

Internal Audit of WFP Operations in the Republic of Yemen

Office of the Inspector General
Internal Audit Report AR/13/01



World Food Programme

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I. Executive Summary

Introduction

1. As part of its annual work plan for 2012, the Office of Internal Audit conducted an audit of WFP Operations in Yemen. The World Food Programme's (WFP) Direct Expenses in Yemen in 2012 totalled US\$113.2 million¹, representing 2.7 percent of WFP's total Direct Expenses for the year. The audit covered activities from 1 July 2011 to 30 June 2012 and included field visits to various locations in Yemen, and a review of related corporate processes that impact across WFP.
2. The audit was carried out in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors.

Audit Conclusions

3. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory**². Conclusions are summarized in Table 1 by internal control components:

Table 1: Summary of conclusions by Internal Control Components

Internal Control Component	Conclusion	
1. Internal environment	Medium	
2. Risk assessment	Medium	
3. Control activities	High	
4. Information and communication	Medium	
5. Monitoring	Medium	

¹ WFP/EB.A/2013/4/Rev.1 – Annual Performance Report for 2012 – Annex IX-B.

² See Annex A for definitions of audit terms.

Key Results of the Audit

Positive practices and initiatives

4. A number of positive practices and initiatives were noted. Among them were the scaling up of operations by the Country Office during a time of conflict despite staff shortages, and WFP staff members being effectively relocated twice, ensuring their safety. These initiatives serve to strengthen WFP's response in emergencies.

Audit recommendations

5. The audit report contains one high-risk and ten medium-risk recommendations. The high-risk observation arising from the audit was:

6. **Superintendent analysis and inspection:** The audit noted several instances where the superintendent's performance did not meet the required standards, and was not in line with the terms specified in the agreement with the Country Office. In one case, WFP had to return food to the supplier because of infestation, even though the superintendent had cleared the quality of the commodities. We recommended that the Country Office should monitor and manage the contract with the superintendent to ensure that all specifications are updated, and that the superintendent implements the terms and conditions specified in the agreement with WFP.

Management response

7. Management has agreed with all recommendations. Nine of the recommendations have been implemented and work is in progress on the remaining two.

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

David Johnson
Inspector General



II. Context and Scope

The Republic of Yemen

9. Yemen is a least-developed and low-income food-deficit country ranking 154 out of 187 countries in the United Nations Development Programme Human Development Index (2011). Since reunification of the country in 1990, its position on the index has remained steady, with very slow progress towards attaining the Millennium Development Goals³.

10. Yemen is experiencing a humanitarian emergency with more than five million people unable to produce or buy sufficient nutritious food. More than half of Yemen's children are chronically malnourished and one in ten do not live to the age of five.

WFP Operations in Yemen

11. The overall goals of WFP's assistance in Yemen are to save lives and protect livelihoods in emergencies, enhance the capacity of food insecure households to meet their food and nutritional needs and reduce poverty. With five operations in the country, WFP plays a vital role in reaching those in need of food assistance. During 2011, the Country Office increased and diversified its operations countrywide by expanding assistance to internally displaced people, severely food insecure households and moderately acute malnourished vulnerable groups. These projects reflect the increasingly complex context of Yemen and are directly linked to the country's National Food Security Strategy.

12. During the audit period, the Country Office managed and implemented the following projects and programmes:

- Three Emergency Operations (200039/200306/200038) to assist the conflict-affected population in northern Yemen, the internally displaced and war-affected people, and to provide food security and nutrition support for the vulnerable population over the period 1 January 2011 to 31 December 2012 at a budget of US\$348 million.
- A Country Programme (104350) for the period 1 January 2011 to 31 December 2012 with a budget of US\$84 million.
- A Relief and Recovery Operation (200044) for the period 1 February 2010 to 31 December 2012 to provide food assistance to Somali refugees in Yemen, for a budget of US\$13 million.
- A Special Operation (200130) to support passenger transport through United Nations Humanitarian Air Service flights and United Nations cluster activities in Telecommunications and Logistics (24 May 2010 to 31 December 2012).

