

Internal Audit of WFP Operations in Pakistan

Office of the Inspector General
Internal Audit Report AR/14/16



World Food Programme

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Internal Audit of WFP Operations in Pakistan

I. Executive Summary

Introduction






1. As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP operations in Pakistan. WFP's Direct Expenses in Pakistan in 2012 totalled USD 256 million, representing 6.2 percent of WFP's total Direct Expenses for the year. The audit focused on activities from 1 January 2013 to 31 December 2013 and selected activities between July 2012 and December 2012 and January to March 2014. It included field visits to various locations in Pakistan 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 **partially satisfactory**. Conclusions are summarised in Table 1 by internal control components:

Table 1: Summary of conclusions by Internal Control Components

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

Key Results of the Audit

Positive practices and initiatives

4. The audit noted some positive practices and initiatives, such as the Country Office's commitment to quality control in its service delivery; deeper penetration of the Community Management of Acute Malnutrition (CMAM) programme for children under 5 years of age in the high security risk of Federally Administered Tribal Areas (FATA) region and Baluchistan province; and the development of a database to facilitate and track the Country Office's monitoring activities. The database will enable a cross-cutting electronic linkage of the main business operating systems when it is fully implemented.

Audit observations

5. The audit report contains two high-risk observations and ten medium-risk observations. The high-risk observations are:

Property, Plant and Equipment: Light trucks and boats purchased in 2011 and initially meant for donation to the Government were in the WFP warehouse and not in use. This tied down valuable cash flows which could have been used for other operational purposes. Further, the Country Office surrendered some of the boats and trucks as donations to the Government before the Government had signed the Memorandum of Understanding (MOU) to transfer the legal ownership of the assets. This exposed WFP to the continued risk of liability.

In-country Monitoring: The Country Office contracted third party monitoring organisations to conduct monitoring activities on its behalf in Baluchistan province and FATA region because of the level 4 and 5 UN security status respectively. When the service contracts of the third party monitors expired, there was a delay in the procurement process to contract new third party monitors. This resulted in the distribution of WFP food commodities without monitoring activities operating at full capacity. The Country Office explained that WFP monitoring staff and its Government counterparts conducted ad-hoc oversight monitoring missions. This exposed the Country Office to the risk that errors, omissions or inconsistencies in project implementation would not be detected and corrected on a timely basis. At the time of the audit, the Country Office was in the process of extending the original third party contracts pending the finalisation of the procurement process.

Actions agreed

6. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations. 5 of the 12 agreed actions have been implemented and work is in progress to implement the others.

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



David Johnson
Inspector General

II. Context and Scope

Pakistan

8. Pakistan is a lower middle-income country and is ranked 146th out of 187 countries on the United Nations Development Programme's Human Development Index. Pakistan has an estimated population of 180 million and is located in an unstable and sensitive region. Since 2008, security operations in the north-west of the country have led to major population displacements and significant social and financial impact. In particular, recovery is hampered in the volatile Federally Administered Tribal Areas (FATA), and one million internally displaced persons (IDPs) are living in camps or host communities.

9. The 2012 Global Hunger Index (GHI) describes the level of hunger in Pakistan as "serious" and ranked the country 68th out of 79 countries. Over the past several years, despite a relatively comfortable situation in the national production of staple commodities, food security and under-nutrition in Pakistan have declined. Food insecurity is primarily attributable to limited economic access by the poorest and most vulnerable due to an adequate and diverse diet. Notwithstanding geographic disparities in availability of food, access and utilisation are shown to be key constraints impacting food and nutrition security for many. Thirty-two percent of Pakistanis are consuming less calories than the Minimum Dietary Energy Requirement (MDER) of 1,740 Kcal per person per day, and sixty-one percent of the population experiences protein deficiency. However, there is indication of some improvement in the caloric consumption compared to 2010-11.

WFP Operations in Pakistan

10. WFP has been present in the country since 1968 and is the largest humanitarian agency providing food assistance in Pakistan. WFP collaborates closely with the Government of Pakistan's Ministry of National Food Security and Research to implement the 'Right to Food' principle for all Pakistanis.

