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Internal Audit of WFP Operations in the State of Palestine

Office of the Inspector General
Internal Audit Report AR/22/19



December 2022



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I. Executive summary

WFP State of Palestine Country Office

1. As part of its annual workplan, the Office of Internal Audit conducted an audit of WFP operations in the State of Palestine that focused on beneficiary management, cash-based transfers, procurement, monitoring, finance, budget management and service provision. The audit covered the period from 1 January 2021 to 30 June 2022.
2. The work of WFP in the State of Palestine, as defined in the Country Strategic Plan 2018–2022, aims to provide relief food assistance to the poorest and most severely food insecure people in the State of Palestine. The country strategic plan also supports long-term resilience via a livelihood approach. The plan was extended until February 2023 to align with the planned submission of the next Country Strategic Plan 2023–2028.
3. The latest revised budget for the Country Strategic Plan 2018-2022 was USD 542 million.¹ Over the audit period, WFP expenses amounted to USD 186 million. The audit focused on the implementation of activities 1 – Provision of unconditional food assistance (including through cash-based transfers and in-kind modalities) and nutrition information to poor and food-insecure households, and 4 – Service provision of WFP's delivery platforms to partners, under strategic outcomes 1 and 3, which accounted for 97 percent of the total 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 objectives of the audited entity/area should be achieved. Issue(s) identified by the audit were unlikely to significantly affect the achievement of the objectives of the audited entity/area. Management action is recommended to ensure that identified risks are adequately mitigated.
5. The country office reached 478,000 beneficiaries in 2021, mostly through cash-based transfers. In line with its country strategic plan, the provision of cash transfer services to United Nations entities and non-governmental organizations has continuously increased, reaching over USD 10 million per month in 2022 or 65 percent of overall expenses.
6. The country office managed to mitigate the operational risks associated with the implementation of cash-based transfers thanks to a stable beneficiary caseload with reliable identification documents and robust monitoring mechanisms.
7. The State of Palestine Country Office was an early adopter of cash-based transfers in 2009 and established its processes and systems before most corporate guidance and tools were available. These innovations led the country office to rely on a solution architecture for beneficiary information and transfer management which limited the ability of management and second-line functions to perform oversight on business processes and associated application controls, leaving potential operational risks unmitigated. There were issues with segregation of duties in managing access to the cash transfer platform and in managing payment instruments.
8. With a threefold increase in the total transfer value over the audit period, including cash transfer services, the State of Palestine Country Office was yet to fully implement digitalization and benefit from more forcefully using data as demonstrated by the positive impact it had on cash-based transfer governance and control mechanisms in other country offices in the region. The country office would benefit from reviewing the processes that should accompany the roll-out of digital tools, to provide further assurance on the management of beneficiary information, payment instruments and cash-based transfer reconciliations.
9. The country office exchanged a cumulated USD 69 million and EUR 85 million for local currency during the audit period without obtaining quotations from a panel of financial institutions, limiting WFP's negotiating power

¹ Revision 9 of December 2022.



to obtain the most competitive rates. There was limited management oversight of these locally performed transactions.

10. Key controls were adequately established and functioning in the areas of monitoring, procurement and budget. Low priority observations were discussed with the country office and not reported here, as per established practice.

Actions agreed

11. The audit report contains two high and four medium-priority observations, one of which has agreed actions directed at the corporate level. 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

The State of Palestine

13. The State of Palestine comprises the West Bank and the Gaza Strip. Socioeconomic conditions in the State of Palestine remain challenging and are deteriorating, with restricted trade and access, economic stagnation, high unemployment, gender inequalities and high rates of poverty and food insecurity, exacerbated by protracted civil strife and conflict, the effects of the COVID-19 pandemic and climate change. The deteriorating situation is particularly pronounced in the Gaza Strip, one of the most densely populated areas in the world.

14. According to the 2020 socio-economic and food security survey, across the State of Palestine, 1.8 million people (approximately 31 percent of the population) are estimated to be food insecure, of which 1.4 million are in the Gaza Strip and 335,000 in the West Bank. Over 90 percent of the 1.1 million severely food-insecure people were in the Gaza Strip.²

WFP operations in the State of Palestine

15. WFP supports the Palestinian Authority in the provision of assistance to vulnerable segments of the non-refugee population. The country office launched its country strategic plan in 2018 with a budget of USD 241 million, which has been revised nine times³ to reach USD 542 million in December 2022.

16. In April 2021, the country office introduced a new strategic outcome and activity under strategic result 8 for on-demand cash transfer services, with a total budget of USD 171 million.

17. As of June 2022, the cumulative country strategic plan expenses that had been incurred since its inception amounted to USD 324 million, or 80 percent of the implementation plan.

