

Internal Audit of WFP Operations in Sudan

Office of the Inspector General
Internal Audit Report AR/13/12



World Food Programme

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Internal Audit of WFP Operations in Sudan

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 Sudan. The World Food Programme's (WFP) Direct Expenses in Sudan in 2012 totalled US\$ 299 million¹, representing 7.2 percent of its total Direct Expenses for the year. The audit covered activities from 1 October 2011 to 30 September 2012 and included field visits to various locations in Sudan including Darfur, and a review of related corporate processes that have effects across the whole of WFP.

2. The audit was carried out in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Audit Conclusions

3. 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 Components³

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

Key Results of the Audit

Positive practices and initiatives

4. A number of positive practices and initiatives were noted including an organizational structure and delegation of authority that was properly documented and communicated, standard operating procedures for key processes, implemented risk-assessment processes, an effective assurance statement process, various good practices in control activities, and improvement in reconciling commodity movements.

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.

³ See Annex A for definition of WFP's Internal Control Framework and Components.

Audit recommendations

5. No high-risk recommendations arose from the audit. The audit report contains 18 medium-risk recommendations.

Management response

6. Management has agreed with all the recommendations. Five of the recommendations have been implemented and work is in progress on the remaining 13.

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

Sudan

8. With the southern region now an independent country, the Republic of Sudan continued to face humanitarian challenges due to ongoing conflict and insecurity in its western region of Darfur and an escalation of conflict in Abyei area and the states of South Kordofan and Blue Nile.

9. After the separation of South Sudan, the government of Sudan lost 75 percent of its oil revenues, affecting government services. Unresolved issues in the Comprehensive Peace Agreement signed between the Sudan People's Liberation Movement and the Government of Sudan in 2005 have resulted in substantial economic instability and conflicts in the border states of Sudan and South Sudan. These tensions could spread to Darfur and eastern Sudan. The Sudanese case remains an urgent humanitarian crisis with high food insecurity, malnutrition rates above thresholds, poor access to water and quality health services and susceptibility to drought. Poor and late rainfall in 2011 significantly affected cereal production, with negative consequences for food security.

10. There was a sharp devaluation of the Sudanese Pound (SDG) in July 2012, with the Sudanese Pound (SDG) moving from 2.67 to 4.43 SDG/US\$ overnight on July 3, 2012. Inflation was projected to reach 28.6% in 2012, exposing the SDG to more shocks against the US\$.

WFP Operations in Sudan

11. WFP started its operations in Sudan in 1963 and has been providing food assistance to those affected by conflict in Darfur since 2006. The main objectives are to save lives and protect livelihood in emergencies, reduce food insecurity and stabilize the nutritional status of internally displaced persons, refugees and other vulnerable groups. In the Emergency Operation 200312 project document for 2012, WFP plans to reach 6.069 million people in Sudan with food assistance. This includes 3.3 million beneficiaries for General Food Distribution, 1.2 million beneficiaries for Food for Assets activities and 0.9 million for the school feeding programme. A beneficiary re-verification exercise was ongoing in several Darfur locations and the 12th round of North Darfur Food Security Monitoring System was completed in February 2012. Several projects such as the use of cash/food vouchers and milling vouchers have also been implemented. The projects implemented during the period under review were:

- An Emergency Operation (200151) for the calendar year 2011 providing food assistance to vulnerable populations affected by conflict and natural disasters.
- An Emergency Operation (200312) for the calendar year 2012 providing food assistance to vulnerable populations affected by conflict and natural disasters.
- A Special Operation (103422) for the period April 2008 to March 2012, providing a United Nations Joint Logistics Centre, Common Logistics Services, Logistics planning and facilitation, and support to the Non-Food Items and Emergency Shelter Sector.
- A Special Operation (200354) for the calendar year 2012 to provide humanitarian air services.
- A Special Operation (200470) for the period August to October 2012 for logistics augmentation and coordination in support of humanitarian operations in South Kordofan.

12. WFP's Direct Expenses in Sudan in 2012 totalled US\$ 299 million⁴, representing 7.2 percent of WFP's total Direct Expenses for the year. In 2013, the Country Office is executing an Emergency Operations (200457) for a total budget of approximately US\$ 400 million.

13. The Sudan Country Office had accounted for a value added tax (VAT) receivable from the Government, accumulated over the period from 2004, and totalling approximately US\$ 50 million. This receivable is fully provided for in the books of WFP, and resolution of the matter with the Government is under the close scrutiny of management and the Audit Committee.

