

Internal Audit of Select WFP Corporate Processes

Office of the Inspector General
Internal Audit Report AR/14/11



World Food Programme

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Internal Audit of Select WFP Corporate Processes

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 Haiti. The country office audit covered activities from 1 April 2011 to 30 September 2012 and included field visits to various locations in Haiti. This separate review of related corporate processes that impact across WFP was completed in 2014.
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 audit made two high-risk and eight medium-risk observations to the Country Office management. These observations are included in a separate report¹.
4. The audit also identified some control issues relating to corporate processes, which are described in this report. Based on these observations, the Office of Internal Audit has come to an overall conclusion for the corporate processes of **partially satisfactory**. Conclusions are summarized in Table 1 by internal control component:

Table 1: Summary of conclusions by Internal Control Components

Internal Control Component		Conclusion	
1.	Internal environment	High	■
2.	Control activities	Medium	■

Key Results of the Audit

Audit observations

5. The audit report contains one high-risk observation and seven medium-risk observations. The high-risk corporate observation is:

Corporate organizational and reporting structure: WFP is increasingly undertaking large construction projects. Some of the difficulties faced by the Haiti Country Office with the construction of the staff housing compound in the outskirts of Port-au-Prince were the result of weaknesses in corporate processes of governance, risk management and controls of construction projects. WFP however, has no formally approved technical guidelines for these type of projects, no specific contract templates and no specific guidance regarding recording and monitoring of such costs. The technical team in headquarters has an advisory role only. It is recommended that WFP prepare comprehensive guidelines for construction projects, covering governance, risk management and control activities that are consistent with the International Public Sector Accounting Standards (IPSAS) 11 on Construction Contracts.

¹ Report No. AR/14/07

Actions 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 30 June 2015.

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

II. Context and Scope

8. As part of the country audit of WFP's operations in Haiti², the team identified some areas for improvement in a selected number of corporate processes with an impact going beyond operations in Haiti.

9. It was therefore decided to include these observations in this separate report.

10. The observations included in the report are the result of an 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 approved planning memorandum and took into consideration the risk assessment exercise carried out prior to the audit.

² Report No.AR/14/07

III. Results of the audit

11. Based on the evidence gathered on some corporate processes, the Office of Internal Audit has come to the following conclusions on the residual risk:

Table 2: Conclusions on risk by internal control component and business process

Internal Control Component/ Business Process	Risk (Corporate)
1. Internal environment	
Corporate Organizational and reporting structure	High
Strategic planning and performance accountability	Medium
2. Control activities	
Finance and accounting	Medium
Commodity management	Medium

12. Based on the results of the audit, the Office of Internal audit has come to an overall conclusion for the corporate processes covered by this document of **partially satisfactory**³.

13. A total of one high-risk observation (detailed in section IV) and seven medium-risk observations were made. Tables 3 and 4 present the high and medium-risk observations respectively.

Management response

14. 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 30 June 2015⁴.

³ See Annex A for definitions of audit terms.

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

Table 3: Summary of high risk observations (see Section IV for detailed assessment)

Observation	Agreed Action	Risk categories ⁵	Underlying cause category	Owner	Due date
Internal Environment					
1 Corporate organizational and reporting structure: Even though there was a technical team in Headquarters supporting country offices in their infrastructure projects, there were no formally approved corporate technical guidelines, no approved templates for construction contracts and no overall comprehensive governance and risk management process.	Prepare comprehensive guidelines for construction projects, covering governance, risk management and control activities and include, amongst others: delegations of authority, technical guidelines for construction and standard contract templates. In the meantime, construction operations will continue to comply with existing industry best practice guidelines. Review the financial systems to enable proper recording and monitoring of construction costs in line with best practices of the sector and IPSAS.	Compliance Institutional Operational Process and Systems	Guidelines	Resource Management and Accountability Department – Management Services Division	31 December 2014

⁵ See Annex A for definition of audit terms.