18. In 2021,⁴ WFP reached 478,000 vulnerable and food-insecure Palestinians across Gaza and the West Bank. Over the audit period, WFP distributed 14,182 metric tons of food and USD 67 million through cash-based transfers for unconditional food assistance. The country office provided technical assistance and coordination support to national institutions to identify, target and assist food-insecure vulnerable populations.

19. In May 2021, the escalation of conflict in Gaza prompted the country office to scale up assistance to affected populations and test its emergency preparedness measures.

20. Between January 2021 and June 2022, the country office transferred USD 98 million through its cash platform as a service to nine UN entities and non-governmental organizations. Since 2021, the country office has provided on-demand cash transfer services to the Office of the United Nations Special Coordinator for the Middle East Peace Process (UNSCO) to support vulnerable families in Gaza. These transfers reached approximately USD 10 million per month, exceeding the value of WFP programmes.

21. Implementation of WFP operations in the State of Palestine required coordination with the Government of the State of Palestine in the West Bank, authorities in the Gaza Strip, and the Government of Israel. Movement restrictions in and out of the Gaza Strip added complexity to the management of the Gaza field office.

22. The country office increased its staffing levels by 50 percent over the audit period and initiated an organizational alignment exercise in 2022 to support the transition to its second-generation country strategic plan.

² Palestine Food Security Sector and Palestine Economic Policy Research Institute. 2022. [Socio-Economic & Food Security Survey 2020](#). State of Palestine.

³ Figures from Revision 9 date December 2022 of the Country Strategic Plan 2018-2023.

⁴ WFP 2021 State of Palestine Annual Country Report https://www.wfp.org/operations/annual-country-report?operation_id=PS01&year=2021#/23031

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 the State of Palestine. 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 activities 1 and 4 under strategic outcomes 1 and 3, representing 97 percent of the country strategic plan's expenses:

- *Activity 1 – Provision of unconditional food assistance (including through cash-based transfers and in-kind modalities) and nutrition information to poor and food-insecure households.*
- *Activity 4 – Service provision of WFP's delivery platforms to partners.*

25. The Office of Internal Audit developed in 2021 a focused audit approach to adapt to COVID-19 constraints, while maintaining 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 below.

Figure 1: Areas covered by the focussed audit approach



26. The internal audit of WFP operations in the State of Palestine built on the focussed 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) beneficiary management; (ii) cash-based transfers (CBT); (iii) procurement; (iv) monitoring; (v) finance; (vi) budget management; and (vii) service provision.

27. The audit team conducted the fieldwork in the Country Office in Jerusalem with a visit to the Gaza field office.

28. Additionally, the country office contributed to two separate corporate audit engagements: (i) Internal Audit of Information Technology Asset Management; and (ii) Internal Audit of Information Technology Management and Support in Country Offices.

29. 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

30. Each of the following sections correspond to the functional areas covered during the audit (described in paragraph 26), with an initial section to capture cross-cutting issues. Six observations arose from the audit – regarding beneficiary management, cash-based transfers, finance and service provision, topped with a cross-cutting topic.

31. A simplified standard process diagram is included for several 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: Solution architecture for beneficiary information and transfer management

32. The country office worked for over 10 years with an external provider to develop its tailored cash transfer platform. A mission from the Regional Bureau for the Middle East, Northern Africa and Eastern Europe in 2017 concluded that this platform covered the functional requirements of the country office. However, locally customized platforms are generally challenging for effective corporate oversight over country office operations, specifically due to the absence of corporately endorsed standard application controls, as noted in the 2021 internal audit of WFP operations in Lebanon.⁵

33. The contract signed in 2014 with the current financial service provider was extended through amendments without competition or documented performance assessments. Corporate guidance developed since 2016 on contracting financial service providers was therefore not applied to identify financial and operational risks and formulate risk mitigation actions. Cognizant of these limitations, at the time of the audit fieldwork, the country office was undertaking a competitive procurement process to select a financial service provider.

Segregation of duties

34. Administration of the cash transfer platform, including access management, was performed by one staff member from the monitoring unit. This allocation of roles and responsibilities did not result in adequate segregation of duties. Corporate guidance states that system administration roles and responsibilities should be allocated to staff independent from programme implementation and monitoring.

35. Access requests to create user accounts in the platform were made through emails copying the relevant head of unit. This practice was not aligned with WFP standard access control management, which requires a review of conflicts with the segregation of duties matrix and the country director's approval of access requests to the platform. Overall, the audit trail for the activation, modification, and de-activation of user accounts was weak.

Underlying cause(s): System's specifications developed before issuance of final corporate guidance; lack of clarity at the corporate level on the use of customized platforms for beneficiary information and transfer management; absence of a review of conflicts with the segregation of duties matrix; and the unique set-up of the cash transfer platform with the standard operating procedure not reviewed and updated to align with corporate guidance.

