

Internal Audit of WFP Operations in Côte d'Ivoire

Office of the Inspector General
Internal Audit Report AR/12/14



World Food Programme

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Internal Audit of WFP Operations in Côte d'Ivoire

I. Executive Summary

Introduction

1. As part of its annual work plan for 2012, the Office of Internal Audit conducted an audit of WFP Operations in Côte d'Ivoire. The World Food Programme's (WFP) Direct Expenses in Côte d'Ivoire in 2011 totalled US\$37 million¹, representing 1 percent of WFP's total Direct Expenses for the year. The audit covered the activities from 1 January 2011 to 31 July 2012 and included field visits to various locations in Côte d'Ivoire, and a review of related corporate processes that impact across WFP.

2. 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

3. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **unsatisfactory**². Conclusions are summarized 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 assessment	Low	
3. Control activities	High	
4. Information and communication	Low	
5. Monitoring	Medium	

Key Results of the Audit

Positive practices and initiatives

4. A number of positive practices and initiatives were noted including strong national staff capacity, the development of a compliance function, risk assessment embedded in annual work planning, well planned and implemented selection of cooperating partners, a coordinated and emergency-prepared logistics function, and a beneficiary feedback system.

¹ WFP/EB.A/2012/4* – Annual Performance Report for 2011 – Annex IX-B.

² See Annex A for definitions of audit terms.

Audit recommendations

5. The audit report contains one high-risk and ten medium-risk recommendations. While only one high risk observation arose from this audit, the pervasiveness of internal control weaknesses in this Country Office is of concern and indicates a general failure of the control environment, hence the overall conclusion that reasonable assurance cannot be provided. The high-risk observation arising from the audit was:

6. **Resources donated to government:** Some government ministries asked the Country Office to support them by providing certain assets, over and above the limited asset transfers foreseen in the project documents. The Country Office granted the requests, and transferred assets and other resources totalling US\$366 600 including vehicles, computers, information communication and technology (ICT) equipment and fuel, and paid for rented transport for the government from August to October 2011 for approximately US\$95 000. We recommended, and the Country Office agreed, to prepare a note for the record on all assets donated to government counterparts that had not been named in the project documents, for the approval of the Country Director, and report to the Regional Bureau and Operations Services Department, and to ensure that provision for future donation of assets is clearly provided for in the project documents and reported in the Standard Project Reports, executive briefs and situation reports.

Management response

7. Management accepted all the recommendations and has reported that they are in the process of implementing them.

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

Côte d'Ivoire

9. Côte d'Ivoire is ranked 170 out of 187 countries on the 2011 UNDP Human Development Index, which also indicates that over 23 percent of the population live below the poverty line of US\$1.25 per day. Primary school enrolment remains low at 50 percent and the country has West Africa's highest HIV prevalence rate at 3.7 percent. The July 2011 nation-wide nutrition survey conducted by WFP, UNICEF and the National Nutrition Programme of the Ministry of Health showed a national global acute malnutrition rate of 5.4 percent, considered 'precarious,' with the highest rates reaching up to 7.7 percent in the northern and western regions. Chronic malnutrition rates are above 40 percent in the north. As a consequence of the complex socio-political crisis that started in September 2002, Côte d'Ivoire has been experiencing a period of extended instability.

10. The November 2010 presidential elections were deeply contested, causing violence and resulting in widespread displacement with an estimated 500,000 to 700,000 people temporarily displaced within the country and in neighbouring countries. With a new Government in place, the country is heading towards reconciliation and stability, while insecurity remains in some areas.

WFP Operations in Côte d'Ivoire

11. The projects implemented during the period under review were:

- An Emergency Operation (200255): Emergency assistance to displaced populations in response to the political crisis in Côte d'Ivoire from March 2011 to December 2012 for a total cost of US\$121.6 million.
- A Protracted Relief and Recovery Operation (PRRO-200066): Recovery from post-electoral crisis in Côte d'Ivoire (November 2011 – December 2012) total cost US\$20.7 million.
- Special Operation (SO-200277): Air Passenger Service in response to the humanitarian crisis in Côte d'Ivoire (April 2011 – December 2012) total cost US\$5.7 million.
- Special Operation (SO-200234): Regional Logistics and Telecommunications Augmentation in Support of WFP EMOPs and PRROs in Côte d'Ivoire and Liberia (Jan 2011 – Dec 2012) total cost US\$12.1 million.

12. WFP's Direct Expenses in Côte d'Ivoire in 2011 totalled US\$37 million³, representing 1 percent of WFP's total Direct Expenses for the year.

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 internal control components of WFP's operations in Côte d'Ivoire, 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

³ WFP/EB.A/2012/4* – Annual Performance Report for 2011 – Annex IX-B.

