Fighting Hunger Worldwide

Internal Audit of WFP Operations in the Islamic Republic of Pakistan

Office of the Inspector General
Internal Audit Report AR/13/02

WFP

World Food Programme

wfp.org

Contents

Internal Audit of WFP Operations in the Islamic Republic of Pakistan

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 Pakistan. The World Food Programme's (WFP) Direct Expenses in Pakistan in 2011 totalled US$339 million[1], representing nine percent of WFP's total Direct Expenses for the year. The audit covered activities from 1 May 2011 to 30 April 2012 and included field visits to various locations in Pakistan, 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	Low	🟩
3.	Control activities	Medium	🟨
4.	Information and communication	Low	🟩
5.	Monitoring	Medium	🟨

---

[1] WFP/EB.A/2012/4* – Annual Performance Report for 2011 – 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 during the audit, among them a strong national capacity and a coordinated and emergency-prepared logistics function, which serve to strengthen WFP's response in emergencies.

Audit recommendations

5.   No high-risk recommendations arose from the audit. The audit report contains twelve medium-risk recommendations.

Management response

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

7.   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 Islamic Republic of Pakistan

8.   Decades of internal political disputes and low levels of foreign investment have led to slow growth and underdevelopment in Pakistan. Agriculture accounts for more than one-fifth of output and two-fifths of employment.

9.   Pakistan has faced a series of displacement crises as a result of natural disasters and armed conflict. Over the past seven years earthquakes and flooding have caused the displacement of 19 million people and armed conflict over five million. In December 2011, more than half a million people were still displaced following the flooding of the Indus in September, and almost one million remained internally displaced by armed conflict in the northwest. Since April 2012, conflict has caused major displacements in Kurram and Khyber Agencies of the Federally Administered Tribal Areas, and in a number of other locations.

WFP Operations in Pakistan

10. WFP has been active in Pakistan since 1968. Since inception, the food assistance provided by WFP has targeted rural development, refugees, women's primary health care programmes, promotion of girls' primary education and emergencies, including droughts, floods, earthquakes and internally displaced people. WFP's outreach in Pakistan comprises a Country Office in Islamabad, and five area offices in Khyber Pakhtunkhwa (Peshawar), Azad Jammu and Kashmir (Muzaffarabad), Balochistan (Quetta), Punjab (Multan) and Sindh (Karachi). The projects implemented during the period under review were:
   - A protracted relief and rescue operation (200145): Food Assistance for Household Food Security, 1 January 2011 to 31 December 2012; project funding as of 23 May 2012 was US$285 million with 9,510,000 beneficiaries;
   - An emergency operation (200177): Emergency Food Assistance, 1 August 2010 to 30 September 2012, project funding; as of 23 May 2012 was US$470 million with 9,831,448 beneficiaries;
   - A special operation (200363) Logistics Cluster augmentation, 1 September 2011 to 25 March 2012; project funding as of 23 May 2012 was US$1.5 million.

11. WFP's Direct Expenses in Pakistan in 2011 totalled US$339 million[3], representing nine percent of WFP's total Direct Expenses for the year.

---

[3] WFP/EB.A/2012/4* – Annual Performance Report for 2011 – Annex IX-B.

Objective and scope of the audit

12. 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 Pakistan, 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.

13. 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.

14. The scope of the audit covered WFP's operations in Pakistan from 1 May 2011 to 30 April 2012. Where necessary, transactions and events pertaining to other periods were reviewed. The audit, which took place from 20 June to 11 July 2012, included visits to various locations in Pakistan.

WFP
wfp.org

III. Results of the audit

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

Table 2: Positive practices and initiatives

1. Internal environment

- Strong national staff capacity.
- Development of a compliance function.

2. Risk assessment

- Risk assessment embedded in annual work planning.

3. Control activities

- Electronic Payment System authorizations updated on a timely basis.
- Comprehensive procurement documentation.
- Well-planned and implemented selection of Cooperating Partners.
- A coordinated and emergency-prepared logistics function.
- A committed and experienced security unit.

4. Information and communication

- Beneficiary feedback system in place.

5. Monitoring

- Implementation of Monitoring and Evaluation database.

16. 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 - both in the County Office and at the corporate level (where applicable) - as follows:

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

Internal Control Component/ Business Process	Risk (Country Office)	Risk (Corporate)
1. Internal environment		
Corporate organizational and reporting structure	Medium	Medium
Strategic planning and performance accountability	Low	--
Assurance statement on internal controls	Low	--
2. Risk assessment		
Enterprise risk management	Low	--
3. Control activities		
Finance and accounting	Low	--
Programme management	Medium	Medium
Transport and logistics	Low	--
Procurement	Low	--
Security	Medium	--
Human resources	Low	--
Property and equipment	Low	--
Security	Medium	Medium
IS/IT acquire and implement	Low	--
4. Information and communications		
	--	--
5. Monitoring		
Programme monitoring and evaluation	Medium	Medium

17. Based on the results of the audit, the Office of Internal audit has come to an overall conclusion of **partially satisfactory**[4].

18. No high-risk recommendations arose from the audit. A total of 12 medium-risk recommendations were made. These are presented in Table 4.

Management response

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

---

[4] See Annex A for definitions of audit terms.

