Internal Audit of WFP Operations in Chad

Office of the Inspector General
Internal Audit Report AR/13/09

Contents

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I. Executive Summary

Introduction

1.   As part of its annual work plan for 2013, the Office of Internal Audit conducted an audit of WFP operations in Chad.   WFP's Direct Expenses in Chad in 2012 totalled US$ 171 million[1], representing four per cent of WFP's total Direct Expenses for the year.   The audit covered activities from 1 January 2012 to 31 March 2013 and included field visits to various locations in Chad, and a review of related corporate processes that impact across WFP.

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

Audit Conclusions

3.   Based on the results of the audit, the Office of Internal audit has come to an overall conclusion of **partially satisfactory**[2]. Conclusions are summarized in Table 1 by internal control components:

Table 1: Summary of conclusions by Internal Control Components[3]

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

Key Results of the Audit

Positive practices and initiatives

4.   A number of positive practices and initiatives were noted during the audit, among them improvements in the risk assessment processes, the implementation of procurement plans, and the PASport system (New Generation (NG) System for the Payroll of Service Contract and Special Service Agreement holders in WFP Field Offices) for the local payroll, effective and efficient management of general food distribution in the Iridimi refugee camp, and the

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[1] Annual Performance Report 2012 - WFP/EB.A/2013/4 – Annex IX-B.
[2] See Annex A for definitions of audit terms.
[3] See Annex A for definition of WFP's Internal Control Framework and Components.

implementation of prior audit recommendations and enhanced controls to mitigate the risk of double registration of beneficiaries in refugee camps.

Audit recommendations

5.   No high-risk recommendations arose from the audit. The audit report contains 16 medium-risk recommendations.

Management Response

6.   Management has agreed with all the recommendations. Three of the recommendations have been implemented and work is in progress on the remaining 13.

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

David Johnson
Inspector General

II. Context and Scope

Chad

8.   Chad is one of the poorest countries in the world, ranking 184 out of 187 on the 2012 UNDP Human Development Index (HDI). Since its independence in 1960, the country has been plagued by conflict and severe climatic and environmental hazards, such as drought. Tensions between ethnic groups in the north, centre and south have contributed to continuing political instability. The country's location in an unstable geopolitical region makes it vulnerable to the spill-over of crises in Sudan and the Central African Republic. It is estimated that there are currently 330,000 refugees in Eastern and Southern Chad, putting additional pressure on the limited resources of the already highly vulnerable local population. Chad relies heavily on external assistance for its food security, especially in the Sahelian zone, which is the area most exposed to climatic shocks and which is currently suffering from drought and food shortages, including a shortage of cereal crops [4].

WFP Operations in Chad

9.   Through PRRO 200289, a project launched in January 2012, the Country Office (CO) aims at meeting the needs of refugees, vulnerable households, and people suffering from malnutrition due to recurrent crises, notably in the Sahelian belt of Chad. The Development project (DEV 200288) began in January 2012 and aims to support education sector in the most vulnerable, drought affected areas of Chad, complementing the activities conducted under PRRO 200289. The CO also provides Air Service to the humanitarian community through a UNHAS Special Operation.

10.   Following the recent influx into eastern Chad of people fleeing on-going conflicts in Sudan, the pre-registration exercise reported over 30,000 Sudanese refugees, as well as 19,700 returnees in the area of Tissi. WFP is assisting refugees by providing them with wet and dry food rations while they are transferred to refugee camps in the Sila region.

11.   WFP's Direct Expenses in Chad in 2012 totalled US$ 171 million[5], representing four per cent of WFP's total Direct Expenses for the year.

Objective and Scope of the Audit

12.   The objective of the audit was to evaluate and test the adequacy and effectiveness of the processes associated with the internal control components of WFP's operations in Chad. 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.

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

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[4] Chad Executive Brief, 10 June, 2013.
[5] WFP/EB.A/2013/4 – Annual Performance Report for 2012 – Annex IX-B.

14. The scope of the audit covered WFP's operations in Chad from 1 January 2012 to 31 March 2013. Where necessary, transactions and events pertaining to other periods were reviewed. The audit took place from 13 May to 07 June 2013, and included visits to various locations in Chad.