11. In light of the recurrent natural disasters and the continued security situation in the north-west of Pakistan, WFP activities were primarily focused on food assistance to the displaced population while also emphasising community resilience, disaster risk reduction, disaster risk management and preparedness elements with a view to sustainability and national ownership. To this end, WFP worked closely with the Government at both the federal and provincial levels and jointly assessed, analysed and aligned its strategy with national priorities to address food and nutrition security as well as enhance national disaster preparedness and response.

12. For example, in 2012, Pakistan's Sindh and Baluchistan provinces were hit by monsoon floods. According to the Government, and taking into account similar incidents in the previous three years, 451 people were killed and nearly five million people were affected. Further, the floods damaged more than 1.1 million acres of agricultural land, and almost 400,000 houses were partially or completely destroyed. WFP - through its logistics unit - immediately responded to the urgent food needs of 20,000 families in Jacobabad, Naseerabad and Jafferabad districts with over 1,100 MT of emergency commodities. In addition, with the use of its trucks, tractors and boats, WFP supported the Government's search and rescue operations and continued to deliver available food rations to distribution points. This demonstrated that WFP's activities in Pakistan consistently targeted the needs of the population prior to, during, and at the end of the assistance period.

13. During the audit period, the Country Office managed and implemented the following projects:

- Protracted Relief and Recovery Operation (PRRO) 200250: for the period 2013 to 2015 with a budget of USD 535 million. The PRRO's objective was to enhance food and nutrition security within vulnerable groups, rebuild social cohesion in FATA region and fight malnutrition in the most food-insecure districts. The PRRO complemented existing government programmes, supported achievement of the Millennium Development Goals (MDG) and was aligned with the strategic priorities identified in the Humanitarian Operational Plan and the One-UN Operational Plan II for Pakistan. The funding for the project as of December 2013 was USD 235.6 million and it aimed to reach 8,346,676 beneficiaries.
- Special Operation (SO) 200181: for the period 2010 to 2014 with a budget of USD 83.8 million. The objective of the operation was to develop a network of Humanitarian Response Facilities (HRF) to augment the emergency and disaster response capacity of the Government and the humanitarian community in Pakistan. The project included the installation of HRF in seven designated strategic locations at the provincial level. These facilities would be managed by the Government's Provincial Disaster Management Authorities (PDMAs) and would store disaster relief equipment. The funding for the project as of December 2013 was USD 47 million.

14. WFP's Direct Expenses in Pakistan in 2012 totalled USD 256 million, representing 6.2 percent of WFP's total Direct Expenses for the year.

Objective and Scope of the Audit

15. 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 Pakistan. 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.

16. 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.

17. The scope of the audit covered WFP's operations in Pakistan from 1 January 2013 to 31 December 2013 and selected activities between July 2012 and December 2012 and January to March 2014. Where necessary, transactions and events pertaining to other periods were reviewed. The audit field work took place between 24 February to 14 March 2014 in Islamabad and various other locations in Pakistan.

III. Results of the Audit

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

Table 2: Positive practices and initiatives

1. Internal Environment

- The Country Office developed a Beneficiaries Feedback database which tracked the verification process of beneficiaries and other complaints. This demonstrated the Country Office's commitment to quality control in the delivery of its services.
- The majority of the Country Office staff had been employed for 5 years or more and showed a commendable, consistent dedication to implement WFP activities in all parts of the country, including level 4 and 5 UN security areas.

2. Risk Management

- The Country Office had a detailed risk register that highlighted key risks in the organisation and which was reviewed and updated bi-annually.

3. Control activities

- The Country Office's decision to use the Government's Lady Health Workers' system resulted in deeper penetration of the Community Management of Acute Malnutrition (CMAM) programme of children under 5 in the communities within level 5 and 4 UN security rated FATA region and Baluchistan province, respectively.
- The Pakistan Country Office managed all commodities, transport and logistics activities on behalf of the Afghanistan Country office within Pakistan, which prevented duplication of activities and demonstrated stewardship in managing WFP resources.
- Extensive security briefings including presentation tailored to the specific work areas of Country Office visitors were provided by the Country Office team.

4. Information and Communication

- The Information and Communication team was very experienced and was able to ensure network connectivity in all WFP operational areas including the level 4 and 5 UN security rated districts.

