considered during the selection of sources; selection of lowest bid without consideration of other items such as FSQ in sourcing process.

Agreed Actions [High priority]

The Regional Bureau for the Middle East and Northern Africa, in consultation with the CO, will:

    i) Strengthen supply chain processes to ensure minimization of the time between production and dispatch of commodities, further enhance quality and quantity inspection during and after production, and ensure that quality inspections are carried out at the closest time possible to the transfer of ownership of commodities to WFP.

    ii) Review its procurement strategy related to Syria, taking into account the factors of climatic conditions, time delays, and potential additional costs downstream, and evaluate if current sourcing options need to be expanded with alternatives.

Timeline for implementation

31 December 2022

Observation 5: Commodity management

53. The CO had established a Stock Taking Committee (STC) with clear terms of reference (TOR), and physical inventory counts were being conducted on monthly basis. The audit noted the following gaps and areas for improvement in the CO's physical inventory count (PIC) process:

- Although the STC was established to create another layer of control separate from logistics staff, the audit observed that in effect the TOR was not fully complied with, and the responsibilities of logistics staff and STC members overlapped in some cases during the PIC process.

- STC members did not use system generated reports for conducting the PIC and, instead, recorded results manually. Logistics staff took the lead on other aspects of the PIC process, despite the fact that

the TOR places more responsibility on STC members, with logistics staff playing the role of facilitator to the STC.

- The PIC process was not standardized across the CO, and different area offices used different reports, templates, and validation procedures. In a few instances, it was noted that the physical count sheet or the PIC report was not verified by STC members.

- The PIC documents did not identify the condition of the commodities physically counted, as required by the transport and logistics services manual. For example, during an audit visit to one warehouse, commodities were observed that were declared infested and under fumigation, while the relevant PIC documents did not include any such details.

- Internal movements within warehouses were not incorporated in WFP's supply chain commodity tracking system (LESS),[17] resulting in physical inventory not matching the system stack location. These discrepancies were also not included/highlighted in monthly PIC reports.

54. Further, the CO operated warehouses in Syria where WFP staff had limited access, mostly for security reasons, and where STC TORs may not be implementable. In these areas, the CO relied on the service provider managing the warehouse for accurate reporting of physical inventories.

<u>Underlying cause(s)</u>: Corporate tools and guidance for warehouse management not tailored for special contexts such as Syria where commodity management at warehouses is outsourced to service providers; lack of clarity and guidance from CO to field offices.

Agreed Actions [Medium priority]

The CO will:

(i) Contextualize the physical inventory count process and guidance in line with corporate requirements to define the roles, responsibilities of different stakeholders; and review the need to augment and tailor the terms of reference of the Stock Taking Committee in the context of the Syria CO.

(ii) Further train logistics staff, Stock Taking Committee members and service providers managing warehouses on WFP warehouse management guidelines and physical inventory count procedures.

Timeline for implementation

30 June 2022

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[17] The Logistics Execution Support System (LESS) is a business management tool for WFP's commodity supply chain processes.

Procurement

55. Local food procurement amounted to USD 31 million during the audit period, constituting 11 percent of overall commodity purchases, versus 60 percent completed at headquarters level and the remaining procured regionally. FSQ activities were systematically carried out starting from vendor enrollment, to production, delivery, and storage by a dedicated unit in the CO with the support of an external service provider. An oversight mission covering supply chain was conducted by RBC in October 2020 and the CO had implemented the majority of the recommended actions.

