

Internal Audit of WFP's Internal Control Assurance Process

Office of the Inspector General
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World Food Programme

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I. Executive Summary






Introduction

1. As part of its annual work plan for 2012, the Office of Internal Audit reviewed the 2011 assurance statements from 15 entities in headquarters and the field, and coversheets from their respective Regional Bureaux from March to August 2012.
2. WFP's Internal Control Assurance 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, which was the first year that WFP presented a Statement on Internal Control with WFP's annual financial statements. The Statement on Internal Control was based on Assurance Statements on the effectiveness of internal control, provided by all Deputy Executive Directors, Country and Regional Directors, Liaison Office Directors and headquarters Division Directors.
3. The audit was carried out in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors.

Audit Conclusions

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

Table 1: Summary of conclusions by Internal Control Components

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

¹ See Annex A for definitions of audit terms.

Key Results of the Audit

Positive practices and initiatives

5. A number of positive practices and initiatives were noted including the creation of a comprehensive manager's guide for use by certifying officers and the line managers, development of self-assessment checklists, development of an effective training programme to guide the certification process for the Regional Bureaux and headquarter units, detailed review of the Assurance Statements and review cover sheets, and achievement of a commendable 100 percent submission rate for the Assurance Statements.

Audit recommendations

6. The audit report contains eight medium-risk recommendations.

Management response

7. Management accepted all the recommendations and has reported that they have all been implemented.

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

David Johnson
Inspector General



II. Context and Scope

Internal Control Assurance Process

9. The last decade was marked with large corporate failures and scandals resulting from lapses in the overall control consciousness of their management. This drew the corporate world and regulators' attention towards the working and ownership of controls, resulting, for example, in the Sarbanes and Oxley Act (2002), which imposed a requirement on management to provide an annual statement on the working of internal control.

10. Among the different frameworks developed to address the objective of implementing and assessing internal controls, was the Committee of Sponsoring Organizations of the Treadway Commission (COSO)'s integrated framework on Internal Controls, which is widely acknowledged and used.

WFP's Internal Control Assurance Process

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

12. In 2011 WFP presented the first Statement on Internal Control, based on the Internal Control Assurance Process, with its annual financial statements. The Statement on Internal Control, presented by the Executive Director, is based on Assurance Statements on the effectiveness of internal control, provided by all Deputy Executive Directors, Country and Regional Directors, Liaison Office Directors and headquarters Division Directors.

Objective and scope of the audit

13. The objective of the audit was to evaluate and test the adequacy and effectiveness of the processes associated with WFP's Internal Control Assurance Process, as part of the process of providing an annual and overall assurance statement to the Executive Director on governance, risk management and internal control processes.

14. The audit was carried out in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors. It was completed according to the approved planning memorandum and took into consideration the risk assessment exercise carried out prior to the audit.

III. Results of the audit

15. In performing our audit, we noted the following positive practices and initiatives:

Table 2: Positive practices and initiatives

1. Internal environment

- A comprehensive Manager's guide was developed for the use of certifying officers and the line managers.
- Self-Assessment checklists were developed for most of the functional units in the Country Offices.
- An effective training programme relayed information and guidance on the certification process to the Regional Bureaux and headquarters units, and was later used to disseminate to the Country Offices in the respective reporting lines.
- The Finance and Treasury Division and the Business Innovation and Support Office undertook a detailed review of the Assurance Statements and review cover sheets using information from external sources such as external audits, internal audits, evaluations, Joint Inspection Unit reports.
- The process was acknowledged to be an evolving process and a review of the Assurance Statement was underway at the time of the audit work for the year 2012, bringing improvements following the lessons learned from the 2011 exercise, including suggestions from the current review. The Business Innovation and Support Office reported immediate implementation of all actions recommended to them.
- Despite the first time implementation of the Internal Control Assurance Process in WFP, the Business Innovation and Support Office achieved a commendable 100 percent submission rate for the Assurance Statement.