Table 4: Medium-risk observations

Observation	Agreed Action	Risk categories ⁶	Underlying cause category	Owner	Due date
Internal Environment					
2 Corporate organizational and reporting structure: Availability of key corporate information in UN languages - Staff in Haiti were found to have difficulties in keeping updated on WFP guidance as most WFP rules, regulations and corporate guidelines and manuals were only available in English, whilst fluency in English is not a UN mandatory requirement for national staff. A similar problem is experienced by offices in West Africa.	Review list of key policies and procedures and ensure that all key documents are available in all UN working languages of WFP and design a process to ensure that key future information is disseminated in all the relevant UN languages. Work together with the Resource Management and Accountability Department.	Operational Programmatic Processes and Systems	Best Practice	Human Resources Division	30 June 2015
3 Performance and accountability management: Comprehensive recording of assets under WFP's responsibility - The Haiti Country Office was found to have a significant number of assets, some of which were received as donations in kind (e.g. vehicles), some purchased (e.g. wiikhalls) and some commissioned (staff housing project). At present, donors have little visibility on assets allocated to a project and on the use of the assets once the project is closed (e.g. used in other projects, sold, transferred to the government for free, etc.). This could be related to the fact that until International Public Sector Accounting Standards (IPSAS) came into force, all assets were expenses and treated like any other type of expenditure.	As part of the planned Standard Project Report (SPR) structure review, assess whether the current SPR template could benefit from clearer disclosure regarding expenses that will out-live the end of the project.	Operational Institutional Accountability and Funding	Best practice	Performance Management and Monitoring Division	31 December 2014

⁶ See Annex A for definition of audit terms.

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Observation	Agreed Action	Risk categories ⁶	Underlying cause category	Owner	Due date
4 Performance and accountability management: Reporting on capacity building costs and outcomes - The Haiti Country Office was working on several government capacity-building initiatives yet there was very little information in the project documents on the activities to be performed and the cost of these activities. There are also no Corporate Guidelines regarding capacity building in general.	Review current project document template to increase transparency of capacity building costs, outcome and output indicators and prepare guidelines to support implementation of capacity building of governments and partners.	Reporting Institutional Accountability and Funding	Guidance	Programme Policy Service – Country Capacity Strengthening	Implemented
5 Performance and accountability management: Consistency between indicators used in reporting and those approved in the project budgets - The audit found inconsistencies between output and outcome indicators approved in the project documents for Haiti and the indicators used as benchmark for performance in the annual Standard Project Reports (SPR).	Strengthen SPR guidance to ensure that if the original indicators cannot be used in the SPR, the reason is properly explained to donors reading the report and a justification for the alternative indicators is provided.	Compliance Institutional Accountability and Funding	Compliance	Performance Management and Monitoring Division	31 December 2014
Control activities					
6 Finance and accounting: Manual invoicing of income receivables - The Haiti Country Office manually recorded all invoices for services provided to the humanitarian community through its clusters and to the non-WFP guests of the housing project. The automated invoicing functionality from the SAP software has only been activated for UNHRD (United Nations Humanitarian Response Depot).	Map all income-generating activities and assess whether it would be effective and efficient to change current manual procedures, including replacing them with automated billing, to facilitate recording of income and tracking of receivables.	Operational Institutional Processes and Systems	Best practice	Finance and Treasury Division	31 December 2014
7 Finance and accounting: Recording items belonging to other United Nations entities - The Haiti Country Office was involved in the distribution of UNICEF products (mainly nutrition items), which it also stored in its warehouses. These items could not be formally recorded anywhere in the WFP systems as they were neither donations nor the result of procurement activities. They were recorded in separate excel sheets outside the system, making monitoring and management of the supply chain more time consuming and prone to errors.	Prepare guidelines for recording of items received from UN agencies and distributed by WFP and review the process to record them in the Enterprise Resource Planning (ERP) systems.	Operational Programmatic Processes and Systems	Guidelines	Logistics Division	Implemented

Observation	Agreed Action	Risk categories ⁶	Underlying cause category	Owner	Due date
<p>8 Commodity management: Inventory of non-food items - the Haiti Country Office had a significant number of non-food items in its warehouses, such as wheelbarrows used in food-for-work activities and water purification tablets (close to expiry date). These items were monitored through excel spreadsheets only and were not in the stock management system, which is currently only used to record food items.</p>	<p>Review guidelines on the tracking and management of high quantity and low-value non-food items. Work together with the Resource Management and Accountability Department to identify the most efficient and cost effective solution.</p>	<p>Operational Institutional Processes and Systems</p>	<p>Guidelines</p>	<p>Logistics Division</p>	<p>30 June 2015</p>

IV. Detailed Assessment

Internal Environment

High Risk

Observation 1 Corporate framework for large infrastructure projects

15. In April 2010, after the earthquake, WFP decided to build a compound to safely house WFP staff. The project, which cost US\$10 million, was completed in August 2011, almost one year after the original intended completion date and at a much higher cost. At the time of the audit, it had a high occupancy rate of 90 percent, with less than 10 percent of occupants being from WFP.

16. In reviewing documents relating to this project, the Office of Internal Audit (OIGA) noted that it was unclear whether: the compound and its external walls were compliant with minimum United Nations security guidelines and would withstand strong hurricanes or earthquakes. It was also unclear whether WFP had a formal right of passage on the land leading to the compound and what agreement was in place regarding neighbouring land used to house some WFP assets, such as generators.