13. WFP's Direct Expenses in Yemen in 2012 totalled US\$113.2 million⁴, representing 2.7 percent of WFP's total Direct Expenses for the year.

³ Eight international development goals officially established following the Millennium Summit of the United Nations in 2000.

⁴ WFP/EB.A/2013/4/Rev.1 – Annual Performance Report for 2012 – Annex IX-B.

Objective and scope of the audit

14. The objective of the audit was to evaluate and test the adequacy and effectiveness of the processes associated with internal control components of WFP's operations in Yemen, as part of the process of providing an annual and overall assurance statement to the Executive Director on governance, risk management and internal control processes.

15. The audit was carried out in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors. It was completed according to the approved planning memorandum and took into consideration the risk assessment exercise carried out prior to the audit.

16. The scope of the audit covered WFP's operations in Yemen for the period from 1 July 2011 to 30 June 2012. The audit, which took place from 3 to 9 September 2012, included field visits to various locations in Yemen.

III. Results of the audit

17. In performing our audit, we noted the following positive practices and initiatives:

Table 2: Positive practices and initiatives

1. Internal environment

- Accurately completed assurance statement with comments.
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2. Risk assessment

- Prepared a Risk Register as part of the Emergency Preparedness and Response Package.
 - Prepared a Programme Criticality Matrix and a Business Continuity Plan.
-

3. Control activities

- Despite staff shortages, the Country Office was able to scale up the operations and deliver.
 - Twice performed effective relocation of staff, ensuring their safety.
 - Prepared Standard Operating Procedures to standardize the processes in Logistics.
 - Scaled up the operation during a time of conflict and delivered.
 - Established a task force for the activities of internally displaced people.
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4. Information and communication

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5. Monitoring

- The Country Office was in the process of outsourcing monitoring for some components of its projects.
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18. Having evaluated and tested the controls in place, the Office of Internal Audit has come to the following conclusions on the residual risk related to the processes in the Country Office as follows:

Table 3: Conclusions – categorization of risk by internal control component and business process

Internal Control Component/ Business Process	Risk
1. Internal environment	
Organizational and reporting structure	Low
Strategic planning and performance accountability	Medium
Statement on internal controls	Low
IS/IT plan and organize	Low
2. Risk assessment	
Enterprise risk management	Medium
3. Control activities	
Finance and accounting	Low
Programme management	Medium
Commodity management	Medium
Procurement	High
Human resources	Low
Security	Medium
IS/IT acquire and implement	Low
IS/IT deliver and support	Low
4. Information and communication	
External relations and partnerships; internal communications and feedback	Medium
5. Monitoring	
Programme monitoring and evaluation	Medium

19. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory**⁵.

20. One high-risk recommendation was made, which is detailed in Section IV of this report, and ten medium-risk recommendations. Tables 4 and 5 present the high and medium-risk recommendations respectively.

Management response

21. Management has agreed with all recommendations. Nine of the recommendations have been implemented and work is in progress on the remaining two.

⁵ See Annex A for definitions of audit terms.

Table 4: Summary of high-risk recommendations (see Section IV for detailed assessment)

Observation	Recommendation	Risk categories ⁶	Underlying cause category	Owner	Due date
Control Activities					
1 Procurement: Superintendent analysis and inspection services – The Country Office did not closely monitor the superintendent’s performance to ensure compliance with the terms of the contract.	Monitor and manage the contract with the superintendent, ensure that all specifications are updated, and that the superintendent implements the terms and conditions specified in the agreement with WFP.	Operational Stewardship Institutional	Compliance	Yemen Country Office	Implemented

⁶ See Annex A for definition of audit terms.