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 Sudan, as part of the process of providing an annual and overall assurance statement to the Executive Director on governance, risk management and internal control.

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

16. The scope of the audit covered WFP's operations in Sudan for the period from 1 October 2011 to 30 September 2012. Where necessary, transactions and events pertaining to other periods were reviewed. The audit, which took place from 4 to 29 November 2012, included visits to the Country Office in Khartoum, and operations in Darfur including Nyala and El Geneina.

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

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

- Organizational structure and delegation of authority in place and communicated.
 - Regular staff and management meetings held and documented.
 - Standard operating procedures in place for key processes.
 - Effective assurance statement process.
-

2. Risk assessment

- Risk assessment process in place.
-

3. Control activities

- Country office finance missions to support the Area Offices.
 - Qualified international finance staff identified and appointed for Finance and Administration in Nyala.
 - Improved monitoring and clearing of vendor and staff advances.
 - Comprehensive vulnerability assessment mapping.
 - A database to monitor the status of field level agreements.
 - Improved reconciliation of commodity movements.
 - Improvements in fleet monitoring and usage.
 - Implementation of the corporate tendering system.
 - Initiation of a procurement planning process.
 - Well documented process to track Local Property Survey Board recommendations and action plans.
 - Good ICT disaster recovery practices in Nyala and Khartoum.
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4. Information and communication

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5. Monitoring

- Significant monitoring coverage in El Geneina.
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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 – both in the Country 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	--
Strategic planning and performance accountability	Medium	--
Assurance statement	Low	--
2. Risk assessment		
Enterprise risk management	Low	--
3. Control activities		
Finance and accounting	Medium	--
Programme management	Medium	--
Transport and logistics	Medium	Medium
Commodity management	Medium	--
Human resources	Medium	--
Property and equipment	Medium	Medium
Security	Medium	--
Mobilize resources	--	Medium
4. Information and communication		
External relations and partnerships	--	--
Internal communications and feedback	--	--
5. Monitoring		
Programme monitoring and evaluation	Medium	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. No high risk recommendations arose from the audit. A total of 18 medium-risk recommendations were made. These are presented in Table 4.

Management response

21. Management has agreed with all recommendations. Five of the recommendations have been implemented and work is in progress on the remaining 13.

⁵ See Annex A for definitions of audit terms.

Table 4: Medium-risk recommendations

Observation	Recommendation	Risk categories ⁶	Underlying cause category	Owner	Due date
Internal Environment					
1 Corporate organizational and reporting structure: Sudan Country Office reporting lines – a changing organizational structure, in a country which has recently split, for which there has historically been a unique organization and delegation of authority as a “Regional” office has given rise to anomalies in the organizational and reporting structure and delegations of authority.	Establish, in coordination with the Regional Bureau, a transition plan which should include an appropriate organigramme, titles, terminology and delegation.	Operational Stewardship Institutional	Guidelines	Sudan Country Office	Implemented

⁶ See Annex A for definition of audit terms.

Observation	Recommendation	Risk categories ⁷	Underlying cause category	Owner	Due date	
Internal Environment						
2	Strategic planning and performance accountability: Strategy for WFP operations in Sudan – the Country Office’s approved Country Strategy Document 2009-2012, which had five key objectives, was not being used in practice; instead an alternative, unapproved strategy covering 2009-2013 was being used. This strategy differed from the approved strategy, in that the key objectives were three, including one on capacity building, which was not one of the five approved key objectives.	Put in place a properly approved strategy for the Country Office’s operations.	Strategic Stewardship Programmatic	Compliance	Sudan Country Office	31 May 2014
Control Activities						
3	Finance and accounting: Finance and administration, and performance bonds – a lack of continuity in finance and administration staff resulted in weaknesses in controls over matters including granting and settling operational advances, approval of food distribution and cash advance requests, expenditure certification, travel costs, petty cash and customer account verifications, agreements for provision of fuel, and physical controls over safes and fuel coupons. The Country Office did not effectively safeguard performance bonds, as it was unaware of relevant corporate guidelines requiring that bonds received in the form of cheques should be deposited in the bank account. Furthermore some performance bonds had expired.	Improve management oversight over finance and administration. Put in place a process for effective management of performance bonds including renewal upon expiry, and deposit of cash or cheque bonds.	Compliance Internal business processes Institutional	Compliance	Sudan Country Office	31 December 2013

⁷ See Annex A for definition of audit terms.

