

Internal Audit of Cash and Voucher Modalities in the Field – Project Design and Set Up

Office of the Inspector General
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World Food Programme



Contents

		Page
I.	Executive summary	3
II.	Context and Scope	6
III.	Results of the Audit	8
IV.	Detailed assessment	22
	Annex A – Definition of Audit Terms	24
	Annex B – Acronyms	27

Internal Audit of Cash and Voucher modalities in the field – Project design and set up

I. Executive Summary

Introduction

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of Cash and Voucher (C&V) modalities in the field. The audit focused on activities from 1 January 2013 to 31 January 2014, and also noted events prior and subsequent to this period where necessary. The audit encompassed a review of business processes and testing of internal controls in ten Country Offices (COs) where C&V modalities of food assistance have been implemented.






2. This report focuses on audit observations relevant to the project design and setup phases of the C&V business process, whether these be cross cutting to all modalities or specific to one of the cash or voucher modalities of food assistance, including cash account, immediate cash, paper and electronic voucher distribution models. A second report will be issued to cover the audit findings for the distribution cycle and intervention closure phases of the business process.

3. The audit was carried out in conformance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Audit Conclusions

4. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory**¹. 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	Medium	
2. Risk management	Medium	
3. Control activities	High	
4. Information and communication	Medium	
5. Monitoring	Medium	

¹ See Annex A for definitions of audit terms.

Key Results of the Audit

Positive practices and initiatives

5. The audit noted positive practices and initiatives, including the strengthening of WFP's corporate capacity to support C&V interventions in the field, alignment of C&V interventions with WFP's transition from food aid to food assistance and existing host government policies, support of C&V interventions by governments, beneficiaries and donors, improved rates of utilization of transfers by beneficiaries, rapid deployment of C&V food assistance modalities during emergencies, and opportunities for improved monitoring.

Audit conclusions

6. C&V transfer modalities allow WFP to exercise programmatic flexibility and enable the rapid deployment and scale up of food assistance in emergencies while leveraging existing organizational capabilities and expertise. These modalities also bring about opportunities for efficiency gains while at the same time improving access to food and nutrition by beneficiaries and providing support to the local economies.

7. These opportunities have brought about new challenges as WFP adapts to ways of delivering assistance through markets and commercial partners. As C&V policies and business processes evolved from the pilot stages, and while WFP has been effective at developing broad policies for C&V, detailed guidelines and tools have lagged behind the rapid scale up of C&V modalities in the field. Functional units in the field have been pressed to adapt and align themselves to their new roles and responsibilities in the face of rapid change, leading to challenges in the implementation and mainstreaming of effective risk management, internal controls and monitoring practices specific to C&V modalities.

8. At the corporate level WFP has gained considerable experience in its use of C&V modalities and has gradually augmented its capacity to provide support to field operations by creating specialized corporate units. Nevertheless, the supply chain function and IT systems need strengthening and investments to support the continued scale up of C&V modalities going forward.

9. Further to adjustments in internal processes, the delivery of food assistance through the market has increased WFP's reliance on external supply chains and outsourced service providers. This reliance has created a demand for stronger corporate and field-level capacities in the assessment, risk analysis and procurement of financial and retailer services. These factors posed the highest risk to the scale up of C&V interventions in a controlled and cost efficient manner.

10. The nature of C&V interventions and ensuing reduced contact with beneficiaries also require WFP to review and bolster programme implementation internal controls and monitoring processes, including beneficiary complaint and response mechanisms, food quality and safety, as well as the monitoring of food prices, markets and transfers to beneficiaries, and Cooperating Partner's performance monitoring and evaluation.

11. The review of internal controls for C&V business processes yielded audit observations and agreed actions that are applicable to all types of food assistance, including in-kind transfer modalities. In particular, we noted opportunities for improving the analysis of cost efficiency and effectiveness, monitoring, among others, through mainstreaming the rigorous feasibility, cost efficiency and cost effectiveness analysis required of C&V projects across all proposals and modalities. This would enhance the potential for efficiency gains within the limits of what is appropriate and technically feasible in the field.

12. The audit would like to highlight that beneficiary registration and verification processes present WFP with significant opportunities for increased cost efficiencies in both C&V and in-kind interventions; these opportunities are at risk if WFP fails to close the technological gap that enable registration and verification vulnerabilities.



Audit observations

13. The audit report contains two high-risk observations, and thirteen medium-risk observations. The high-risk observations are:

Control Activities: Beneficiary registration and verification - WFP has opportunities to improve the use of donor resources by enhancing the reliability, efficiency and effectiveness of its beneficiary registration and verification processes. Notable improvement have been noted with the introduction of biometric technology in Dadaab (Kenya). In three out of ten operations reviewed, the audit noted sub-optimal processes for the identification of beneficiaries during the collection of entitlements. Moreover, processes for the physical verification of beneficiaries post-registration by WFP needed strengthening to provide assurance over the existence and eligibility of registered beneficiaries. The audit acknowledges that this is not a problem unique to C&V distributions, and notes that there are opportunities for improvement across all transfer modalities, including in-kind based interventions.