5. Monitoring

- The Country Office developed the 'WOW' Monitoring database, which, when fully implemented, would enable a cross-cutting electronic linkage of the main business operating systems (WINGS, COMPAS/LESS and WOW).
 - The WOW database generated independent and objective samples for most of WFP Field monitoring activities which enhanced the segregation of duties environment in the monitoring process.
-

19. 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 | |
| Corporate organisational and reporting structure | Low |
| Delegated authority | Low |
| Strategic planning and performance accountability | Low |
| Assurance statement | Low |
| 2. Risk management | |
| Enterprise risk management | Low |
| Emergency preparedness and response | Low |
| 3. Control activities | |
| Finance and accounting | Low |
| Programme management | Medium |
| Transport and logistics | Medium |
| Commodity management | Medium |
| Procurement | Medium |
| Human resources | Medium |
| Property and equipment | High |
| Administration and travel | Low |
| Security | Medium |
| Resource Mobilisation | Medium |
| Information and Communications Technology | Low |
| 4. Information and communication | |
| Internal Communication | Low |
| External Communications | Low |
| 5. Monitoring | |
| In-country Monitoring | High |
| Corporate Monitoring | Medium |

20. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory**¹.

21. The audit report makes two high-risk observations, which are explained in detail in Section IV. Ten medium-risk observations arose from the audit. Tables 4 and 5 below present the high and medium risk observations, respectively.

Action agreed

22. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations. 5 of the 12 agreed actions have been implemented and work is in progress to implement the others².

¹ See Annex A for definitions of audit terms.

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

Table 4: Summary of high-risk observations (see Section IV for detailed assessment)

| Observation | Agreed action | Risk categories | Underlying cause category | Owner | Due date |
|---|---|--|---------------------------|-------------------------|-------------|
| Control Activities | | | | | |
| 1 Property, Plant and Equipment: Light trucks and boats purchased in 2011 and initially meant for donation to the Government were in the WFP warehouse and not in use. This tied down valuable cash flows which could have been used for other operational purposes. Further, the Country Office surrendered some of the boats and trucks as donations to the Government before the Government had signed the Memorandum of Understanding (MOU) which transfers the legal ownership of the assets. This exposed WFP to the continued risk of liability in case of incidents. | The Country Office (CO) will: (i) Enhance internal communication between the CO functional units dealing with the donation of vehicles and boats to the Government; and (ii) Continue in its follow-up efforts to ensure that the Government of Pakistan signs the MOU as soon as possible. | Compliance Accountability and Funding Contextual | Guidance and Compliance | Pakistan Country Office | Implemented |
| Monitoring | | | | | |
| 2 In-country Monitoring: The Country Office contracted third party monitoring organisations to conduct monitoring activities on its behalf in Baluchistan province and FATA region because of the level 4 and 5 UN security status, respectively. When the service contracts of the third party monitors expired, there was a delay in the procurement process to contract new third party monitors. This resulted in the distribution of WFP food commodities without monitoring activities operating at full capacity. The Country Office explained that WFP monitoring staff and its Government counterparts conducted ad-hoc oversight monitoring missions. This exposed the Country Office to the risk that errors, omissions or inconsistencies in project implementation would not be detected and corrected on a timely basis. At the time of the audit, pending the finalisation of the procurement process, the Country Office was in the process of extending the original third party contracts. | The Country Office will: Identify bottlenecks that led to the delay in finalising the third party monitoring contracts and formulate lessons learned which should be implemented to ensure that no breaks occur at the end of the future monitoring service contracts. | Operational Processes and Systems Institutional | Human Error | Pakistan Country Office | Implemented |

