

Internal Audit of WFP Operations in the People's Republic of Bangladesh

Office of the Inspector General
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World Food Programme

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I. Executive Summary

Introduction






1. As part of its annual work plan for 2013, the Office of Internal Audit conducted an audit of WFP Operations in Bangladesh. The World Food Programme's (WFP) Direct Expenses in Bangladesh in 2012 totalled US\$42 million¹, representing one per cent of WFP's total Direct Expenses for the year. The audit covered activities from 1 January 2012 to July 2013 and included field visits to various locations in Bangladesh 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 **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	Low	
2. Risk assessment	Low	
3. Control activities	Medium	
4. Information and communication	Low	
5. Monitoring	Medium	

¹ WFP/EB.A/2013/4/Rev1* – 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.

Key Results of the Audit

Positive practices and initiatives

4. A number of positive practices and initiatives were noted during the audit, among them, strong engagement, alignment and coordination of programme activities with the Government of Bangladesh; the Information Communication and Technology (ICT) Unit's robust practices for ensuring business continuity during Hartals (strikes) and suitable preparation for other scenarios which may require the implementation of continuity plans; and the annual structure and staffing reviews, the effects of which created an adequate balance between the Country Office's needs and available resources.

Audit recommendations

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

Management response

6. Management has agreed with all recommendations. Three of the recommendations have been implemented and work is in progress on the remaining three.⁴

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



⁴ Implementation of the recommendations will be verified through the office of Internal Audit's (OIGA) standard system for monitoring of implementation of audit recommendations.

II. Context and Scope

The People's Republic of Bangladesh

8. Despite important economic and social gains over the past decade, Bangladesh, a low income, food deficient and densely populated country, continues to face high rates of under-nutrition, food insecurity and extreme poverty. Bangladesh is ranked 146th out of 186 countries in the 2013 Human Development Index (HDI)⁵, and 68th out of 79 countries in the 2012 Global Hunger Index (GHI). According to the WFP Household Food Security and Nutrition Assessment (2008-2009)⁶ 37 million people – a quarter of the population – are food insecure. The high prevalence of early marriage and under nutrition in mothers and adolescent girls perpetuates the cycle of under-nutrition. While Bangladesh has made considerable progress in improving the net enrolment rate and gender parity in primary education, drop-out from primary education, particularly for children from ultra-poor households, remains a major concern.

9. Bangladesh is prone to frequent disasters, with cyclones, flooding, salt-water contamination of freshwater sources and river erosion. These threats to security and well-being are expected to increase in severity over the coming decades due to the effects of climate change. Food-price volatility and economic shocks pose significant threats to hunger-reduction initiatives. Both natural and man-made shocks have a significant impact on the ultra-poor due to their dependence on agriculture, limited savings and chronic under-nutrition and a lack of alternative livelihood options. In addition, since 1991, Bangladesh has hosted a resident refugee population from Myanmar, one of the world's most protracted refugee situations.

WFP Operations in Bangladesh

10. WFP has been active in Bangladesh since 1974. WFP works in close cooperation with the Government, local and international NGOs and UN partners, to fight under-nutrition at every stage of the human life cycle. WFP uses nutritious food rations and behaviour change communication to reach pregnant women and nursing mothers, young children, pre - and primary school students and ultra-poor and food insecure adults. WFP's outreach in Bangladesh comprises a Country Office in Dhaka, and six area offices in Cox's Bazar, Barisal, Khulna, Rangpur, Sirajganj and Rangamati. The projects implemented during the period under review were:

- A Country Programme (200243): Development Assistance, 1 January 2012 to 31 December 2016; project funding as of October 2013 was US\$119 million with 1,539,310 beneficiaries;
- A protracted relief and recovery operation (200142): Assistance to the Rohingya Refugees from Myanmar, 1 January 2011 to 31 March 2014; project funding as of October 2013 was US\$ 14.6 million with 27,300 beneficiaries.

