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# Internal Audit of WFP Operations in Djibouti

Office of the Inspector General  
Internal Audit Report AR/22/07



World Food  
Programme

March 2022



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## I. Executive summary

### WFP Djibouti Country Office

1. As part of its annual workplan, the Office of Internal Audit conducted an audit of WFP operations in Djibouti that focused on beneficiary management, cash-based transfers, supply chain, finance and a tailored review of human resources and risk management processes. The audit covered the period from 1 October 2020 to 30 September 2021.
2. The work of WFP in Djibouti, as defined in the Country Strategic Plan for 2020–2024, aims to support the vision of the Government in achieving zero hunger and nutrition security through three strategic outcomes. Interventions include support to the national social protection programme, capacity strengthening in emergency preparedness, agricultural production support, vocational training and supply chain management. The audit focused on the implementation of two activities under strategic outcomes 1 and 2.
3. The latest revised budget for Country Strategic Plan was USD 83 million. Expenses incurred as of 31 December 2021 pertaining to the country strategic plan amounted to USD 34 million.

### Audit conclusions and key results

4. Based on the results of the audit, the Office of Internal Audit reached an overall conclusion of **some improvement needed**. The assessed governance arrangements, risk management and controls were generally established and functioning well, although they needed improvement to provide reasonable assurance that the objective of the audited entity/area would be achieved. Issue(s) identified by the audit were unlikely to significantly affect the achievement of the objectives of the audited entity/area. Management action is recommended to ensure that identified risks are adequately mitigated.
5. With a small caseload of 108,400 assisted people and a transfer value USD 4 million in 2021, the Djibouti Country Office's strategic importance rests with logistics and the corridor access to several critical WFP operations, including Ethiopia, South Sudan and Somalia. Following the unsatisfactory rating of the Internal Audit of WFP Djibouti corridor management in 2019,<sup>1</sup> the Supply Chain Division and the Regional Bureau of East Africa supported the country office in streamlining and strengthening corridor management controls and processes with a new corridor management strategy, governance structure and operating model as well as increased staff and skills. These efforts have improved efficiency and positioned the Djibouti corridor operations to effectively manage in 2021 a throughput of 1 million metric tons (a 200 percent increase from 2019 levels) with a value of USD 3.8 million driven by the Tigray crisis and increased level of bilateral service provision through the humanitarian logistics hub.
6. The country office built strong partnerships with government entities to support national programmes, and has increased capacity in some functional areas such as logistics and finance. In the audit period, management strengthened tone from the top with commitment to internal controls, compliance with procedures, and proactive efforts to seek extensive support and oversight from the Regional Bureau for East Africa. These efforts were visible with management closely following up and monitoring the implementation of oversight recommendations. Except for cross-cutting issues relating to resource management, no reportable findings arose in finance.
7. The corporately approved Djibouti Country Strategic Plan has been difficult to implement as it has proved to be over-ambitious. In February 2022 and at the time of audit reporting, the country office and regional bureau management undertook an exercise to review the country office's unique value proposition and reprioritize its strategic activities while seeking to address its over-reliance on one main donor, a risk

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<sup>1</sup> Available in [Internal Audit Report of WFP Djibouti Corridor Management - June 2019 | World Food Programme](#)



confirmed during audit execution. Although the funding outlook has improved, a budget revision of the Country Strategic Plan has been initiated. In addition, in the absence of a corporate operating model for government partnership (still in development in Headquarters), risks with government partnerships at country office level had not been adequately assessed in designing the Country Strategic Plan and did not have effective mitigating measures as relates to partners capacity assessments, performance monitoring and the management of beneficiary data privacy and protection.

8. With the delays in the organizational alignment and longstanding difficulties in attracting national and international talent, including through reassignment, insufficient staff and skills coupled with unclear roles and responsibilities remained in other areas. There was an opportunity to clarify roles and responsibilities of country office staff in procurement, beneficiary management and cash-based transfers. Notably, most stages of the cash-based transfer process required improvement in implementing key controls. A better articulation of roles and responsibilities between the country office and its key partners was also required in beneficiary management and cash-based transfers. The country office aims to finalise the ongoing organizational alignment exercise by 31 March 2022.

9. Government partners and the United Nations High Commissioner for Refugees conducted the targeting and registration activities almost exclusively. The country office did not have adequate mechanisms to confirm that the right beneficiaries received the right assistance. It did not periodically validate or monitor its activities. There was little awareness from the beneficiaries on the complaints and feedback mechanism, which had critical gaps in design for collection, consolidation, reporting and resolution of reported issues.

10. Additional issues identified related to the functioning of committees (supply chain, cash-based transfers and especially in resource management); market and vendor assessments; planning in both programme and support areas; the level of waived contracts and untimely contract renewal; and mitigation of third-party fraud risk exposure.

11. With respect to cash-based transfers, the retailers' capacity was weak, and the distribution system for payment instruments did not provide assurance that they were held by the right beneficiary or returned and destroyed if unused.

## **Actions agreed**

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

## **THANK YOU!**

13. 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

### Djibouti

14. Djibouti is a low-middle income country with the highest food deficit in the Horn of Africa. It has a population of 957,000, 80 percent of whom live in urban areas. Ranking 172<sup>nd</sup> of 189 countries on the Human Development Index, Djibouti is susceptible to pervasive food insecurity, malnutrition and gender inequalities. It imports 90 percent of its food, making it highly dependent on international market prices.