Table 5: Medium-risk recommendations

Observation	Recommendation	Risk categories ⁷	Underlying cause category	Owner	Due date
Internal Environment					
2	Strategic planning and performance accountability: Annual Performance Plan – The Annual Performance Plan for 2011 was not completed while the Country Office did not prepare a consolidated plan for 2012.	Strategic Securing resources Programmatic	Guidance	Yemen Country Office	Implemented
3	Strategic planning and performance accountability: Reporting of fraud and wrongdoing –The Country Office did not have sufficient understanding of the assurance process, nor of the reporting procedures for fraud and other wrongdoing.	Compliance Stewardship Institutional	Guidelines	Yemen Country Office	Implemented
Risk Assessment					
4	Enterprise risk management: Relationship between corporate risk management process and Emergency Preparedness and Response – The Country Office’s risk management process did not fully comply with WFP’s Enterprise Risk Management Policy.	Compliance Stewardship Institutional	Compliance	Yemen Country Office	31 October 2013
Control Activities					

⁷ See Annex A for definition of audit terms.

Observation	Recommendation	Risk categories ⁷	Underlying cause category	Owner	Due date
5 Programme management: Nutrition activities – In 2012, food distribution at health facilities was well below planned quantities and the monitoring reports indicated a poor understanding of the purpose of the activities among beneficiaries.	Strengthen nutrition activities by increasing in-house capacity, participate in strengthening of coordination within the Nutrition Cluster and thereby seek to be an active partner in improving the nutrition services offered by the cooperating partners at the public health facilities.	Operational Securing resources Programmatic	Resources	Yemen Country Office	Implemented
6 Programme management: School feeding – Only one out of three planned school distribution cycles was possible due to funding constraints and the security situation, and the school-related activities of WFP and another UN agency were in need of improved alignment of targeted schools and districts. Critical funding shortage and difficulties faced by the cooperating partners when tracking and reporting on eligibility criteria.	In coordination with other relevant stakeholders, strengthen efforts to achieve the necessary programme funding and assess the possibility of adjusting the eligibility criteria so that they are applicable to the Country Programme. In addition, strive to align the school related activities with other United Nations organizations operating in the same field. Contingency measures to assist the targeted families should be considered in the event of lack of funding and further delays in distributions.	Operational Securing resources Programmatic	Resources	Yemen Country Office	Implemented
7 Programme management: Distribution reports from cooperating partners – Late submission of distribution reports by CPs resulting in significant differences between the total food volumes recorded as delivered to CPs and those reported by said CPs as received.	Review the reasons for the late submission of cooperating partners' distribution reports, and put in place an actionable plan to address the matter.	Operational Operational efficiency Programmatic	Compliance	Yemen Country Office	Implemented
8 Commodity management: Warehouse management practices – Audit visit noted various exceptions mainly due to insufficient staffing capacity.	Improve warehouse management, the updating of records and accelerate the warehouse staff recruitment process.	Operational Operational efficiency Programmatic	Compliance	Yemen Country Office	Implemented

Observation	Recommendation	Risk categories ⁷	Underlying cause category	Owner	Due date
9	Security: Minimum Operating Security Standards – Government import restrictions have led to the lack of access to essential security equipment.	Operational Stewardship Contextual	Compliance	Yemen Country Office	Implemented
Information and communication					
10	External relations and partnerships and internal communications and feedback: Reporting on beneficiaries. The number of targeted beneficiaries in the situation reports did not reflect the official corporate figures with three reports showing an excess of 300,000 planned beneficiaries for three of the four operations.	Reporting Operational efficiency Institutional	Compliance	Yemen Country Office	Implemented
Monitoring					
11	Programme monitoring and evaluation: Monitoring and Evaluation – Absence of an overall plan for monitoring the programme portfolio and no tracking of actual monitoring against a plan.	Operational Operational efficiency Programmatic	Resources	Yemen Country Office	31 October 2013

