

Internal Audit of WFP Operations in Palestine

Office of the Inspector General
Internal Audit Report AR/14/06



World Food Programme

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Internal Audit of WFP Operations in Palestine

I. Executive Summary

Introduction






1. As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP operations in Palestine. WFP's Direct Expenses in Palestine in 2012 totalled US\$56 million¹, representing 1.4 per cent of WFP's total Direct Expenses for the year. The audit covered activities from 1 January 2012 to 30 September 2013 and included field visits to various locations in Palestine and a review of related corporate processes that impact across 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. 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	Medium	
3. Control activities	Medium	
4. Information and communication	Low	
5. Monitoring	Low	

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 with the Palestinian Authority on capacity and awareness development activities; customisation of the Emergency Preparedness Response Package to the context of Palestine; innovation in the implementation of eVoucher programmes and development of support systems; partnering with international non-governmental organisations on awareness training to enhance the impact of food assistance; and, the development of a comprehensive and user-friendly

¹ Annual Performance Report 2012 - WFP/EB.A/2013/4 - 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.

monitoring and evaluation database that included safeguards for the timely recording and efficient consolidation of data.

Audit observations

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

Action agreed

6. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations. Work is in progress and management plans to have all the agreed actions implemented by 1 April 2014⁴.

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



David Johnson
Inspector General

⁴ Implementation will be verified through the Office of Internal Audit's standard system for monitoring agreed actions.

II. Context and Scope

Palestine

8. WFP operations in Palestine comprises West Bank and the Gaza Strip. It has a combined population of approximately 4.4 million people (2.7 million residing in the West Bank and 1.7 million in the Gaza Strip). Six decades of political instability and conflict have led to economic stagnation and to a significant deterioration of household incomes and food security. Thirty-four per cent of households were unable to meet their basic food and household expenses, with a further 16 per cent at risk of food insecurity. High prices, low wages, weak industrial and agricultural infrastructure, high unemployment and low production levels posed significant challenges which so far have largely been contained by humanitarian aid.

WFP Operations in Palestine

9. WFP employs 120 staff (six international and 114 national) to support its operations in Palestine. It started its operations in the area in 1994 when it opened an office in Gaza with seven staff (two international and five national). In 2002 WFP moved its main office to Jerusalem, retaining the Gaza office as a sub-office. Sub-offices have also been established in Hebron and Nablus in the West Bank.

10. WFP's mission in the West Bank and Gaza was to provide food assistance to vulnerable people and to work with local Palestinian authorities to strengthen safety nets and build the capacity of local institutions to anticipate and prepare for emergencies. All WFP food security projects are planned in consultation with the Palestinian Authority (PA). Since 2002, WFP has helped the PA to maintain food security and protect the assets of vulnerable non-refugee communities through two emergency operations and two protracted relief and recovery operations. School feeding started in 2007.

11. After the United Nations Relief and Works Agency for Palestine (UNRWA) and the United Nations Development Programme (UNDP), WFP is the largest UN agency in the area with an appeal for funds of US\$82 million under the Consolidated Appeal for 2013⁵. WFP targeted non-refugee beneficiaries, coordinating its activities and interventions with UNRWA, which targets refugees, to ensure coordination and fulfilment of its mandate to provide humanitarian assistance and improve food security.

12. The projects implemented by WFP during the period under review were:

- *Targeted Food Assistance to Support Destitute and Marginalized Groups and Enhance Livelihoods in the West Bank* with a budgeted cost of US\$152.2 million (budget revision November 2012). This project aimed to meet immediate food needs, enhance food consumption and improve dietary diversity through relief and recovery interventions, targeting some 454,000 food-insecure non-refugees in the West Bank, including 75,000 school children, and 35,000 marginalized herders and Bedouin.
- *Emergency Food Assistance to the Non-Refugee population in the Gaza Strip* with a budgeted cost of US\$49.4 million (budget revision January 2013). This project aimed to meet the immediate food needs, enhance food consumption and improve the dietary quality of beneficiaries, targeting 285,000 non-refugees (53 per cent of the total non-refugee population in the Gaza Strip).
- *Strengthening the food security coordination platform* with a budgeted cost of US\$1.3 million over two years. This project supports the newly established Food Security Sector, co-chaired by the Food and Agriculture Organization of the United Nations (FAO), WFP and UNWRA, which strengthens the coordination and response of the food security sector actors, and information management and analysis.