56. In general controls related to procurement, illustrated in the schematic diagram below, were found to be operating effectively, and no reportable findings arose (see paragraph 25 for more details).
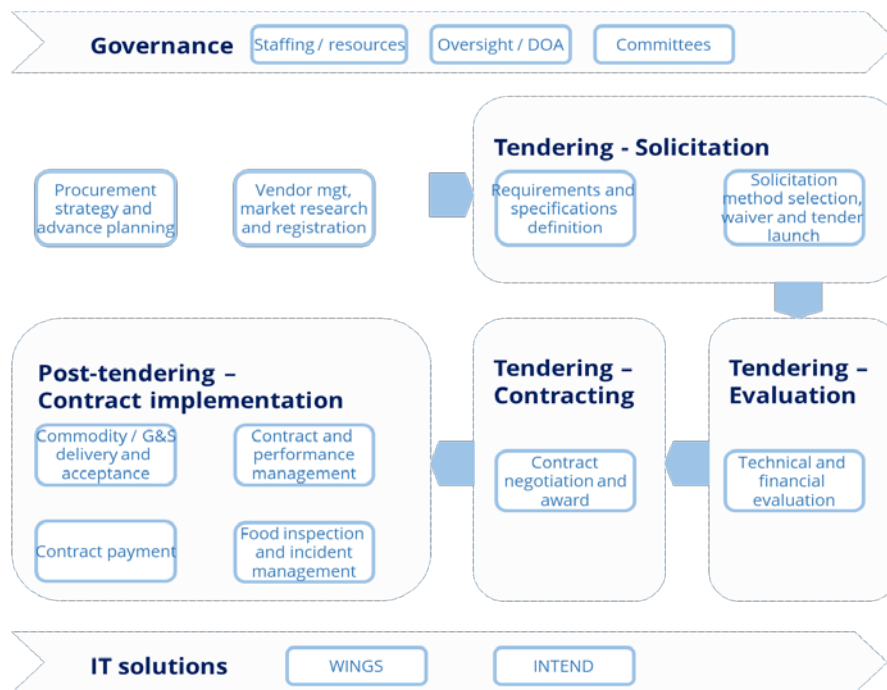
Monitoring

57. The CO had a comprehensive Monitoring and Evaluation (M&E) strategy in place, had established a monitoring and evaluation plan, and complied with corporate minimum monitoring requirements. Given the significant access restrictions and complex situation in Syria, third party monitoring was the main mitigating action available to the CO. The controls tested in relation to monitoring are illustrated in the process diagram below. Controls tested were found to be working effectively, and other than findings identified by the audit related to third party monitoring and tracking of monitoring issues discussed in observation 6 below, no other issues were raised.
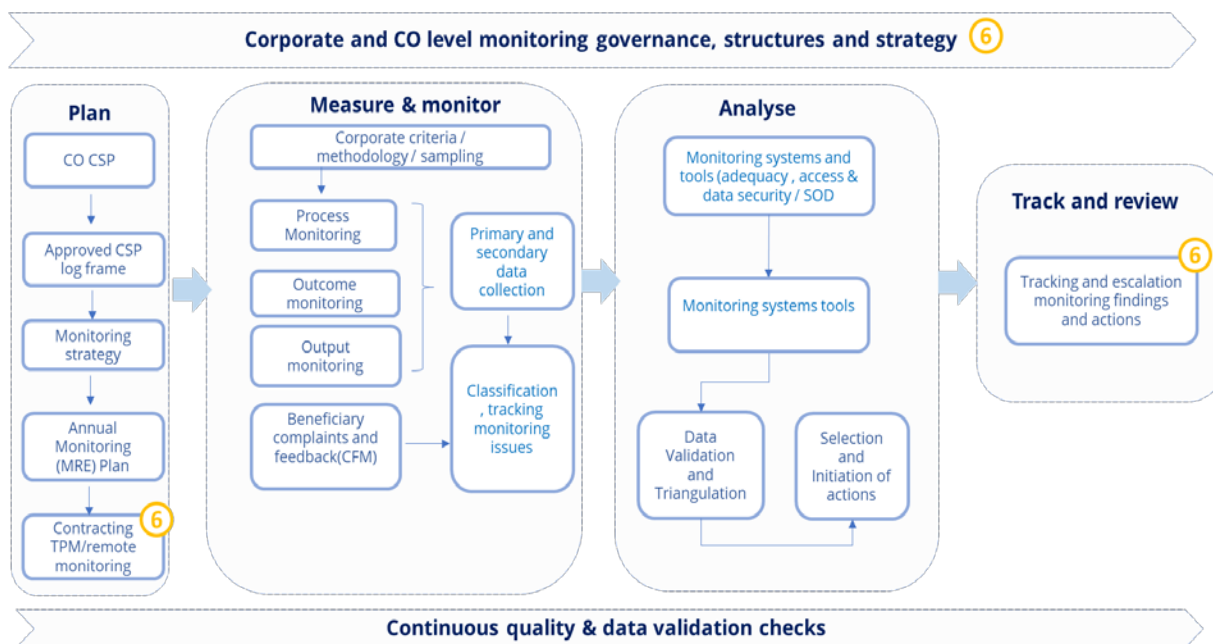
| **Observation 6: Monitoring** |

Third-party and direct WFP monitoring

58. By necessity in the Syrian context there was significant use of third-party monitors (TPM) to monitor the CO's operations. As a result, considerable usage of WFP resources was required to train frequently changing TPM staff.

