

SAVING
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CHANGING
LIVES

Internal Audit of WFP Operations in Kenya

Office of the Inspector General
Internal Audit Report AR/22/09



World Food
Programme

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I. Executive summary

WFP Kenya Country Office

1. As part of its annual workplan, the Office of Internal Audit conducted an audit of WFP operations in Kenya that focused on beneficiary management, cash-based transfers, supply chain, monitoring and a tailored review of country strategic plan implementation, human resources, and budget management processes. The audit covered the period from 1 January to 31 December 2021.
2. WFP's work in Kenya, as defined in the 2018–2023 Country Strategic Plan, aims to provide food security to refugees and vulnerable Kenyans; support national and county government institutions in building capacity and systems to assist food insecure and nutritionally vulnerable people; and provide supply chain services, including humanitarian aviation, for partners operating in the country. The country strategic plan has an overarching objective to accelerate WFP's shift from the direct provision of transfers and services to the strengthening of national systems and capacities to deliver food and nutrition security.
3. The latest revised country strategic plan budget was USD 1.1 billion. Expenses incurred in the audit period amounted to USD 126.0 million. The audit focused on implementation of four activities under strategic outcomes 1, 2 and 3, which accounted for 93 percent of the plan's expenses during the audit period.

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 but needed improvement to provide reasonable assurance that the objective of the audited entity/area would be achieved. Issues identified by the audit were unlikely to significantly affect the achievement of the objectives of the audited entity/area. Management action is recommended to ensure that identified risks are adequately mitigated.
5. In 2021, the country office assisted 1.2 million beneficiaries including refugees and vulnerable Kenyans, responding to the multiple shocks the country faced, such as locust and drought crises and the COVID-19 pandemic. Stakeholders met during the audit fieldwork praised WFP's performance and delivery; recognized WFP as a partner of choice; and valued its trusted relationship with county-level institutions. The country office was an active member of the UN country team.
6. Results of testing process-level controls indicated that these were generally operational. Key controls over beneficiary registration, identification and verification, transport service delivery and warehouse operations, recruitment, budget management and monitoring were functioning well. The country office leveraged available technology and corporate support to strengthen its controls. For example, it established systematic cash-based transfer reconciliations, and the financial service provider platform allowed for direct management of automated key process steps. The corridor governance model introduced in 2020 facilitated the timely execution of budget agreements and regular monitoring of costs and service volumes by the Regional Bureau for Eastern Africa. The regional bureau praised the corridor services as effective and critical for the operations of recipient countries. This recognition of logistics expertise has led to corporate consideration of a possible Kenya-based centre of excellence.
7. From a strategic perspective, the country office initiated efforts to focus on the 'changing lives' agenda, drafting communication and stakeholder strategies. The next country strategic plan will provide an opportunity to operationalize these strategies, streamline activities and redefine approaches to meet the challenges ahead. A skills gap analysis and re-alignment exercise will also support the country office to implement its strategic shift; address internal coordination issues; and reconfirm whether long-standing vacancies still need to be filled.



8. In the context of funding constraints and ration cuts since 2018, the country office provided blanket assistance to refugees based on their status and without recent vulnerability assessments. The country office was aware that some beneficiaries worked as retailers and were financially independent, while others used subscriber identity module cards as collateral to obtain loans from retailers at higher prices, a coping mechanism following ration reduction. The assessment of inclusion and exclusion errors, among other issues in the customer relationship management system, was not comprehensive and did not feed decision making. A needs assessment, coupled with systematic and consistent targeting across all programmatic activities, will strengthen focus on reaching the most vulnerable and facilitate graduation from food assistance, allowing for flexibility in WFP's response and supporting the strategic shift to changing lives activities.

9. Management of system access and security risks in the financial service provider and country office's cash transfer and beneficiary management digital platforms require improvement. A review is needed of roles and responsibilities and implementation of several high-priority actions from a 2016 external audit of the cash transfer module.

10. Supply chain assessments did not consistently support the identification and mitigation of potential risks, including those associated with transportation relating to the protracted use of the tariff system, and those associated with procurement with smallholder farmers and vendor delivery. Other identified issues related to the cash-based transfer working group not driving key discussions on oversight and operational issues; limited card functionalities causing delays; and the need for corridor cost optimization.

Actions agreed

11. The audit report contains one high 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!

12. 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

Kenya

13. Kenya is the economic, financial and transport hub of Eastern Africa. The country's real gross domestic product growth has averaged over 5 percent in recent years and it has been classified as a lower middle-income country since 2014. The country ranks 143rd of 189 countries on the Human Development Index. The Mombasa port is the principal trade gateway to the Eastern Africa region stretching across Uganda, Rwanda and Burundi to the Democratic Republic of Congo and South Sudan. It also serves northern Tanzania and Ethiopia.

14. Kenya faced multiple crises in 2021: floods, desert locusts, and socio-economic impacts from the COVID-19 pandemic, coupled with the worst drought conditions since 2016/17. These crises significantly affected food security and nutrition for vulnerable Kenyan populations, asylum seekers and refugees. By year-end, following three consecutive below-average seasonal rains, 2.4 million people required humanitarian support,¹ including 368,000 people in emergency levels of food insecurity.²

15. According to the United Nations High Commissioner for Refugees (UNHCR), as of May 2022, Kenya hosted an estimated 550,000 refugees and asylum seekers, 44 percent of whom resided in Dadaab, 40 percent in Kakuma and the Kalobeyei Settlement, and 16 percent in urban areas.

WFP operations in Kenya

16. The country office's 2018–2023 Country Strategic Plan (CSP) had an original budget of USD 995.0 million, subsequently revised to USD 1.1 billion.³ In 2021, the country office incurred expenses of USD 126.0 million, equal to 71 percent of the implementation plan and 50 percent of the needs-based plan annual budgets.