15. The country has been subject to recurring climate shocks and frequent influxes of migrants and refugees, mostly from Eritrea, Ethiopia, Somalia and Yemen. It is estimated that in 2021, 17 percent of the population faced high levels of food insecurity. This situation requires urgent action to improve food consumption, prevent malnutrition, promote safety net programmes and reduce the factors underlying food insecurity.<sup>2</sup>

16. The COVID-19 pandemic has worsened the economic situation of vulnerable households because of the prolonged cessation of daily and unskilled labour, the permanent loss of jobs and the closure of some formal or informal activities. The Government identified the provision of food assistance to refugees, migrants and host communities as an area of intervention for WFP to mitigate the effects of the pandemic.

17. The ports of Djibouti are the principal transit ports for cargo in and out of Ethiopia and a key link in transport routes to and from Somalia, North and South Sudan, Kenya by road and Yemen by sea.

### WFP operations in Djibouti

18. The country office launched its 2020–2024 Country Strategic Plan (CSP) in January 2020 with a budget of USD 74 million, which was subsequently revised in September 2020 to USD 83 million in response to the COVID-19 pandemic. The CSP cumulative expenses incurred as of December 2021 were USD 34 million, i.e. 92 percent of the USD 37 million implementation plan budget and 41 percent of the USD 83 million needs-based plan total budget.

19. WFP assisted refugees, asylum seekers and local communities with unconditional food assistance and provided technical assistance and coordination support to national food and nutrition policies and programmes. In total, the country office assisted 142,000 beneficiaries in 2020<sup>3</sup> by delivering 6,137 metric tons (mt) of food and USD 4.3 million through cash-based transfers (CBT).

20. The key partners of WFP were government entities (i.e., Ministry of Social Affairs) responsible for targeting, registration, managing beneficiary data, and implementation. In 2021, 108,400 beneficiaries received assistance and school feeding activities were handed over to the Government. CBT value transferred in 2021 totalled close to USD 4 million, with 77 percent through SCOPE<sup>4</sup> cards and 23 percent through cash in hand transferred by partners.

21. In 2010, WFP established a humanitarian logistics base to enhance supply chain efficiencies along the Djibouti corridor. The bilateral service provision of the country office through the humanitarian logistics base focused on offering logistical and procurement support to United Nations agencies and non-governmental organizations (NGOs). Purchases of non-food items and logistics services totalled USD 26 million in the audit period. The Tigray crisis in Ethiopia and the COVID-19 response drove a significant increase in service provision through the Djibouti corridor, from 150,000 mt in 2020 to close to 1 million mt as of October 2021.

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<sup>2</sup> Integrated Food Security Phase Classification, IPC Global Platform, Acute Food Insecurity Situation October–December 2020 and Projection for January–August 2021.

<sup>3</sup> WFP 2020 Djibouti Annual Country Report.

<sup>4</sup> WFP beneficiary information and transfer management platform.

22. The country office initiated an organizational alignment exercise in 2019 to support its upcoming CSP. It approved an organigramme in October 2019, later revised in 2021, with structural changes to field offices and functional units.

## Objective and scope of the audit

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

24. The audit focused on two activities within the 2020–2024 CSP of the country office, under strategic outcomes 1 and 2, representing 54 percent of the total CSP requirement:<sup>5</sup>

- *Activity 1 – Provide food assistance and nutrition services, including nutrient-rich food and nutrition education and counselling, to refugees and asylum seekers living in settlements.*
- *Activity 3 – Provide food, CBT and technical assistance to strengthen a national inclusive, adaptive and nutrition-sensitive social protection system that contributes to enhanced economic integration. Activity 3 consisted of a blend of several sub-activities.*

25. The audit also incorporated the follow up review of the unsatisfactory 2019 Internal Audit of WFP Djibouti Corridor Management.<sup>6</sup>

26. The Office of Internal Audit 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 country office delivery process, as detailed in Figure 1.

**Figure 1: Areas in audit scope**



27. The Office of Internal Audit performed audit tests on essential controls outlined for four predetermined areas: (i) beneficiary management; (ii) CBT; (iii) supply chain; and (iv) finance. 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 WFP's Management Assurance Project at the end of 2020 were considered and included where relevant.

28. The Office of Internal Audit supplemented this predetermined scope with a risk assessment to identify any additional processes that should be in scope for the audit. Based on the assessment results, the audit added a tailored review of human resources management and fraud risk management, including conflicts of interest in procurement and recruitment.

<sup>5</sup> The value of activity 1 for strategic outcome 1 and activity 3 for strategic outcome 2 was USD 45 million, representing 54 percent of the total needs-based budget of USD 83 million.

<sup>6</sup> Available in [Internal Audit Report of WFP Djibouti Corridor Management - June 2019 | World Food Programme](#)



29. The audit team conducted the fieldwork in the Djibouti Country Office and the humanitarian logistics base. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The audit relied, where relevant, on recent and significant management oversight coverage by the Regional Bureau for East Africa on corridor management, finance, monitoring, procurement and logistics processes.

30. Testing of the monitoring process relied on the second-line oversight review conducted by the Regional Bureau for East Africa,<sup>7</sup> which covered 70 percent of the key controls of the audit work programme. The Office of Internal Audit tested the remaining 30 percent of controls through the procurement and beneficiary management audit procedures.

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<sup>7</sup> Regional bureau oversight was carried out in July 2021.



## III. Results of the audit

### Audit work and conclusions

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

32. A simplified standard process diagram is included for each of the four functional areas audited. These diagrams 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- and yellow for medium-priority observations). Any other issues arising from the audit that were assessed as low priority were discussed with the country office directly and are not reflected in the report nor included in the diagrams.