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

15. The scope of the audit covered WFP's operations in Côte d'Ivoire, for the period from 1 January 2011 to 31 July 2012. Where necessary, transactions and events pertaining to other periods were reviewed. The audit, which took place from 14 to 28 September 2012, included visits to various locations in Côte d'Ivoire.

III. Results of the audit

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

Table 2: Positive practices and initiatives

1. Internal environment

- Strong national staff capacity.
 - Development of a compliance function.
-

2. Risk assessment

- Risk assessment embedded in annual work planning.
-

3. Control activities

- Timely updating of Electronic Payment System authorizations.
 - Comprehensive procurement documentation.
 - Well-planned and implemented selection of Cooperating Partners.
 - A coordinated and emergency-prepared logistics function.
 - A committed and experienced security unit.
-

4. Information and communication

- Beneficiary feedback system in place.
-

5. Monitoring

- Implementation of Monitoring and Evaluation database.
-

17. 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 in the County Office as follows:

Table 3: Conclusions – categorization of risk by internal control component and business process

Internal Control Component/ Business Process	Risk
1. Internal environment	
Delegated authority	Low
2. Risk assessment	
Enterprise risk management	Low
3. Control activities	
Finance and accounting	Medium
Programme management	High
Transport and logistics	Low
Commodity management	Medium
Procurement	Medium
Human resources	Medium
Property and equipment	Medium
Security	Low
4. Information and communication	
External relations and partnerships	Low
Internal communications and feedback	Low
5. Monitoring	
Programme monitoring and evaluation	Medium

18. Based on the results of the audit, the Office of Internal audit has come to an overall conclusion of **unsatisfactory**⁴. The pervasiveness of internal control weaknesses in this Country Office is of concern and indicates a general failure of the control environment, hence the overall conclusion that reasonable assurance cannot be provided.

19. One high-risk recommendation was made, which is detailed in Section IV of this report, and ten medium-risk recommendations. Tables 4 and 5 present the high and medium-risk recommendations respectively.

Management response

20. Management has agreed with all recommendations and has reported that implementation is in progress.

⁴ See Annex A for definitions of audit terms.

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

Observation	Recommendation	Risk categories ⁵	Underlying cause category	Owner	Due date
Control Activities					
1 Programme management: Resources donated to government – The 2011 political crisis left the government without the capacity to operate. The Country Office granted requests from government ministries to provide certain assets, but such donations were not foreseen in the project documents.	Prepare a note for the record on all assets donated to government counterparts that have not been named in the project documents, for the approval of the Country Director and report to the Regional Bureau and Operations Services Department. Ensure that provision for future donations of assets are clearly provided for in the project documents and reported in the Standard Project Reports, executive briefs and situation reports.	Compliance Stewardship Contextual	Compliance	Côte d'Ivoire Country Office	Implemented

⁵ See Annex A for definition of audit terms.

Table 5: Medium-risk recommendations

Observation	Recommendation	Risk categories ⁶	Underlying cause category	Owner	Due date	
Control Activities						
2	Finance and accounting: Payment processing and cash management – Operational constraints and inadequate capacity of the finance unit resulted in inability to implement proper controls for processing payments and cash management.	Strengthen financial management controls including requirements for complete documentation before making payments, and implement segregation of duty controls.	Compliance Internal business processes Institutional	Compliance	Côte d'Ivoire Country Office	Implemented
3	Finance and accounting: Value added tax – The Country Office did not follow correct procedure to identify, record and claim VAT amounts from the government	Record all VAT payments in WINGS; pursue all past and future reimbursement of VAT from the government. The possibility of VAT-exempt purchases should be explored.	Reporting Internal business processes Institutional	Compliance	Côte d'Ivoire Country Office	30 September 2013
4	Programme management: Management of Cooperating Partners – The Country Office had misunderstood certain elements of the internal control requirements over working with Cooperating Partners.	Implement the required anti-terrorism checks, and set up a mechanism to ensure that agreements with the Cooperating Partners are signed and appropriate funds are committed in the corporate system before services are rendered.	Operational Operational efficiency Institutional	Compliance	Côte d'Ivoire Country Office	30 September 2013
5	Procurement: Vendor management – Internal controls over vendor management were either not in place or not documented. The Country Office did not give priority to vendor management.	Set up a mechanism to ensure vendor files are complete, carry out regular checking of vendor master data registered in WINGS and confirm, reconcile and review vendor balances.	Compliance Internal business processes Institutional	Compliance	Côte d'Ivoire Country Office	Implemented

⁶ See Annex A for definition of audit terms.