59. The strategic priority outlined in the CO's M&E strategy was to expand WFP direct monitoring. The CO had started an analytical exercise in May 2021, including collection of data, to assess its ability to carry out such an expansion. Notable efforts had been made, including ad-hoc assessments of the security situation and further augmented field monitoring staffing capacity. Despite these efforts, at the time of the audit there was no concrete indication as to whether the overall aim to expand direct monitoring would be achieved.

Oversight of issues

60. A consolidated tracking sheet of issues identified from monitoring activities did not contain sufficient information for a comprehensive audit trail and risk-informed decisions (for example, relevant timelines and justification of the implementation status of issues). Systemic issues requiring action on the programmatic design of CO operations were not tracked in a structured way by relevant staff.

Underlying cause(s): Limited access to certain locations; field office monitoring staff constraints; limited capacity of the TPM due to high turnover of staff; lack of corporate tools and explicit guidance.

**Agreed Actions** [Medium priority]

The country office will:

(i) Finalize work underway to determine the best balance between third party and direct WFP monitoring.

(ii) Identify ways to strengthen quality and oversight of the issue tracking tool to allow for informed risk management decisions.

Timeline for implementation

30 June 2022

Point (ii) of the agreed action had been implemented by the country office prior to issuance of the audit report.

Finance
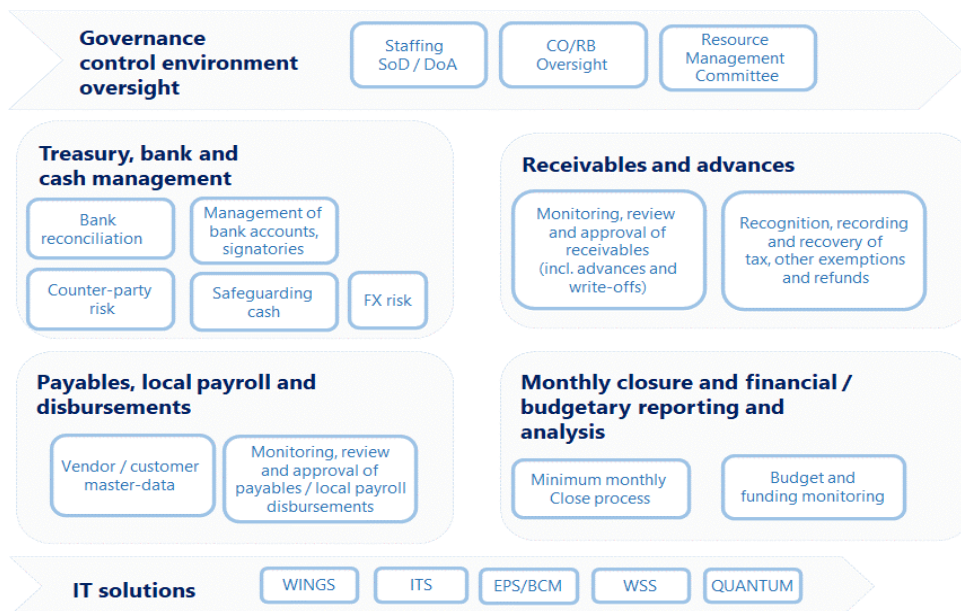
61. The finance controls illustrated in the schematic diagram above were covered mainly via linkages to other areas (Procurement, Logistics, CP management and CBT). The audit also covered the monthly closure and financial reporting process, and budgetary control and resource management. In general controls were found to be operating effectively with both financial reporting and resource management processes effectively managed. No reportable findings arose (see paragraph 25 for more details).

Management of cooperating partners

Management of field level agreements and associated payments to cooperating partners

62. During the audit period, the CO collaborated with 56 CPs, with total expenditure for their services amounting to USD 31.6 million.