17. The Country Office had several disagreements with the construction company regarding responsibilities for delays and quality of the work. The Country Office ultimately signed an "amicable agreement" which settled WFP's liability but also limited any further recourse to the supplier regarding construction defects.

18. Examples of errors made during the management of the site included: WFP occupied the compound before the construction was finalized, and formally accepted (something which the contractor used as evidence of "substantial completion"); change orders being given by the on-site WFP project manager without proper approval from the appropriate level of authority; a major project change costing US\$1.1 million was treated as a cost increase on the existing contract and not as a new procurement action (as noted by the Purchase and Contracts Committee which ultimately approved the cost increase, albeit with a disclaimer).

19. The project was originally under a Special Operation, but the costs were actually charged to the Emergency and Recovery Projects, with little disclosure to the stakeholders in either the original project documents or the Special Project Reports (SPR).

Observation 1

Underlying cause of observation:	Human error/Compliance/Guidance/Best practice: Planning errors; lack of clarity regarding roles and responsibilities both within the Country Office and between the Country Office and the technical team in Headquarters in Rome, project management errors.
Implication:	Increase in construction costs and delays in completion; security of housing residents and visitors and subsequent potential legal claims from housing project residents and visitors; lack of insurance coverage for security or other accidents happening within the grounds; uncertainty regarding the actual disposal value of the project; potential difficulties in dealing with an emergency.
Policies, procedures and requirements:	Effective and efficient use of resources. Best practice project management.
Agreed management actions:	WFP Field Engineering has prepared comprehensive guidance in the form of a draft Construction Manual that will govern all WFP engineering and construction related

projects. The manual incorporates current industry best practice and provides a comprehensive basis for preparing project plans, including governance, appraisal, risk management, construction procurement and execution. This manual has already been used on a trial basis for engineering activities in a number of key WFP operations where WFP Field Engineering has been engaged by Country Office teams. It is currently being refined and finalized on the basis of practical experience and feedback from staff engaged in managing engineering activities. The manual covers all the governance, risk management and control weaknesses identified by the audit. Once the manual is approved by the Executive Director, it will be published and circulated under the terms of an Executive Director Circular. The Finance and Treasury Division of WFP will also review and evaluate the applicability of IPSAS 11 on construction contracts and its relevance for WFP in the context of current and likely operational commitments of WFP. WFP Field Engineering has prepared comprehensive guidance in the form of a draft Construction Manual to govern all WFP engineering and construction related projects. The manual is in draft form but has been used on a trial basis for engineering activities in a number of key WFP operations where WFP Field Engineering has been engaged by Country Office teams. The manual is currently being refined and finalized on the basis of practical experience and feedback from staff engaged in managing engineering activities. The manual incorporates current industry 'best practice' and provides a comprehensive basis for preparing project plans, including governance, appraisal, risk management, construction procurement and execution. The manual will be recommended to the Executive Director as an appropriate response to the concerns identified above including: management of change orders, increased oversight role of WFP Field Engineering and key delegations of authority.

Target implementation date: 31 December 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 frameworks⁷ 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:

⁷ Committee of Sponsoring Organizations of the Treadway Commission.

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

1	People:	Effective staff learning and skill development – Engaged workforce supported by capable leaders promoting a culture of commitment, communication & accountability – Appropriately planned workforce – Effective talent acquisition and management.
2	Partnerships:	Strategic and operational partnerships fostered – Partnership objectives achieved – UN system coherence and effectiveness improved – Effective governance of WFP is facilitated.
3	Processes & Systems:	High quality programme design and timely approval – Cost efficient supply chain enable timely delivery of food assistance – Streamlined and effective business processes and systems – Conducive platforms for learning, sharing and innovation.
4	Programmes:	Appropriate and evidence based programme responses – Alignment with Government priorities and strengthened national capacities – Lessons learned and innovations mainstreamed – Effective communication of programme results and advocacy.
5	Accountability & Funding:	Predictable, timely and flexible resources obtained – Strategic transparent and efficient allocation of resources – Accountability frameworks utilised – Effective management of resources demonstrated.

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.⁸

⁸ 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.

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.

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

CD	Country Director
CO	Country Office
ERP	Enterprise Resource Planning System
ICT	Information Communication and Technology
IPSAS	International Public Sector Accounting Standards
SPR	Special Project Report
UN	United Nations
UNHRD	United Nations Humanitarian Response Depot
WINGS	WFP's Corporate Enterprise Resource Planning System
WFP	World Food Programme