16. 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 – categorization of risk by internal control component and business process

Internal Control Component/ Business Process	Risk (Entities)	Risk (Corporate)
1. Internal environment	High	Medium
2. Risk assessment	High	-
3. Control activities	Medium	-
4. Information and communication	Low	-
5. Monitoring	Medium	-

17. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory**².

18. A total of eight medium-risk recommendations were made. These are presented in Table 4.

Management response

19. Management has agreed with all recommendations and has reported that they have all been implemented.

² See Annex A for definitions of audit terms.

Table 4: Medium-risk recommendations

Observation	Recommendation	Risk categories ³	Underlying cause category	Owner	Due date
Internal Environment					
1 Corporate organizational and reporting structure: Segregation of duties and conflict of interest in small Country Offices (CO) – Standard organograms have not been developed for small COs, where there may be limited staff and funding resources.	Address the challenges of small COs and identify areas for improvement, actions and measures for the segregation of duties to ensure that small COs are appropriately structured given operational and programmatic contexts, as well as the timely appointment of Country Director replacements.	Operational Stewardship Programmatic	Guidelines	Operations Management Department	Implemented
2 Internal Control Assurance Process: Assurance Statement requirements – Assurance Statements and related information has been accumulated based on reporting lines and delegations of authority in headquarters, and not on functions or processes.	In consultation with headquarters Divisions, identify any Divisional Units that would require an individual unit-level Assurance Statement, to ensure the level of assurance obtained properly reflects the relevant risks and controls of the constituent units.	Strategic Internal business processes Institutional	Guidelines	Business Innovation and Support Office	Implemented
3 Internal Control Assurance Process: Assurance Statement completion process – The consultative process and Self-Assessment Checklists were not mandatory.	Improve consistency of the control assessment process to be adopted for completion of Assurance Statements.	Strategic Internal business processes Institutional	Guidelines	Business Innovation and Support Office	Implemented
4 Internal Control Assurance Process: Assurance Statement review process - Guidelines on the details of the review process did not specify elements to enhance the quality of the review.	Strengthen the guidelines on the methodology to be adopted in the Assurance Statement review process.	Reporting Internal business processes Institutional	Guidelines	Business Innovation and Support Office	Implemented

³ See Annex A for definition of audit terms.

Observation	Recommendation	Risk categories ³	Underlying cause category	Owner	Due date
5 Internal Control Assurance Process: Assurance Statement consolidation process – Manual procedures were used to consolidate the results of the first year’s Assurance Statements by entities.	Consider using an automated tool for capturing and consolidating the entities’ Assurance Statements. Such a system would fast-track the whole process and facilitate the review process.	Strategic Internal business processes Institutional	Guidelines	Business Innovation and Support Office	Implemented
6 Internal Control Assurance Process: Documentation of self-assessment – The optimum methodology to support the Assurance Statement had not yet been achieved, as 2011 was the first year of implementation; the current available tools were not customized for headquarters units; and the use of some tools such as the self-assessment checklist was not mandatory.	Define the minimum acceptable documentation standard to facilitate the assurance and the review process adopted in developing the Statement on Internal Control, and consider extended availability of self-assessment checklists to headquarters divisions.	Reporting Internal business processes Institutional	Guidelines	Business Innovation and Support Office	Implemented
7 Internal Control Assurance Process: Improvements to the Assurance Statement format – There was need for improvement in the format as 2011 was the first time application of the Assurance Statement, and due to the evolving nature of the document and underlying process.	Further review and improve the format of the Assurance Statement.	Reporting Internal business processes Institutional	Guidelines	Business Innovation and Support Office	Implemented
8 Internal Control Assurance Process: Reliability of responses from Country Offices – Some Country Offices were worried about the consequences of reporting weaknesses and may not have fully understood the nature of the issues that should be reported in the Assurance Statement.	Further review the reliability of the Assurance Statement responses, in particular for the smaller offices, and put in place an action plan to enhance reliability.	Reporting Internal business processes Institutional	Guidelines	Business Innovation and Support Office	Implemented