IV. Detailed Assessment

Control Activities

High Risk

Observation 1 Procurement: Superintendent analysis and inspection

22. The Country Office contracts a superintendent under a Long-Term Agreement to provide food inspection services, including inspection at suppliers' premises; during production process; at loading; and analysing samples and reporting. The audit reviewed the superintendent quality control process and noted the following (details have been provided to the Country Office):

- Cases of incomplete analysis performed by the superintendent.
- Differences between WFP's specification parameters and the parameters documented on the surveyors' analysis reports.
- Incomplete information on separate tests performed for impurities.
- Analysis certificates provided by the superintendent either not supported by laboratory test results, or inconsistent with laboratory test results.
- Inspection report focussed on packaging, bagging and loading of goods, without detail on the inspection work performed during the production of processed foods, and without information on the inspection of the premises.
- Inconsistencies in the level of detail in reporting between Aden and Hodeidah.
- Protein content contracted with a supplier below the WFP normal minimum specification, without informing the superintendent and without documented evidence from the Food Quality Unit as to the acceptability of the reduced protein content.
- Commodity specifications in the Long-Term Agreement with the superintendent not including WFP's recommended level for the list of compulsory tests.
- Superintendent reports not recording or documenting the suppliers' latest crop. This information is required for submission as per the purchase order.

23. The Country Office has experienced significant food quality issues in its purchases of wheat grain from a specific local supplier. Upon receipt, the goods were inspected, and the superintendent declared 73 percent were fit for human consumption. However, 42 percent were returned to the supplier for fumigation because of infestation. Inconsistencies in this procurement have been referred to the Office of The Inspector General.

24. The Country Office informed us that the contracted superintendent was evaluated as the only sufficiently qualified company in the country with the capacity of providing all necessary tests and inspections. The Country Office has noted improvements in the analysis and inspection reports of on-going contracts, and was planning a procurement mission to assist in strengthening the quality control processes.

Recommendation 1

Underlying cause of observation:	The Country Office did not closely monitor the superintendent's performance to ensure compliance with the terms of the contract.
Implication:	Commodities purchased may not meet the acceptable quality defined by WFP, thus impacting on the beneficiaries.
Policies, procedures and requirements:	Food Procurement Manual Section 15.

Recommendation: The Country Office should monitor and manage the contract with the superintendent, ensure that all specifications are updated, and that the superintendent implements the terms and conditions specified in the agreement with WFP.

Agreed management actions: The Yemen Country Office has agreed with the recommendation and has:

- Communicated the matters observed during the audit to the superintendent;
- Subsequently observed the improved accuracy of the superintendent's reports; and
- Stressed the same points during the meeting with the Supply Chain & Procurement Mission (October 2012) where the superintendent expressed willingness to cooperate and make all necessary improvements to ensure better service is provided.

Target implementation date: Implemented.

Annex A – Audit definitions

1. Risk categories

A 1. The Office of Internal Audit evaluates WFP’s internal controls, governance and risk management processes, in order to reach an annual and overall assurance on these processes in the following categories:

Table A.1:
Categories of risk – based on COSO⁸ frameworks and the Standards of the Institute of Internal Auditors

1	Strategic:	Achievement of the organization’s strategic objectives.
2	Operational:	Effectiveness and efficiency of operations and programmes including safeguarding of assets.
3	Compliance:	Compliance with laws, regulations, policies, procedures and contracts.
4	Reporting:	Reliability and integrity of financial and operational information.

A 2. In order to facilitate linkages with WFP’s performance and risk management frameworks, the Office of Internal Audit maps assurance to the following two frameworks:

Table A.2.1:
Categories of risk – WFP’s Management Results Dimensions

1	Securing resources:	Efficiency and effectiveness in acquiring the resources necessary to discharge WFP’s strategy – this includes money, food, non-food items, people and partners.
2	Stewardship:	Management of the resources acquired – this includes minimising resource losses, ensuring the safety and wellbeing of employees, facilities management, and the management of WFP’s brand and reputation.
3	Learning and innovation:	Building a culture of learning and innovation to underpin WFP’s other activities – this includes knowledge management, staff development and research capabilities.
4	Internal business processes:	Efficiency of provision and delivery of the support services necessary for the continuity of WFP’s operations – this includes procurement, accounting, information sharing both internally and externally, IT support and travel management.
5	Operational efficiency:	Efficiency of WFP’s beneficiary-facing programmes and projects delivery – this includes project design (partnership/stakeholder involvement and situation analysis) and project implementation (fund management, monitoring and reporting, transport delivery, distribution, pipeline management).

