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Internal Audit of WFP's Financial Service Provider Management

Office of the Inspector General
Internal Audit Report AR/25/03

WFP
World Food Programme

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Contents

I. Executive summary

Background

1. As part of its annual workplan, the Office of Internal Audit conducted an audit of WFP's management of financial service providers, covering the period from 1 January 2023 to 30 June 2024. The audit focused on governance, risk management, financial sector and financial service provider assessments, and the onboarding of non-traditional financial service providers.

2. During the audit period, WFP delivered USD 3.9 billion in cash-based transfers: USD 2.7 billion of which was through financial service providers. Management of financial service providers involves cross-functional coordination, with responsibilities and accountabilities across headquarters, regional bureaux and country offices.

Audit conclusions and key results

3. 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. 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.

4. Managing financial service providers requires navigating financial, operational and regulatory challenges and a solid understanding of financial systems, payment mechanisms and digital financial services. As the digital payment market continues to evolve, requiring close attention to emerging trends, staff in the Business Development Cash-Based Transfers Unit demonstrated sufficient expertise to maintain the established maturity of financial service provider management processes and drive further innovations.

5. The audit report contains one high-priority observation related to gaps in strategic decision making processes. The absence of an overarching governance mechanism to provide strategic direction for management of financial service providers resulted in misaligned efforts and inefficiencies. Operational cross-functional teams at headquarters, which support country offices in managing financial service providers, lacked formal mechanisms to escalate systemic or high-risk issues to strategic decision makers. As a result, critical residual risks, such as counterparty and technology-related risks, had limited visibility at headquarters and were not fully addressed at the appropriate level.

6. The audit highlighted five medium-priority observations, including areas for improvement in policies, risk management and oversight of financial service providers. There were also opportunities to enhance risk assessments and further optimize efficiency. While tools and processes for financial service provider management were in place, their effectiveness varied depending on operational contexts. Inconsistent oversight was noted, with mitigation actions not systematically followed up. Streamlining financial service provider management processes; and balancing centralization of certain aspects of financial service provider management with adaptability to operational contexts could improve efficiency, reduce costs and strengthen oversight.

7. Management has agreed to address the reported observations and to implement the agreed actions by their respective due dates.

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

II. Background and audit scope

Background

9. WFP's cash-based transfers (CBT) assistance relies significantly on financial service providers. In some contexts, weakly regulated environments with limited risk management practices and international sanctions impact the way WFP engages with these providers. Deteriorating macroeconomic conditions and declining confidence in financial institutions have heightened financial service providers' credit, market, operational and liquidity risks.

10. Throughout the audit report, the term "financial service providers (FSPs)" refers to banks, insurance companies, microfinance institutions, mobile money operators, money service providers, postal services, remittance companies, security and technology firms, and payment aggregators[1], which act as intermediaries integrating various payment services, financial products and other offerings into a single platform.

11. In 2023, WFP delivered USD 2.9 billion in CBT, with an additional USD 1 billion from January to June 2024, bringing the total of CBT to USD 3.9 billion[2] during the audit period. Of this, USD 2 billion was delivered through FSPs in 2023, and USD 0.7 billion from January to June 2024, totalling USD 2.7 billion[3] in CBT assistance through FSPs over the audit period.

12. In May 2024, WFP released the WFP Cash Assurance Framework[4] establishing standards and measures to enhance controls in CBT operations. Under this framework, Standard Four requires WFP to connect beneficiaries with the financial products and services they prefer and are empowered to use, while ensuring a competitive procurement process, securing best value and conducting due diligence to verify the soundness of the FSPs.

13. FSP management is a cross-functional process involving coordination across multiple organizational levels, including headquarters, regional bureaux and country offices. At headquarters, key divisions involved include the Chief Financial Officer Division (CFO), the Supply Chain and Delivery Division, the Legal Office and Technology Division. Country offices relied on Programme, Procurement, Finance and IT teams. In regional bureaux, structures varied: some bureaux had dedicated CBT staff to support country offices, while others had staff managing both CBT and non-CBT tasks.

14. The Business Development Cash-Based Transfers Unit (CFOFC) within CFO supports country offices in managing the financial aspects of CBT interventions while coordinating these activities globally. The unit develops relevant policies and procedures and assists country offices in selecting FSPs, ensuring financial risks are effectively mitigated throughout the CBT process.