11. WFP's Direct Expenses in Bangladesh in 2012 totalled US\$ 42 million⁷, representing one percent of WFP's total Direct Expenses for the year.

12. The Country Office's operations reflect a high degree of programmatic maturity. There has been a commendable and successful transition of WFP in-country programmes from food aid and emergency-intensive activities to development-based programme components with direct Governmental cash grants to beneficiaries and in-kind food contributions. In addition, the Country Office demonstrated its commitment to strengthen the developmental focus of its in-country programme through the handover to the Government of the WFP Vulnerable Group Development (VGD) programme in 2010 and more recently, in 2012 the handover of 300,000 children in the WFP school feeding programme, and the associated school feeding capacity support which enabled the Government to fund and manage its own school feeding programme from 55,000 to 1.3 million school children. Another example is the new increased research-based funding resources obtained for projects such as a research initiative for locally developed fortified rice and a complementary food supplement to prevent child undernutrition.

13. The two notable observations in this audit are the need for the Country Office to reconsider its approach to the execution Outcome surveys in view of the limited availability of resources in the Monitoring and Evaluation (M&E) Unit, and to obtain a level of assurance on

⁵ 2013 Human Development Index (HDI).

⁶ WFP Household Food Security and Nutrition Assessment (2008-2009).

⁷ WFP/EB.A/2013/4/Rev1* – Annual Performance Report for 2012 – Annex IX-B.

Government commodity-reporting systems in view of the fact that, the Government managed 60% (39,565 Metric Tonnes - MT) of WFP in-country distributed commodities during the audit period.

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 Bangladesh 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 Bangladesh from 1 January 2012 to 30 July 2013. Where necessary, transactions and events pertaining to other periods were reviewed. The audit, which took place from 22 September to 10 October 2013, included visits to various locations in Bangladesh.

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

- The effects of the annual staffing review exercise created an adequate balance between Country Office needs and available resources.
-

2. Risk assessment

- There was a comprehensive Risk Register which was updated as part of the work plan review.
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3. Control activities

- There was strong engagement, alignment and coordination of programme activities with the Government of Bangladesh.
 - A resource management committee is established, comprising finance, logistics, operations and programme; this committee monitors all contributions, programming and utilization and oversees pipeline and supply chain actions.
-

4. Information and communication

- The ICT Unit's robust practices for ensuring business continuity during Hartals (strikes) and suitable preparation for other scenarios which may require the implementation of continuity plans.
-

5. Monitoring

- Objective and indicator-based field monitoring had been implemented to make the best use of limited resources.
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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	Low	--
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	--
Transport and logistics	Medium	--
Procurement	Low	--
Human resources	Low	Medium
Property and equipment	Low	--
Security	Low	--
IS/IT acquire and implement	Low	--
4. Information and communications		
	--	--
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 **satisfactory**⁸.

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

Management response

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

⁸ See Annex A for definitions of audit terms.

Table 4: Summary of medium-risk recommendations

Observation	Recommendation	Risk categories ⁹	Underlying cause category	Owner	Due date
Control Activities					
1 Programme Management: Cooperating Partners Bank Reconciliations and Manual records – The audit noted the use by Cooperating Partners of manual accounting and performance of bank reconciliations where one cash book was maintained for several bank accounts. This was not in line with best practice accounting. Although manageable at the time of the audit in the implementation of the Enhanced Food Security (EFS) project, this problem may become acute if the project expands or there are dynamic changes in project beneficiary numbers and project activity start dates. Challenges were also noted in the distribution data maintained by the CPs.	Train Cooperating Partners in the preparation and maintenance of accounting data and effective and efficient reporting techniques and engage Cooperating Partners to determine whether they could acquire electronic tracking systems for distribution and accounting data to record and monitor WFP activities in their organization.	Reporting Operational Efficiency Contextual	Best Practice	Bangladesh Country Office	31 January 2014
2 Transport and Logistics: Commodities handled by the Government - The Country Office could not reconcile WFP commodities handled by the Government on a timely basis because the Government did not issue confirmations and consequently, was unable to obtain timely assurance on the accuracy of such stock balances.	Engage the Government and jointly formulate a plan to develop or enhance any government existing commodity tracking systems.	Reporting Stewardship Contextual	Best Practice	Bangladesh Country Office	Implemented

⁹ See Annex A for definition of audit terms.