Mobilise Resources: Partnership Agreements - The adoption of C&V transfer modalities has evolved overtime to include commercially available payment networks. To support these innovations, in September 2012 WFP entered into a Global Partnership Agreement to strengthen its capacity. The exact role of the partners and scope of in-kind donations in the form of services was not clearly defined or had sufficient detail, leading to instances where capacity building activities were not strictly segregated from procurement activities. The audit noted that WFP took appropriate measures introducing rules of engagement governing the activities of partnership. The Organization should be mindful to avert potential conflicts of interest as it reaches out to the private sector for expertise on C&V.

Actions agreed

14. 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 agreed actions.

15. 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

WFP C&V Operations

16. C&V modalities are ways of transferring resources to beneficiaries, who receive cash or vouchers that can be used to gain access to food items in the marketplace. C&V transfers have been used for some time in WFP, in one form or another and formally were endorsed by the Executive Board with the Management Plan 2010-11 and Strategic Plan 2008-2013.

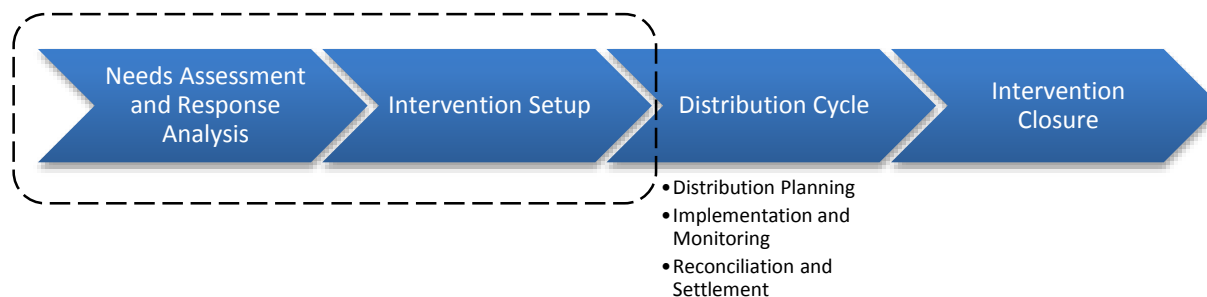
17. The initial pilot stages, starting in 2008, encouraged innovations by WFP's field operations in the delivery of food assistance through market-based solutions, providing WFP a wealth of knowledge and experience that set the foundation for the development of standard C&V business models in 2012. Since then WFP has refined these business models, investing in its corporate capacity to help field operations and gradually defining corporate policies and guidelines to enable the mainstreaming and scale up of C&V transfer modalities.

18. C&V transfers to beneficiaries have seen significant growth rates since the pilot stage, with up to three digit yearly increases in actual transfers to beneficiaries from 2010 to 2013, reaching USD 507 million in 2013. As at the end of 2013, nearly 20 percent of the value of WFP's food and food equivalent transfers were C&V transfers. Planned distribution of food assistance through C&V modalities continue to show a strong scale up to an estimated USD 1.3 billion dollars in 2014 and USD 1.5 billion in 2015.

19. The Syria Regional Emergency countries made up a large portion of the actual C&V transferred to beneficiaries with actual transfers of USD311 million, or 61 percent of the total actual C&V transfers in 2013, increasing to USD 868 million, or 70 percent of the total approved transfer values in 2014. The average rate of growth from 2013 to 2014 in approved C&V transfers for non-Syria Regional Emergency countries was 326 percent. This is a strong indication that C&V modalities are increasingly accepted as a mainstream mode of food assistance.

The C&V Business Process

20. The C&V business process and project lifecycle is divided into four phases as follows:



21. The C&V business processes begin with the identification of the need to intervene and determining the most appropriate form of intervention from WFP's various assistance modalities. The organisation assesses household food security and nutrition information as well as the market's capacity to sustain such interventions. A detailed analysis of feasibility and risk follows the decision to intervene through the assessment of partners and service provider capacities, as well as an assessment of specific constraints and enablers to determine what forms of food assistance modalities are possible and appropriate given the operational context. WFP then selects its transfer modalities and delivering mechanisms in light of the data gathered and with due consideration of the cost efficiency and effectiveness of the different available alternatives, as well as social protection and gender objectives, and alignment with the host Government's policies and existing safety net programmes.