17. The overarching aim of the CSP is to accelerate WFP's shift from the direct provision of transfers and services to the strengthening of national systems and capacities to deliver food and nutrition security. To meet these objectives, WFP provided food and nutrition assistance to refugees and vulnerable Kenyan populations; supported national and county government institutions in building capacity and systems to assist food insecure and nutritionally vulnerable people; and provided supply chain services, including humanitarian aviation, for partners operating in the country. The country office's first two strategic outcomes, focusing on crisis response and resilience, represented 95 percent of the needs-based plan and 92 percent of the expenses incurred.

18. In 2021, the country office assisted 1.2 million beneficiaries, of whom 450,000 were refugees and 770,000 Kenyan residents, distributing 61,697 metric tons (mt) of food and USD 40.6 million of cash.⁴ The Kenya corridor⁵ managed a throughput of 215,000 mt of commodities. Food procurement amounted to USD 18.0 million pre-financed by the WFP Global Commodity Management Facility; of this, USD 3.5 million was locally procured from smallholder farmers. Goods and services procurement totalled USD 18.0 million.

19. In April 2021, the Government announced its intention to close the Kakuma and Dadaab camps by mid-2022, which house 40 percent of WFP Kenya's beneficiaries. In November 2021, following a policy change, the Government ratified the Refugee Act, which allows settlement for some of Kenya's refugees.

¹ Phase 3 and above of the Integrated Food Security Phase Classification (IPC), IPC Global Platform, Acute Food Insecurity Situation July - October 2021 and November 2021 - January 2022. The IPC "situation for February 2022 and projection for March - June 2022" report indicates an expected increase of the Phase 3 population to about 3.5 million people.

² IPC Phase 4. Integrated Food Security Phase Classification (IPC), IPC Global Platform, Acute Food Insecurity Situation July - October 2021 and November 2021 - January 2022.

³ Six budget revisions have been approved since 2018 mainly for introducing the provision of humanitarian air service and supply chain services to the CSP portfolio.

⁴ Annual Country Report data as of February 2022.

⁵ A corridor provides infrastructure, human resources and business processes for moving goods along pre-defined routes.

Objective and scope of the audit

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

21. The audit focused on four activities within the 2018–2023 CSP under strategic objectives 1, 2 and 3, representing 93 percent of total expenses incurred in 2021:

- Strategic objective 1 - Activity 1: Provide food assistance and nutrient-rich commodities to refugees, along with social and behaviour change communication and support for self-reliance activities in camps and settlement areas.
- Strategic objective 1 - Activity 2: Provide food assistance and nutrient-rich commodities – complemented by social and behaviour change communication – to vulnerable Kenyan populations to meet acute food needs.
- Strategic objective 2 - Activity 3: Create assets and transfer knowledge, skills and climate risk management tools to food-insecure households.
- Strategic objective 3 - Activity 5: Engage in strengthening the capacities of national and county institutions in disaster risk management, food assistance programme, nutrition services and social safety nets. The audit team reviewed this activity mainly with respect to CSP implementation.

23. The Office of Internal Audit developed an 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



24. The internal audit of the WFP Kenya Country Office built upon the 2021 approach, complementing it with a risk-based audit methodology to determine the priority focus areas for the audit. As a result, the seven areas in scope for the audit included: (i) CSP implementation; (ii) human resources; (iii) beneficiary management; (iv) cash-based transfers; (v) supply chain; (vi) budget management; and (vii) monitoring.

25. The audit team conducted the fieldwork in the country office in Nairobi, with visits to the Kakuma and Mombasa sub-offices. The audit relied on recent management oversight of finance in the country office by the Regional Bureau for Eastern Africa, which was therefore scoped out of the audit.

26. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.



III. Results of the audit

Audit work and conclusions

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

28. A simplified standard process diagram is included for five of the functional areas audited. These diagrams indicate the key 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: Implementing the country strategic plan

29. Stakeholders met during the audit fieldwork recognized WFP as the partner of choice in its traditional areas of intervention. They acknowledged WFP's competitive advantage in working with government entities, particularly at county level, resulting in a potential leading role for WFP in recovery and long-term assistance (also potentially within the UN Country Team).

30. Aware of the challenges and efforts required to transition from 'saving lives' to 'changing lives' and in shaping WFP's future role in the country, country office management was planning to redefine and streamline activities as part of preparation of the new CSP due in 2023. The Government of Kenya's Refugee Act, yet to be operationalized, will change how WFP assists refugees in the country. The October 2021 CSP mid-term review also highlighted resources were overstretched in several initiatives.

31. Issues relating to staffing and skills, country office structure and donor outreach warrant management attention as detailed below.

32. While efforts were under way to address the mid-term evaluation recommendations to strengthen skills and empower field offices:

- The country office matrix structure – with strategic objective managers reporting to the country director and not to the deputy country director for programme, and technical resources⁶ spread across strategic objective teams – required greater and more systematic coordination efforts. This lack of coordination resulted in silos and inefficiencies, as confirmed by staff, and was previously highlighted by the mid-term evaluation.
- At the time of the audit fieldwork, the country office had 40 vacant positions, some of which had been vacant for extended periods. Some units reported insufficient staff to deliver on their work. The Regional Bureau for Eastern Africa's analysis of the Kenya corridor indicated a higher staffing rate⁷ than most corridors in the region, as it is also a corporate hub for salvage and disposal operations. However, despite several vacancies, the corridor managed a throughput 25 percent higher than budgeted.⁸ In the refugee camps, the senior level international heads of sub-offices reported an issue of sub-delegations during management absences, as supported by national officers at level B.