63. There were delays during the audit period of up to several months in signing field level agreement (FLAs) or extensions; 30 percent of commitments to CPs were recorded after services were rendered. In the absence of signed FLAs, the CO had engaged with CPs by issuing letters of intent, which ensured to some extent continuity of WFP's assistance but relied on CPs to advance funding as they could not invoice until the FLA process was finalized. This severely impacted the CP's ability to cover operating expenses and also has an associated reputational risk. There were also delays in the issuance of invoices by CPs, resulting in other delays in the processing of payments, therefore further impacting the treasury situation of CPs.

64. The audit acknowledges that, in May 2021, the CO established a task force to simplify its internal FLA management process, including possibilities to expedite payments, and that at the time of the audit some progress had been made to address the delays, including the issuance of a high-level concept note on the FLA management simplification process. Nevertheless, despite this progress there was no process or procedural guidance for responsible personnel to operationalize the concept other than aiming at timely reviews of FLAs.

Capacity assessments of cooperating partners

65. The audit observed areas in which CP oversight checklists and tools could be improved. Capacity assessments were not explicitly linked to potential risks to WFP operations; observations were not risk rated; limited or no information was provided on underlying causes of issues identified; and action plans were not consolidated for further review and follow up. For example, the financial capacity of CPs, key to their managing the invoice process promptly, was not explicitly noted and addressed in the capacity assessments reviewed.

Delays in carrying out CP performance evaluations

66. The last CP performance evaluations were carried out in September 2019 for the period January-August 2019, impeding effective oversight of irregularities in fulfilling the contractual obligations by CPs.

Underlying cause(s): Lengthy internal FLA clearing process and approval process from ministries/local authorities for CPs operating under the Ministry of Social Affairs and Labour (MOSAL); late release of the Humanitarian Needs Overview document for 2020 (in March 2021); limited CP financial capacity; lengthy invoice verification process; limited FO staff resources.

Agreed Actions [Medium priority]

The country office will:

  i)   Develop guidance to operationalize the streamlined field level agreement management process, including options to expedite payments.

  ii) Complete the work underway to further develop the cooperating partner capacity assessment tool by linking it to potential risks to WFP operations; and put in place a roadmap for cooperating partner capacity strengthening.

  iii) Carry out timely cooperating partner performance evaluations in line with corporate guidance.

Timeline for implementation

31 December 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, with actions in observation 4 directed to RBC.

#	Observation (number / title)	Area	Owner	Priority	Timeline for implementation
1	Delegation of authority	Cross-cutting	CO	**Medium**	30 June 2022
2	Beneficiary management	Beneficiary management	CO	**Medium**	31 December 2022
3	Retail management for cash-based transfers	CBT	CO	**Medium**	31 December 2022
4	Supply chain optimization related to commodity sourcing	Logistics and procurement	RBC	**High**	31 December 2022
5	Commodity management	Logistics and procurement	CO	**Medium**	30 June 2022
6	Monitoring	Monitoring	CO	**Medium**	30 June 2022
7	Management of cooperating partners	Cooperating partners	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.[18]

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[18] 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

B2B	Business-to-Business
CBT	Cash-Based Transfers
CD	Country Director
CFM	Complaints and Feedback Mechanism
CO	Country Office
CP	Cooperating Partner
DAT	Data Assurance Team
DCD	Deputy Country Director
FLA	Field Level Agreement
FSP	Financial Service Provider
FSQ	Food Safety and Quality
GFA	General Food Assistance
IBR	Identity Beneficiary Registered tool
ICSP	Interim Country Strategic Plan
LESS	Logistics Execution Support System
M&E	Monitoring and Evaluation
MT	Metric Tonne
NGO	Non-Governmental Organization
OIGA	Office of Internal Audit
PCC	Procurement and Contracts Committee
PIA	Privacy Impact Assessment
PIC	Physical Inventory Count
PO	Purchase Order
POS	Point of Sale
RBC	Regional Bureau for the Middle East and Northern Africa
RFQ	Request for Quotation
RTBI	Real-Time Biometric Identification
SARC	Syrian Arab Red Crescent
SCOPE	WFP's beneficiary information and transfer management platform
STC	Stock Taking Committee
TEC	Technology Division
TOR	Terms of Reference
TPM	Third Party Monitor
USD	United States Dollar
VAM	Vulnerability Analysis and Mapping
WFP	World Food Programme