⁵ Internal audit of WFP operations in Lebanon (AR/21/21) - [link](#)



Agreed Actions [High priority]

The headquarters Cash-Based Transfers Division will:

- (i) Develop guidance for country offices using non-corporate systems to ensure they adhere to corporate standards for beneficiary information and transfer management.

The country office will:

- (ii) Review the allocation of administration roles related to the cash transfer platform to ensure segregation of duties.
- (iii) Review and update the standard operating procedure to ensure alignment with corporate guidance on the activation, modification and de-activation of user profiles in the cash platform.

Timeline for implementation

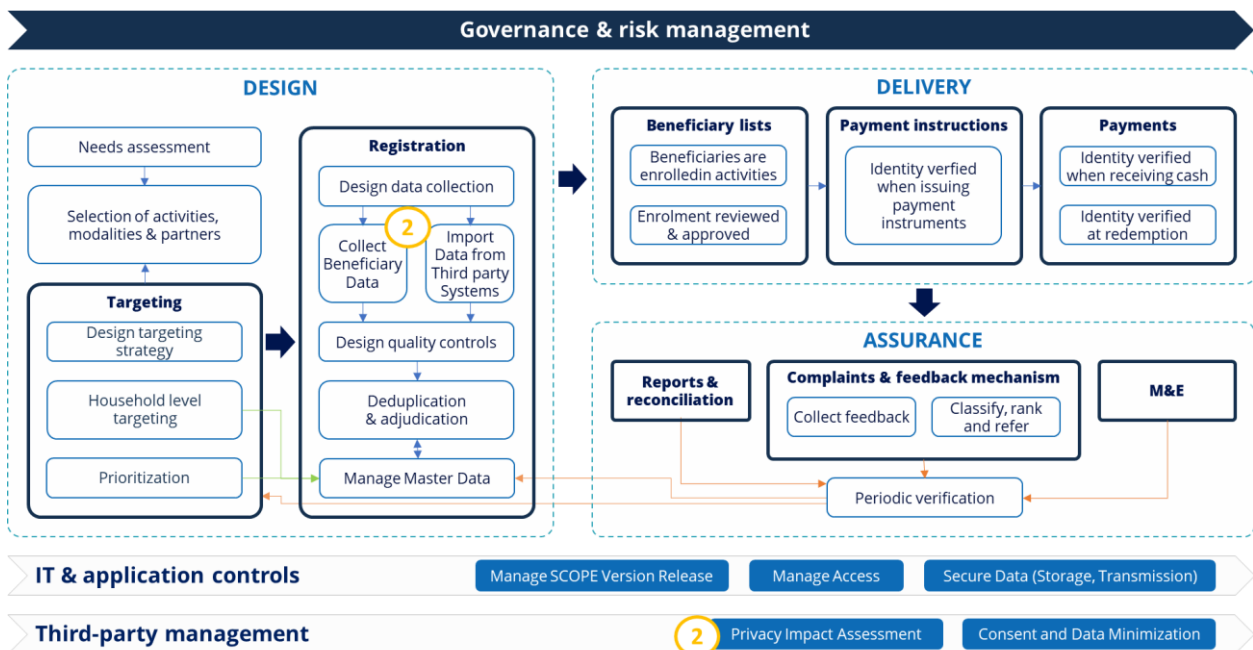
30 June 2023

Beneficiary management

36. The audit assessed the key controls over beneficiary management processes, focusing on beneficiary data management (see details in Figure 2 below). Targeting and beneficiary selection processes were performed in coordination between the Government and UN entities, including the country office. At the time of undertaking the audit, the Office of Evaluation was finalizing a decentralized evaluation with a scope of work encompassing the effectiveness of beneficiary targeting and mechanisms for accountability to affected populations. Targeting processes were therefore not reviewed during the audit.

37. The country office identified beneficiary information management as a risk in its risk register. It requested corporate support to assess beneficiary data gaps and strengthen data assurance.

Figure 2: Control test results for beneficiary management





Observation 2: Beneficiary information management

Beneficiary data management

38. The country office received beneficiary lists for in-kind and cash-based assistance from the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) and the Ministry of Social Development in spreadsheets and via email. The country office had not established the data infrastructure necessary to enable centralized management of beneficiary datasets. The programme unit performed data processing activities manually using spreadsheets (e.g. beneficiary data cleaning and transformation), increasing the risk of error or manipulation and leaving a limited audit trail of modifications to beneficiary lists.

39. The country office had identified these risks, and in March 2022, requested corporate support from the headquarters data assurance team to implement a centralized beneficiary information management system and strengthen data assurance. As of September 2022, the timeline to implement proposed solutions was unclear.