### Cross-cutting issues

#### Observation 1: Country strategic plan and structure

33. The country office embarked on an organizational alignment exercise to meet the capacity required to implement its CSP. It successfully implemented a transparent and competitive selection process to target potential applicants using an innovative sourcing strategy, although with some delays because of COVID-19 and the limited pool of qualified and interested talent.

34. The country office and regional bureau acknowledged that the size and range of activities in the CSP were ambitious given the limited internal capacity dedicated to each activity. Implementation of the CSP has required significant ongoing support from the regional bureau. At the time of the alignment exercise, multiple units of the regional bureau raised concerns about the CSP staff costs which, as foreseen, would take up too much of the budget. Moreover, the country office struggled to effectively manage risk and controls in several key areas, as the level of risk that it was willing to accept in the given context was unclear.

35. In February 2022 and following the audit fieldwork, the country office and the regional bureau undertook an exercise to reassess strategic priorities, review the unique value proposition of the country office and strengthen donor engagement to address the risk of over-reliance on one main donor. The exercise also confirmed that the funding outlook for the country office had improved due to confirmed donations. In the meantime, to maintain operational delivery, the country office aims to complete the ongoing organizational alignment exercise as of 31 March 2022. An approved increase in national staff salaries<sup>8</sup> will increase staff costs but will also improve prospects of talent attraction and retention.

36. The country office implemented its CSP activities in partnership with government entities to support various national programmes.<sup>9</sup> An assessment outlining partner capacity gaps and needs, analyses of operational, protection and fiduciary risks, or performance monitoring were not in place or considered during the design of the CSP. Existing standard operating procedures (SOP) and agreements between the country office and government entities remained generic, as legal provisions usually outlined in WFP field level agreements for cooperating partners could not be used. The Office of Internal Audit noted ad-hoc initiatives undertaken by the NGO partnerships unit and the regional bureau in support of other country offices in the same region to adapt their processes and guidance for engaging with governments.

<sup>8</sup> An increase in salary of between 20 and 60 percent was approved for all UN general service and national staff in Djibouti in December 2021, backdated to July 2021.

<sup>9</sup> Provision of food and cash assistance to refugees and asylum seekers, shock-affected populations and local communities for social protection and nutrition projects, agricultural production support for rural and urban populations, vocational training.





37. In 2020, following the internal audit of WFP Operations in Ethiopia,<sup>10</sup> the Technical Assistance and Capacity Strengthening Service (PROT) within the Programme and Policy Development Division initiated a process to develop the corporate model for the engagement of WFP with host governments as direct implementers. At the time of audit reporting, PROT was conducting a mapping of all contexts where governments implement activities for WFP, a precursor to analysing the gaps and developing the model.

38. Moreover, while there was increased staffing and skills in some functional areas such as finance and logistics, roles and responsibilities of the country office remained unclear in beneficiary management, CBT and procurement. Roles and responsibilities for managing payment instruments and performing key CBT reconciliations, managing and protecting beneficiary data, and performing deduplication checks, beneficiary verifications and distribution checks were not clear or fully assigned. In addition, responsibilities for the performance of Logistics Execution Support System (LESS) and Country Office Tool for Managing (programme operations) Effectively (COMET) reconciliations, vendor performance evaluation, procurement planning and contract management required clarification. The scope of work of the food technologist, which did not include CBT activities such as retailer assessments and monitoring, needed to be updated.

Underlying cause(s): Support to government activities established without defining roles, responsibilities and the adequate level of control/risk appetite. CSP design and strategic priorities review requiring transitional operational capacities for delivery to be defined. Delays and limited coordination at the corporate level in finalizing the tools and guidance for government partnerships in activity implementation. Insufficient understanding of partners' capacity gaps and absence of skills in the country office for effective engagement with the Government. Delays in organizational alignment resulting in unclear roles and responsibilities.

#### **Agreed Actions** [High priority]

- 1) The Technical Assistance and Capacity Strengthening Service will finalize without delays the business model for WFP engagement with government entities in the direct implementation of activities in collaboration with the relevant headquarter units (i.e. legal, NGO partnerships) and the regional bureaux.
- 2) Following the priorities review of its Country Strategic Plan the country office, with the support of the Regional Bureau for East Africa, will:
  - (i) Establish transitional measures to maintain the operational capacity to deliver while finalizing the organizational alignment as per the proposed structure of streamlined activities.
  - (ii) Clarify roles and responsibilities in beneficiary management, cash-based transfers and procurement processes as identified by the audit once organizational alignment is completed in these areas.
  - (iii) In the interim, establish and document partner capacity assessments, mitigation actions and capacity strengthening plans for identified risks.

#### **Timeline for implementation**

- 1) 30 September 2022
- 2) 31 March 2023

<sup>10</sup> Available in [Internal Audit of WFP Operations in Ethiopia - February 2020 | World Food Programme](#)



## Observation 2: Risk and fraud risk management

39. Djibouti has a high level of inherent risk of fraud and corruption related to contextual factors, such as a limited vendor base and affiliations along ethnic and family lines. These contribute to fraud risks such as unfair tendering practices, conflicts of interest, possible collusion and inflated invoices. The country office, with the support of the regional bureau, engaged in efforts to enhance its risk management and fraud awareness and prevention. Management demonstrated awareness of contextual fraud risks in Djibouti.

40. Yet, at the time of the audit fieldwork, a comprehensive fraud risk assessment covering third-party fraud risk exposure was not in place. This limited the awareness of control gaps and impaired the ability of the country office to manage fraud risks effectively. Other areas, such as logistics, vendors, government partnerships and retailers, were not updated in respect of fraud risk or red flags. In 2021, the country office requested the regional bureau to conduct three anti-fraud and anti-corruption workshops for staff and support the country office to perform a CBT fraud risk assessment and update its risk register.