Table 5: Medium-risk observations

| Observation | Agreed action | Risk categories | Underlying cause category | Owner | Due date |
|---|--|---|---------------------------|----------------------------|-------------------|
| Control Activities | | | | | |
| 3 Programme Management: School Feeding Closing Stocks – A review of the Project Management Unit distribution reports in 2013 revealed some inconsistencies between stock balances and the Country Office monitoring data for the same period. This gave rise to the risk that some of the reported stock balances may not be accurate. | The Country Office will: (i) Assess the skills and potential knowledge gap both at the school and the Project Management Unit (PMU) levels and provide capacity building tools to enable the effective reporting of closing food stocks; and (ii) Design and implement a closing stock reporting mechanism to enable the collection of closing stock data. | Operational Programmes Programmatic | Guidelines | Pakistan Country Office | 30 September 2014 |
| 4 Transport and Logistics: Demurrage and Detention - Demurrage and detention charges were incurred by the Country Office because of delays in processing exemption certificates for taxes on imported commodities. This was due to changes in documentation requirements by the Government. This tied down valuable cash flows which could have been used for core programme activities. Further, invoices from transporters contracted by the Country Office for port operations lacked supporting documentation which enabled the validation of invoiced activities. | The Country Office will: (i) Continue its efforts in engaging the authorities to obtain the required process exemptions to reduce the time taken to process Exemptions Certificates; (ii) Coordinate with the UN Resident Coordinator to continue raising this concern to higher authorities in the Government; and (iii) Require the transporters to attach supporting documentation to justify the port activities in their invoices. | Operational Accountability and Funding Contextual | Resources | Pakistan Country Office | Implemented |

| Observation | Agreed action | Risk categories | Underlying cause category | Owner | Due date |
|--|--|--|---------------------------|--------------------------------|--------------------------|
| <p>5 Transport and Logistics: Construction of warehouses – Special Operation 200181 was a project in response to the 2010 Pakistan floods and initially did not include warehouse construction. The termination of United Nations Humanitarian Air Service (UNHAS) operations in 2011 resulted in a surplus of funds which were allocated to warehouse construction in a budget revision under the same project. The audit noted miscellaneous internal control weaknesses in the Country Office’s planning and management process for warehouse construction. In addition, the Government counterpart experienced delays in securing the land for construction. These factors had an impact on the efficiency and effectiveness of the project’s implementation.</p> | <p>The Country Office will: (i) Determine the lessons learned based on the observations raised by audit. Going forward, ensure that remedial actions are identified and incorporated in the implementation of current and future construction projects; and (ii) Continue its fund-raising efforts to attain the funding needs of the Special Operations before its completion in June 2014.</p> | <p>Operational Accountability and Funding Institutional and Contextual</p> | <p>Guidelines</p> | <p>Pakistan Country Office</p> | <p>Implemented</p> |
| <p>6 Commodity Management: Milling – Wheat flour was the main food commodity distributed by the Country Office under the PRRO. In 2013, wheat flour represented 58 percent of the total food commodities distributed by WFP in the Pakistan. However, the Country Office’s milling strategy was not aligned to its current operational needs. In some areas, the millers’ premises were not in close proximity to the anticipated distribution sites. The time taken to transport the wheat flour to the distribution points contributed to a shortened consumption period. Further, updated copies of Millers’ business licenses were not maintained. In addition, one case was noted in which wheat stocks sent by WFP to a miller for processing in 2011 was not returned, nor were any payments made to WFP as reimbursement.</p> | <p>The Country Office will: (i) Review and update the milling strategy to reflect the current operational requirements; (ii) Ensure that the Millers’ latest business licenses are obtained and maintained; and (iii) Consult HQ Legal to determine the most expeditious strategy to recover the wheat stocks or its cash equivalent.</p> | <p>Operational Processes and Systems Programmatic</p> | <p>Guidelines</p> | <p>Pakistan Country Office</p> | <p>30 September 2014</p> |