Privacy impact assessment

40. The country office had not performed a privacy impact assessment for the use of beneficiary data to identify, assess and mitigate risks arising from the collection and utilization of personal data due to limited internal technical capacity in this area.

41. The country office contracted a financial service provider in 2014 and uploaded beneficiary data on the provider's cash transfer platform, a system not owned by WFP, with beneficiary data hosted outside WFP. At the time of the audit fieldwork, the platform had 57,747 active participant profiles (circa 346,482 beneficiaries) and 50,145 inactive participant profiles (circa 300,870 beneficiaries). The country office had not applied corporate guidance – requiring a quarterly review of beneficiary data and data cleansing of inactive data every two years – thereby increasing exposure to data protection risks.

Underlying cause(s): Insufficient internal resources and expertise in the country office to support the privacy impact assessment; and non-application of corporate guidance.

Agreed Actions [Medium priority]

The country office will:

- (i) In coordination with the headquarters data assurance team, finalize the workplan and timeline to strengthen beneficiary data management and enable the secure transfer, storage, analysis, transformation and processing of beneficiary data as part of programme implementation.
- (ii) Coordinate with relevant regional and headquarters units to undertake a privacy impact assessment and identify and mitigate the risks associated with beneficiary data being hosted outside WFP.

Timeline for implementation

30 June 2023

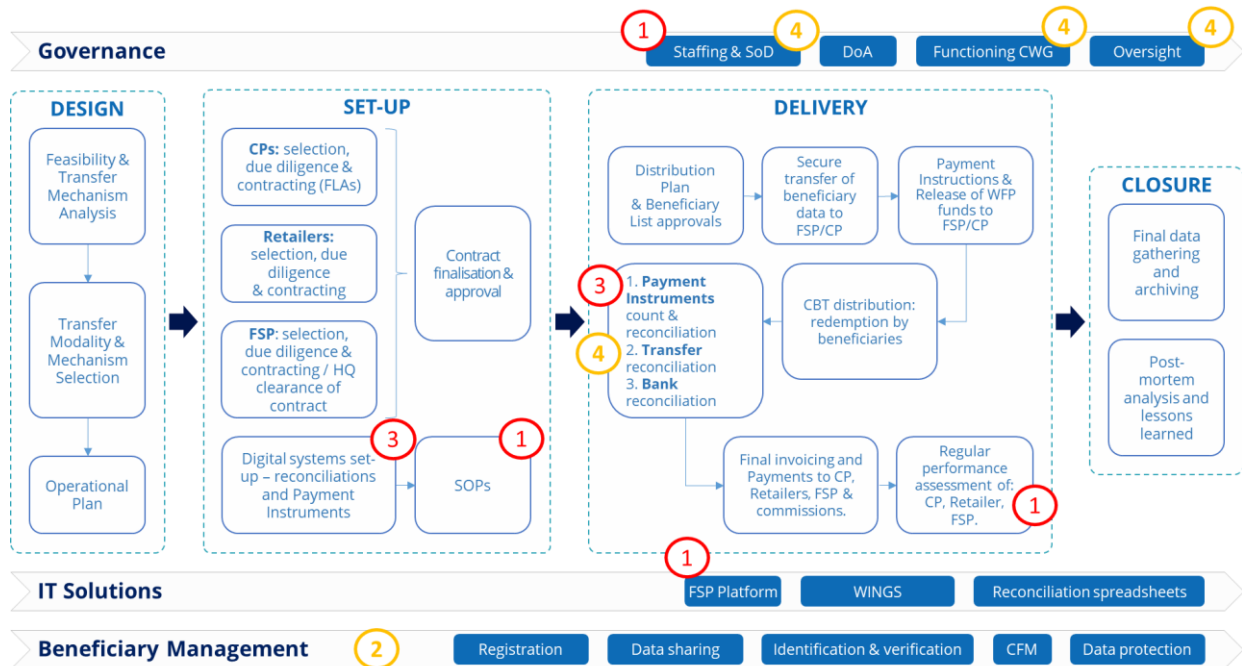
Cash-based transfers

42. The country office was an early adopter of cash-based transfers in 2009. During the audit period, the country office delivered USD 67 million of cash-based transfers to beneficiaries: of which, 90 percent was delivered through value vouchers with an electronic payment solutions company; and 10 percent through unrestricted cash via a bank. In addition, during the audit period in scope, the country office provided cash transfer services to nine partners and channelled USD 98 million via its cash transfer platform.

43. The audit performed tests of key controls in cash-based transfer processes and systems, including governance, set-up and delivery as illustrated in Figure 3. The audit also reviewed controls in service provision delivery, focusing on the secure exchange of beneficiary data and transfer reconciliation.