15. As part of the broader cash transfer landscape, the UN Common Cash Statement, signed on 5 December 2018, by the principals of OCHA, UNHCR, WFP and UNICEF, expressed a shared intention for the agencies to collaborate on CBT interventions, aiming to streamline processes, reduce duplication of efforts and strengthen operational coordination for enhanced service delivery to vulnerable populations. The opportunities for collaborative financial risk management outlined in the "Guidance for Collaborative Procurement for Humanitarian Cash Transfers" issued in 2020 by UNHCR, UNICEF and WFP included sharing information on FSP risks, conducting joint risk assessments using agreed templates and periodically evaluating FSP performance.

[1] Financial technology firms that connect payers (WFP), payees (beneficiaries) and FSPs to facilitate payments. They also offer additional services such as notifications, reconciliation and receipts.

[2] Data source: WINGS (WFP Information Network and Global Systems)

[3] Data source: Provided by Business Development Cash-Based Transfers Unit

[4] docs.wfp.org/api/documents/WFP-0000134564/download/

Audit scope and approach

16. The objective of the audit is to provide assurance on the effectiveness of governance, risk management and internal control processes over WFP's management of FSPs for CBT operations. This audit will contribute to the Executive Director's annual overall assurance statement on governance, risk management and internal controls.

17. CBT assistance is delivered through various mechanisms involving a range of transfer agents, including financial institutions and non-financial institutions such as retailers, government entities and non-governmental organizations. The audit excluded the management of non-financial institutions from its scope, as this was outside the responsibility of CFOFC.

18. The audit did not include a review of corporate guidance for the provision of financial services to partners, as this was covered in the 2024 Internal Audit of WFP On-Demand Service Provision. FSP tendering, delivery and contracting processes; and the execution of agreements in field offices, including reconciliations, programmatic aspects and procurement documentation were not covered as these are addressed during country office audits.

19. The Office of Internal Audit undertook a risk-based approach, focusing on four key areas: governance, risk management, FSP risk management tools and the onboarding of non-traditional FSPs.[5] The audit methodology included reviewing policy guidance documents, CBT dashboards and risk management reports. It also involved extensive consultations across headquarters, regional bureaux and country offices; data-driven analysis; engagement with an external stakeholder (another UN agency); and a mapping exercise of financial sector and FSP risk assessment indicators for relevant risks.

20. The Office of Internal Audit conducted two data-driven reviews: one on FSP performance evaluations to check compliance with WFP corporate guidance and red flags for risk analysis; and another on implementation of corporate guidance on the delegation of authority to authorize the release of funds to FSPs for CBT operations.

21. The Office of Internal Audit conducted a survey to gather feedback on FSP management processes from regional bureaux and country offices with CBT operations. The survey targeted Programme and Finance heads of units, selected senior management and procurement staff. With a 55 percent response rate, the survey covered CBT operations of varying transfer value volumes, from small to large and across all regions, enabling well-substantiated conclusions. Quantitative and qualitative data were collected, analysed and used to support audit observations.

22. During the audit, ongoing initiatives (including the revamp of the FSP selection process led by the headquarters Procurement function and changes related to the BOOST [Business Operation and Organization Strategic Transformation] project)[6] were under way and may have an impact on some of the observations noted.

23. The audit covered the period from 01 January 2023 to 30 June 2024 and reviewed transactions and events pertaining to other periods where necessary.

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

[5] Aggregators – financial technology firms that connect payers (WFP), payees (beneficiaries) and FSPs to facilitate payments. They also offer additional services such as notifications, reconciliation and receipts.

[6] In 2023, WFP launched an internal review of its organizational structure. After a new organizational configuration at the divisional level, WFP undertook a review of its regional configuration, the goal of which was to clarify roles and responsibilities at headquarters and regional bureaux in the areas of strategic guidance, technical support and management oversight. The final outcomes of the BOOST project, including updated terms of reference for global headquarters and functions, were still being finalized at the time of the audit fieldwork.

III. Results of the audit

Audit work and conclusions

25. The audit identified six observations relating to governance, risk management, financial sector and FSP risk management, and FSP performance evaluations.

Governance

26. In 2024, WFP underwent an organizational restructuring exercise, resulting in the redistribution of responsibilities from the former headquarters Cash-Based Transfers Division to (i) the Supply Chain and Delivery Division; (ii) the Programme, Policy and Guidance Division; and (iii) the Analysis, Planning and Performance Division.