⁶ For example, vulnerability analysis and mapping and supply chain staff.

⁷ Full time equivalent per 10,000 mt. based on budgeted fixed costs including staff positions.

⁸ Actual fixed costs reduction of USD 1.0 million.



33. Contributions increased to USD 56.0 million in March 2022, just over a third of the target for the year. Some donors interviewed suggested that more proactive communication from the country office on results, needs and challenges would help inform their decisions on how to allocate their limited resources. Meetings with stakeholders also highlighted the need for improved communication and advocacy for WFP initiatives and achievements beyond the 'saving lives' agenda, which is an area that requires corporate support. The communication and partnership strategies⁹ for the new CSP due in 2023, under finalization at the time of audit reporting, require an implementation road-map to be developed.

Underlying cause(s): WFP presence in the field and ongoing activities with county Governments and the country's devolution system limiting visibility at central level; COVID-19 pandemic impacting operational activities and decisions on staffing needs and organizational structure changes; staffing structure defined at CSP inception driven by the budget structure; WFP-recommended structure and staffing models not considered; and recent efforts to draft communication and partnership strategies not yet established.

Agreed Actions [Medium priority]

The country office, in consultation with relevant corporate units and in preparation of the new country strategic plan, will:

- (i) Define a transition strategy for its refugee assistance reflecting the new Refugee Act and re-prioritize its portfolio of activities.
- (ii) Carry out a skill needs and gap assessment; reassess ongoing recruitment efforts and the need for existing vacancies; and, leveraging WFP recommended staffing and structure models, undertake an assessment of the country office structure and staffing needs to deliver on its priority objectives.
- (iii) Develop an action plan and identify the necessary priorities and profiles to implement the country office's communication and partnership strategies; and, in the interim, update its partnership action plan.

Timeline for implementation

30 June 2023

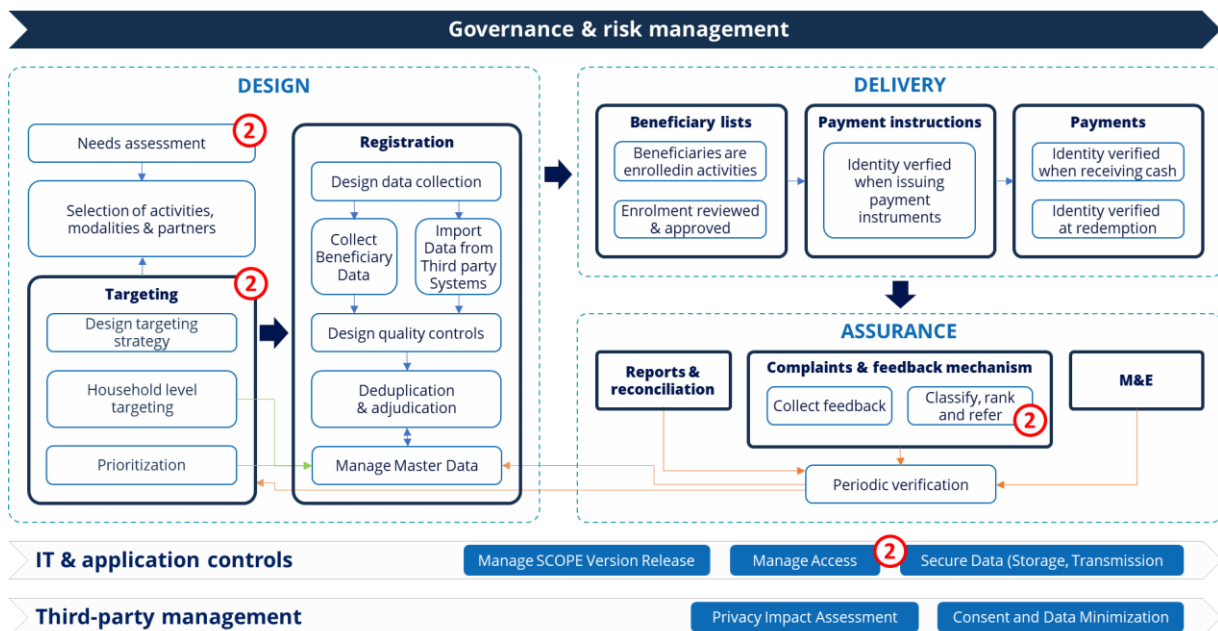
⁹ Covering international financial institutions, government entities and the private sector. Management also plans to develop a comprehensive partnership strategy for the new CSP.

Beneficiary management

34. In addition to the WFP corporate beneficiary and transfer management platform (SCOPE), the country office used a locally developed cash transfer module for cash-based transfer (CBT) beneficiary registration, data validation and processing. Of the 1.2 million beneficiaries reached in 2021, 450,000 (37 percent) were refugees in camps and 770,000 (63 percent) Kenyan nationals. The audit performed tests of key controls in the beneficiary management process, including governance and risk management; elements of design, delivery and assurance mechanisms; support systems; and security and privacy aspects.

35. Overall, key controls over communication with communities, beneficiary registration, identification and verification were established and operating effectively. UNHCR facilitated beneficiary registration in the camps and provided refugees with a digital identity that allowed access to services, food and CBT assistance. For Kenyan beneficiaries, the country office relied on the robust national identification system. At the time of the audit fieldwork, the country office was in the process of finalizing its first privacy impact assessment.

Figure 2: Control test results for beneficiary management



Observation 2: Vulnerability assessment and data management

36. The audit noted areas requiring improvement in beneficiary needs assessments, targeting criteria, and data management tools and processes that could impair the ability to reach the most vulnerable populations.