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. Risk assessment

- The CO's Assurance Statement for 2012 was prepared in a participatory exercise which was led by the Compliance Officer, and which involved Management, Heads of Units and the monitoring and evaluation team.
- The Country Office prepared its first risk register in a participatory workshop in mid-2012 and updated it at year end.

2. Control activities

- The CO implemented an Annual Procurement Plan that enabled a reduction in the use of waivers.
- A WFP Food for Assets Project was used to help build an innovative and substantial water-harvesting reservoir in Mongo. Local women, using only hand-tools and woven baskets, performed most of the work, under the management of a local NGO and with technical input from the government.
- The CO obtained approval to implement PASport in May 2013, which represents an achievement for the office and mitigates some of the risks associated with the manual processing of the local staff payroll.

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 – both in the County Office and at the corporate level (where applicable):

Table 3: Conclusions on risk, by internal control component and business process

Internal Control Component/ Business Process	Risk (Country Office)	Risk (Corporate)
1. Internal environment		
Corporate organizational and reporting structure	Low	Medium
Delegated authority	Medium	--
Assurance statement on internal controls	Low	--
2. Risk assessment		
Enterprise risk management	Low	--
3. Control activities		
Finance and accounting	Low	Medium
Emergency preparedness and response	Low	--
Programme management	Low	--
Transport and logistics	Medium	--
Commodity management	Medium	--
Procurement	Medium	Medium
Human resources	Medium	Medium
Mobilise resources	Low	--
Property and equipment	Medium	--
Security	Low	--
IS/IT acquire and implement	Low	--
4. Monitoring		
Programme monitoring and evaluation	Medium	--

17. Based on the results of the audit, the Office of Internal audit has come to an overall conclusion of **partially satisfactory**[6].

18. No high risk recommendations arose from the audit. A total of 16 medium-risk recommendations were made. These are presented in Table 4.

Management Response

19. Management has agreed with all recommendations. Three of the recommendations have been implemented and work is in progress on the remaining 13.

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

Table 4: Medium-risk recommendations

	Observation	Recommendation	Risk categories[7]	Underlying cause category	Owner	Due date
Internal Environment						
1	**Corporate organizational and reporting structure**: Advisory and Oversight of the CO activities by the Regional Bureau - There were no oversight missions conducted in the CO by the Regional Bureau during a period when key posts in the CO (Human Resources and Procurement) were vacant.	Prioritize periodic oversight missions to COs to provide support and assistance in mitigating any challenges and risks.	Strategic Stewardship Programmatic	Guidance	Regional Bureau Dakar	Implemented
2	**Delegated authority:** Delegated Authority on non-food items (NFI) Procurement - Due to misinterpretation of procurement rules and regulations and delegation of authority, the Country Office executed at least two substantial procurement actions beyond its authority during the audit period.	Strictly adhere to the procurement rules and regulations on delegation of authority levels, and document the relevant cases in a Note for the Record to inform the Goods and Services Purchases and Contracts Committee (Headquarters NFPCC), and the appropriate delegated authority.	Compliance Stewardship Institutional	Compliance	Chad Country Office	30 November 2013
Control Activities						
3	**Property, plant and equipment:** Management, custody and control of assets - The CO did not prioritize and perform a full reconciliation between the Assets Management Database (AMD) and the results of the physical count of property, plant and equipment. The last proper reconciliation was in 2010.	Prioritize periodic and regular physical count of assets and timely reconciliations between the AMD and the results of physical counts.	Compliance Internal business processes Institutional	Compliance	Chad Country Office	31 December 2013