27. FSP management is a cross-functional process that involves multiple divisions at headquarters, including CFO, Supply Chain and Delivery Division, the Legal Office and Technology Division. It operates across various organizational levels, integrating efforts between headquarters, regional bureaux and country offices.

28. At the time of the audit fieldwork, WFP was undergoing a major organizational restructuring to streamline roles and responsibilities between headquarters and regional bureaux, while strengthening support for country offices. The Country Office Support Model Optimization and Simplification (COSMOS) initiative, launched in 2022, aimed to provide more effective support to country offices through singular accountability, with technical support residing with global teams.

29. In 2023, the BOOST project was launched to review WFP's organizational structure. At the time of the audit fieldwork, the final outcomes of the BOOST project, including empowerment of country offices; integration of regional bureaux into "one global headquarters;" improved oversight and decision making; clearer role definitions; and strengthened accountabilities, were still being finalized.

Observation 1: Gaps in strategic decision making processes

Strategic decision making

30. No overarching governance mechanism has been established to provide strategic direction for FSP management across organizational and functional levels, and there is no formal escalation process in place for strategic-level decision making. The lack of centralized governance resulted in inconsistent practices and inefficiencies in FSP management at the operational level.

31. Headquarters operational cross-functional teams coordinated support to country offices without a structured process for documenting and escalating systemic issues to strategic decision making bodies, leaving misalignments between functions and organizational levels unresolved. For instance, the absence of a cohesive approach resulted in limited visibility of residual risks and misalignments between organizational requirements and the diverse operational and local regulatory contexts. Thirty-two percent of respondents to the survey[7] conducted by the Office of Internal Audit noted the lack of effective feedback loops with headquarters teams to facilitate adjustments in strategy and policies based on operational challenges.

32. Corporate guidance on managing certain key risks, such as counterparty and IT-related risks, was not consistently established at the appropriate levels, leaving the organization exposed to potentially heightened financial, operational and reputational risks.

Regional and global contract management

33. In the absence of strategic direction, regional bureaux initiated regional FSP contracts, requiring extensive consultations with headquarters functions, which provided differing views, mainly on the usefulness of such contracts and associated inherent risks. Without a cohesive strategy, not all options were thoroughly explored

[7] Refer to the Background and Audit Scope section, where the objectives, scope and recipients of the survey are explained.

to determine the objectives of regional contracts and to optimize efficiency and effectiveness in the corresponding contracting process. The absence of a clear strategy contributed to the lengthy process in establishing regional contracts, which sometimes extended beyond two–three years and was driven by complexities such as obtaining fee information from FSPs through their in-country branches and determining potential caseloads from WFP country offices – an approach that may not have been the most optimal.

34. This lack of alignment between headquarters and regional bureaux led to overlapping work, duplicated tender processes and underutilized contracts. It also resulted in regional bureaux, country offices and FSPs investing significant time in establishing regional contracts. Such inefficiency created a risk of further undermining trust and negatively impacting future partnerships with these stakeholders.

35. WFP lacks a comprehensive framework and cross-functional alignment for engaging with aggregators,[8] leading to a fragmented approach and inconsistent interpretations across functions of the organization's readiness to address aggregator-specific risks, such as regulatory compliance, data privacy and reputational risks. This exposes WFP to potential vulnerabilities, including fragmented oversight, ambiguity and inconsistencies in management practices.

Underlying causes: Lack of a strategic decision making mechanism; and no centralized system in place to facilitate real-time, cross-functional coordination at the operational level to ensure effective support to country offices.

Agreed Actions [High priority]

The Financial Operations Service, in partnership with key stakeholders and by leveraging existing committees, as appropriate, will establish a strategic advisory and monitoring framework that will support the development and execution of policies and strategies related to financial service provider engagement for cash-based transfer operations.

Timeline for implementation

30 September 2025

Observation 2: Gaps in guidance policies and in defining roles and responsibilities

Roles and responsibilities across functional and organizational levels

36. As highlighted by the survey results and stakeholder interviews, the FSP selection and contracting process is widely regarded as overly lengthy and complex, often taking up to a year to complete. Although the new Cash Book Guidance[9] aimed to support cash operations as a *"one-stop shop"* document, it lacked sufficient detail in defining clear roles and responsibilities in FSP management, resulting in ambiguities and areas open to interpretation. The responsible teams were listed without indicating their specific roles, functions or tasks across country office, regional bureau and headquarters levels, leaving the scope of their responsibilities uncertain. Some functions were noted as providing support to country offices without clear guidance on how or when the support should be provided.