Figure 3: Control test results for cash-based transfers



Observation 3: Management of payment instruments

44. Beneficiaries used electronic voucher cards to redeem their cash-based entitlement. At the time of the audit fieldwork, 57,747 cards were active, mostly distributed before the audit period. The country office planned to replace them and distribute 62,000 new cards between November 2022 and February 2023, before launching its second-generation country strategic plan.

Segregation of duties

45. The programme unit concentrated the roles and responsibilities for managing payment instruments, including the custody of blank cards, and the printing and handover of cards to cooperating partners. The programme unit was also responsible for editing beneficiary data and card information in the cash transfer platform to enable card issuance. Corporate guidance states that these responsibilities should be assigned to different units to ensure adequate segregation of duties. The standard operating procedure for management of payment instruments had yet to be reviewed and updated to align with corporate guidance on segregation of duties.

Payment instrument tracking

46. The platform used by the country office provided card management functionalities, including card activation and de-activation. The country office had not yet established a system to track and manage payment instruments across their life cycle and, therefore, had limited visibility over the payment instruments issued and distributed, and their status. To address these issues, in May 2022, the country office engaged with the headquarters Cash-Based Transfers Division to roll out a payment instrument tracking application.

Underlying cause(s): Absence of a digital payment instrument management system; and absence of review and update of the standard operating procedure for payment instruments, to align with corporate guidance.

**Agreed Actions** [High priority]

The country office will:

- (i) Review roles and responsibilities for card management to ensure segregation of duties; and update the standard operating procedure to ensure alignment with corporate guidance on payment instrument management.
- (ii) Finalize the implementation of a digital tool to track payment instruments.

Timeline for implementation

31 March 2023

Observation 4: Cash-based transfer reconciliations

47. The country office used its financial service provider's cash transfer platform to transfer benefits to beneficiaries. For reconciliation purposes, the country office used reports on benefits transferred and redeemed by beneficiaries generated through a web interface.

Transfer reconciliations

48. The finance unit undertook the main detective control over cash-based transfers by reconciling payment instructions with bank statement transactions in spreadsheets, with an average of 100,000 transactions per distribution cycle. This manual process was inherently prone to errors and offered limited possibility of performing more advanced analyses.

49. The country office had the technical capacity, data and reports available to implement additional detective controls on payment instructions, voucher wallet uploads, and unredeemed benefits. The current control framework relied mostly on monitoring processes which, while robust, cannot provide full assurance that benefits were transferred to the intended beneficiaries.

Oversight and monitoring

50. Digitalization and use of data have strengthened the governance, control mechanisms and monitoring capabilities of other country offices in the region. The country office only requested support to adopt these best practices in 2022. As of September 2022, the timeline to implement proposed digitalized solutions was unclear, including for on-demand cash transfer services.

51. The country office's main detective control over cash-based transfers – the finance unit's reconciliation report – was not reviewed by the transfer modality working group or endorsed by country office management as required by corporate guidance.

Underlying cause(s): Cash transfer platform's specifications developed before issuance of final corporate guidance; limited involvement of the transfer modality working group in the design of controls; recommendations from regional bureau and headquarters oversight missions to strengthen controls over cash-based transfers and digitalization not implemented; and implementation of beneficiary data management solutions prioritized by the country office over the development of monitoring tools based on data-driven solutions.

Agreed Actions [Medium priority]

The country office will:

- (i) Based on the experience of other country offices in the region, undertake a business process review to redesign the monthly reconciliation package and review roles and responsibilities of each functional unit.



(ii) In coordination with the headquarters data assurance team, identify opportunities to develop monitoring tools based on data-driven solutions; and finalize the workplan and timeline to improve assurance and monitoring activities over cash-based transfers.