Vulnerability assessments and targeting

37. The country office continued to provide blanket food and nutrition assistance to all refugees in camps without a recent assessment of vulnerability, needs and eligibility criteria. Funding constraints and delayed contributions resulted in successive reduced rations to all refugees assisted. Donors recognized the need to focus on the most vulnerable population, and to transition beneficiaries from food assistance based on livelihoods conditions.¹⁰ In the Kakuma camp, according to the country office, some refugees worked as CBT retailers averaging monthly sales of USD 5,000¹¹ and still received WFP assistance. A joint assessment mission

¹⁰ Including food security, self-reliance, a stable income and savings.

¹¹ The retailers met by the audit team in Kakuma reported monthly salaries up to USD 20,000.



with UNHCR to re-assess vulnerability levels in the camps and re-profile refugees and host populations is planned for later in 2022.

38. The country office did not have a comprehensive targeting strategy to define targeting processes for its various strategic outcomes and activities, beyond blanket refugee assistance. It was not always clear how targeting approaches and criteria were applied, nor the roles and responsibilities of the various units and stakeholders involved in the process. The combination of a needs assessment and consistent targeting strategies is critical in the Kenya context to allow for more flexibility in WFP's response; to focus its assistance where it is most needed; and to support the shift in the upcoming CSP priorities.

Monitoring issues and feedback

39. The review of logs from the customer relationship management system highlighted that not all issues reported by monitoring staff and field offices were properly categorized, reviewed and consolidated with issues from other sources for trend analysis and to inform programmatic decisions. This included instances of targeting inclusion and exclusion errors that were not comprehensively assessed and actioned, as well as high-priority issues from monitoring visit reports.

Systems and data

40. In 2016, an independent review of the cash transfer module identified more than 120 high and medium priority actions related to configuration, security and application controls to prevent security issues and unauthorized access and transactions within the system. At the time of the audit fieldwork, only 40 percent of the recommendations from the review had been implemented. Actions to address the remaining risks had been put on hold as the country office was assessing whether to continue using the cash transfer module. No regular review of roles and logs in the cash transfer module and SCOPE took place to ensure only authorized processing of and changes to beneficiary registration data.

Underlying cause(s): Legislation limiting possibility for refugees to work outside the camps; absence of agreement on a WFP-UNHCR joint vulnerability assessment mission; process to review and consolidate complaints and monitoring issues not comprehensive; and insufficient security and access risk management in both beneficiary management and CBT processes and systems.

Agreed Actions [High priority]

The country office will:

- (i) Carry out a needs assessment, for example a joint vulnerability assessment, to re-profile the refugee population, considering vulnerability analysis and mapping objectives and criteria, and use this as a basis for re-assessing the country office's crisis response approach and prioritization, as relevant.
- (ii) Establish a consistent targeting strategy across programmatic activities in the upcoming country strategic plan.
- (iii) Establish a comprehensive process to prioritize, escalate and consolidate all issues and complaints collected from various sources, including from monitoring visits.
- (iv) Finalize the assessment of whether to continue using SCOPE and the cash transfer module; as relevant, develop a timeline to implement the independent review recommendations on configuration, security and access controls for the cash transfer module; and establish an independent and regular review check of activities and audit logs for the cash transfer module and SCOPE.

Timeline for implementation

30 June 2023

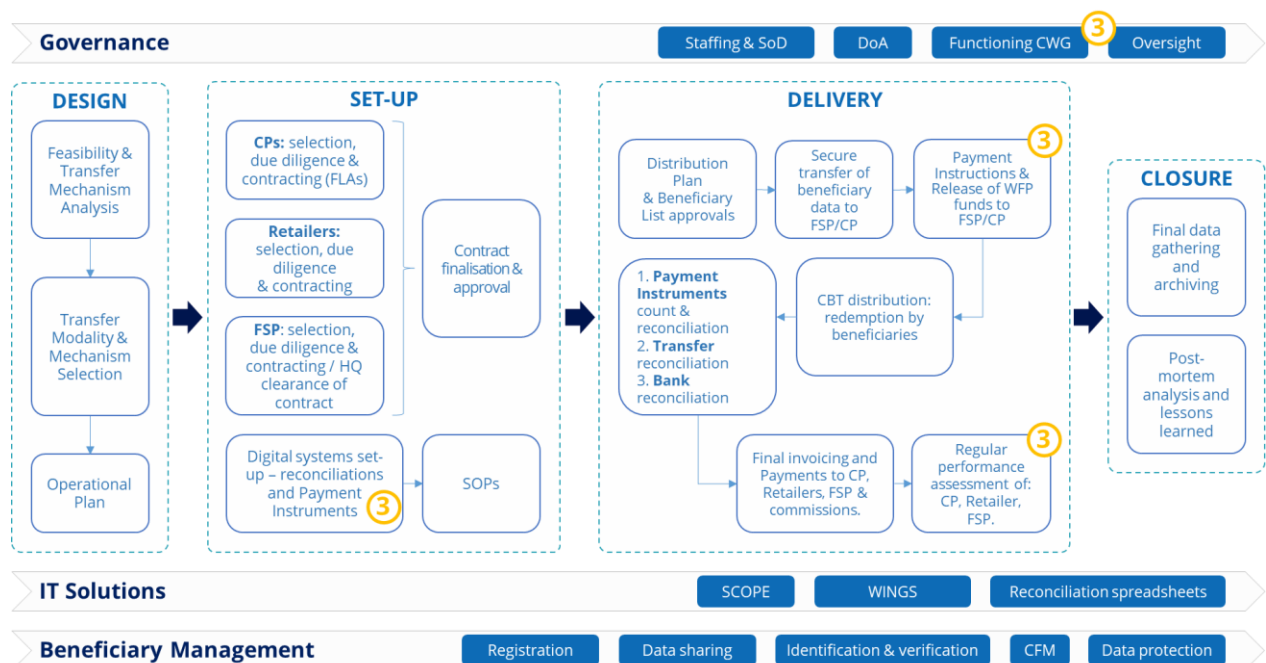
Cash-based transfers

41. During the audit period, the country office delivered USD 40.5 million of cash-based transfers to beneficiaries: 60 percent through value vouchers and 40 percent through unrestricted cash. The country office used two financial service providers: 85 percent of transfers were through a mobile money operator and 15 percent through a bank.