37. The audit observed inconsistencies across guidance documents. For instance, the Financial Service Intelligence (FSI), a corporate tool to assess the financial sector's suitability and to identify trusted FSPs for CBT operations, was inconsistently noted as mandatory, optional or partially mandatory across different documents

[8] Financial technology firms that connect payers (WFP), payees (beneficiaries) and FSPs to facilitate payments. They also offer additional services such as notifications, reconciliation and receipts.

[9] In February 2024, WFP issued the Cash Book, a document aimed at consolidating process phases, steps, responsibilities and detailed functional accountabilities into a single resource, replacing the outdated business process model and RACI matrix, and aligning with the Cash Policy issued in June 2023.

and within the same document, leading to confusion and lack of clarity. Some policy guidance documents were also found to be outdated.[10]

38. The lack of clearly defined roles and responsibilities in FSP due diligence stakeholder engagements across headquarters, regional bureaux and country offices led to inefficiencies and duplication of efforts. Unclear criteria for staff participation in meetings with FSPs also contributed to redundant efforts and inefficient use of staff resources. The survey results emphasized the need to clarify roles in FSP management, with headquarters focusing on strategic guidance and policy; regional bureaux aligning controls to country needs; and country offices managing operational tasks such as FSP mapping, shortlisting and risk management. No separate agreed action will be raised for this observation as it will be addressed through implementation of agreed action of Observation 1.

Underlying causes: Multiplication and overlap of policies and guidance memos; and outdated and unaligned guidance documents.

Agreed Actions [Medium priority]

The Financial Operations Service, in collaboration with relevant stakeholders, will review financial market and financial service provider risk assessments and other cross-functional FSP-related guidance to assess their current status, and whether they should be revised or discontinued.

Timeline for implementation

31 December 2025

Observation 3: Ineffectiveness in balancing centralization and operational adaptation

Adaptability to local contexts

39. The audit identified challenges with the one-size-fits-all approach to FSP management processes, particularly the application of FSI and FSP due diligence processes, as these fall within the audit scope. The standardized approach limited some country offices' ability to incorporate their operational expertise and tailor the FSI tool to specific contexts. This highlighted the need for a more flexible framework that establishes key criteria to ensure minimum standards and maintain a consistent level of quality, while also enabling country offices to adapt processes to their operational needs.

Balancing centralization and decentralization in FSP management

40. The survey results revealed different perspectives on the centralization and decentralization of FSP management processes. Some respondents supported centralized processes at the headquarters level, citing a lack of tailored expertise or resources at the country office level, while others emphasized the need for greater flexibility, such as shortlisting FSPs at the country office level to better respond to local conditions and ensure faster decision making. This inconsistency highlights the need for clear strategic direction to balance centralization and ensure consistent risk management and oversight with decentralization for adaptability and operational agility.

Underlying causes: Lack of flexibility in standardized processes and lack of strategic direction in terms of centralization and decentralization.

[10] CBT FSP Contracting Process; FSP Contracting - Roles

Agreed Actions [Medium priority]

The Business Development Cash-Based Transfers Unit will undertake a comprehensive review to identify FSP management processes and sub-processes, such as financial market assessments, counterparty risks and FSP due diligence, that are best suited for centralization; decentralization with limited support from headquarters or regional bureaux; or outsourcing, while considering in-house expertise, available resources and ensuring that minimum standards for managing risks are met and that adequate oversight is in place.

Timeline for implementation

31 March 2026

Risk management

41. WFP's risk appetite statement, approved in 2018 by the Executive Board, categorizes operational and financial risks related to vendors as "risk averse', with WFP continually seeking to improve its internal controls and mitigate risks within cost and efficiency constraints. Within WFP's dynamic environments, accountability for making decisions at the field level is reinforced through internal governance processes, including regular risk monitoring, reporting, evaluation and escalation when required.

42. CFOFC produces quarterly financial risk analysis reports that provide financial analysis of CBT transactions, including those related to FSPs. These reports are aimed at enabling regional bureaux to follow up with country offices on managing the risks identified through transactional data analysis, such as the level and timely settlement of open advances to FSPs.[11]

43. In September 2024, CFOFC launched a semi-annual FSP risk monitoring report, drawing on FSP due diligence risk assessments, FSP performance evaluations and quarterly financial risk analysis reports. These reports highlight FSP-related risks for regional bureaux. A consolidated global FSP monitoring report is then disseminated to regional bureau finance staff and CFOFC management.

