Internal Audit of WFP's Internal Control Assurance Process 2013

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

WFP

World Food Programme

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Contents

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I. Executive Summary

Introduction

1.   As part of its annual work plan for 2014, the Office of Internal Audit conducted an audit of WFP's Internal Control Assurance Process for 2013, which included a review of the 2013 assurance statements from ten entities in headquarters and the field; and of evidence of reviews conducted by their respective Regional Bureaux or reviewing entities.

2.   The following ten entities reviewed were selected from those classified as low-risk in the Office of Internal Audit's annual work plan: Bhutan Country Office; Cuba Country Office; Djibouti Country Office; Ecuador Country Office; El Salvador Country Office; Senegal Country Office; Turkey Country Office; Zambia Country Office; Cairo Regional Bureau; and the Nutrition Advisory Office.

3.   WFP's Internal Control Assurance Process 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. Now in its third year since implementation in 2011, the framework builds on the lessons learned in 2012 and 2013 when WFP presented its first two Statements on Internal Control with the annual financial statements. The Statement on Internal Control is signed by the WFP Executive Director, and is based on assurance provided by annual Assurance Statements on the effectiveness of internal control. Assurance Statements are provided by all Deputy Executive Directors, Country and Regional Directors, Liaison Office Directors and headquarters Division Directors.

4.   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

5.   Based on the results of the review, the Office of Internal Audit has come to an overall conclusion of **satisfactory**. Conclusions by internal control components are summarized in Table 1:

Table 1: Summary of conclusions by Internal Control Components

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

Key Results of the Audit

Positive practices and initiatives

6.   As for 2012, the Business Innovation and Support Unit again achieved a 100 percent submission rate of assurance statements by reporting entities.

7.   In comparison to prior years further improvement was observed in the implementation of enterprise risk management practices as demonstrated by the assurance statements of the selected entities reviewed, including the presence of systems for risk identification and the completion of Risk Registers. The sample of entities reviewed also showed an increase in the completion rate of Emergency Preparedness and Response Packages (EPRP), approximately consistent with the overall reported rate of EPRP implementation in 2013 of 92 percent.

8.   A new question was introduced into the assurance statement for 2013 concerning awareness of WFP's policy on gender equality and women's empowerment. Positive responses to this question were provided by all of the entities reviewed.

9.   There was consistency in the number of entities that completed the internal control and functional area self-assessment checklists (80 percent of the sample reviewed, compared to 76 percent in 2012); these figures are a marked increase on the rate of 50 percent in 2011. As part of the assurance statement completion process for 2013 the importance of these checklists in the thorough assessment of internal controls was highlighted. More than half of the entities reviewed who completed self-assessment checklists also completed a mid-year review of the checklist.

Audit observations

10. No high-risk observations arose from the audit. The audit report contains five medium-risk observations.

Action agreed

11. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations. Work is in progress to implement the five agreed actions by 30 September 2014.

12. 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

Internal Control Assurance Process 2013

13. The last decade was marked with large corporate failures and scandals resulting from lapses in the overall control consciousness of their management. This drew attention towards controls functioning and ownership, resulting in a requirement on management to provide an annual statement on the effectiveness of internal controls in a number of organisations.

14. Among the different frameworks developed to address the objective of implementing and assessing internal controls, was the COSO's Internal Control Integrated Framework, which is now widely acknowledged and used.

WFP'S Internal Control Framework

15. WFP's Executive Board laid the foundation for the Strengthening of Managerial Control and Accountability initiatives within the 2010–2011 Management Plan by approving the implementation of the COSO principles of internal control. These principles have been adapted to meet WFP's operational environment and structure.

16. In 2014 WFP presented the third Statement on Internal Control, based on the Internal Control Assurance Process, with its annual financial statements for 2013. The Statement on Internal Control, presented and signed by the Executive Director, is based on assurance provided by annual Assurance Statements on the effectiveness of internal control. Assurance Statements are provided by all Deputy Executive Directors, Country and Regional Directors, Liaison Office Directors and headquarters Division Directors.

Objective and scope of the audit

17. The objective of the audit was to evaluate and test the adequacy and effectiveness of the processes associated with WFP's Internal Control Framework, 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.

18. 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 an approved planning memorandum and took into consideration a risk assessment exercise carried out prior to the audit.

III. Results of the audit

19. In performing the audit, the following positive practices and initiatives were noted:

Table 2: Positive practices and initiatives

1. Internal environment

- As in the previous year, the Business Innovation and Support Unit again achieved a 100 percent submission rate of assurance statements by reporting entities.

- The use of self-assessment checklists was highlighted and encouraged as part of the account closure process for 2013.

- There was consistency in the high percentage of reporting entities completing internal control self-assessment checklists in 2013 compared to 2012. More than half of entities reviewed who completed a self-assessment checklist in 2013 also conducted a mid-year review of the checklist.

- A high rate of positive responses was observed to a new question introduced into the assurance statement for 2013 concerning awareness of WFP's policy on gender equality and women's empowerment.

- Staff performance appraisals completion rates improved further in 2013 compared to 2012.

2. Risk Assessment

- Further improvement was observed in enterprise risk management practices, including the presence of systems for risk identification, completion of Risk Registers, and implementation of Emergency Preparedness and Response Packages.

20. 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
1. Internal environment	Medium
2. Risk assessment	Low
3. Control activities	Low
4. Information and communication	Low
5. Monitoring	Medium

21. Based on the results of the audit, and in the context of the evolving nature of WFP's Internal Control Assurance Process, the Office of Internal Audit has come to an overall conclusion of **satisfactory**[1].