41. Effective committees, which are key in advising management decisions, should also improve oversight and risk management. This was not the case:

- The local procurement contracts committee did not systematically review waivers, including the non-competitive selection of vendors, nor did it escalate for approval by the regional bureau committee as required.
- The vendor management committee did not review the 2021 vendor roster and did not meet to suspend non-performing vendors.
- While there was evidence of active management and monitoring of resources, the resource management committee did not meet regularly, and member participation could be improved.
- As with all committees and extending to the cash working group, committee deliberations and decisions that could impact the timely mitigation of operational risks were not adequately documented.

42. Government partners working with the country office were involved in the end-to-end programmatic process, including targeting, sensitizing and registering beneficiaries, managing payment instruments, and transporting, warehousing, and distributing in-kind food. This resulted in limited segregation of duties which increased fraud risk. The country office had not undertaken a review of fraud vulnerabilities to highlight the risks in engaging with government partners and determine appropriate compensating controls for effective mitigation.

Underlying cause(s): Limited knowledge and expertise in the country office to perform a comprehensive fraud risk assessment given the context. Limited staff resources and skills to effectively discharge committee member responsibilities. Inherent risks relating to partnership and operational set-up with the Government acting as the main implementing partner.

### Agreed Actions [Medium priority]

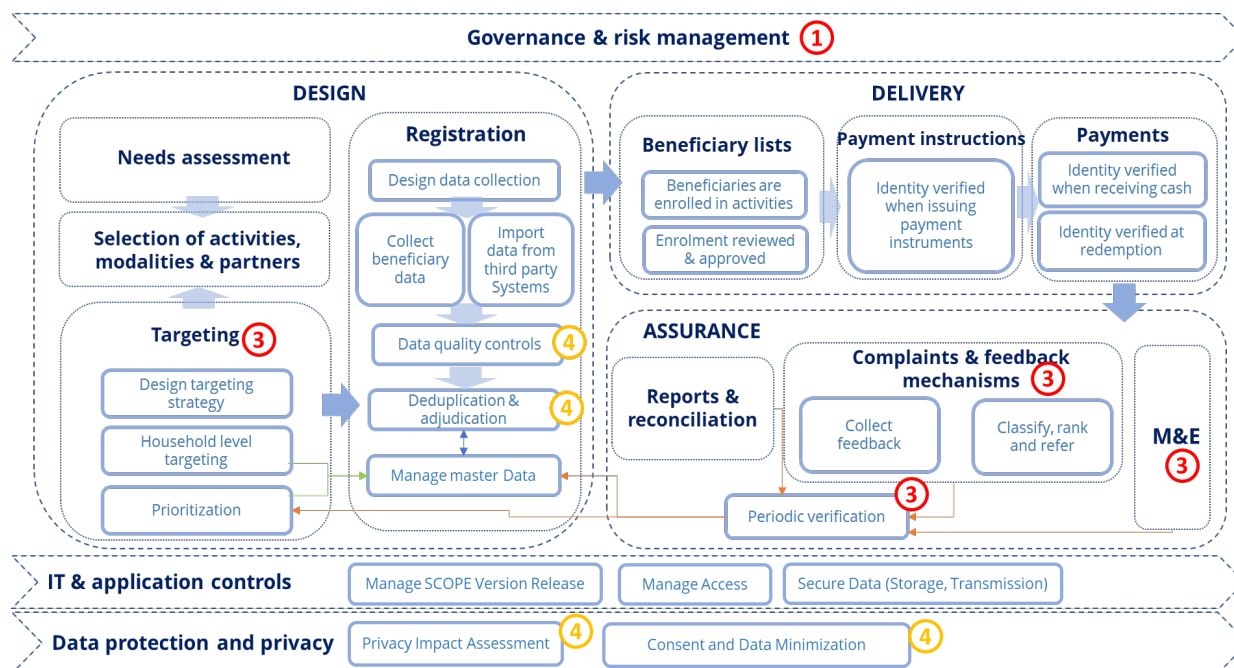
The country office will:

- (i) With the support of the Regional Bureau for East Africa, establish a fraud risk assessment and mitigating measures that encompass third-party fraud risk exposure.
- (ii) Review the membership and capacity of all committees and provide relevant training to committee members.
- (iii) Undertake a mapping of the tasks and responsibilities of government partners to identify segregation of duties conflicts along the programmatic process and establish compensating controls.

### Timeline for implementation

31 March 2023

## Beneficiary management



### Observation 3: Beneficiary targeting and management

43. In April 2021, the country office issued a targeting strategy and tools for selecting beneficiaries in camps requiring food assistance. It established complaints and feedback channels through help desks at distribution sites and two hotlines including the adoption of SUGARCRM, the WFP corporate customer relationship management solution utilized as a community feedback mechanism platform. These channels were in place for WFP beneficiaries in refugee camps and those with SCOPE cards for the social protection project. Beneficiaries under other activities provided their feedback directly to WFP monitors.

44. The audit reconfirmed the same control gaps in the monitoring and community feedback mechanism processes identified during the oversight mission of the regional bureau conducted in June 2021 by the regional monitoring adviser. The country office had formulated an implementation plan to address findings within adequate timeframes and agreed actions were partially addressed at the time of audit reporting. Results from the audit noted several challenges in the targeting, monitoring, and community feedback and response handling and management.

45. Targeting activities for vulnerable households were conducted entirely by government partners and the United Nations High Commissioner for Refugees (UNHCR); the country office had limited control over managing beneficiary information, applying targeting criteria, and oversight of household verification. The resulting measures to ensure that the right beneficiaries received the right assistance did not (i) define targeting and protection risks and associated mitigation actions, (ii) outline exclusion and inclusion errors, and (iii) include performance of periodic validation and monitoring of targeting decision outcomes.