Observation	Recommendation	Risk categories ⁷	Underlying cause category	Owner	Due date
4 Programme management: Beneficiary numbers – the Country Office was reviewing beneficiary numbers in camps through verification exercises and in schools through food security and nutrition analyses, but had experienced delays in receiving information. Complaints from rejected beneficiaries would be a key input into the re-verification exercise but had not been fully analysed.	Review complaints from rejected beneficiaries and assess the need to include them in the beneficiary lists. Partner with the Ministry of Education for student headcounts.	Operational Operational efficiency Programmatic	Compliance	Sudan Country Office	31 December 2013
5 Programme management: Programme implementation – limited capacity in programme implementation by the cooperating partners resulted in a need for improved controls over commodities and programme implementation in the area offices. The Country Office did not require cooperating partners to submit updated documentation before selection, and did not perform complete performance evaluations of all cooperating partners. This increases the risk of beneficiaries not receiving their intended rations and of loss of commodities.	Put in place an action plan for the area offices to improve the controls noted, including staff retraining to strengthen programme implementation. Strengthen documentation of the selection and evaluation process for cooperating partners	Operational Operational efficiency Programmatic	Compliance	Sudan Country Office	31 December 2013
6 Programme management: Cash and vouchers – the cash and voucher programme in west and south Darfur was in its pilot stage at the time of the audit, and the capacity of the cooperating partners was limited. The capacity of the cooperating partners needed to be strengthened before the programme can progress to the next stage.	Address the gaps identified during the audit and by the on-going policy unit review, and put in place a clear design and implementation plan for cash and voucher activities.	Operational Operational efficiency Institutional	Guidelines	Sudan Country Office	31 December 2013
7 Transport and logistics: Vendor selection and tendering process – the Country Office’s manual process for tendering and communicating with suppliers was not optimal. For example, individual staff email accounts were used instead of generic accounts, and some vendors did not have physical street addresses.	Put in place improved controls over tendering and communicating with suppliers.	Operational Internal business processes Institutional	Compliance	Sudan Country Office	31 December 2013

Observation	Recommendation	Risk categories ⁷	Underlying cause category	Owner	Due date
8 Transport and logistics: The Landside Transport, Storage and Handling rate (LTSH) – fluctuations in exchange rate and prices, combined with the impact of an un-received confirmed contribution (see observation 18) resulted in significant LTSH deficits in 2010 and 2011.	Review the LTSH matrix, make any corrections required, and report to senior management as needed.	Reporting Stewardship Institutional	Compliance	Sudan Country Office	Implemented
9 Transport and logistics: Management of logistics contracts – the Transport and Logistics Division paid the Sudan Country Office’s Sudanese customs clearance vendor in an offshore account, a payment route which appeared not to be in accordance with the Central Bank of Sudan’s directives.	Review the payment methodology for the customs clearance vendor in Sudan.	Compliance Internal business processes Institutional	Compliance	Transport and Logistics Division	Implemented
10 Commodity management: Warehouses managed by a cooperating partner – due to security constraints in some locations, the Country Office contracted a cooperating partner to manage warehouses. Proper planning was not conducted when negotiating the agreement, and the logistics units were not involved. Commodity recording and payments were affected.	Put in place mechanisms to record, monitor and reconcile the inventory and commodities dispatched from the warehouses of cooperating partners to other partners.	Reporting Stewardship Institutional	Compliance	Sudan Country Office	31 December 2013
11 Human resources: Opportunities to improve the human resources processes to ensure the correct allocation of staff – the Human Resources unit has not been systematically involved in HR matters, and this may have been a reason why business units have proceeded with HR matters without following corporate guidelines; for example reference checks were not carried out and on a number of occasions the staff allocation was not optimal.	Ensure compliance with corporate Human Resources guidelines, and review the process by which the Office uses temporary duty assignments.	Compliance Securing resources Institutional	Guidance	Sudan Country Office	31 December 2013