22. Upon selection of the mode of transfer modality, WFP operationalizes programmatic decisions through the procurement of financial and retail services, the selection of Cooperating Partners, and the design of standard operating procedures and deployment of IT platforms to support the C&V business process. At this stage targeted beneficiaries are identified and registered prior to actual transfer of resources.

23. The audit observations presented in this report focus on the needs assessment and response analysis as well as the intervention setup phases, whether these be cross cutting to all modalities or modality-specific. A second report will be issued to cover the audit observations for the distribution cycle and intervention closure phases of the business process.

Objective and Scope of the Audit

24. The objective of the audit was to evaluate and test the adequacy and effectiveness of the internal controls, governance and risk management processes associated to C&V modalities in the field. 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.

25. The audit was carried out in conformance 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.

26. The scope of the audit covered WFP's operations in a sample of ten Country Offices (Ethiopia, Haiti, Iraq, Jordan, Kenya, Lebanon, Malawi, Niger, Sudan, and Zimbabwe) and selected sub-office(s) and field locations from 1 January 2013 to 31 January 2014. Where necessary, transactions and events pertaining to other periods were reviewed. The audit field work took place from April to September 2014.

III. Results of the Audit

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

Table 2: Positive practices and initiatives

1. Internal Environment

- Capacities for policy making and field support at the corporate level have been strengthened over time, in particular in the areas of Programme and Finance.
- C&V interventions are aligned with WFP's transition from food aid to food assistance by providing field operations greater flexibility through an enhanced portfolio of programmatic tools. The choice of a transfer modality, or combination of them, is requiring a more rigorous analysis of the type of the food assistance modes to be adopted. The increased attention to pilots and scaling-up of C&V transfer modalities has led to a more critical review on how WFP designs its programmes.
- In some countries, and depending on the context, C&V interventions are the first choice of beneficiaries and host governments, and are increasingly encouraged and supported by key donors. C&V transfers aim at empowering beneficiaries by allowing them access to a wider range of foods options, positively impacting dietary diversity and food consumption outcomes while enhancing the dignity of food assistance recipients.

3. Control activities

- Decision to implement C&V modalities by operations in the field have led to a significant decrease in the reported exchanges of vouchers for cash with traders and intermediaries by beneficiaries when compared to exchanges of food commodities under in-kind distribution modalities, with a greater proportion of transfers reaching the intended beneficiaries. It should be noted these exchanges are outside the control of WFP as beneficiaries prioritize the use of transfers to areas lacking support from other actors to cover needs including shelter, health, education, etc.
- Where functioning markets exist, C&V modalities can be rapidly deployed during emergencies and allow flexible, cost effective and efficient scale up and scale down of transfers to beneficiaries.

4. Monitoring

- C&V modalities, in particular voucher modalities, offer opportunities for the application of technology and analytical procedures for monitoring distributions and food consumption patterns of beneficiaries.
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28. 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	
	Strategic planning and performance accountability	Medium
2.	Risk management	
	Enterprise risk management	Medium
3.	Control activities	
	Finance and accounting	Medium
	Programme management	High
	Transport and logistics	Medium
	Procurement	Medium
	Mobilise Resources	Medium
4.	Information and communication	
	Information and communications technology	Medium
5.	Monitoring	
	Programme monitoring and evaluation	Medium

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

30. The audit report makes two high-risk observations which are detailed in Section IV of this report. Thirteen medium-risk observations also arose from the audit. Tables 4 and 5 present the high and medium risk observations, respectively.

Action agreed

31. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations, and work is in progress to implement the agreed actions².

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 Programme Management – Beneficiary registration and verification: WFP has opportunities to improve the use of donor resources by enhancing the reliability, efficiency and effectiveness of its beneficiary registration and verification processes. Notable improvement have been noted with the introduction of biometric technology in Dadaab (Kenya). In three out of ten operations reviewed, the audit noted sub-optimal processes for the identification of beneficiaries during the collection of entitlements. Processes for the physical verification of beneficiaries post-registration by WFP needed strengthening.	The Policy & Programme Division (OSZ) will work in coordination with the Beneficiary IT Solutions Service unit (RMTB) in mandating and fast-tracking the adoption of technological solutions, including SCOPE and other existing applications, to ensure that all beneficiaries (e.g. C&V and in-kind recipients) are reliably, effectively and efficiently registered and verified.	Operational Processes and Systems Programmatic	Resources	OSZ	31 December 2015



Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<p>2 Mobilize Resources – Partnership agreements: The adoption of C&V transfer modalities has evolved overtime to include commercially available payment networks. To support these innovations, in September 2012 WFP entered into a Global Partnership Agreement to strengthen its capacity. However during the partnership implementation phase, the exact role of the partners and scope of in-kind donations services needed a higher level of detail to ensure capacity building activities were segregated from procurement activities. The audit noted that WFP took appropriate measures to address the risk of conflict of interest.</p>	<p>(1) The Private Sector Partnerships Division (PGP) going forward will, in coordination with all relevant business units, define how capacity building partnerships can be implemented through the inclusion in partnership agreements of sufficient details of the activities that will be undertaken by the private-sector partner in support of WFP, to enable their effective management and implementation and to ensure respect for the principles of cooperation for private-sector partners.</p>	Compliance Partnerships Institutional	(1) Guidelines	(1) PGP	(1) 30 June 2015
	<p>(2) PGP will review and amend the terms of reference of the partnership steering committee, ensuring that going forward (1) a standing agenda item is included in the proceedings of the committee for the periodic review of current and proposed partnership activities for alignment with the principles of cooperation for private partners, (2) the scope of the committee's mandate includes raising awareness of the aforementioned principles with the relevant functional units through forum discussions.</p>	Compliance Partnerships Institutional	(2) Guidance	(2) PGP	(2) 30 June 2015

Table 5: Medium-risk observations

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date	
Internal Environment						
3	Strategic Planning and Performance Accountability – Decision making framework: Corporate guidelines requires that all project documents and submissions include adequate support on the choice of transfer modalities and delivery mechanism. The audit noted that some submissions to the Project Review Committee did not effectively capture the elements required to substantiate modality choices. Moreover, the COs were not required to quantify, analyse or report on the positive externalities associated with the choice of transfer modalities in a systematic manner to show the extent to which these drove programmatic decisions. Similarly, qualitative considerations, including programme enablers and elements of appropriateness were not brought together to inform the COs. OSZ indicated that differences in the assessment process for in-kind versus C&V modalities created gaps in the analysis and identification of potential cost efficiency/effectiveness gains, as well as in the selection of the most appropriate transfer modality.	Cash for change unit (OSZIC) will enhance the decision making framework and tools for selecting transfer modalities and delivery mechanism, ensuring all relevant quantitative and qualitative elements of decision making are brought together, systematically reviewed and approved by appropriate authorities at the CO, RB and HQ levels.	Strategic Programmes Programmatic	Guidelines	OSZIC	31 December 2015

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
Risk Management					
4 Enterprise risk management – Risk management and contingency planning for C&V modalities: Corporate guidelines provide for the identification of risks specific to C&V at different stages of the programmes through various risk assessment tools. The audit noted inconsistency and sub-optimal rates of completion of these assessments. Furthermore, the risks identified through these tools were not integrated into the corporately mandated COs Risk Registers, leading to gaps in the management of identified risks. Moreover, the audit noted opportunities for improving financial assessments by including standard financial, credit, and market and fraud risk indicators. The audit further noted that only 40 percent of COs reviewed had designed measures to deal with contingency scenarios requiring operations to revert back to in-kind food based assistance, and to switch transfer modalities or delivery mechanisms.	(1) OSZIC in coordination with RMP, RMFB and the Supply Chain Division (OSC – Logistics) will identify the risk assessment/management requirements stated in Directives OD2011/004, OS2013/003 and the C&V Manual, and ensure there is no redundancy and duplication of risk analysis and parallel processes for the management of risks and implementation of mitigating actions, including contingency plans. OSZIC will update the directives according to the agreed upon risk management framework, and develop practical tools and guidelines for completing these.	Operational Processes and Systems Programmatic	Guidelines	(1) OSZIC	(1) 30 June 2015
	(2) RMFB will update Directive RM2013/005 to reflect assessments currently completed at the HQ level. RMFB will develop and roll out standard methodologies, indicators, criteria and analysis tools for the completion of the macro and micro financial assessments and develop and provide training to the RB and CO Finance Officers on the completion and purpose of the micro financial assessment.	Operational Processes and Systems Programmatic	Guidelines	(2) RMFB	(2) 31 December 2015