Observation 4: Gaps in risk management, oversight and fraud management practices

Corporate risk appetite and country office practices

44. There was a misalignment between WFP's corporate risk appetite and practices at some country offices, as reflected in risk monitoring reports. Decisions at the country office level, such as reducing or waiving recommended financial guarantees and engaging with high-risk FSPs with poor to fair performance, were made without a mechanism to measure and monitor residual risk levels. These decisions often lacked formal risk assessments or documented rationale, with no feedback to headquarters, limiting effective oversight of actual risk exposure at the headquarters level. No separate agreed action will be raised for this observation as it will be addressed through implementation of agreed action of Observation 1.

45. FSP risk assessments conducted through the due diligence process recommended mitigating actions to reduce associated risks. However, these actions were not consistently included in country office risk registers, and there was no clarity on whether they were accepted at the country management level. Additionally, risk monitoring reports issued to regional bureaux included recommendations without an established system for incorporating, tracking, monitoring or escalating these recommendations to ensure risks were effectively mitigated. Oversight responsibilities and accountability for ensuring implementation and monitoring of these actions were not clearly defined.

Assessment of risks for emerging FSP solutions

[11] Open advances are funds paid upfront to FSPs that remain unsettled or unaccounted for within a given period of time.

46. FSPs offer a range of solutions with varying risk profiles, including emerging technologies such as fintech and aggregators.[12] However, WFP has not undertaken a comprehensive review to assess the risks associated with these evolving solutions, including regulatory, fraud risks, technological vulnerabilities and data privacy management.

Fraud case analysis

47. There was no evidence of comprehensive fraud case analysis at the corporate level for past fraud incidents, which could provide insights to enhance CFOFC's work in managing FSP-related risks. The lack of such analysis limited WFP's ability to identify lessons learned and understand fraud schemes, resulting in missed opportunities to strengthen fraud prevention and response measures.

Delegation of authority in WINGS

48. The audit identified that the implemented logic in WINGS[13] allowed the cumulative value of purchase orders to exceed the total contract value set forth in the outline agreement, resulting in non-compliance with WFP normative policy on delegation of authority. This issue posed risks such as overspending beyond approved contractual amounts, and weak financial control and oversight. During the audit, the issue was flagged and corrective action was implemented.

Underlying causes: Lack of an oversight committee to define strategic and operational risk management activities; no formal channel to escalate and monitor FSP-related risks; limited headquarters visibility on country office risk management decisions regarding FSPs; and improper configuration and logic in WINGS.

Agreed Actions [Medium priority]

1. The Business Development Cash-Based Transfers Unit, in collaboration with relevant stakeholders, will establish a mechanism to enhance monitoring of financial service provider risks identified during due diligence assessments, performance evaluations and risk monitoring reports, ensuring visibility of residual risks at headquarters while leveraging the oversight role of regional bureaux.
2. The Business Development Cash-Based Transfers Unit, in collaboration with the Risk Management Division and relevant stakeholders, will conduct a fraud risk assessment for financial service provider solution types, combined with an analysis of known past fraud cases, to support decision-making in adjusting corporate guidance as needed.

Timeline for implementation

1. 31 December 2025
2. 31 December 2025

Financial sector and financial service provider assessments

49. CFOFC, in collaboration with other functional units, developed and implemented several tools across WFP operations to support the FSP selection process for CBT operations: (i) the FSI tool, which analyses a country's financial sector and associated risks to identify trusted FSPs; (ii) the FSP due diligence tool, which assesses providers' strengths, risks and payment solutions; and (iii) the micro financial assessment tool, used to evaluate FSPs' financial stability as part of the due diligence process.

50. In 2024, the Procurement Branch initiated an effort to revamp the FSP selection process. This marked another attempt to streamline the process, following multiple initiatives undertaken since the significant scale-up of CBT at WFP from 2014. While the audit did not review this ongoing initiative, it is essential that strategic decisions are made at the appropriate organizational level (refer to Observation 1).

[12] A financial technology firm that connects payers (WFP), payees (beneficiaries) and FSPs to facilitate payments. They also offer additional services such as notifications, reconciliation and receipts.