Observation	Recommendation	Risk categories ⁷	Underlying cause category	Owner	Due date
12 Property and equipment: Asset management and monitoring – due to security concerns, the Country Office could not carry out a full physical count and asset verification. The Country Office did not promptly record asset movements in the asset management database, and errors and delays in record keeping occurred over a long period.	The Country Office should conduct a full verification of its assets and complete all necessary adjustments and accounting entries.	Reporting Stewardship Institutional	Compliance	Sudan Country Office	31 December 2013
13 Property and equipment: Delegation of authority for asset disposal – the Financial Resource Management Manual provides delegation of authority to approve disposal of assets at the level of Director, Management Services Division, and Deputy Executive Director. There is no delegation to Country Offices for asset disposal. However the Asset Management Manual suggests that Country Directors may approve disposal of assets without financial limits.	Align the delegations for disposal of assets in the Financial Resource Management Manual and the Asset Management Manual	Compliance Stewardship Institutional	Guidelines	Resource Management and Accountability Department	31 July 2014
14 Security: Minimum Operating Security Standards – the Country Office was developing a database to monitor compliance with security standards in each area of the country, but at the time of the audit it was not complete or consistently implemented.	Monitor the security action plans and asses the security status of WFP premises.	Operational Stewardship Contextual	Compliance	Sudan Country Office	30 June 2014
15 Security: Reportable incidents and legal cases – the Country Office did not gather information on incidents centrally therefore was unable to demonstrate full reporting and full resolution of incidents. Many cases were pending with the local courts; the Country Office’s process was to appeal these cases through Notes Verbales to the Ministry of Foreign Affairs.	Establish a process to ensure completeness and accuracy of reportable incidents, and consider, in liaison with the legal office, a practical solution for representation in local legal cases.	Reporting Stewardship Contextual	Guidance	Sudan Country Office	31 December 2013

Observation	Recommendation	Risk categories ⁷	Underlying cause category	Owner	Due date
16 Mobilize resources: Contribution from the Government of South Sudan – in 2010, before secession, the Government of South Sudan confirmed a US\$ 12.3 contribution for operations in South Sudan. The contribution was spent in 2011, in accordance with WFP rules for making funds available, but the pledge has not yet been honoured.	Review the situation, and consider the implications to recommend the most appropriate way forward, in liaison with senior management.	Reporting Operational efficiency Institutional	Guidelines	Resource Management and Accountability Department	Implemented
Monitoring					
17 Programme monitoring and evaluation: Monitoring coverage – WFP’s corporate monitoring and evaluation database is still under development, so the Country Office was using an interim solution. The Country Office did not bring a consistent monitoring planning methodology to the Area Offices.	Put in place a consistent methodology for monitoring planning across operations, including risk-based monitoring planning.	Operational Stewardship Programmatic	Guidance	Sudan Country Office	Implemented
18 Programme monitoring and evaluation: Cooperating partners monitoring their own activity – the cooperating partners implementing the project in Nyala also monitored it, and the Country Office monitors their activity. While the office was drafting standard operating procedures for this event, there were no guidelines on what steps WFP offices should take to “monitor the monitors”.	Establish corporate guidance on the use of third-party monitors, including the nature of monitoring services provided by implementing partners.	Reporting Operational efficiency Institutional	Guidelines	Resource Management and Accountability Department	31 March 2014

Annex A – Definition of Audit Terms

1. WFP’s Internal Control Framework (ICF)

A 1. WFP’s Internal Control Framework follows principles from the Committee of Sponsoring Organizations of the Treadway Commission’s (COSO) Integrated Internal Control Framework, adapted to meet WFP’s operational environment and structure. The Framework was formally defined in 2011.

A 2. WFP has defined internal control as a process designed to provide reasonable assurance regarding the achievement of objectives relating to (a) effectiveness and efficiency of operations; (b) reliability of reporting; and (c) compliance with WFP rules and regulations. WFP recognizes five interrelated components (ICF components) of internal control, which need to be in place and integrated for it to be effective across the above three areas of internal control objectives. The five ICF components are (i) Internal Environment, (ii) Risk management, (iii) Control Activities, (iv) Information and Communication, and (v) Monitoring.

2. Risk categories

A 3. 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 frameworks⁸ 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 4. 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).

⁸ 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.

3. Causes or sources of audit observations

A 5. The observations were broken down into categories based on causes or sources:

Table A.3: Categories of causes or sources

1	Compliance	Requirement to comply with prescribed WFP regulations, rules and procedures.
2	Guidelines	Need for improvement in written policies, procedures or tools to guide 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 committed by staff entrusted to perform assigned functions.
6	Best practice	Opportunity to improve in order to reach recognised best practice.

4. Risk categorization of audit observations

A 6. 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 7. Low risk recommendations, if any, are communicated by the audit team directly to management, and are not included in this report.

5. Recommendation tracking

A 8. 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.

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 on a specific entity, but have a high impact globally.

6. Rating system

A 9. 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

EMOP	Emergency Operation
LTSH	Landside Transport, Storage and Handling
SDG	Sudanese Pound
SOS	Sudan Operational Support System
WINGS	WFP's corporate ERP system
WFP	World Food Programme