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date	
Control Activities						
5	Finance and Accounting – Assessment of Financial Service Providers - Corporate guidelines provide for the assessments of Financial Service Providers (FSPs) engaged during C&V interventions, to ensure both adequate capacity and that WFP funds are safeguarded. The audit noted gaps and inconsistencies in the completion of these assessments including omissions of credit ratings, audited financial statements, and key indicators such as capital adequacy, earnings, liquidity, etc. The audit noted that guidelines needed clarification on the timing of these assessments, the role of WFP's HQ units in providing support in completion of the assessments, and how the results should be used. Moreover, the audit noted gaps in corporate policy with regards to the analysis of non-commercial (e.g. NGOs) and sub-contracted FSPs as these entities were not subject to the same rigorous financial strength assessments or competitive selection process applied to commercial financial services providers.	(1) The Finance and Treasury Division (RMF) will define the role of the Treasury and Financial Risk Management Service unit (RMFT) and RMFB in the development of policies, guidelines, and provision of support for the analysis of financial service provider's financial strength.	Operational Processes and Systems Institutional	Guidance	(1) RMF	(1) 31 December 2015
		(2) RMFB in coordination with OSZIC and the Partnership and Advocacy Coordination Division (PGC) will review the potential to harmonize policies for the assessment of financial strength of all service providers entrusted with receiving WFP's funds meant for distribution to beneficiaries and/or payments to retailers, whether they be commercial or non-commercial entities, to ensure the same rigorous assessment processes are applied and WFP's assets are safeguarded.	Operational Processes and Systems Institutional	Guidance	(2) RMFB	(2) 31 December 2015

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date	
6	Finance and Accounting – Performance bonds for cash transfer modalities: The corporate guidelines call for performance bond guarantees be obtained from Service Providers (SPs) and Cooperating Partners (CPs) if the financial strength assessment of these entities concludes a guarantee is warranted. The audit noted some instances where COs did not properly assess the financial strength of SPs before contracts were signed, waived guarantee requirements or omitted these guarantee requirements despite present inherent market and credit risk conditions. Moreover, the audit noted instances where these guarantee instruments were obtained but were inadequate or were untimely for coverage of the risks. The risk of incurring losses on the funds transferred to SPs and CPs is unique as cash is fungible and an easily transferable asset.	(1) RMFB, in coordination with OSZIC, PGC and LEG, will review, update and consolidate the policies and guidelines in Directive FS2009/006 (Handling and Accounting of Performance Bids or Cash Bonds), Directive OS2013/003 RM2013/005, section 9.4.3 of the Financial Resource Management Manual (FRMM) and the Field Level Agreements (FLAs) to ensure that the risk exposure related to cash transfers to SPs and CPs are adequately addressed and mitigated, and the rationale for waiving guarantee requirements are documented and approved at the right level.	Operational Accountability and Funding Institutional	Guidelines	RMFB	31 December 2015
7	Finance and Accounting – Application of tax exemption privileges on C&V transfers: The 1946 Convention on Privileges and Immunities of the United Nations, and 1947 Convention on the Privileges and Immunities of the Specialized Agencies grants WFP exemptions from all forms of taxation in relation to its operations and transactions in the attainment of its objectives and performance of its functions. These privileges were not applied in the delivery of C&V transfers to beneficiaries, with taxes including Value Added Taxes (VAT), sales taxes and Goods and Services Taxes (GST) being levied at the point of food purchases, diminishing the purchasing power of the assistance provided to beneficiaries by WFP. These privileges are particularly applicable to voucher food assistance modalities.	(1) RMFB in coordination with OSZIC, OSC (Procurement), LEG and OSC (Logistics) will perform a review of VAT/GST/Sales Taxes currently being levied to C&V projects, explore recovery opportunities, develop guidelines and practical and implementable strategies for the outright exemption or recovery of taxes from retail sales. (2) OSC (Procurement) in coordination with LEG & RMFB will review the design and rollout tender and contracting options that include potential outright tax exemption, or that request for explicit identification and quantification of taxes in support of refund claims.	Compliance Accountability and Funding Contextual	Guidelines	(1) RMFB	(1) 31 December 2015
			Compliance Accountability and Funding Contextual	Guidelines	(2) OSC Procurement	(2) 30 June 2015

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
8 Programme management – Cost effectiveness: corporate guidelines require that all operations complete an ex-ante analysis of cost effectiveness as part of their analysis of C&V transfer modalities, to measure the cost of outcomes across different transfer modalities and delivery mechanisms. While WFP has developed a cost effectiveness tool that has been favourably peer reviewed and published, the audit noted that only ten percent of the COs reviewed had completed an ex-ante analysis of cost effectiveness. Furthermore, ex-post analysis of cost effectiveness were completed by thirty percent of the COs reviewed. Of these, none used the actual food consumption data to provide an accurate picture of food consumption trends and measure the nutritional impact of interventions.	OSZIC in consultation with the operations in the field, RMFB, OSC divisions will review the user friendliness of the ex-ante and ex-post cost effectiveness analysis tools, including the Omega tool, and will revise and improve these tools as needed and communicate, provide training and build the capacity of COs for their effective implementation.	Operational Programmes Programmatic	Guidelines	OSZIC	31 December 2015
9 Programme management – Cost efficiency: corporate guidelines require that operations consider cost efficiency in the selection of transfer modalities. The ex-ante analysis of cost efficiency of different transfer modalities (in-kind food, cash and/or vouchers) was only completed by twenty percent of the COs reviewed, with a further sixty percent completing these ex-post. The audit noted opportunities for improving the consistency of methodologies used in the calculations of cost effectiveness. Moreover, cost efficiency gains/losses of C&V modalities over in-kind distributions were not being consistently tracked or quantified during the life of the projects, or ex-post to provide a sound basis for programmatic decision making. As an example, such cost efficiency gains were estimated at USD21 million by the Sudan CO.	OSZIC in consultation with RMFB, and OSC divisions will evaluate the methodologies and assessment tools for cost efficiency and, in consultation with the operations, will ensure that these tools are standardized, communicated and adopted by the COs.	Operational Programmes Programmatic	Guidelines	OSZIC	31 December 2015