46. Limited capacity within the country office and partners and diverging priorities within partner ministries limited the effective identification of risks and implementation of key controls outlined in SOPs, such as beneficiary verification and reconciliations. Additionally, the SOPs did not address minimum requirements for duplication, data quality checks, and beneficiary consent on data collection. In addition, there were no special



provisions relating to advance payment for cash distribution activities in the memorandum of understanding with the government partners and in the SOPs.<sup>11</sup>

47. During the audit period, funding shortfalls and capacity constraints required the country office to reprioritize its assistance, in most cases by reducing the assistance-related costs through a review of the spread of activities with high transactional costs across interventions. Nonetheless, the country office did not reassess the eligibility criteria, focusing on the most vulnerable as part of the reprioritization exercise.

48. The country office contracted a local third-party monitor to operate the hotline and help desks without a proper competitive process. The monitor did not properly implement joint SOPs for beneficiary sensitization, collection of sensitive complaints and reporting. The hotline, a paid number, was managed by WFP programme staff and the implementing partner, which led to potential conflicts of interest, as it is a mechanism through which beneficiaries should report or provide feedback on partner performance. Efforts to bring awareness of feedback channels to affected populations and analyse complaints for programme adjustments required strengthening.

Underlying cause(s): Reliance on the targeting process performed by government partners, with limited assurance over the assessment of needs, and application of targeting and prioritization criteria by the third parties. Absence of a comprehensive assessment of population vulnerability and needs. Limited staff and partner capacities for monitoring activities and insufficient knowledge of WFP standards for monitoring and feedback systems. Absence of coordination with partners in analysing key controls and related risks in beneficiary management process.

#### **Agreed Actions** [High priority]

The country office will:

- (i) Carry out a needs assessment and profiling of vulnerable targeted populations jointly with government partners to identify those most in need, obtain assurance on the targeting process, and reassess the prioritization criteria applied for beneficiary selection.
- (ii) Set up an independent monitoring process to complement the third-party monitor and consolidate information sources for accurate monthly reporting to inform targeting and delivery processes.
- (iii) In liaison with the Regional Bureau for East Africa, evaluate the current functionality of the complaints and feedback mechanism in line with corporate minimum standards and strengthen the mechanism.
- (iv) In coordination with its partners, update joint standard operating procedures to include key controls relating to beneficiary data management, duplication checks and verification, reconciliations and cash advances.

#### **Timeline for implementation**

31 July 2023

<sup>11</sup> These funds amounted to the full value of direct support cost to implement cash-in-hand assistance for two refugee settlements.



#### Observation 4: Personal data privacy, security and integrity

49. The country office regularly received beneficiary and other data from the Government and UNHCR, who were the data controllers with ultimate responsibility for protecting beneficiary data. Both UNHCR and government partners collected biometrics in the refugee settlements.

50. The country office had not yet assessed its data privacy and protection risks through a privacy impact assessment. Comprehensive data-sharing protocols were not in place with government partners. In addition, beneficiaries were not sufficiently informed that their data was shared with WFP or their rights to withhold or withdraw their consent.

51. Beneficiary data was partly on the SCOPE platform and partly on manual systems, which represent a heightened risk in general. Processes and controls to identify and remove duplicate records from beneficiary lists were applied only for some activities. At the time of drafting the audit report, the country office was not aware of the deduplication and validation checks used by UNHCR to reduce the risk of duplicates.

52. SCOPE was rolled out in 2018 and its use expanded to several locations and activities. As of November 2021, the country office had 33,000 active beneficiaries registered in SCOPE (30 percent of the total caseload of 108,400 beneficiaries reached). Over 50 percent of mandatory information relating to data fields of gender, date of birth or document type, dependants or alternative information was missing, therefore limiting effective analysis of beneficiary data.

53. In reference to the global data sharing agreement, UNHCR and WFP collaborated on the application programme interface to allow the country office to access biometrics offline and online from the UNHCR registration and identity management system. Complete integration of beneficiary biometrics from the UNHCR system into SCOPE was delayed.

Underlying cause(s): Limited awareness of WFP personal data protection and privacy principles and risks. Lack of expertise within the country office to perform a privacy impact assessment, a recent corporate requirement.