42. The audit performed tests of key controls in the CBT process and systems, including governance, set-up and delivery. Results indicated that controls relating to retailer and financial service provider contracting, card tracking, management of payment instruction and reconciliations were established and operating.

43. The digital platform for the transfer of restricted value vouchers (SurePay) allowed the country office to conduct end-to-end automated transfers, redemptions and payments to retailers without manual interventions. With corporate support, the country office established a systematic CBT reconciliation process that functioned effectively with regular monitoring through the CBT Working Group.

Figure 3: Control test results for CBT



Observation 3: Cash-based transfers

Governance and oversight

44. During the audit period, the CBT Working Group did not fully operate as per its terms of reference. It did not regularly provide guidance and oversight, including on compliance with mandatory corporate requirements and review of retailer performance assessments, and did not drive discussions on important operational risks and cross-cutting solutions. These included delays in transfers to beneficiaries and, following ration cuts, the use of SIM cards by beneficiaries as collateral with retailers, and the purchase of food on loan at higher prices.

45. The country office maintained a network of over 800 retailers¹² for its restricted cash transfer activities. While the CBT Working Group reportedly discussed an overall retailer expansion strategy in 2020, the country office did not update the retailer market assessment for the Kakuma camp after 2018. Field offices managed monthly

¹² Operating inside the two refugee camps and one settlement.



retailer performance assessments, without a central review forum as indicated above, and in 2021, more than 40 percent¹³ of retailers had either unsatisfactory performance or needed improvement.

46. For the unrestricted cash assistance in Kalobeyei, the country office transferred cash to beneficiary-owned bank accounts. The financial service provider did not provide regular reports as foreseen in the contractual agreement to enable the country office to verify that cash was not transferred to dormant accounts.

Digital systems and payment instruments

47. The country office used the digital platform SurePay¹⁴ for restricted cash transfers to generate and reset personal identification numbers (PIN) for Subscriber Identity Module (SIM) cards; manage certified payment lists; and transfer value vouchers to beneficiaries. The cash disbursement standard operating procedure did not regulate all staff roles and responsibilities assigned in Surepay. In addition, review and approval checks in the platform for new users and changes in roles were not in place; and the administrator had the authority to assign any user any role without managerial approval.

48. The country office transferred value vouchers to beneficiaries through limited functionality SIM cards.¹⁵ There were multiple instances of cards being damaged, lost or with technical issues. Changing a SIM number and transferring the unused voucher value to a new number took up to two months. As the SIM cards are of limited functionality, beneficiaries kept them at the retailers – making control, confidentiality and verification through PIN less effective.

Underlying cause(s): CBT Working Group members acting on behalf of their respective functions and strategic objectives without formal responsibilities for cross-functional oversight and resolution of operational issues, such as contracted retailers' capacity and performance management; regular reports on beneficiary accounts from financial service providers not embedded in CBT processes; and insufficient assessment of risks associated with the use of third-party digital systems.

Agreed Actions [Medium priority]

The country office will:

- (i) Strengthen the functioning of the Cash-Based Transfer Working Group, fully implementing the responsibility of members for strategic direction, oversight and key operational issues including transfer delays and beneficiary indebtedness.
- (ii) Reinforce the Cash-Based Transfer Working Group role to actively oversee the review of the number and scale of retailers in use and the management of retailer performance.
- (iii) Enforce regular reporting as per the contract with the financial service provider on the status of beneficiary bank accounts and statements on dormant bank accounts.
- (iv) Formalize roles and user profiles in SurePay; establish system approvals for new users and changes in user roles; and address risks with the use of limited functionality cards as identified by the audit.

Timeline for implementation

30 June 2023

¹³ The country office reported 15 percent, considering only retailers working with WFP.

¹⁴ SurePay (also M-Pesa SurePay) is a closed-loop payment system offered by the mobile money operator, which allows restricted use of funds transferred to beneficiaries using a limited functionality SIM as a transfer instrument.

¹⁵ Limited functionality SIM cards only have the voucher facility activated and receive (but do not send) text messages. Voice, text, data and M-PESA services are not active on these SIM cards.