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
10 Programme Management – Policies and guidelines: The scale up of C&V activities has gradually been accompanied by the development of policies and tools. While these are reflective of the maturing nature of market-based food assistance models, they are fragmented and incongruent. The audit noted that COs needed updated practical guidance on the standard C&V business processes, from needs assessment and response analysis through to distribution reporting, with particular emphasis on the assignment of roles and responsibilities to the procurement and logistics functions. Furthermore, a central repository of institutional guidelines and tools would greatly enhance the COs' awareness of corporate expectations and access to up-to date policies and guidelines.	OSZIC will update and align the C&V Manual and the Programme Guidance Manual (PGM) to existing guidelines, and will review and update these on periodic basis. OSZIC in coordination with all relevant functional units will enhance communication tools to avail COs operations with a repository of guidelines to support every functional unit involved in the implementation of C&V programmes.	Operational Processes and systems Institutional	Guidelines	OSZIC	30 September 2015
11 Transport and Logistics – Cash in transit insurance: The tools for mitigating the risk of financial loss during the transfer of cash include the deployment of physical security measures, as well as the use of cash-in-transit (CIT) insurance, to provide coverage against potential losses during the transportation and disbursement of cash from WFP to off-site locations. While all the contracts signed by WFP assign SPs full responsibility and liability over the potential losses of WFP funds in their custody, the audit noted that CIT insurance was in some instances not always considered or required, was untimely obtained, provided insufficient coverage or its existence and validity was not confirmed by the COs. Furthermore, where CIT insurance was not obtained, the COs did not assess the SP's risk of insolvency if cash in their custody was stolen or misappropriated. The audit further noted that the existing WFP's Global Cash Insurance policy did not expressly identify guidelines to extend that coverage to CIT during C&V interventions.	(1) OSC (Operations Risk Management Service –OSLR-) will update the logistics operational risk management guidelines, section 5.5.6 Cash in Transit, to clarify and specifically state the applicability, coverage and conditions of the CIT insurance policy in the context of C&V interventions.	Operational Processes and Systems Institutional	Guidelines	(1) OSC- OSLR	(1) 31 December 2015
	(2) RMFB will coordinate with OSC (Operations Risk Management Service), OSC (Logistics), LEG and OSZIC to develop/enhance guidelines to be used at the point of selection of SPs for the effective provision of security and guarantees over the cash to be transported in the field by SPs (CPs, FSPs, SPs), ensuring that these security and guarantees are obtained prior to the start of operations and movements of cash.	Operational Processes and Systems Institutional	Guidelines	(2) RMFB	(2) 31 December 2015

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
12 Procurement – Procurement of financial services: The engagement of Financial Service Providers (FSPs) is an integral part of the design and implementation of C&V interventions. The audit noted that the tendering process resulted in suboptimal bids; moreover, the selection and negotiation processes were inadequately documented or supported by procurement and finance units at the CO and HQ levels. The audit noted deficiencies in the contracts with FSPs that exposed WFP to disputes over the validity of the contract, service terms and agreed upon fees. More importantly, the current procurement process does not enable the provision of uninterrupted financial services during C&V interventions and has in some cases resulted in multiple extensions to existing FSPs contracts through waived competitions to avoid operational disruptions, leading COs to exceed their delegated authority. Lastly, the audit noted policy gaps in the procurement of financial services from CPs as these type of entities were not subject to the rigorous competitive process normally required of commercial service providers.	OSC (Procurement) will, in coordination with RMFB and OSZIC, develop specific policies and guidelines for the procurement of financial services in relation to C&V activities.	Compliance Processes and Systems Institutional	Guidelines	OSC Procurement	30 September 2015