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

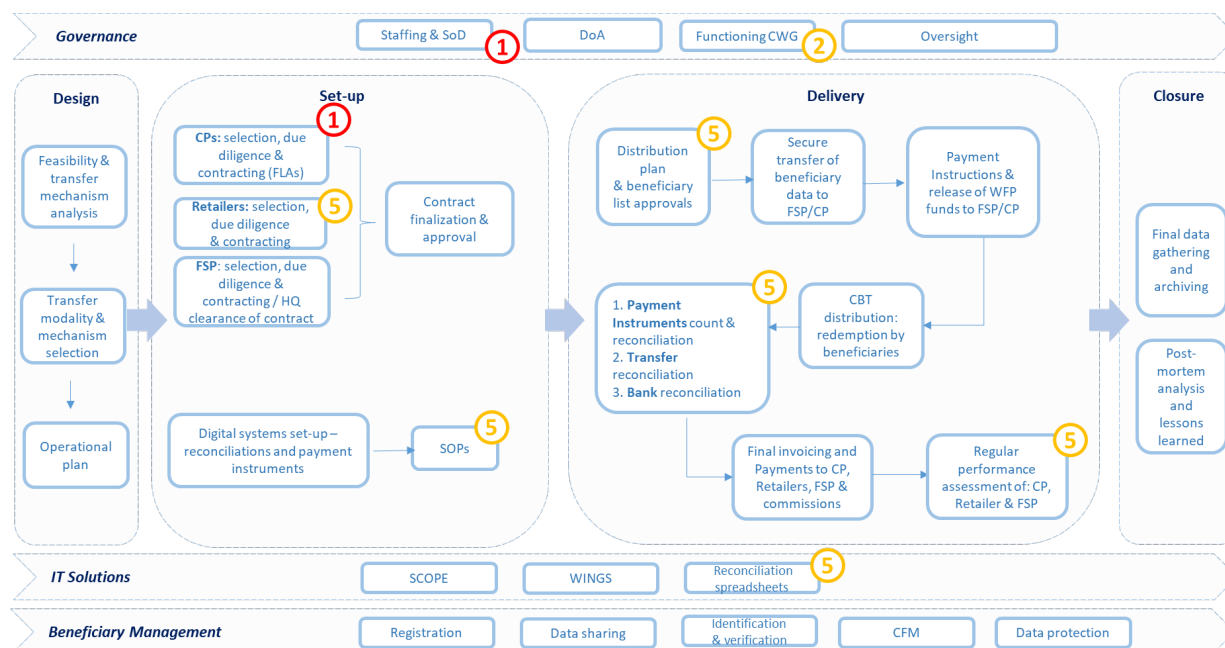
The country office will:

- (i) Implement training sessions for country office and partner staff on beneficiary data protection and privacy.
- (ii) With support from the Regional Bureau for East Africa, conduct a privacy impact assessment to assess data-related risks. Based on the results, develop mitigating measures and communicate and enforce secure data sharing with partners.

#### **Timeline for implementation**

31 July 2023

## Cash-based transfers



### Observation 5: Cash-based transfers assurance

54. In 2021, the CBT transfer value was USD 3.9 million, with 80 percent transferred using SCOPE e-vouchers and 20 percent through cash-in-hand. Cash assistance was provided in refugee settlements and urban areas for the COVID-19 response. The macro financial assessment<sup>12</sup> issued in November 2020 identified a reliable financial service provider present in-country with which the CO had not yet activated corporate long-term agreements at the end of 2021.<sup>13</sup>

55. The country office's organizational alignment looked into the number of staff dedicated to CBT activities to ensure that segregation of duties was in place on critical functions, such as retailer evaluation, payment instruments, market assessment and reconciliation processes.

56. Managed by both WFP and relevant government partners, the distribution system for SCOPE cards and personal identification number (PIN) codes did not ensure that cards were issued to the right beneficiaries and that undistributed cards were returned and destroyed. In addition, there were opportunities to perform transfer reconciliation and other anomaly-detection controls more systematically and regularly. The country office reconciled distribution lists with benefits redeemed based on total amounts, not at the individual or household level. Moreover, the country office management did not endorse the monthly reconciliation package.

57. There were gaps in the selection and performance monitoring of retailers. In addition, the audit reconfirmed those issues identified through retailers' performance evaluations, which highlighted capacity gaps in (i) stock management, (ii) product availability and quality, (iii) prices communication, (iv) hygiene conditions, and (v) legal licences. In liaison with the regional bureau, the country office planned to improve retailer capacity through training programmes and other capacity strengthening activities in 2022.

**Underlying cause(s):** Absence of clarity on CBT process and objectives of key controls. Weak planning, documentation and coordination of cross-functional activities in retailer management.

<sup>12</sup> WFP baseline assessment conducted to understand a country's financial sector capacity for CBT modalities.

<sup>13</sup> WFP holds a global LTA with Western Union. Country offices can engage with Western Union and access a network of pre-screened remittance without going through a full procurement process.



**Agreed Actions** [Medium priority]

The country office will:

- (i) With support from the Regional Bureau for East Africa, perform comprehensive cross-functional training on the cash-based transfer process and objectives and the significance of key controls in the process.
- (ii) Establish and implement risk- and performance-based plans for conducting retailer assessments, selection and monitoring, considering fraud risk levels and retailer evaluation results.