Timeline for implementation

30 June 2023

Procurement

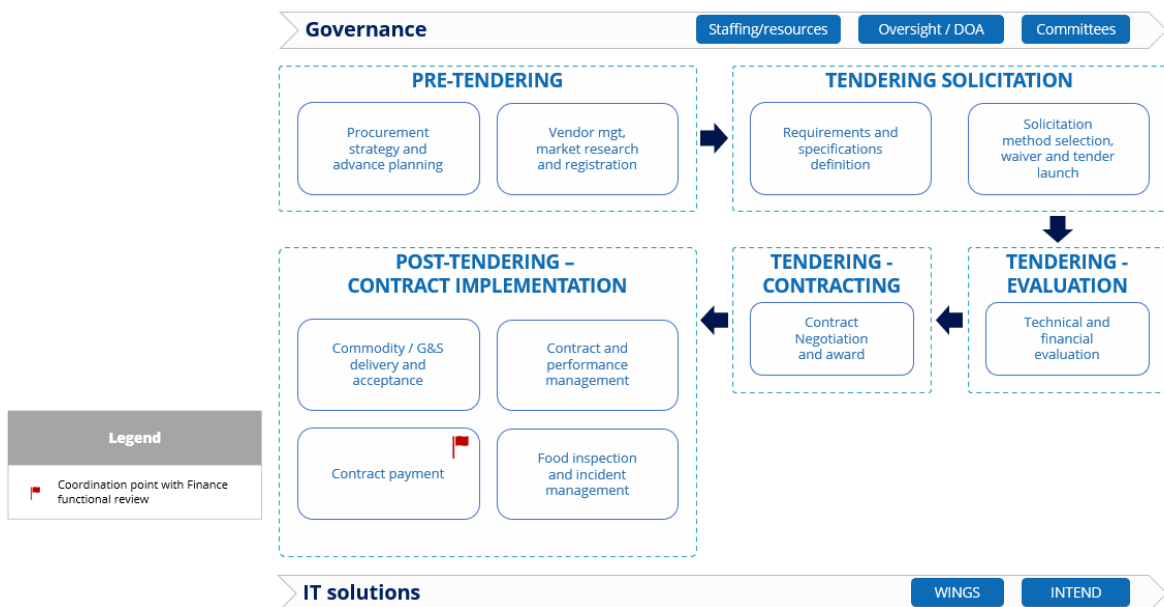
52. The procurement-related areas reviewed are illustrated in Figure 4. More specifically, the audit reviewed how contracting practices ensured that principles of competitive procurement were met for non-food items, transport and logistics services, and retailers. Compliance with donors’ terms and conditions for vendor contracting was also reviewed on a sample basis.

53. No reportable findings arose. In general, controls were found to be operating effectively with processes effectively managed.

54. In June 2022, the country office integrated some procurement functions to the supply chain unit as recommended at the corporate level, including goods and services procurement and the vendor vetting process with donors, which were previously performed by the finance and administration unit and the partnerships unit, respectively.

55. The country office implemented specific mechanisms to identify potential retailers in the West Bank and Gaza. The review of processes to identify, assess and select over 300 retailers under contract was satisfactory.

Figure 4: Control test results for procurement



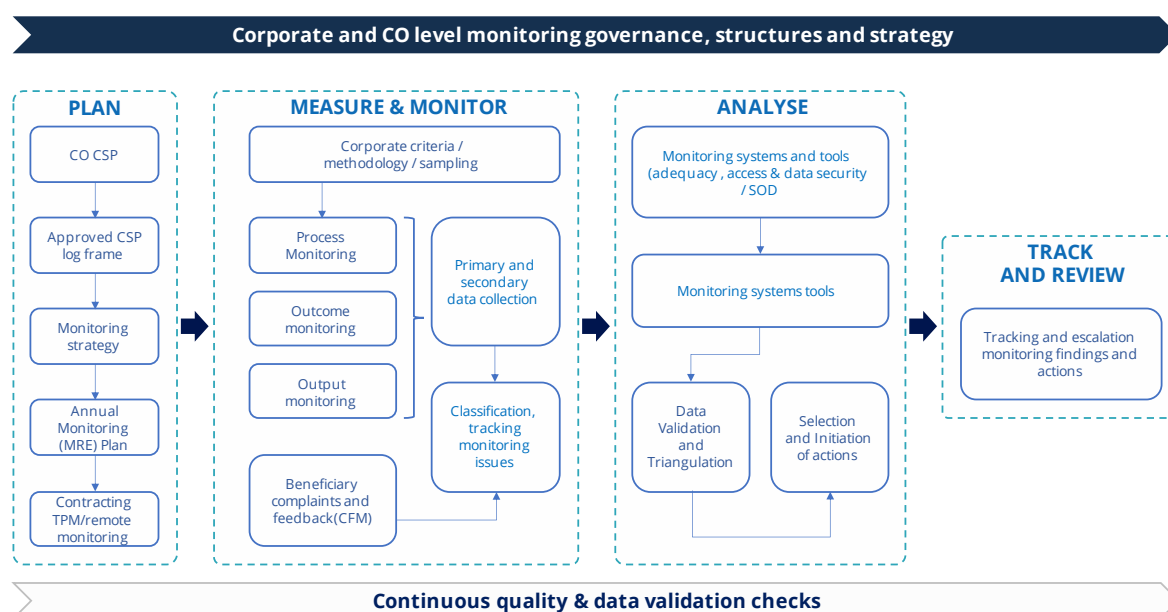
Monitoring

56. The country office is mandated by several organizations, including UN entities, to manage a hotline for beneficiary complaints and feedback mechanisms. Over 2,000 calls a month were received during the audit period, the majority of which were information requests or to address technical issues.

57. The areas reviewed related to monitoring are illustrated in Figure 5 below. More specifically, the audit reviewed processes to manage feedback received through the hotline; how such feedback was used to inform WFP's programmes; and information referred to other organizations when necessary. The review also covered the tracking, follow-up and closure of monitoring findings.