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
13 Procurement – Procurement of retail services: The implementation of voucher interventions require the engagement of retailers who accept and exchange WFP’s vouchers for food commodities to beneficiaries in return for payment by WFP. The audit noted control gaps in the procurement of retail services including poorly documented processes, limited or no involvement of the COs Procurement functions and absence of retail CO strategies to serve as the basis for procuring retail services. Moreover, the solicitation process did not provide evidence that reasonable attempts had been made to reach all potential suppliers. Contracting practices were inconsistent, resulting in multiple contract extensions and provision of services after these contracts had elapsed or beyond the agreed upon terms. Lastly, the audit noted that the value of retailer contracts was calculated without taking into account the substantial voucher transfer values to retailers; in many instances there were no direct costs associated with the redemption of vouchers (e.g. service fees, commissions, etc.) necessitating a revision to the rules around delegation of authority and oversight of these contracts.	(1) OSC (Procurement) in close coordination with OSC (Logistics) and RMFB will lead a cross functional review of the procurement process for retail services, with the aim to (i) define business processes scenarios that fit with diverse Procurement and Logistics capacities in the field, (ii) develop guidelines for preparing retailer strategies and streamline the procurement process in coordination with OSZIC, OSC (Logistics) and RMFB and (iii) review the existing applicable framework, rules and regulations to align and harmonize the existing directives and guidelines for the procurement of retail services and determine the need to have specific purchase categories for retail services.	Compliance Processes and Systems Institutional	Guidelines	(1) OSC Procurement	(1) 30 June 2015
	(2) OSC (Procurement) in consultation with OSZIC, RMFB, OSC (Logistics section) and LEG will review and articulate policies for the delegation of authority governing the procurement of retailer services and cash transfers to beneficiaries (POCBs), bearing in mind the direct costs charged by the retailers, the indirect costs of the estimated value of voucher redemptions, and the need for a cohesive Delegation of Authority.	Compliance Processes and Systems Institutional	Guidelines	(2) OSC Procurement	(2) 31 December 2015

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<p>14 Procurement – Criteria for selection of retailers: The procurement of retail services entails the application of objective and systematic selection criteria, to ensure retailers are chosen in a fair and transparent manner and are able to meet WFP's requirements. The audit noted opportunities to improve the processes for assessing and selecting retailers by encouraging adherence by the COs to existing corporate guidelines and improving the clarity of criteria for the assessment of financial capacity, supply and stock availability, compliance with local food quality, hygiene standards, etc. Moreover, corporate guidelines were not tailored to large, medium and small retailers, to allow for flexibility in the level of detail of the assessments applied. In addition, the audit noted that a systematic scoring system is needed to enhance the consistency and objectivity of the selection process. Finally, corporate guidelines on the ownership of retailers assessment and selection processes need to be aligned to avoid inconsistent approaches.</p>	<p>OSC (Logistics) will lead a cross functional effort that includes OSC (Procurement), OSZIC and RMFB to assess and define the criteria for the selection of retailers, including the development of supporting standard tools, methodologies and guidelines. OSC (Procurement) will coordinate with OSC (Logistics), OSZIC and RMFB on the assignment of functional unit responsibilities in the development of the selection criteria, solicitation of interest and assessment of responses, and will ensure these are clearly reflected in the RACI Matrix (Responsible, Accountable, Consulted, and Inform) as well as the C&V Manual and C&V Operational Directives.</p>	<p>Compliance Processes and Systems Institutional</p>	<p>Guidelines</p>	<p>OSC Logistics</p>	<p>30 June 2015</p>

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
Information and Communications					
15 Information and Communications Technology – IT applications and databases in support of C&V interventions: The corporate guidelines require that voucher programmes be supported by tools to uniquely identify and track vouchers. The audit noted unrestricted access to voucher and beneficiary data, lack of edit controls over voucher serial numbers, amounts, and redemption status. Furthermore, the responsibility over creating voucher data and logging redeemed vouchers was not properly segregated in 87 percent of the COs reviewed. The audit noted that the migration of existing beneficiary data from locally developed applications to the corporately developed SCOPE applications was hampered by technical issues. Moreover, the audit noted inadequate consultation by the COs with RMT and the RB's prior to committing resources to the development or acquisition of C&V IT solutions to ensure these incorporated data security and internal control functionalities.	(1) RMTB will revisit and map the current existing and proposed applications and databases supporting C&V interventions, and ensure that macro and micro IT assessments are completed in all COs for existing and proposed C&V application and databases to ascertain that these incorporate user access, change management, and data security controls.	Operational Processes and Systems Institutional	Resources	(1) RMTB	(1) 31 December 2015
	(2) RMTB will expedite the implementation of SCOPE Registration and Data Management modules, already agreed with the COs once the C&V task force and the Executive Management Group (EMG) have finalized and resourced the prioritization of the Business Process Management.	Operational Processes and Systems Institutional	Resources	(2) RMTB	(2) 31 December 2016

IV. Detailed assessment

Control Activities**High Risk****Observation 1 Programme Management: Beneficiary registration and verification**

32. WFP has opportunities to improve the use of donor resources by enhancing the reliability, efficiency and effectiveness of its beneficiary registration and verification processes. Notable improvement have been observed with the introduction of biometric technology in Dadaab (Kenya).