⁵ OCHA oPt Consolidated Appeal 2013 – Table III.

13. WFP's Direct Expenses in Palestine in 2012 totalled US\$56 million⁶, representing 1.4 per cent of WFP's total Direct Expenses for the year.

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 the internal control components of WFP's operations in Palestine. Such audits are 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 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 the risk assessment exercise carried out prior to the audit.

16. The scope of the audit covered WFP's operations in Palestine from 1 January 2012 to 30 September 2013. Where necessary, transactions and events pertaining to other periods were reviewed. The audit took place from 11 to 29 November 2013, and included visits to various locations within Palestine.

⁶ WFP Annual Performance Report 2012 - WFP/EB.A/2013/4 - 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

- Strong engagement with the Palestinian Authority on capacity and awareness development activities.

2. Risk assessment

- Customisation of the Minimum Preparedness Actions included in the Emergency Preparedness Response Package to the context of operations in Palestine. The model was adopted by the Regional Bureau as an example of best practice.

3. Control activities

- Innovation in the implementation of eVoucher programmes and development of support systems.
- Partnering with international non-governmental organisations on awareness training to enhance the impact of food assistance.

4. Information and communication

- Establishment of an Information and Knowledge Management Officer post.

5. Monitoring

- Development of a comprehensive and user-friendly monitoring and evaluation database that included safeguards for the timely recording and efficient consolidation of data.
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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:

Table 3: Conclusions on risk, by internal control component and business process

Internal Control Component/Business Process	Risk (Country Office)
1. Internal environment	
Internal environment	Low
2. Risk assessment	
Enterprise risk management	Medium
Emergency preparedness and response	Medium
3. Control activities	
Finance and accounting	Low
Programme management	Medium
Transport and logistics	Low
Commodity management	Low
Procurement	Low
Human resources	Low
Property and equipment	Low
Administration and travel	Low
Security	Low
Resource mobilisation	Medium
IS/IT acquire and implement	Medium
4. Information and communication	
External relations and partnerships	Low
5. Monitoring	
Monitoring activities	Low

19. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **satisfactory**⁷.

20. No high risk observations arose from the audit. The audit report makes six medium-risk observations. These are presented in Table 4.

Action agreed

21. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations. Work is in progress and management plans to have all the agreed actions implemented by 1 April 2014.

⁷ See Annex A for definitions of audit terms.

Table 4: Medium-risk observations

Observation	Agreed action	Risk categories ⁸	Underlying cause category	Owner	Due date
Risk Assessment					
1 Enterprise risk management: Constraints and risks in the Gaza operations – The CO made payments for Gaza-related programme support costs through the personal account of an individual nominated by the Ministry of Social Affairs (MSA) operating under the de-facto government in Gaza under a written agreement that may not be legally enforceable. Mitigating measures to minimise the extent of payments made in this manner had not been fully implemented.	Revisit the issue with the relevant authorities with a view of reaching agreement for their acceptance and payment for all Gaza-related technical and programme support costs.	Compliance Internal business processes Contextual	Guidance	Palestine Country Office	1 April 2014
2 Emergency preparedness and response: Contingency agreements and plans with Cooperating Partners (CPs) – Although the potential pull-out of international CPs due to political and economic instability was ranked as a high risk by the CO, it had not yet formalized contingency plans and agreements with the CPs to take over distributions in Gaza and the West Bank if these risks were to materialize, nor had it formalized mitigation strategies, including alternative mechanisms of deliveries to beneficiaries and the escalation of current activities.	(a) Identify and assess the specific instances when assumption of CP activities would be the most appropriate response in the event CPs withdrew their support from Gaza or the West Bank; (b) coordinate and formalize the mechanisms and operational plans to assume control of CP-run distribution activities if this is called for; and, (c) consider the inclusion of Human Resource elements for the rapid mobilization of staffing resources in the event of a crisis.	Operational Operational efficiency Programmatic	Guidelines	Palestine Country Office	15 March 2014

⁸ See Annex A for definition of audit terms.