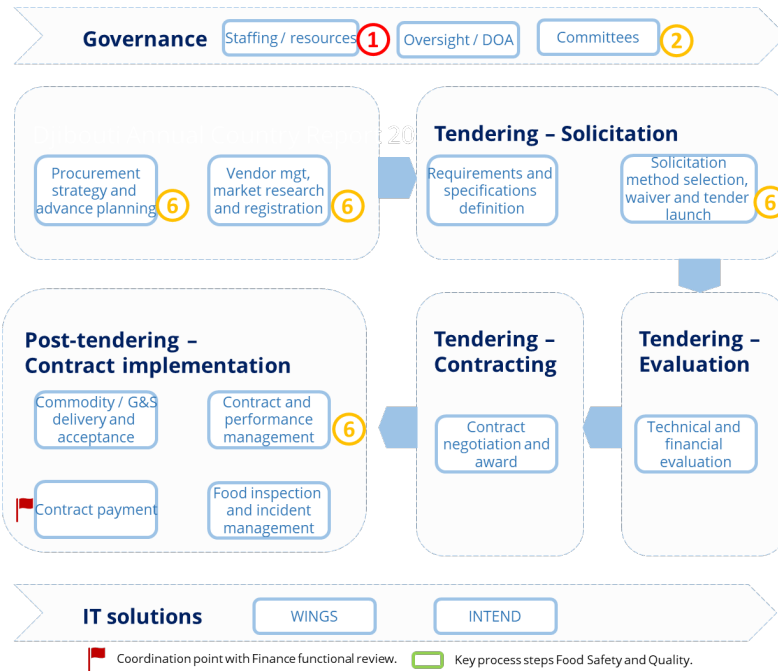
**Timeline for implementation**

31 July 2023

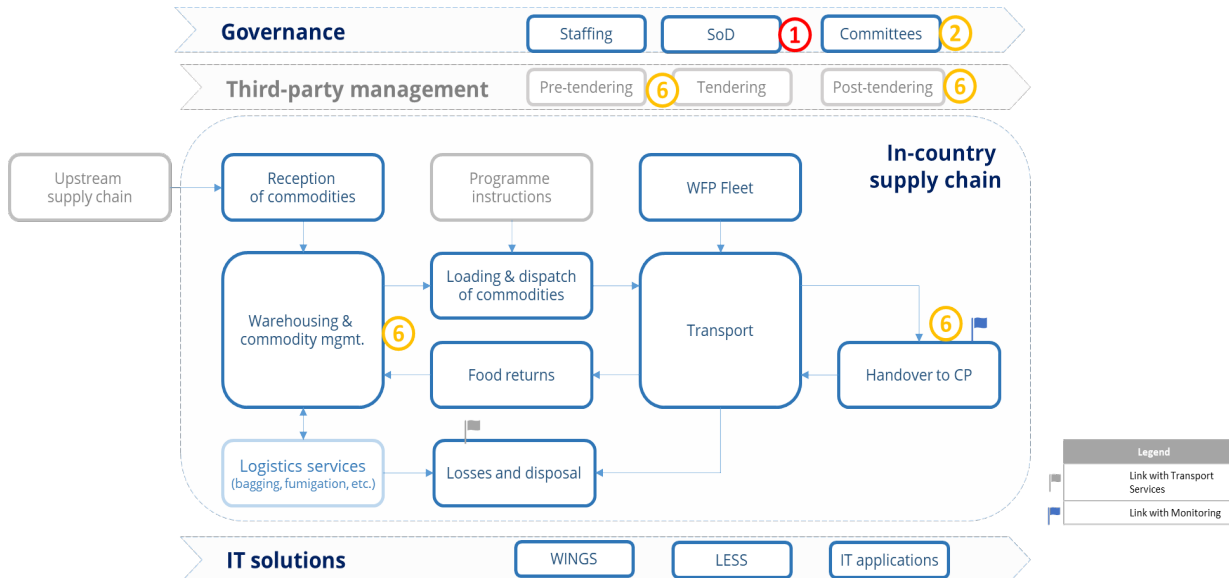


## Supply chain

### Procurement



## Logistics







## Observation 6: Supply chain

58. Following the unsatisfactory rating of the Internal Audit of WFP Djibouti Corridor Management in 2019,<sup>14</sup> the Supply Chain Division and the Regional Bureau of East Africa helped the country office through several support and oversight missions to implement improvements to its corridor management controls and processes. These included a new corridor management strategy, clarification of the governance structure and operating model (including standards and guidelines for service planning, budgeting and costing as well as performance measures), and increased staff and skills. These efforts helped streamline responsibilities and accountabilities of headquarters, regional bureaux and the country office in decision making, oversight and coordination. They also enabled the Djibouti corridor operations to effectively manage a throughput of 1 million metric tons in 2021 (a 200 percent increase from 2019 levels) valued at USD 3.8 million driven by the Tigray crisis, and increased level of service provision. A survey undertaken by all the Country Directors in the region indicated a 92 percent satisfaction rate for the corridor services. In addition, bilateral service provision through the country office's humanitarian logistics hub increased from 4 to 15 Djibouti-based clients during the audit period.

59. The country office enhanced the supply chain's unit staffing and skills and put in considerable efforts to improve internal controls. The country office also addressed most of the regional bureau supply chain oversight recommendations. The office subsequently launched a tender to carry out a vendor market assessment with other United Nations agencies. Staff attended procurement training and the country office onboarded four additional staff to ensure adequate capacity for managing the workload associated with procurement activities. Post-factum purchase orders significantly decreased, thanks to procurement planning for goods and services (G&S) implemented for the first time in June 2021.

60. While the audit recognizes the overall unfavourable market environment in Djibouti, the following gaps in supply chain processes were noted:

- Although the procurement competition levels were generally low<sup>15</sup> the country office used waivers in several instances for reasons other than market conditions. Furthermore, the country office did not renew long term agreements (LTA) in a timely manner before expiry, resulting in the risk of undue extension and forced waivers for several LTAs expiring in 2022.
- The vendor roster, which should act as a tool to support efficiency and value for money, was generally not updated and, hence was unreliable. In addition, vendor performance evaluations were partially missing, unapproved or delayed across all requesting units, and were mainly completed as a checklist, with little information feeding into contract management. The procurement unit did not systematically perform vendor checks against United Nations sanctions' information.
- The country office did not carry out comprehensive market assessments for a wide variety of services commonly used. In addition, the scope of the United Nations tender for market assessment did not include retailer capacity assessments.
- The reconciliation process for the COMET and LESS was not systematic and did not reflect periodic data validation from the programme unit. The last comprehensive reconciliation was performed in December 2020. This potentially limits the oversight and timely resolution of implementing partner data gaps and the follow-up of variances in the reported distribution figures.
- As regards pre-stage procurement, the country office did not systematically update key tools, including the LTA tracking sheet, the goods and services vendor roster and, most notably, the procurement plan. This prevented their practical use in active and ongoing procurement.

<sup>14</sup> Available in [Internal Audit Report of WFP Djibouti Corridor Management - June 2019 | World Food Programme](#)

<sup>15</sup> Response rates for expressions of interest and requests for quotation were lower than 30 percent.