Observation	Recommendation	Risk categories ⁶	Underlying cause category	Owner	Due date
6 Procurement: Selection of vendors and contracting – Internal controls over vendor selection and contracting were either not in place or not documented. The Country Office’s management oversight of the food and non-food procurement function needed strengthening.	Carry out and fully document food and non-food procurement transactions and process in compliance with corporate procedures.	Compliance Internal business processes Institutional	Compliance	Côte d’Ivoire Country Office	Implemented
7 Procurement: Raising Purchase Orders – The Country Office prioritized posting of Goods Receipts (required by WFP’s implementation of International Public Sector Accounting Standards) and allowed Purchase Orders to be posted later. The Country Office did not carry out effective review and management oversight of Purchase Order transactions.	Ensure that procurement transactions are accounted for on an accurate and timely basis.	Compliance Internal business processes Institutional	Compliance	Côte d’Ivoire Country Office	30 September 2013
8 Commodity management: Recording and reporting of commodity movements – Internal controls over commodity management were not consistently in place or not documented.	Address issues of commodity management identified in the audit and establish proper controls.	Compliance Operational efficiency Institutional	Compliance	Côte d’Ivoire Country Office	31 August 2013
9 Property and Equipment: Recording and management of assets – The audit noted non-compliance with existing policies and procedures and ineffective management and monitoring of assets. Proper safeguarding of assets was not in place.	Conduct a full physical verification exercise of property plant and equipment at all locations, reflect the correct assets in the Asset Management Database, report all losses to the Office of Inspection and Investigation on time, and strengthen controls for asset management.	Operational Stewardship Institutional	Compliance	Côte d’Ivoire Country Office	Implemented
10 Human Resources: Selecting, contracting and separating staff – The Country Office needed to improve management oversight on compliance with human resources policies and procedures.	Ensure that the staff hired have clear records and are appropriately classified in WINGS, and ensure that all staff members properly complete the clearance form before separation.	Compliance Internal business processes Institutional	Compliance	Côte d’Ivoire Country Office	Implemented

Observation	Recommendation	Risk categories ⁶	Underlying cause category	Owner	Due date
11 Programme monitoring and evaluation: Monitoring and tracking distribution data – Internal controls over monitoring and tracking distribution reports and data needed strengthening, and improved supervision by management.	Establish procedures to properly monitor project activities, including strengthened supervisory activity in the Programming section.	Reporting Operational efficiency Institutional	Guidelines	Côte d'Ivoire Country Office	Implemented

IV. Detailed Assessment

Control Activities

High Risk

Observation 1 Programme management: Resources donated to government

21. The Country Office stated that during the political crisis in 2011, the government did not have the capacity to operate. Some government ministries therefore requested support from the Country Office in the provision of certain assets, over and above the limited asset transfers foreseen in the project documents. The Country Office granted the requests, but these donations were not provided for in the project document.

22. The Country Office provided the government with assets and resources including vehicles, computers, office equipment, ICT equipment, and fuel costing approximately US\$366 500, and paid for rented transport for the government from August to October 2011 for approximately US\$95 000. The Country Office did not enter into agreement with the government on the use of the assets provided.

23. The Country Office has full documentation from the government acknowledging receipt of the transferred assets. However, some request letters from government prefectures that received assets and other resources from the Country Office were not on file. While the donations were documented in the previous Country Director's handover notes, no evidence was found that confirmed reporting of the transfers to the Regional Bureau and headquarters, and they were not mentioned in situation reports or executive briefs and Standard Project Reports.

Recommendation 1

Underlying cause of observation:

Compliance: The state of the country at the time, combined with an unclear process in the Country Office for approving and donating resources to the host government.

Implication:

Funds used for other purposes might affect the achievement of the objectives of the Programme. This could lead to fraudulent activities and financial loss to the Programme.

Policies, procedures and requirements:

Project objectives as agreed in project documents.

Recommendation: The Country Office should prepare a note for the record on all assets donated to government counterparts not named in the project documents, for the approval of the Country Director and report to the Regional Bureau and Operations Services Department. The Country Office should ensure that provision for future asset donations are clearly provided for in the project documents and reported in the Standard Project Reports, executive briefs and situation reports.

Agreed management actions: The Côte d'Ivoire Country Office agreed with the recommendation and will:

- Prepare a note for the record for approval by the Country Director.
- Report to the Regional Bureau and Operations Services Department.
- Report asset donations in the relevant reports and briefs.

Target implementation date: 15 December 2012.

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 COSO⁷ 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).

⁷ 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.⁸

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.

⁸ An audit observation of high risk to the audited entity may be of low risk to WFP as a whole, conversely, an observation of critical importance to WFP may have a low impact on a specific entity, but have a high impact globally.

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

ICT	Information Communication and Technology
IS/IT	Information Systems/Information Technology
UN	United Nations
VAT	Value added tax
WINGS	WFP's corporate ERP system
WFP	World Food Programme