33. In three out of ten operations reviewed, the audit noted sub-optimal processes for the identification of beneficiaries during the collection of entitlements. Moreover, processes for the physical verification of beneficiaries post-registration by WFP needed strengthening to provide assurance over the existence and eligibility of registered beneficiaries.

34. The audit acknowledges that this is not a problem unique to C&V distributions, and notes that there are opportunities for improvement across all transfer modalities, including in-kind based interventions.

Underlying cause of observation:	The tools for the effective and efficient registration of beneficiaries were not developed or adopted on par with the implementation and scale up of C&V programmes.
Implication:	Inclusion and exclusion errors may occur in beneficiary registration, and assistance may not be prioritized to the most vulnerable beneficiaries. Some WFP resources may not be used efficiently, and the risk of misappropriation may increase.
Policies, procedures and requirements:	C&V Manual section A.7.
Agreed action:	OSZ will work in coordination with RMTB in mandating and fast-tracking the adoption of technological solutions, including SCOPE and other existing applications, to ensure that all beneficiaries (e.g. C&V and in-kind recipients) are reliably, effectively and efficiently registered and verified.
Due Date:	31 December 2015.

Control Activities

High Risk

Observation 2 Mobilise Resources: Partnership agreements

35. The adoption of C&V transfer modalities has evolved overtime to include commercially available payment networks. To support these innovations, in September 2012 WFP entered into a Global Partnership Agreement to strengthen and develop its capacity and adopt payment transfer implementation best practices.

36. From the onset of this partnership, WFP defined broad principles of collaboration, however during the partnership implementation phase, the exact role of the partners and scope of in-kind donations in the form of services needed a higher level of detail to ensure capacity building activities were segregated from procurement activities.

37. The audit noted WFP took appropriate measures to address the potential for conflict of interest including the development of rules of engagement governing the activities of the partnership. WFP will increasingly engage in a wider spectrum of partnerships as it seeks to achieve the highest potential impact and benefits to its operations, requiring new and more flexible modes of partnership.

Underlying cause of observation: Insufficiently defined mechanisms of collaboration and application of Private Donor guidelines, and segregation of activities in the Partnership Agreement.

Implication: As WFP expands its reach to the private sector for expertise and specialized services through private partnerships, WFP needs to define the scope of partnership activities early on in the process to avoid any perceived or real instances of conflict of interest.

Policies, procedures and requirements: Non-Food Procurement Manual, Directive FD2005/002 Private Donor Guidelines, WFP Private-Sector Partnership and Fundraising Strategy (2013-2017), Annex VIII – Principles of Cooperation for Private Partners.

Agreed action 1: Include sufficient detail of activities

The Private Sector Partnerships unit (PGP) going forward will, in coordination with all relevant business units, define how capacity building partnerships can be implemented through the inclusion in partnership agreements of sufficient details of activities that will be undertaken by the private-sector partner in support of WFP, to enable their effective management and implementation and to ensure respect for the principles of cooperation for private-sector partners.

Due Date: 30 June 2015.

Agreed action 2: Partnerships Steering Committee Terms of Reference

The Private Sector Partnerships Division (PGP) will review and amend the terms of reference of the partnership steering committee, ensuring that going forward (1) a standing agenda item is included in the proceedings of the committee for the periodic review of current and proposed partnership activities for alignment with the principles of cooperation for private partners, (2) the scope of the committee's mandate includes raising awareness of the aforementioned principles with the relevant functional units through forum discussion.

Due Date: 30 June 2015.

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

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.

implementation of agreed actions. The purpose of this monitoring system is to ensure management actions are effectively implemented within the agreed timeframe so as to manage and mitigate the associated risks identified, thereby contributing to the improvement of WFP's operations.

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

CIT	Cash-in-Transit
CO	Country Office
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPs	Cooperating Partners
C&V	Cash and Vouchers
IPSAS	International Public Sector Accounting Standards
LEG	Legal Office
NGO	Non-government Organisation
OSC	Supply Chain Division
OSLR	Operations Risk Management Service
OSZ	Policy, Programme and Innovation
OSZA	Analysis and Nutrition Service
OSZI	Programme Innovations Service
PGC	Partnerships and Advocacy Coordination Division
RBs	Regional Bureaus
RMF	Finance and Treasury
RMFB	Cash and Voucher Business Innovation Unit
RMFT	Treasury and Financial Risk Management Branch
RMP	Performance Management and Monitoring Division
RMTB	Beneficiary IT Solutions Service
SPs	Service Providers
WFP	World Food Programme