Table A.2.2: Categories of risk – WFP’s Risk Management Framework

1	Contextual:	External to WFP: political, economic, environmental, state failure, conflict and humanitarian crisis.
2	Programmatic:	Failure to meet programme objectives and/or potential harm caused to others through interventions.
3	Institutional:	Internal to WFP: fiduciary failure, reputational loss and financial loss through corruption.

⁸ Committee of Sponsoring Organizations of the Treadway Commission.

2. Causes or sources of audit observations

A 3. The observations were broken down into categories based on causes or sources:

Table A.3: Categories of causes or sources

1	Compliance	Requirement for complying with prescribed WFP regulations, rules and procedures.
2	Guidelines	Need for improvement in written policies, procedures or tools for guiding staff in the performance of their functions.
3	Guidance	Need for better supervision and management oversight.
4	Resources	Need for more resources (funds, skills, staff, etc.) to carry out an activity or function.
5	Human error	Mistakes made by staff entrusted to perform assigned functions.
6	Best practice	Opportunity for improvement to achieve recognized best practice.

3. Risk categorization of audit observations

A 4. The audit observations were categorized by impact or importance (high, medium or low risk) as shown in Table A.4 below. 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.⁹

Table A.4: Categorization of observations by impact or importance

High risk	Issues or areas arising relating to important matters that are material to the system of internal control. The matters observed might be the cause of non-achievement of a corporate objective, or result in exposure to unmitigated risk that could highly impact corporate objectives.
Medium risk	Issues or areas arising related to issues that significantly affect controls but may not require immediate action. The matters observed may cause the non-achievement of a business objective, or result in exposure to unmitigated risk that could have an impact on the objectives of the business unit.
Low risk	Issues or areas arising that would, if corrected, improve internal controls in general. The recommendations made are for best practices as opposed to weaknesses that prevent the meeting of systems and business objectives.

A 5. Low risk recommendations, if any, are communicated by the audit team directly to management, and are not included in this report.

⁹ 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 for a specific entity, but have a high impact globally.

4. Recommendation tracking

A 6. The Office of Internal Audit tracks all medium and high-risk recommendations. Implementation of recommendations will be verified through the Office of Internal Audit's system for the monitoring of the implementation of audit recommendations. The purpose of this monitoring system is to ensure management actions are effectively implemented within the agreed timeframe so as to manage and mitigate the associated risks identified, thereby contributing to the improvement of WFP's operations.

5. Rating system

A 7. Internal control components and processes are rated according to the severity of their risk. These ratings are part of the system of evaluating the adequacy of WFP's risk management, control and governance processes. A rating of satisfactory, partially satisfactory and unsatisfactory is reported in each audit. These categories are defined as follows:

Table A.5: Rating system

Engagement rating	Definition	Assurance level
Satisfactory	Internal controls, governance and risk management practices are adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.	Reasonable assurance can be provided.
Partially Satisfactory	Internal controls, governance and risk management practices are generally established and functioning, but need improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.	Reasonable assurance is at risk.
Unsatisfactory	Internal controls, governance and risk management practices are either not established or not functioning well. The issues identified were such that the achievement of the overall objectives of the audited entity could be seriously compromised.	Reasonable assurance cannot be provided.



Annex B – Acronyms

CPs	Cooperating Partners
ICT	Information Communication and Technology
IS/IT	Information Systems/Information Technology
UN	United Nations
WFP	World Food Programme