58. No reportable findings arose. In general, controls were found to be operating effectively with processes effectively managed.

Figure 5: Control test results for monitoring



Finance

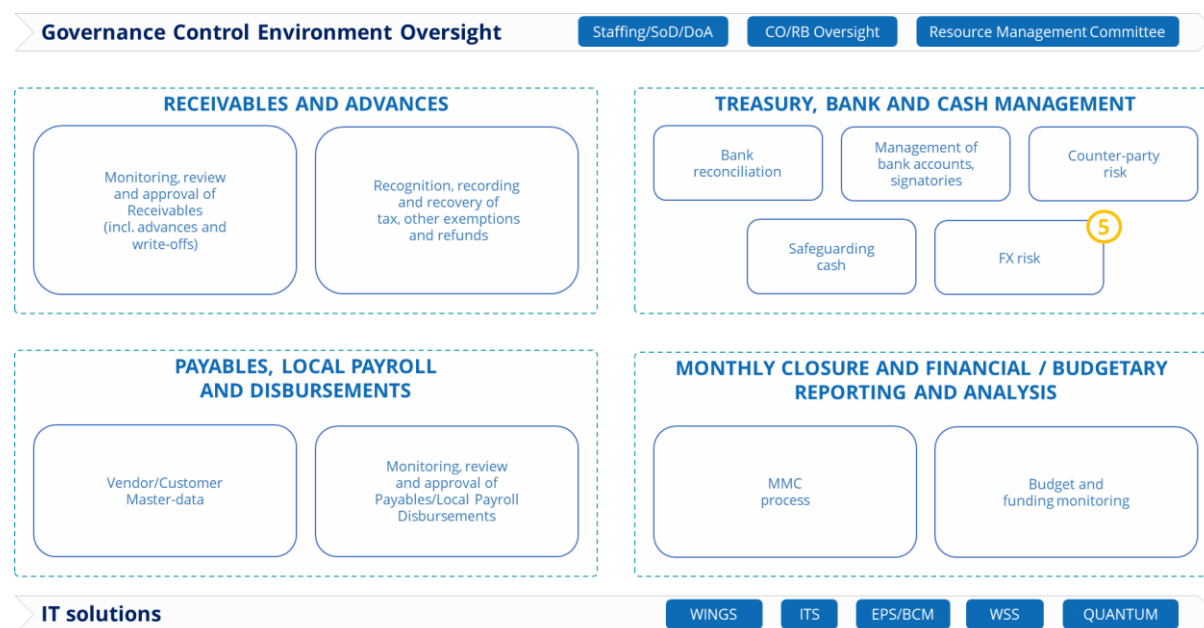
59. Over the audit period, the country office exchanged a cumulated USD 69 million and EUR 85 million for Israeli Shekel locally.⁶ As of June 2022, the overdue value-added tax receivable from the Palestinian Authority amounted to USD 287,018. In coordination with headquarters, the country office was deciding on which actions to take.

60. The audit reviewed limited processes, as illustrated in Figure 6 below, including the payment process; the management of foreign exchange transactions conducted locally; and the impact of value-added tax receivable. Opportunities to create efficiencies in the invoice management process and provide visibility on exception reports to disbursing officers were discussed with country office management.

⁶ General ledger foreign exchange accounts in the WFP Enterprise Resource Planning system.



Figure 6: Control test results for finance



Observation 5: Foreign exchange management

61. The country office completed all foreign exchange transactions locally without the involvement of the headquarters treasury unit, which confirmed that corporate-referenced brokers could not offer more competitive rates.

62. Despite the high volume and riskiness of these operations, the country office had not considered issuing a documented procedure to define the risk appetite and aspects to be considered when conducting transactions locally. The country office did not obtain quotations from a panel of financial institutions before purchasing local currency. The bank, where the country office kept its imprest accounts, was systematically selected for foreign exchange transactions, mainly for ease of operations and to avoid settlement risk while transferring funds between financial institutions. Using a single trader could lead to spread manipulation and limit WFP's negotiating power to obtain the most competitive rates.

63. The country office had not implemented an oversight mechanism commensurate to the volume of foreign exchange transactions generated by WFP and its service provision activities to ensure the transparency and competitiveness of the transaction rates obtained.

Underlying cause(s): Non-compliance with corporate guidance on sourcing local currency for WFP operations to ensure a competitive currency exchange process; and absence of a robust oversight mechanism given the high volume of foreign exchange transactions.

Agreed Actions [Medium priority]

In collaboration with the treasury unit at headquarters, the country office will:

- (i) Review its foreign exchange transaction procedures to ensure transparency and that the most competitive rates are obtained.
- (ii) Establish adequate management oversight of foreign exchange transactions.