[13] WFP Information Network and Global Systems

Observation 5: Inefficiencies and gaps in financial sector and financial service provider risk assessments

FSI process challenges

51. Efforts to achieve global coverage of FSI across 60 operational contexts have provided a solid foundation for gaining insights into financial landscapes, assessing risks and opportunities, and identifying FSPs for CBT operations. However, while the FSI tool has proven valuable, the process remained lengthy and resource-intensive – in some regions taking up to 8–12 months to complete – with its effectiveness and efficiency varying across diverse operational contexts.

52. Some indicators and questions used in the FSI and FSP due diligence reports lacked clarity, logical sequencing and purpose, making the FSP selection process lengthy and less effective. Issues included duplication of indicators, redundant data requests during FSI and FSP due diligence processes and overly restrictive FSI criteria that may have excluded relevant FSPs too early from assessment, leading to "false negatives." Some questions required significant effort from FSPs at early stages, while others lacked clarity and purpose regarding the risks they were meant to address, making the selection of trusted FSPs lengthy and less effective. For example, indicators such as the list of top fintech companies, unclear questions about regulatory changes and FSP liquidity highlighted the need for a clearer framework.

53. The lack of a tiered assessment approach based on CBT transfer value led to inefficiencies, with significant time and effort spent assessing FSPs with limited use or risk exposure. Although a rapid FSI procedure existed, it was applied only in emergency situations, leaving low-value, low-risk cases without a suitable alternative.

Strategic direction and understanding of operational contexts at the start of the Financial Service Intelligence process

54. The absence of a clearly defined strategic direction for CBT operations at the start of the FSI process led to assessments lacking focus on understanding the people to be served (target groups, financial service access) and the volatility of money (foreign exchange, inflation). This contributed to inefficiencies due to insufficient consideration of programmatic priorities and local contexts. In some operations, assessments were too broad and did not address operational needs effectively.

Further opportunities for the FSI process

55. While significant progress has been made in reviewing financial landscapes across the regions, including an understanding of regulatory frameworks, further efforts are needed to deepen understanding of national payment systems and assess the potential to leverage innovations and the ongoing evolution of digital payments. While emerging technologies, such as fintech platforms, present opportunities to enhance efficiency, security and financial inclusion, gaps remain in effectively using these advancements due to the lack of clear strategic direction in aligning new technology with programmatic objectives and the organization's risk appetite.

Micro financial assessments

56. WFP relied on the benchmarks for micro-financial sector assessments established in 2019, which may no longer reflect current market conditions or industry standards. This may have led to inaccuracies in assessing FSPs, potentially weakening decision making and the effectiveness of financial risk management processes.

57. The micro financial assessment tool lacked differentiation for non-traditional FSPs, such as money service providers, which were assessed under the broader "general category" of FSPs despite their potentially distinct risk profiles. The absence of benchmarks for emerging technologies, including fintech and aggregators, further limited the tool's ability to address the evolving digital financial ecosystem, creating gaps in risk assessments for CBT operations.

58. The survey highlighted that local FSPs often struggled to meet stringent technical and financial criteria during onboarding, limiting viable options and increasing dependency on a small pool of FSPs.

Coordination between the Treasury Service and Business Development Cash-Based Transfers Unit

59. The Treasury Service at headquarters manages or oversees counterparty and market risks for treasury operations. While treasury operations may have a lower risk tolerance compared to CBT operations, some FSPs

assessed by the Treasury Service could also be relevant for CBT operations. The Treasury Service's expertise in market risk management, including foreign exchange and inflation, could support broader risk assessment and mitigation efforts. For example, the Treasury Service facilitated technical discussions with the bank on the PlugPay initiative,[14] demonstrating effective collaboration and the ability to leverage each other's expertise. Strengthening this collaboration could accelerate risk assessments, streamline processes and help identify and reduce duplications.

Integration of technology risk assessments

60. Technology-related indicators, such as cybersecurity risks, were insufficiently addressed in both FSI and FSP due diligence processes. The technology function's limited and ad hoc involvement in the FSP selection process led to limited consideration of critical IT-related risks.

<u>Underlying causes</u>: Broad and complex FSI scope; lack of alignment with strategic CBT objectives at the country office level; insufficient consideration of operational contexts; no defined process to regularly review benchmarks for assessing FSP financial strength; potentially missed opportunities to explore systematic efficiency improvements within the CFO division; and limited or no involvement of the Technology Division in designing the FSP assessment process.