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

	Observation	Recommendation	Risk categories[7]	Underlying cause category	Owner	Due date
4	**Procurement:** Updating the vendor roster - A second phase to complete the update of the NFI vendor roster, which was envisioned to include visiting the suppliers' facilities, examining documentation and issuing recommendations as and if necessary, had not been prioritised and had not taken place.	Prioritise the update of the NFI vendor roster by performing a market search for other potential suppliers and undertaking visits to the vendors.	Compliance Internal business processes Institutional	Resources	Chad Country Office	28 February 2014
5	**Procurement:** Updating the NFI Procurement Manual **-** Several guidelines have been issued on NFI procurement through directives and circulars, but the NFI procurement manual has not been updated accordingly, leaving several outdated sections in the manual.	Update the NFI Procurement Manual to incorporate and consolidate changes made through separate circulars and directives.	Operational Internal business processes Institutional	Guidelines	Procurement Division (OSP)	31 July 2014

	Observation	Recommendation	Risk categories[8]	Underlying cause category	Owner	Due date
6	**Procurement:** Contracts for programme-related services which are not food distribution activities - There are no corporate guidelines on the procurement process, the type of purchase orders (POs) to be used, the type of contract to be used, and the delegation of authority for entering into contracts for programme-related services which are not food distribution services, such as third-party monitoring services.	In coordination with the Procurement Division (OSP), develop clear guidelines for the procurement of non-distribution, programme-related services, including clarification on the procurement process, the delegation of authority levels, the type of contracts to be used, and the appropriate PO type(s) to be used.	Operational Internal business processes Institutional	Guidelines	Operations Services Department (OS)	30 June 2014
7	**Procurement:** Management of fuel purchases and stocks - The Country Office had challenges in trying to procure acceptable quality fuel in eastern Chad. Adequate storage was lacking and extremely difficult to find and suppliers of better quality fuel had no interest in delivering small quantities.	Expedite the procurement of fuel tanks and pumps and issue a new tender for the procurement of fuel.	Operational Stewardship Programmatic	Best practices	Chad Country Office	31 December 2013
8	**Procurement:** Contracting with commercial consulting firms using non-competitive procedures: Cost and other criteria comparisons were not performed before engaging partners and consulting firms to undertake post distribution monitoring (PDM) activities.	Develop and apply clear criteria for the selection of partners and consulting firms to undertake PDM and other similar activities, in order to make the selection process more transparent, and ensure that the CO engages organizations that provide the best operational and most cost-effective services.	Operational Stewardship Programmatic	Best practice	Chad Country Office	Implemented
9	**Procurement:** Weaknesses in the procurement process - Weaknesses were noted in the NFI procurement process particularly in the short-listing, security and documentation of the process for receiving offers, and scrutinising vendors for terrorist connections (UN 1267 list).	Strengthen the NFI procurement controls and address the weaknesses in the competitive tendering processes.	Compliance Stewardship Institutional	Compliance	Chad Country Office	28 February 2014

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

	Observation	Recommendation	Risk categories[8]	Underlying cause category	Owner	Due date
10	**Commodity management:** Management of damaged commodities - Damaged commodities were not segregated from spoiled commodities and non-food items, and information was not available to identify and track individual batches to determine which commodities should be subject to laboratory inspection and possible disposal.	Improve the management of damaged commodities to ensure that they are properly managed until confirmed as spoiled and destroyed, in order to avoid losses and ensure that all commodities are properly accounted for.	Compliance Stewardship Programmatic	Guidance	Chad Country Office	31 January 2014
11	**Human resources:** Enhancements needed for recruitment of local staff - There were lengthy procedures for recruitment of local staff and the CO did not have electronic tools for use in the recruitment process.	Implement controls to address the weaknesses noted, and explore the possibility of reinstating previously existing electronic tools with enhanced controls, or implementing new tools available to improve the recruitment process.	Operational Internal business processes Institutional	Best practice	Chad Country Office	30 June 2014
12	**Human resources:** Enhancements needed for recruitment of local staff - There were lengthy procedures for recruitment of local staff and the CO did not have electronic tools for use in the recruitment process.	In coordination with Regional and Country offices, develop electronic tools and mechanisms to enhance the recruitment of local staff in the field, considering language and other requirements.	Operational Internal business processes Institutional	Best practice	Human Resources Division	30 June 2014
13	**Human resources:** Risks in contracting of local staff - Local staff contracting mechanisms in the COs were subject to availability of funds. A large number of local staff had been contracted on short-term contracts for protracted periods (some up to five years) due to the uncertainty of funding. Although the contracts stated that the employment was short term, their renewal over longer periods created a general expectation of long-term employment.	In coordination with the Operations Management Department (OM), analyse the current trends on usage of Service Contracts (SC) and Special Service Agreements (SSA) across field offices in order to identify the significance of the risks involved, and determine the most appropriate contracting tools which would allow COs to recruit local staff on a more stable basis and under appropriate conditions.	Operational Internal business processes Institutional	Guidelines	Human Resources Division	30 June 2014