Timeline for implementation

30 June 2023

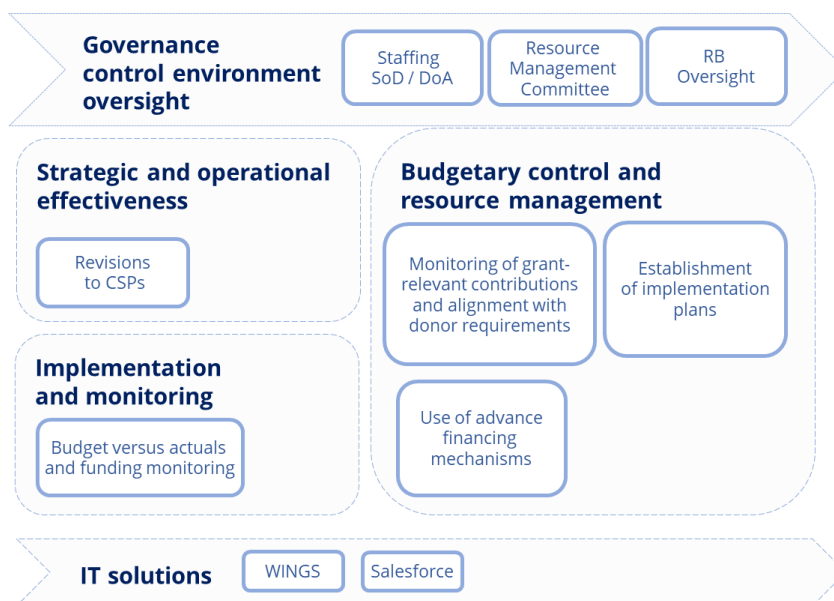


Budget management

64. The areas reviewed by the audit related to budget management are illustrated in Figure 7. More specifically, the audit reviewed the establishment of implementation plans, including funding projections, the expenditure forecast process and use of advance financing mechanisms. The audit also assessed the effectiveness of budget monitoring, including grant management and budget versus actuals.

65. The audit results indicated that overall budget management controls were functioning effectively.

Figure 7: Control test results for budget management



Service provision

66. The audit reviewed the budgeting and accounting treatment of service provision activities, as well as agreements signed to ensure they meet corporate standards and limit WFP's liability in case of losses. Operational risks were reviewed as part of the [section on cash-based transfers](#).

67. External stakeholders gave positive feedback on the country office's distinctive strength, i.e. its capacity to deliver quickly to respond to on-set crises, notably through its cash transfer platform. The country office performed a specific assessment to mitigate risks linked to the provision of significant cash transfer services.

Observation 6: Budget for cash transfer services

68. The country office could not explain agreement budgets. While the transfer value was determined by the user organization and management cost recovery was computed based on corporate guidance, staff costs and bank charges were not itemized or based on defined criteria. These direct costs varied between 1 and 3 percent, and, in one agreement, were as low as USD 750.

69. In the absence of a documented budgeting method, it was not possible to confirm that the full cost recovery principle had been met.

70. Several agreements for cash transfer services included on-demand services for the use of the hotline and monitoring activities. The budget for these additional activities was bundled with cash transfer services, and the corresponding expenses were reported under a single country strategic plan activity, instead of being segregated for accuracy of reported figures.



Underlying cause(s): The country office's growing portfolio of services; absence of detailed corporate guidance on the application of full cost recovery; and lack of guidance on the provision of other on-demand services.

Agreed Actions [Medium priority]

The country office will:

- 1) Define a methodology for budgeting direct costs in line with the full cost recovery principle and establish budget monitoring mechanisms.
- 2) Segregate the budget for cash transfer services from other on-demand services to align with activities of the new country strategic plan.

Timeline for implementation

30 June 2023



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.

#	Observation (number / title)	Area	Owner	Priority	Timeline for implementation
1	Solution architecture for beneficiary information and transfer management	Cross-cutting	Headquarters Cash-Based Transfers Division Country Office	High	30 June 2023
2	Beneficiary information management	Beneficiary management	Country Office	Medium	30 June 2023
3	Management of payment instruments	Cash-based transfers	Country Office	High	31 March 2023
4	Cash-based transfer reconciliations	Cash-based transfers	Country Office	Medium	30 June 2023
5	Foreign exchange management	Finance	Country Office	Medium	30 June 2023
6	Budget for cash transfer services	Finance	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.⁷

⁷ 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
EUR	Euro
UN	United Nations
UNRWA	United Nations Relief and Works Agency for Palestine Refugees
UNSCO	United Nations Special Coordinator for the Middle East Peace Process
USD	United States dollar
WFP	World Food Programme

Annex D - List of figures

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