| Observation | Agreed action | Risk categories | Underlying cause category | Owner | Due date |
|---|---|--|---------------------------|-------------------------|------------------|
| 7 Commodity Management: Handling and distribution of commodities in FATA region – Contrary to the terms of the warehouse management contract with WFP, the Cooperating Partner provided non-WFP waybills to transporters who distributed WFP commodities. | The Country Office will: Amend the contract with the Cooperating Partner to reflect the operational realities. | Compliance Accountability and Funding Contextual | Compliance | Pakistan Country Office | 31 October 2014 |
| 8 Commodity Management: Commodity Management – Gift-in-kind re-packaged Wheat Soya Blend (WSB), was declared unfit for human consumption, most probably because of inadequate re-packaging in Pakistan. The WSB was subsequently approved for sale as animal fodder. Management immediately informed the donor of the loss and developed re-packaging procedures and standards for future use by the Country Office re-packaging contractors. However, WFP was exposed to the risk of distributing unfit commodities and to reputational risks. | The Country Office will: Enforce the remedial actions determined by the Country Office, including supervision throughout the re-packaging process. | Operational Processes and Systems Programmatic | Guidance and Guidelines | Pakistan Country Office | Implemented |
| 9 Procurement: Procurement process of food and services – (i) Miscellaneous internal control weaknesses were noted in the management and maintenance of the Country Office's vendors' and transporters' rosters; (ii) The Country Office did not develop a comprehensive food procurement plan as required by the procurement manual, but recognised the need for one; (iii) The notes of the Local Food Procurement Contract Committee (LFPCC) were incomplete in some areas; and (iv) Inconsistencies in the performance evaluation process of service providers were noted. | The Country Office will: (i) Maintain updated documents of the vendors and transporters registered in the CO roster; (ii) Ensure that vendors in the roster are registered in the Intend database; (iii) Develop a comprehensive and consolidated procurement plan and perform periodic analysis of planned vs. actual procurements and obtain justifications from requesting units for significant differences; (iv) Clearly document the basis of decisions of the LFPCC; and (v) Obtain feedback from requesting units during vendor performance evaluations. | Compliance Processes and Systems Programmatic | Compliance | Pakistan Country Office | 31 December 2014 |

| Observation | Agreed action | Risk categories | Underlying cause category | Owner | Due date |
|--|--|--|---------------------------|-------------------------|------------------|
| 10 Security: Redacted | Redacted | Compliance Process and Systems Institutional | Compliance | Pakistan Country Office | 31 October 2014 |
| 11 Human Resources: Improvements in the Human Resources Process - Authenticity checks on prospective employees' educational certificates were not conducted as part of the Country Office's recruitment process. Further, 30 percent of sampled staff members had leave balances above the prescribed threshold in the HR Manual. | The Country Office will: (i) Develop verification procedures for prospective employee candidates' academic and professional credentials as part of the CO recruitment process; and (ii) Review the annual leave balance position of its local staff and enforce the implementation of the existing annual leave plan to ensure compliance with the prescribed limits in the WFP Human Resources Manual. | Compliance People Institutional | Compliance | Pakistan Country Office | 31 December 2014 |
| 12 Monitoring: Lady Health Workers (LHW) Modality - LHW under the CMAM programme were responsible for the entire programme operational cycle for the children under 5 in their communities. LHW lacked adequate monitoring oversight and tracking at the Project Management Unit (PMU), Health Centre Supervisors, and WFP monitoring levels. This gave rise to the risk that errors, omissions and/or fraud would not be detected on a timely basis. | The Country Office will: Take measures to strengthen the monitoring controls over the Lady Health Worker Modality. These measures will include the following: (i) Establishment of detailed monitoring and supervision standards and reporting requirements to WFP by PMU and Health Centre supervisors over the LHW; (ii) Creation of separate, monitoring sample selection components, monitoring questionnaires and tracking and reporting mechanisms for LHW in the WOW monitoring tracking database; and (iii) Introduction of transportation and food storage guidelines for LHWs. | Operational Processes and Systems Programmatic | Guidance | Pakistan Country Office | 31 October 2014 |

IV. Detailed assessment

Control Activities**High Risk****Observation 1 Property, Plant and Equipment: Assets for Donation**

23. The Country Office purchased light trucks and boats between June and November 2011 through the Other Direct Operational Costs (ODOC) budget line as donations to the Government of Pakistan.

24. At the time of the audit, although some of the trucks and boats had been handed over to the Government's State Disaster Management Authority (SDMA) and National Disaster Management Authority (NDMA) respectively, the Memorandum of Understanding (MOU) that transferred ownership of these assets to the Government had not yet been signed by the Government. This exposed WFP to the continued risk of liability in case of incidents.

25. The remaining trucks and boats, were still in WFP's possession and stored in WFP warehouses. This tied down valuable cash flows which could have been used for other operational purposes.