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Observation	Recommendation	Risk categories ⁹	Underlying cause category	Owner	Due date
3 Human Resources: National Staff Rotation – The lack of mobility clauses for locally recruited national staff in the WFP Corporate rules resulted in some staff remaining in the same position for up to ten years and could create the risk of collusion by staff with other parties such as Cooperating Partners, government officers, community representatives, etc; which may result in financial loss to WFP.	Consider a review of corporate staffing rules and consider integrating in-country rotation as an element of national staff management within a framework of defined criteria.	Operational Stewardship Institutional	Best Practice	HQ Human Resources Unit	To be determined
4 Security: Vehicle MOSS Compliance - The Administration Unit in the Country Office did not verify that WFP vehicles were equipped with radios and first aid kits prior to approving them for use and did not regularly replenish the first aid kits with fresh supplies; in the event of a traffic accident or other incident requiring radio communication and medical supplies, WFP vehicles might not be adequately equipped.	Verify that all WFP vehicles are equipped with functioning radios and first aid kits prior to approving them for use and regularly replenish all essential vehicle supplies including first aid kits prior to approving vehicles for use. Additionally, the Administration Unit in the Country Office should obtain management approval for any use of WFP vehicles that do not conform to MOSS requirements.	Compliance Stewardship Institutional	Guidance	Bangladesh Country Office	Implemented
Monitoring					
5 Monitoring: Tracking Monitoring Actions - Field monitors did not fully follow established monitoring reporting procedures in two instances, nor did they prepare action points creating the risk that any problems identified would not be reported, tracked and addressed on a timely basis.	Pending the implementation of the Country Office new monitoring system, consider introducing additional controls to ensure that all observations raised during monitoring visits are documented, tracked, and that the established Country Office processes are followed. Further, the Country Office should document the current procedures to report and escalate serious incidents involving cooperating partners.	Operational Operational Efficiency Programmatic	Guidelines	Bangladesh Country Office	Implemented

Observation	Recommendation	Risk categories ⁹	Underlying cause category	Owner	Due date
6 Monitoring: Capacity for Outcome Monitoring – The Country Office’s ability to demonstrate programme outcome results on a timely basis was restricted due to limited Monitoring and Evaluation (M&E) resources, creating the risk that reports would become irrelevant or their usefulness would diminish, and donors and Government partners would offer reduced support. Further, the CO was in the process of implementing the outcome measurement methodologies recommended by the Office of Evaluations and the Monitoring Branch of the Performance Management and Monitoring Division.	(1) Consider the outcome measurement methodologies recommended by the Office of Evaluations and the Monitoring Branch of the Performance Management and Monitoring Division and implement them as appropriate; (2) In line with chosen outcome-measurement methodologies, define the required technical capacities of outcome monitoring staff and appropriate staffing levels, budget for the resources, and allocate the corresponding staff resources; (3) Continue to leverage partnerships with reputable research institutions.	Strategic Securing Resources Programmatic	Resources	Bangladesh Country Office	31 March 2014

Annex A – Audit definitions

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 frameworks¹⁰ 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).

¹⁰ 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.¹¹

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.

¹¹ 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

EFS	Enhanced Food Security Project Component
GHI	Global Hunger Index
HDI	Human Development Index
ICT	Information Communication and Technology
MT	Metric Tonnes
MOSS	Minimum Operating Security Standards
UN	United Nations
VGD	Vulnerable Group Development Programme
WFP	World Food Programme