Agreed Actions [Medium priority]

1. The Business Development Cash-Based Transfers Unit, in collaboration with relevant stakeholders, will:
   (i) refine the Financial Service Intelligence tool to better align assessments with country office strategic CBT direction, operational contexts and programmatic priorities, enabling a more streamlined and agile process; and enhance the tool's efficiency and effectiveness by eliminating redundancies with other assessment tools, clarifying indicator relevance and associated risks, prioritizing material risks and assessing the possibility of implementing a tiered assessment approach based on risk exposure or other criteria.
   (ii) develop a strategic direction to further assess national payment systems and emerging technologies, such as fintech platforms, ensuring alignment with programmatic objectives, operational needs and the organization's risk appetite to enhance efficiency and innovation.
   (iii) review and update benchmarks for micro-financial sector assessments to reflect current market conditions, industry standards and emerging financial trends; and establish a mechanism for periodic review and update of benchmarks to ensure continued relevance and effectiveness in financial risk management.
2. The Business Development Cash-Based Transfers Unit, in collaboration with the Treasury Service, will identify synergies between the units to determine potential efficiency improvements in providing guidance on how to assess counterparty and market risks.
3. The Business Development Cash-Based Transfers Unit, in coordination with the Technology Division, will Identify and incorporate technology-related risks into the FSP assessment process, with clear involvement of the Technology Division in the control design process to ensure comprehensive coverage of critical IT risks.

Timeline for implementation

1. 30 June 2026
2. 31 December 2025
3. 30 June 2026

[14] A digital payment solution for beneficiaries to rapidly receive cash assistance through their payment instrument of choice.

Financial service provider performance evaluation

61. The FSP performance evaluation tool is a digitalized form with an integrated workflow that enables cross-functional collaboration, including staff inputs, managerial approvals and endorsements. The tool is mandatory to assess key aspects of FSP services in CBT operations. The outcomes of these evaluations are incorporated into other FSP risk assessment tools to identify risks and determine appropriate mitigation actions to guide future engagements with FSPs.

Observation 6: Non-compliance and gaps in the management of financial service provider performance evaluations

FSP performance evaluation timeliness and completeness

62. Performance evaluations for FSPs must be completed at least once a year, at the end of each contract and before any extension. Performance evaluations are recommended more frequently if an FSP previously scored poorly or very poorly, or if risks were identified through other tools, such as FSI or FSP due diligence processes. While some country offices complied with these requirements, 30 percent of evaluations were not completed in 2023, and 16 percent were incomplete for at least one year during the two-year audit period.

63. There were also substantial delays in the approval process for FSP performance evaluations, with timelines extending up to 678 days from initiation to final approval and an average duration of 154 days. While approvals were generally provided by the chair of the country office cash working group, many evaluations remained pending second-level endorsement by senior country office management.

Review of FSP performance evaluations

64. The audit conducted an independent review of red flags triggered by specific responses to certain questions in the performance evaluations to determine their concentration in FSP performance evaluations. The review identified key areas requiring further examination, including (i) FSPs with high-risk financial profiles; (ii) instances of actual or suspected fraud by FSP staff, agents or subcontractors, such as partial payments or undue charges; (iii) delays in returning unspent balances; and (iv) inadequate coverage of financial guarantees. Approximately 45 percent of red flags were linked to the "cash-in-hand" delivery mechanism, while 20 percent were associated with beneficiary-owned mobile money accounts. CFOFC had not undertaken such a review and, therefore, cross-functional discussions and potential actions at the corporate level did not take place. No separate agreed action will be raised for this observation as it will be addressed through implementation of agreed action 1 of Observation 4.

Effectiveness of the FSP performance evaluation tool

65. The FSP performance evaluation tool, developed in 2020 and deployed in August 2021, has not been reviewed to assess its effectiveness or reliability in evaluating FSP performance for CBT operations. Feedback from field offices on challenges or areas for improvement has not been gathered, potentially limiting the tool's ability to address some operational contexts or evolving risks. The survey conducted by the Office of Internal Audit showed that while 70 percent of users found the tool's purpose clear, 30 percent considered it somewhat clear, unclear or unfamiliar, indicating gaps in communication, training and feedback processes. Survey feedback also highlighted the need to provide FSPs with clearer information on performance evaluations, including explanations of the evaluation process, to improve transparency and address service gaps.

Underlying causes: Inadequate oversight; lack of periodic reviews of tools; staff competing priorities; lack of staff training on the FSP performance evaluation tool; and the absence of a systematic feedback mechanism for field offices on the effectiveness of the FSP performance evaluation tool.