Underlying cause of observation: Guidance Compliance: Delays in finalising the Memorandum of Understanding with the Government of Pakistan. Lack of communication between Country Office functional units to determine the status and subsequent accounting treatment of the assets

Implication: The Country Office's cash flows which could have been used for other operational purposes were locked in unutilised assets that were not being utilised. The risk of WFP liability in case of incidents during the use of the donated assets by the Government

Policies, procedures and requirements: Best Practice, IPSAS (International Public Sector Accounting Standards).

Agreed action: (i) Enhance internal communication between the CO functional units dealing with the donation of vehicles and boats to the Government; and (ii) Continue in its follow-up efforts to ensure that the Government of Pakistan signs the MOU as soon as possible.

Due Date: Implemented.

Monitoring

High Risk

Observation 2 In-Country Monitoring: 2014 monitoring in FATA and Baluchistan

26. WFP monitoring activities were conducted by WFP monitoring staff in all parts of Pakistan.
27. However, the Country Office contracted third party monitoring organisations to conduct monitoring activities on its behalf in FATA region and Baluchistan province because of the level 5 and 4 UN security status, respectively. WFP conducted monitoring oversight over third party monitors when the security situation allowed.
28. When the service contracts of the two Third Party Monitoring organisations ended, there was a delay in the procurement process to contract new third party monitors. During this period, food distributions continued without monitoring activities operating at full capacity in these locations. The Country Office explained that WFP monitoring staff and its Government counterparts conducted ad-hoc oversight monitoring missions. However, by the time of the audit, the Country Office had not compiled and analysed the extent of the ad-hoc monitoring conducted. This exposed the Country Office to the risk that errors, omissions or inconsistencies in project implementation would not be detected and/or corrected on a timely basis.
29. At the time of the audit (March 2014), the Country Office was in the process of extending the original third party contracts pending the finalisation of the procurement process. In the meantime, an extension of two months would be given to the original third party monitors.

| | |
|---|--|
| Underlying cause of observation: | Human Error: Delays in completing the third party tendering process |
| Implication: | Inadequate monitoring coverage creating the risk that errors and omissions in project activities will not be detected on a timely basis. |
| Policies, procedures and requirements: | Country Office Monitoring Plans. |
| Agreed action: Identify bottlenecks that led to the delay in finalising the third party monitoring contracts and formulate lessons learned which should be implemented to ensure that no breaks occur at the end of future monitoring service contracts. | |
| Due Date: Implemented. | |

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 recognises 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 frameworks³ and the Standards of the Institute of Internal Auditors

| | | |
|---|--------------|---|
| 1 | Strategic: | Achievement of the organisation’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. |

³ 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 categorisation of audit observations

A 6. The audit observations were categorised 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: Categorisation 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 medium and high-risk observations. Implementation of agreed actions will be verified through the Office of Internal Audit’s system for the monitoring of the implementation of agreed actions. The purpose of this monitoring system is to ensure management

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.

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.

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

| | |
|-------|--|
| CO | Country Office |
| COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| CMAM | Community Management of Acute Malnutrition |
| FATA | Federally Administered Tribal Areas |
| GAM | Global Acute Malnutrition |
| GHI | Global Hunger Index |
| HRF | Humanitarian Response Facilities |
| IDP | Internally Displaced Person |
| IO | International Organisation |
| IPSAS | International Public Sector Accounting Standards |
| LFPPC | Local Food Procurement Contract Committee |
| LHW | Lady Health Worker |
| MDG | Millennium Development Goals |
| MDER | Minimum Dietary Energy Requirement |
| NGO | Non-government Organisation |
| NDMA | National Disaster Management Authority |
| ODOC | Other Direct Operational Costs |
| PDMA | Provincial Disaster Management Authority |
| PRRO | Protracted Relief and Recovery Operation |
| SDMA | State Disaster Management Authority |
| SO | Special Operation |
| SOP | Standard Operating Procedure |
| UN | United Nations |
| UNHAS | United Nations Humanitarian Air Service |
| WFP | World Food Programme |
| WHO | World Health Organization |
| WSB | Wheat Soya Blend |