Observation	Agreed action	Risk categories ⁸	Underlying cause category	Owner	Due date
Control Activities					
3 Programme management: Management of Cooperating Partners (CPs) – Certain elements set out in the corporate guidance on working with CPs had not been implemented. These included: maintaining a roster of potential Partners, establishing formalised criteria for the selection of CPs, and formalising the process for evaluating the performance of Partners.	Establish and formalize the missing elements of internal procedures for working with Cooperating Partners.	Compliance Operational efficiency Institutional	Compliance	Palestine Country Office	15 March 2014
4 Programme management: Prioritization of beneficiary groups and expansion of voucher activities – A sample analysis of the consumption gap ⁹ for the beneficiary caseload performed by the Audit showed a clear difference between the relative food-security of those benefitting from in-kind and from voucher assistance. The gap for voucher beneficiaries, who were primarily located in urban areas, was significantly lower than that of in-kind beneficiaries. The latter were mainly located in rural areas. In effect, this meant that potential beneficiaries of assistance in rural areas had to be more food-insecure than those in urban areas to be selected for assistance.	Take into consideration the risk of imbalance in the relative food-security of beneficiaries in the two main implementing modalities (voucher and food assistance) when performing the next retargeting exercise.	Strategic Operational efficiency Programmatic	Compliance	Palestine Country Office	15 March 2014

⁹ Statistical term used to denote how far off households are from the poverty line.

Observation	Agreed action	Risk categories ⁸	Underlying cause category	Owner	Due date
5 Resource mobilisation: Resource mobilisation operational plan - The CO's varied funding mobilization efforts called for better coordination between the units and individuals involved in the process. The funding strategy had not yet been translated into a resource mobilization operational plan that described specific actions, targets, and deadlines to enable the systematic tracking of achievements against the funding objectives, allowed a stronger handover process when international staff rotate, and provided a checklist of activities completed against planned activities.	Develop a resource mobilization operational plan that identifies and integrates the specific actions, targets and deadlines for the mobilization of funding resources.	Strategic Secure resources Programmatic	Guidance	Palestine Country Office	15 February 2014
6 IS/IT acquire and implement: Support contracts for the eVoucher application system – Approximately 93,000 beneficiaries were supported by means of electronic vouchers. The long term agreements for the provision of software and hardware support services with the outsourced developer of the eVoucher application were allowed to expire at the end of 2012 and only renewed in June and August 2013 respectively due to the absence of service performance evaluation criteria and the untimely consideration of alternative service providers. Services were acquired without a valid contract until the agreements were renewed.	(a) Establish formal criteria and mechanisms for the evaluation of service providers;(b) assess service delivery performance prior to the expiration of contracts; and (c) monitor contract expiration dates to avoid any lapses in the renewal or re-tendering of service contracts.	Operational Internal business processes Programmatic	Guidance	Palestine Country Office	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 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 observations identified are for best practices as opposed to weaknesses that prevent the meeting of systems and business objectives.

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

5. Monitoring the implementation of agreed actions

A 8. The Office of Internal Audit tracks all high and medium-risk observations. Implementation of observations will be verified through the Office of Internal Audit's system for monitoring the implementation of audit observations. The purpose of this monitoring system is to ensure that actions agreed with management 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

CP	Cooperating Partner
CO	Country Office
FAO	Food and Agriculture Organization of the United Nations
IS/IT	Information Systems/Information Technology
PA	Palestinian Authority
UNDP	United Nations Development Programme
UNWRA	United Nations Relief and Works Agency for Palestine
WFP	World Food Programme