Underlying cause(s): Inconsistent planning of procurement activities. Limited staff capacity and expertise to perform comprehensive market assessments and reconciliations.

**Agreed Actions** [Medium priority]

The country office will:

- (i) Carry out a periodic and accurate update of the procurement plan with the involvement of all the stakeholders.
- (ii) In addition to the work being done at the procurement inter-agency working group, and with the support of the Regional Bureau for East Africa as needed, plan for the relevant expertise and resources to conduct comprehensive goods and services, logistics, transport and cash-based transfer market assessments.

**Timeline for implementation**

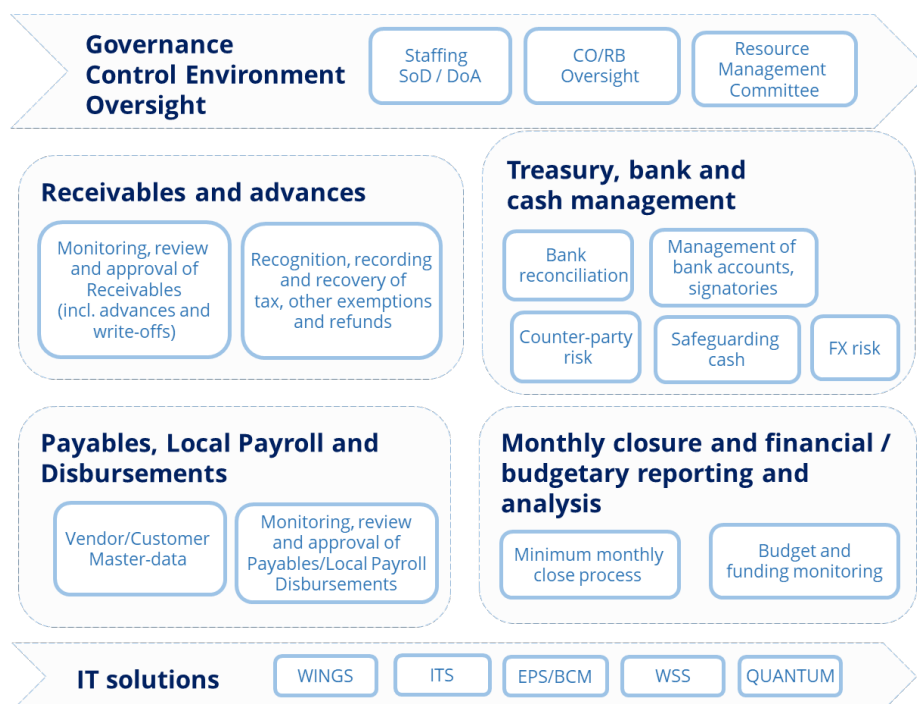
30 June 2023



## Finance

61. Results of audit tests indicated that overall, finance controls, as illustrated in the diagram below, were functioning effectively. The finance unit was the recipient of concerted efforts to strengthen and capacitate its operations, including with close and regular support and supervision from the regional bureau. Previous oversight recommendations for mitigating the risks identified in various areas were actively followed up and implemented. There was a strong level of review and control over monthly financial closure and reporting, which was indicative of the importance that management places on effective and sound financial management.

62. In consideration of the significant resource risks facing the country office that are raised in Observation 1, paragraph 34, management should nevertheless continue its efforts to strengthen the functioning of the resource management committee and of the budgeting and programming function, which had staffing gaps for four months during the audit period.





## Annex A – Agreed action plan

The following table shows the categorization, ownership and due date agreed with the audit client 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 one action addressed at corporate level.

#	Observation (number / title)	Area	Owner	Priority	Timeline for implementation
1	Country strategic plan and structure	Cross-cutting	PD-PROT CO	High	30 September 2022 31 March 2023
2	Risk and fraud risk management	Cross-cutting	CO	Medium	31 March 2023
3	Beneficiary targeting and management	Beneficiary management	CO	High	31 July 2023
4	Data privacy, protection and integrity	Beneficiary management	CO	Medium	31 March 2023
5	Cash-based transfers assurance	CBT	CO	Medium	31 March 2023
6	Supply chain	Supply chain	CO	Medium	30 June 2023

## Annex B – Definitions of audit terms: ratings & priority

### 1 Rating system

The internal audit services of UNDP, UNFPA, UNOPS and WFP adopted harmonized audit rating definitions, as described below:

**Table B.1: Rating system**

Rating	Definition
<b>Effective / satisfactory</b>	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.
<b>Some improvement needed</b>	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.
<b>Major improvement needed</b>	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.
<b>Ineffective / unsatisfactory</b>	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**

<b>High</b>	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.
<b>Medium</b>	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.
<b>Low</b>	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.<sup>16</sup>

<sup>16</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.



### **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.

The Office of Internal Audit 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, the Office of Internal Audit 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, the Office of Internal Audit 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. The Office of Internal Audit informs senior management, the Independent Oversight Advisory Committee and the Executive Board of actions closed without mitigating the risk on a regular basis.



## Annex C – Acronyms

CBT	Cash-based transfer
COMET	Country Office Tool for Managing (programme operations) Effectively
CSP	Country strategic plan
G&S	Goods and services
mt	Metric tons
LESS	Logistics Execution Support System
LTA	Long-term agreement
NGO	Non-governmental organization
PROT	Technical Assistance and Country Capacity Strengthening Service
SCOPE	WFP beneficiary information and transfer management platform
SOP	Standard operating procedure
SUGARCRM	Customer Relationship Management System
UNHCR	United Nations High Commissioner for Refugees
USD	United States dollars
WFP	World Food Programme