Supply chain

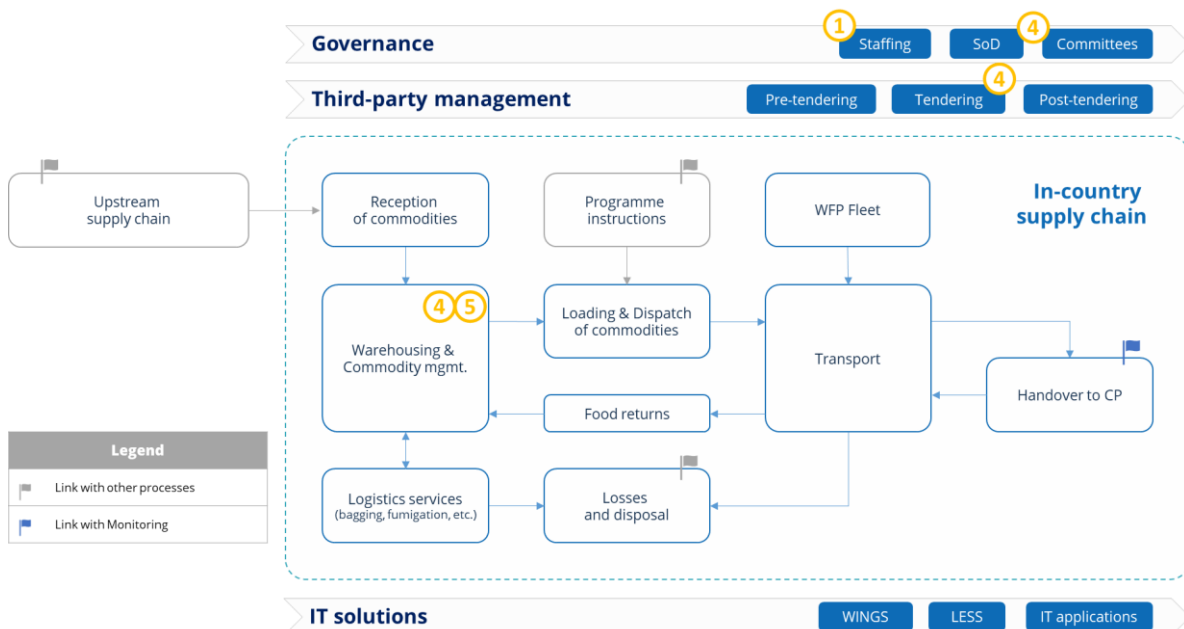
49. Supply Chain management by the Kenya Country Office includes management of the Kenya corridor with a dedicated logistics team. This team encompasses the entire Mombasa sub-office. The team manages corridor services, while all other aspects of the corridor are embedded in standard country office processes and procedures. The Supply Chain Unit oversees budgeting and programming, while the Procurement Unit is separate, reporting to the senior deputy country director, in line with the structure of the Regional Bureau for Eastern Africa.

Logistics

50. The Kenya corridor serves multiple countries in the region (namely Kenya, Somalia, South Sudan, Uganda, Rwanda, Burundi, DRC, Tanzania and Ethiopia) and the southern and central Africa region along pre-defined routes from Mombasa, as entry point, and Nairobi.¹⁶ The country office manages one warehouse in Mombasa and two in Nairobi, which are dedicated to the Kenya Country Office and the Global Commodity Management Facility, sharing rental costs and additional storage capacity on a needs basis with third parties for corridor services.

51. Key controls over governance, oversight from the Regional Bureau for Eastern Africa and operational management by the country office, including service delivery and warehouse operations, were established and functioning. The Regional Bureau had a functioning corridor regional committee and supported the execution of corridor budget agreements and regular monitoring of costs and service volumes in a timely manner. The Regional Bureau recognized the Kenya corridor services as efficient and critical for key country operations in the region. The Kenya Country Office organized logistics training for other country offices during 2021 and 2022 and was in discussion with headquarters to establish a WFP training centre of excellence, leveraging its port and corridor management experience.

Figure 4: Control test results for logistics



¹⁶ The corridor service encompasses the provision of infrastructure, human and transport resources, and business processes to allow the effective and efficient movement of goods along a pre-defined route.

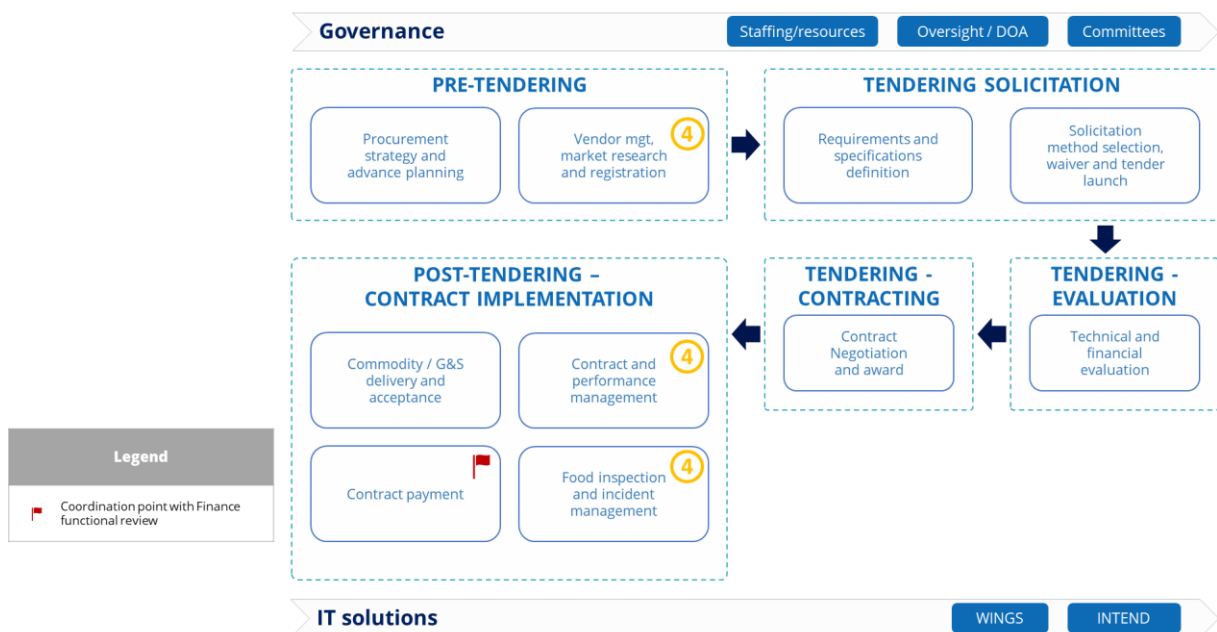


Procurement

52. The audit performed tests on procurement key controls from planning; roster creation and vendor selection; supplier due diligence, including food safety and quality aspects of sourcing from smallholder farmers; vetting and performance management; decision-making processes; and delegation of authorities.