	Observation	Recommendation	Risk categories[8]	Underlying cause category	Owner	Due date
14	**Finance and accounting:** Delayed resource transfer - Two EMOP projects and a Country Programme were closed in 2011-2012 and the balance of resources was to be consolidated and transferred into the on-going development and PRRO projects. Due to some technical problems in the WINGS/COMPAS inter-phase, the resource transfer had not been finalised at the time of the audit, and US$ 2 million of associated costs were pending transfer and could not be utilized.	In coordination with the Contributions and Projects Accounts Branch (RMFFC), expedite the WINGS/COMPAS technical solution to enable the resource transfer in a timely manner.	Operational Internal business processes Programmatic	Guidelines	Funds Analysis & Commodity Accounting & Support Branch (OSLF)	Implemented
15	**Transport and logistics:** Contracting and evaluation of transporters - Documentation of the transport services procurement process was inadequate in some cases and the CO indicated that this was due to the exigencies of operations. Allocations of commodities for transportation by specific transporters through the tariff system were not reviewed by the Local Transport committee and were not approved by the CD as required by the Transport manual.	Improve documentation of the transport contracting process, and ensure that allocations of commodities to transporters under the tariff system are reviewed by the Local Transport Committee and approved by the CD.	Compliance Stewardship Institutional	Compliance	Chad Country Office	31 January 2014
Monitoring						
16	**Programme monitoring and evaluation:** Monitoring and reporting of school feeding activities - The CO had started but not yet finalised the development of a systematic and fully defined methodology for monitoring school activities. Such a methodology was considered important as monitoring reports indicated that some current practices were contrary to WFP policy.	Finalize the development of the methodology for monitoring school feeding activities.	Operational Internal business processes Programmatic	Guidelines	Chad Country Office	28 February 2014

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 recognizes five interrelated components (ICF components) of internal control, which need to be in place and integrated for it to be effective across the above three areas of internal control objectives. The five ICF components are (i) Internal Environment, (ii) Risk management, (iii) Control Activities, (iv) Information and Communication, and (v) Monitoring.

2. Risk categories

A 3.   The Office of Internal Audit evaluates WFP's internal controls, governance and risk management processes, in order to reach an annual and overall assurance on these processes in the following categories:

Table A.1:

Categories of risk – based on COSO frameworks[9] and the Standards of the Institute of Internal Auditors

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

A 4.   In order to facilitate linkages with WFP's performance and risk management frameworks, the Office of Internal Audit maps assurance to the following two frameworks:

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

1	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).

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[9] 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 though interventions.
3	Institutional:	Internal to WFP: fiduciary failure, reputational loss and financial loss through corruption.

3. Causes or sources of audit observations

A 5.   The observations were broken down into categories based on causes or sources:

Table A.3: Categories of causes or sources

1	Compliance	Requirement 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 categorization of audit observations

A 6.   The audit observations were categorized by impact or importance (high, medium or low risk) as shown in Table A.4 below. Typically audit observations can be viewed on two levels. (1) Observations that are specific to an office, unit or division and (2) observations that may relate to a broader policy, process or corporate decision and may have broad impact.[10]

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

5. Recommendation tracking

A 8.   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.

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[10] 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.

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

COMPAS	WFP's commodity tracking application
ERP	Enterprise Resource Planning System
IASMN	Inter Agency Security Management Network
IS/IT	Information Systems/Information Technology
ICT	Information Communication and Technology
NGO	Non-Governmental Organization
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
UN	United Nations
UNDSS	United Nations Department of Safety and Security
WINGS	WFP's corporate ERP system
WFP	World Food Programme