Agreed Actions [Medium priority]

1. The Business Development Cash-Based Transfers Unit, in collaboration with relevant stakeholders, will conduct a comprehensive review of the financial service provider performance evaluation tool to assess its effectiveness and reliability, leveraging feedback from field offices to ensure alignment with operational requirements and evolving risks.
2. The Business Development Cash-Based Transfers Unit, in collaboration with relevant stakeholders, will provide targeted training to staff involved in financial service provider performance evaluations, focusing on risk areas and the intended purpose of each evaluation component to ensure consistent and meaningful evaluations and effective use of the performance evaluation tool.

Timeline for implementation

1. 31 March 2026
2. 30 June 2026

Efficiencies in financial service provider management processes

66. The absence of a centralized platform for FSP management led to unstructured coordination among headquarters cross-functional teams in supporting country offices, potentially causing delays, inconsistencies and operational challenges. A unified system could improve visibility, coordination and real-time tracking of FSP selection and contracting activities. While the audit highlighted opportunities for efficiency gains, the Procurement Branch had limited capacity to assess the feasibility of developing or leveraging a platform to centralize key FSP management data. As a result, no specific actions were raised in the report, and this will be considered in future assurance assignments.

67. There was limited clarity on how WFP could effectively operationalize collaboration with other UN agencies, including piggybacking on contracts, joint procurement, and shared market and FSP risk assessments as intended by the 2020 "Guidance for Collaborative Procurement for Humanitarian Cash Transfers" issued by UNHCR, UNICEF and WFP. Limited visibility and suboptimal coordination may have led to missed opportunities for streamlining processes, improving efficiency, reducing costs and enhancing operational impact.

68. While the audit noted that CFOFC would benefit from exploring best practices and collaborating with other UN agencies on market assessments and FSP risk evaluations to enhance efficiency and minimize duplication, it also noted implementation challenges, including internally perceived complexity. As a result, no specific actions were raised in the report as this topic requires further discussions with internal stakeholders, including the Procurement Branch, and will be addressed in future assurance assignments.

Annex A – Agreed action plan

The following table shows the categorization, ownership and due date agreed with the audit client for all 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 Business Development Cash-Based Transfers Unit level.

#	Observation (number/title)	Area	Owner	Priority	Timeline for implementation
1	Gaps in strategic decision making processes	Governance	CFOF	**High**	30 September 2025
2	Gaps in guidance policies and in defining roles and responsibilities	Governance	CFOF	**Medium**	31 December 2025
3	Ineffectiveness in balancing centralization and operational adaptation	Governance	CFOFC	**Medium**	31 March 2026
4	Gaps in risk management, oversight and fraud management practices	Risk management	CFOFC	**Medium**	31 December 2025 31 December 2025
5	Inefficiencies and gaps in financial sector and financial service provider assessments	Financial sector and financial service provider assessments	CFOFC	**Medium**	30 June 2026 31 December 2025 30 June 2026
6	Non-compliance and gaps in the management of financial service provider performance evaluations	Financial service provider performance evaluation	CFOFC	**Medium**	31 March 2026 30 June 2026

Annex B – Definitions of audit terms: ratings and 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. 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.
Major improvement needed	The assessed governance arrangements, risk management and controls were generally established and functioning, but needed 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: (a) observations that are specific to an office, unit or division; and (b) observations that may relate to a broader policy, process or corporate decision and may have a broad impact.[15]

3 Monitoring the implementation of agreed actions

The Office of Internal Audit tracks all medium-risk and high-risk observations. Implementation of agreed actions is verified through the corporate system for the monitoring of the implementation of agreed actions. The purpose of this monitoring system is to ensure that 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 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 which 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.

[15] An audit observation of high risk to the audited entity may be of low risk to WFP as a whole; conversely, an observation of critical importance to WFP may have a low impact on a specific entity, but have a high impact globally.

Annex C – Acronyms

BOOST	Business Operation and Organization Strategic Transformation
CBT	Cash-Based Transfer
CFO	Chief Financial Officer Division
CFOFC	Business Development Cash-Based Transfers Unit
FSI	Financial Sector Intelligence
FSP	Financial Service Provider
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
RACI	Responsibility Assignment Matrix – Responsible, Accountable, Consulted and Informed
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Emergency Fund
USD	United States dollar
WFP	World Food Programme
WINGS	WFP Information Network and Global System