53. The Vendor Management Committee and the Local Procurement Contract Committee were established and operating. The country office operationalized a smallholder farmer procurement plan in accordance with WFP food procurement guidelines. The country office revalidated its vendor rosters, based on a review of vendor contacts against the UN sanctions list and of supplier response trends in the WFP corporate tendering system. Key controls over tendering were functional.

Figure 5: Control test results for procurement



Observation 4: Supply chain risk assessments

54. Supply chain assessments did not consistently support the identification of potential risks and related mitigating actions.

Transportation

55. The country office's extended use of the tariff system contracting modality¹⁷ may bring a risk of higher prices as transporters are aware they will receive a counteroffer and have no incentive to offer competitive rates. The country office had not assessed the need to continue using the tariff system and the effectiveness of measures to mitigate risks of collusion. In particular:

- Multiple suppliers offered the same rate when responding to tenders during the audit period, while the 2021 in-land transport counteroffer rates were 20 percent higher than the lowest rate offered. In the absence of a standard rule to establish counteroffers, the Supply Chain team used various factors and standards, including minimum capacity to ensure timely service. The offered prices did not trigger a review of the tariff system.

¹⁷ Tariff system contracting establishes a general rate, or tariff, that is proposed to shortlisted service providers. All shortlisted service providers that accept the tariff are then paid the same rate for the volumes awarded to them.



- Market surveys of transport services in 2021 and 2022 did not include a detailed assessment comparing market rates under different contracting modalities to justify the continued use of the tariff modality.
- The country office applied the tariff system contracting approach for in-land and overland transport. Volumes for different routes varied significantly and may have benefitted from different approaches.

Procurement

56. Capacity and delivery assessments for procurement were not systematic:

- For sampled smallholder farmer purchases, due diligence documentation, including the assessment of food safety and quality risks, was not available and the due diligence team did not involve the food technologist. The country office carried out regular supplier administrative checks and reported providing smallholder farmers with training and sensitization activities on WFP requirements. The food technologist oversaw food quality incidents for the sample selected, including the definition of improvement actions, and management was kept informed. The Food Incident Management Committee did not meet during the audit period as there were no major incidents. The revised terms of reference to expand its scope were approved after the audit fieldwork.¹⁸
- The country office had not formalized performance assessments of the sampled contracts, including for the above indicated smallholder farmer purchases with quality incidents. The country office reported mitigating actions including the presence of food quality and safety experts during uplifts for the timely correction of issues and training. During local procurement committee meetings, discussions on vendor performance relied on members' informal feedback.

Underlying cause(s): Long-established practice of the tariff system modality without assessment, and counteroffer criteria not formally approved; impact of the COVID-19 pandemic on operational activities; absence of clarity on the expertise required to conduct due diligence of vendors; and procurement vendor performance evaluation only carried out for contract extensions.

Agreed Actions [Medium priority]

The country office will:

- (i) Following a transport market assessment, establish and implement a cost-benefit analysis for different contracting modalities for the various transportation routes, and determine where the use of a single transporter contracting modality would be more beneficial than the tariff system.
- (ii) Formalize and approve standard criteria for counteroffers while using the tariff modality.
- (iii) Streamline and clarify the role and involvement of internal and external partners (including the food technologist) in the food safety and quality risk assessment of smallholder farmers at the registration phase, and operationalize the Food Incident Management Committee.
- (iv) Carry out and monitor procurement vendor performance evaluations in line with established guidance.

Timeline for implementation

31 December 2023

¹⁸ A corporate issue on the criteria and triggers for Food Incident Management Committee meetings and the platform for regular monitoring, analysis and discussion of food safety, quality risks and incidents was raised in the Internal Audit of Somalia AR/21/20.



Observation 5: Warehouse assessments and corridor costs

57. No recent market assessment of storage facilities had been undertaken to evaluate cost-efficiency. The country office's decision to mitigate the risk of COVID-19 virus transmission through storage of cargo in third-party facilities resulted in only 40 percent of the main WFP warehouse in Mombasa being in use for the country office and Global Commodity Management Facility during the audit period. According to the country office, this set-up allowed it to manage a throughput of 215,000 mt of commodities despite restrictions and virus circulation among staff.

58. Of the eight corridors in the region, six have an annual throughput of more than 100,000 mt. A corridor cost analysis and comparison indicated that the Kenya corridor was the second most expensive in terms of annual fixed costs and the most expensive in terms of annual staff costs.¹⁹ The country office highlighted the strategic role of its corridor in an emergency prone region; the diverse operations carried out; and the impact of external economic factors. The country office was planning to operate from a new port in the country and was in the process of defining its staffing and infrastructure needs. For additional corridor staffing considerations refer to Observation 1: Implementing the country strategic plan .

59. Cost is not the only factor driving corridor services demand as access, efficiency and delivery time play a role. With increasing pressure on resources in recipient countries in the region, cost may increasingly impact the demand for and the financial sustainability of the Kenya corridor.

Underlying cause(s): Warehouse assessments not carried out; and staffing structure and logistics service costs not regularly evaluated.

Agreed Actions [Medium priority]

The country office will:

- (i) Conduct a review of the country office warehousing strategy based on projected demand for the region (including cost and capacity requirements), which will guide the operating model; and update the corridor logistics plan accordingly.
- (ii) Following the approval of the Supply Chain Strategy, its resourcing and implementation plans, assess the staffing structure required for the corridor and the associated costs for corridor services.