Annex A – Audit definitions

1. Risk categories

A 1. 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 COSO⁴ frameworks and the Standards of the Institute of Internal Auditors

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

A 2. In order to facilitate linkages with WFP’s performance and risk management frameworks, the Office of Internal Audit maps assurance to the following two frameworks:

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

1	Securing resources:	Efficiency and effectiveness in acquiring the resources necessary to discharge WFP’s strategy – this includes money, food, non-food items, people and partners.
2	Stewardship:	Management of the resources acquired – this includes minimising resource losses, ensuring the safety and wellbeing of employees, facilities management, and the management of WFP’s brand and reputation.
3	Learning and innovation:	Building a culture of learning and innovation to underpin WFP’s other activities – this includes knowledge management, staff development and research capabilities.
4	Internal business processes:	Efficiency of provision and delivery of the support services necessary for the continuity of WFP’s operations – this includes procurement, accounting, information sharing both internally and externally, IT support and travel management.
5	Operational efficiency:	Efficiency of WFP’s beneficiary-facing programmes and projects delivery – this includes project design (partnership/stakeholder involvement and situation analysis) and project implementation (fund management, monitoring and reporting, transport delivery, distribution, pipeline management).

⁴ 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.

2. Causes or sources of audit observations

A 3. The observations were broken down into categories based on causes or sources:

Table A.3: Categories of causes or sources

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

3. Risk categorization of audit observations

A 4. The audit observations were categorized by impact or importance (high, medium or low risk) as shown in Table A.4 below. Typically audit observations can be viewed on two levels. (1) Observations that are specific to an office, unit or division and (2) observations that may relate to a broader policy, process or corporate decision and may have broad impact.⁵

⁵ An audit observation of high risk to the audited entity may be of low risk to WFP as a whole, conversely, an observation of critical importance to WFP may have a low impact on a specific entity, but have a high impact globally.

Table A.4: Categorization of observations by impact or importance

High risk	Issues or areas arising relating to important matters that are material to the system of internal control. The matters observed might be the cause of non-achievement of a corporate objective, or result in exposure to unmitigated risk that could highly impact corporate objectives.
Medium risk	Issues or areas arising related to issues that significantly affect controls but may not require immediate action. The matters observed may cause the non-achievement of a business objective, or result in exposure to unmitigated risk that could have an impact on the objectives of the business unit.
Low risk	Issues or areas arising that would, if corrected, improve internal controls in general. The recommendations made are for best practices as opposed to weaknesses that prevent the meeting of systems and business objectives.

A 5. Low risk recommendations, if any, are communicated by the audit team directly to management, and are not included in this report.

4. Recommendation tracking

A 6. The Office of Internal Audit tracks all medium and high-risk recommendations. Implementation of recommendations will be verified through the Office of Internal Audit's system for the monitoring of the implementation of audit recommendations. 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.

5. Rating system

A 7. Internal control components and processes are rated according to the severity of their risk. These ratings are part of the system of evaluating the adequacy of WFP's risk management, control and governance processes. A rating of satisfactory, partially satisfactory and unsatisfactory is reported in each audit. These categories are defined as follows:

Table A.5: Rating system

Engagement rating	Definition	Assurance level
Satisfactory	Internal controls, governance and risk management practices are adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.	Reasonable assurance can be provided.
Partially Satisfactory	Internal controls, governance and risk management practices are generally established and functioning, but need improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.	Reasonable assurance is at risk.
Unsatisfactory	Internal controls, governance and risk management practices are either not established or not functioning well. The issues identified were such that the achievement of the overall objectives of the audited entity could be seriously compromised.	Reasonable assurance cannot be provided.

Annex B – Acronyms

COSO	The Committee of Sponsoring Organizations of the Treadway Commission
IS/IT	Information Systems/Information Technology
MOSS	Minimum Operating Security Standards
UN	United Nations
WFP	World Food Programme