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

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

Action agreed

23. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations. Work is in progress to implement the five agreed actions by 30 September 2014[2].

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

Table 4: Medium-risk observations

	Observation	Agreed action	Risk categories[3]	Underlying cause category	Owner	Due date
Internal Environment						
1	**Internal Control Assurance Process:** Question structure in Assurance Statements – The structure of Assurance Statement questions only allows for a yes or no response, and as such there is no ability to capture less than complete agreement with a particular assertion. Consolidated responses may present a more favourable view of the presence and effectiveness of internal controls than is actually the case.	Review the options available for changing the type of responses provided in the Assurance Statement, and consider replacing yes/no responses with a request to indicate an estimated implementation rate or level of compliance.	Strategic Processes & Systems Institutional	Best practice	Business Innovation and Support Office	30 September 2014
2	**Internal Control Assurance Process:** Completion of Review Cover Sheets – The audit noted inconsistencies between responses provided in Review Cover Sheets completed by Regional Bureaux to evidence first-level reviews of Assurance Statements and other evidence examined, and between the level and nature of detail provided in Review Cover Sheets in relation to the entities reviewed. As such Review Cover Sheets may not always accurately represent the process and content of first-level reviews, and may not provide full and readily comparable information to second-level reviewers.	Develop guidance to assist in developing or deepening understanding of the completion of Review Cover Sheets. Such guidance should seek to encourage consistency in the level of detail and nature of information provided.	Strategic Processes & Systems Institutional	Guidelines	Business Innovation and Support Office	30 September 2014

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

	Observation	Agreed action	Risk categories[3]	Underlying cause category	Owner	Due date
3	**Internal Control Assurance Process:** Segregation between approval of Assurance Statements and Review Cover Sheets – The audit noted an instance where the same person signed off on both an Assurance Statement and the corresponding Review Cover Sheet. Such a lack of segregation limits the value of the review process, and also limits the extent to which awareness of- and accountability for- internal controls is encouraged at an entity level.	Provide guidance and clarification on who should sign the assurance statement to ensure that this is the person responsible and accountable for internal controls.	Strategic Processes & Systems Institutional	Guidelines	Business Innovation and Support Office	30 September 2014
4	**Internal Control Assurance Process:** Follow-up on completion of Self-Assessment Checklists (SACs) – Although a high proportion of entities completed internal control SACs, the audit observed notable differences in the completeness and level of detail included. Although the SAC template provides a template for an action plan to be developed, only a minority of entities reviewed showed evidence of using completed SACs to develop action plans to address areas identified as requiring strengthening. In addition, there were no formal mechanisms in place to require or allow supervising entities such as Regional Bureaux to monitor completion of SACs and implementation of identified actions.	Develop procedures to further encourage the development of actions plans in response to issues identified in SACs, and to encourage supervising entities to monitor the implementation of these actions.	Strategic Processes & Systems Institutional	Guidelines	Business Innovation and Support Office	30 September 2014

Observation	Agreed action	Risk categories[3]	Underlying cause category	Owner	Due date
Monitoring					
5 **Internal Control Assurance Process:** Assessment of effectiveness of operational monitoring – Country Offices were asked to state in Assurance Statements whether they have effective operational monitoring systems in place. Responses to this question were overwhelmingly positive, however the audit noted limited evidence to support positive responses in several cases reviewed. It appears that there may be varying interpretations of the term "effective", which is not clearly defined in the Assurance Statements or in other related documents. There is no reference in guidance available to the introduction of new monitoring tools and initiatives which may be used to assess whether systems are in fact effective. Moreover, a dedicated Functional Area Self-Assessment Checklist for monitoring is not available.	Review Assurance Statements and Self-Assessment Checklists to include more specific guidance on how to assess the effectiveness of operational monitoring systems and to reflect finalisation of the Monitoring and Evaluation Strategy during 2014. Give consideration to developing a Functional Area Self-Assessment Checklist addressing operational monitoring.	Strategic Processes & Systems Institutional	Guidelines	Business Innovation and Support Office	30 September 2014

Annex A –Definitions 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 frameworks and the Standards of the Institute of Internal Auditors

1	Strategic:	Achievement of the organization's strategic objectives.
2	Operational:	Effectiveness and efficiency of operations and programmes including safeguarding of assets.
3	Compliance:	Compliance with laws, regulations, policies, procedures and contracts.
4	Reporting:	Reliability and integrity of financial and operational information.

A 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	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 though 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 for complying with prescribed WFP regulations, rules and procedures.
2	Guidelines	Need for improvement in written policies, procedures or tools for guiding staff in the performance of their functions.
3	Guidance	Need for better supervision and management oversight.
4	Resources	Need for more resources (funds, skills, staff, etc.) to carry out an activity or function.
5	Human error	Mistakes made by staff entrusted to perform assigned functions.
6	Best practice	Opportunity for improvement to achieve recognized best practice.

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.[4]

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 effect 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.

4. Monitoring the implementation of agreed actions

A 8.   The Office of Internal Audit tracks all high and medium-risk observations. Implementation of agreed actions will be monitored through the Office of Internal Audit's electronic system to ensure that actions agreed with management are effectively implemented within the agreed timeframe so

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[4] 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.

as to manage and mitigate the associated risks identified, thereby contributing to the improvement of WFP's operations.

5. 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

COSO   The Committee of Sponsoring Organizations of the Treadway Commission

EPRP   Emergency Preparedness and Response Packages

SAC   Self-Assessment Checklist

WFP   World Food Programme