Timeline for implementation

30 June 2023

¹⁹ Annual planned throughput of 172,000 mt and annual cost of USD 3.8 million as per corridor budget agreement for 2021.

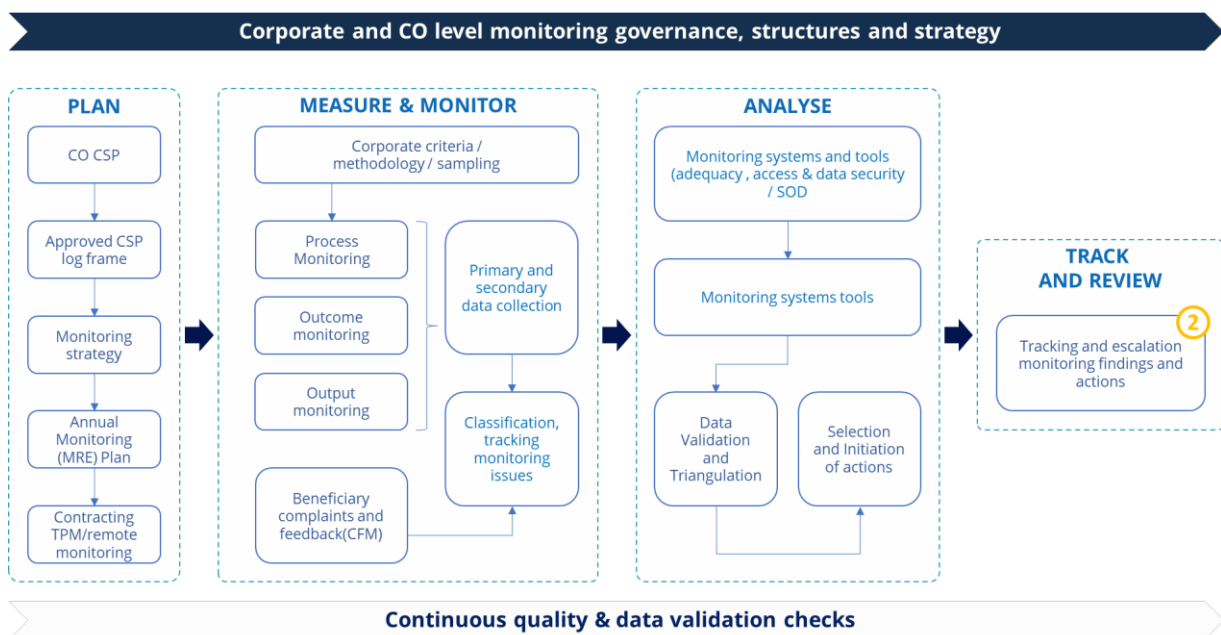
Monitoring

60. The 2021 CSP mid-term evaluation highlighted insufficient monitoring staff²⁰ at field level to ensure segregation of duties and at the time of the audit fieldwork, the country office had started a recruitment process to address this issue. The monitoring team carried out process monitoring, while evaluation firms contracted through corporate long-term agreements undertook baseline assessments, outcome monitoring and evaluations under the management and technical oversight of the monitoring and evaluation officer.

61. Key monitoring controls were established and functioning. The country office monitoring guidance, comprising a monitoring strategy and strategic objective specific guidelines (draft), provided clear definition of roles and responsibilities, tools and methodologies. The country office adjusted its monitoring plan during the COVID-19 pandemic and carried out remote monitoring through call centres. Resource allocation for the monitoring function followed a structured process and was adequate, reflecting recommendations from the mid-term evaluation. The country office implemented its monitoring plan and coverage was in line with corporate minimum monitoring requirements.

62. Aspects related to the prioritization, tracking and escalation of monitoring findings are reported in Observation 2: Vulnerability assessment and data management. There were no further reportable findings in this area.

Figure 6: Control test results for monitoring



²⁰ The monitoring function consisted of a dedicated team of five staff based at the head office and five staff in three of the eight field offices.



Budget management

63. The audit reviewed key controls over budget revisions, earmarking and prioritization of activities for fund allocation, funds and pipeline monitoring, donor requirements and reporting.

64. The Resource Management Committee was functional; its terms of references (draft) included composition, the frequency of meetings and discussions on resource outlook as per corporate guidance. While a large portion of contributions was earmarked, the allocation of non-earmarked funding reflected the country office's priorities. There were no reportable findings in this area and key controls tested were generally operating well.



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 at the country office level, with no actions addressed at corporate level.

| # | Observation (number / title) | Area | Owner | Priority | Timeline for implementation |
|---|--|------------------------|----------------|----------|-----------------------------|
| 1 | Implementing the country strategic plan | Cross-cutting | Country office | Medium | 30 June 2023 |
| 2 | Vulnerability assessment and data management | Beneficiary management | Country office | High | 30 June 2023 |
| 3 | Cash-based transfers | CBT | Country office | Medium | 30 June 2023 |
| 4 | Supply chain risk assessments | Supply chain | Country office | Medium | 31 December 2023 |
| 5 | Warehouse assessments and corridor costs | Supply chain | Country office | 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 |
|-------------------------------------|---|
| 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. |
| 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. |
| 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.²¹

²¹ 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 |
| CSP | Country strategic plan |
| IPC | Integrated Food Security Phase Classification |
| mt | Metric tons |
| PIN | Personal identification number |
| SCOPE | WFP beneficiary information and transfer management platform |
| SIM | Subscriber Identity Module |
| SUREPAY | Digital platform for the transfer of mobile based unrestricted cash & value vouchers |
| UNHCR | United Nations High Commissioner for Refugees |
| USD | United States dollars |
| UN | United Nations |
| WFP | World Food Programme |

Annex D - List of figures

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