Table 4: Summary of medium-risk recommendations

	Observation	Recommendation	Risk categories[5]	Underlying cause category	Owner	Due date
Internal Environment						
1	**Corporate organizational and reporting structure:** Staffing and reporting lines – There were issues related to the changing situation in the country, and the programme unit had not clarified its operating structures and spans of control.	Align the CO's structure and staffing numbers to current operational activity levels, and consider the appropriateness of the span of control and reporting lines.	Operational Stewardship Contextual	Guidance	Pakistan Country Office	Implemented
2	**Corporate organizational and reporting structure:** Compliance function – The role of the Compliance Officer was introduced without determining the relationship of the role to WFP's corporate governance structure.	Take the lead in determining the organizational positioning and corporate ownership of the function of the Compliance Officer.	Operational Stewardship Institutional	Guidelines	Resource Management and Accountability Department	Implemented
Control Activities						
3	**Programme management:** Resource management and prioritization – The complexities of the in-country situation resulted in the CO undertaking distributions based on the standard family size used for planning.	Maintain a careful watch over the risks inherent in using standard family size as the basis for distributions, and include this in the risk management process.	Operational Stewardship Contextual	Resources	Pakistan Country Office	Implemented

---

[5] See Annex A for definition of audit terms.

	Observation	Recommendation	Risk categories[5]	Underlying cause category	Owner	Due date
4	**Programme management**: Anti-terrorism measures –Although stringent, the current mechanism for checking against the United Nations 1267 list is impractical in certain complex environments. There is no corporate guidance as to the additional procedures to take in such circumstances, and the CO did not validate the names of key stakeholders of vendors against the UN 1267 list.	Put in place measures to comply with current guidelines on anti-terrorism measures.	Compliance Stewardship Contextual	Guidelines	Pakistan Country Office	Implemented
5	**Programme implementation:** Management of field level agreements and contracts with Cooperating Partners – The Country Office's processes for timely commitment of funds for field level agreements and monitoring of adherence to clauses in contracts could be improved.	Improve management of field level agreements, the timely raising of purchase orders, ensure signing authorities are aware of the total financial commitment being made to each partner, and establish effective contract management procedures.	Operational Operational efficiency Programmatic	Guidelines	Pakistan Country Office	Implemented
6	**Programme management:** Monitoring the volume of agreements with Cooperating Partners – The organization has not developed corporate guidelines on monitoring the total value of commitments made to each Cooperating Partner, in an environment of unlimited delegation of authority.	In coordination with Resource Management and Accountability Department, provide corporate guidance on monitoring the total financial commitment to each Cooperating Partner.	Operational Operational efficiency Institutional	Guidelines	Operations Services Department	31 August 2014
7	**Programme management:** Evaluating the performance of Cooperating Partners – The Country Office had not prioritized a comprehensive countrywide performance review of Cooperating Partners.	Agree on key performance indicators in advance with Cooperating Partners, and carry out a regular comprehensive partners' performance assessment covering all provinces.	Operational Operational efficiency Institutional	Guidance	Pakistan Country Office	Implemented

	Observation	Recommendation	Risk categories[5]	Underlying cause category	Owner	Due date
8	**Security:** Minimum Operating Security Standards (MOSS) and general security – The Country Office did not prioritize implementation of MOSS in all offices, and did not continuously monitor the performance of the outsourced security guards.	Don't tolerate non-compliance with the United Nations Department of Safety and Security country specific MOSS requirements and ensure that outsourced security guards maintain the required standards.	Compliance Stewardship Institutional	Guidelines	Pakistan Country Office	Implemented
9	**Security:** Corporate alignment of security resources to the risks/threats of the Country Offices – Unavailability of required grade of security staff.	Advise senior management of the risk that the required level of security staff is unavailable and ensure that, when necessary, country offices are provided temporary resources of an appropriate grade prior to more permanent resources being made available.	Operational Securing resources Institutional	Guidance	Field Security Division	Implemented
Monitoring						
10	**Programme monitoring and evaluation:** Effectiveness of field monitors – The effectiveness of field monitors may have reduced as a result of their non-rotation, which may give rise to familiarity and overlooking of certain opportunities for improvement.	Put in place procedures to increase field monitors' motivation, level of awareness and attention to detail in the performance of their duties.	Operational Stewardship Institutional	Guidance	Pakistan Country Office	Implemented
11	**Programme monitoring and evaluation:** Management of third-party monitors – There is no corporate operating guidance on the use of third-party monitors.	Establish corporate guidance on the use of third-party monitors.	Operational Stewardship Institutional	Guidelines	Resource Management and Accountability Department	31 March 2014
12	**Programme monitoring and evaluation:** Monitoring coverage – The Country Office has not considered what coverage is adequate and what information should be tracked for assessment and decision making.	Regularly assess the adequacy of monitoring coverage and ensure that relevant data from monitoring checklists is regularly and accurately documented, analysed and reported.	Operational Stewardship Institutional	Guidance	Pakistan Country Office	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 COSO[6] 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).

---

[6] Committee of Sponsoring Organizations of the Treadway Commission.

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.

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.[7]

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.

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.

---

[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.

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

IS/IT	Information Systems/Information Technology
MOSS	Minimum Operating Security Standards
UN	United Nations
WFP	World Food Programme