

Internal Audit of WFP Operations in The Democratic People's Republic of Korea (DPRK)

Office of the Inspector General
Internal Audit Report AR/14/01



World Food Programme

Contents

		Page
I.	Executive summary	3
II.	Context and scope	5
III.	Results of the audit	7
IV.	Detailed assessment	14
	Annex A – Definition of audit terms	16
	Annex B – Acronyms	20

Internal Audit of WFP Operations in DPR Korea

I. Executive Summary

Introduction






1. As part of its annual work plan for 2013, the Office of Internal Audit conducted an audit of The World Food Programme's (WFP) Operations in the Democratic People's Republic of Korea (DPRK). The WFP direct expenses in DPRK in 2012 totalled US\$ 96.5 million¹, representing two per cent of WFP's total Direct Expenses for the year. The audit covered activities from 1 January 2012 to 30 June 2013 and included field visits to various locations in DPRK and a review of related corporate processes that impact across WFP. In addition, the audit covered the operations of the DPRK Beijing Support Unit in China which provides administrative support to the Procurement, Finance and Human Resources functions.

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. 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 Components³

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

¹ WFP/EB.A/2013/4 – Annual Performance Report for 2012 – 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.

Key Results of the Audit

Positive practices and initiatives

4. A number of positive practices and initiatives were noted, among them, the stable working relationship between WFP and the counterpart at the Ministry of Foreign Affairs, the Government National Coordinating Commission (NCC), with regular weekly meetings at the WFP office; the DPRK Government authorized international Korean speaking staff to work in the WFP Country Office; and the change in the Country Office fundraising strategy yielded commendable results.

Audit recommendations

5. The audit report contains one high-risk and 14 medium-risk recommendations. The high-risk observation arising from the audit was:

6. **Programme Implementation:** The Country Office did not prioritize the most vulnerable in instances of pipeline breaks nor provide assistance in accordance with the obligations outlined in the project document.

Management response

7. Management accepted all the recommendations. Work is in progress to implement the recommendations⁴.

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



⁴ Implementation of the recommendations will be verified through the office of Internal Audit's (OIGA) standard system for monitoring of implementation of audit recommendations.

II. Context and Scope

Democratic People's Republic of Korea (DPRK)

9. DPRK experiences widespread food shortages, particularly protein and micro-nutrient food commodities. Limited arable land, lack of agricultural machinery coupled with severe economic problems and minimal economic reforms amongst other factors has resulted in cereal production well below the agricultural potential.

10. The Government of DPRK estimates that 16 million people reliant on the Country's Public Distribution System rations are at increased risk of malnutrition. The 2012 Crop and Food Security Assessment Mission report⁵ observed an improvement in the Country's food security situation as compared to previous years. However, the report concluded that 2.8 million vulnerable people will remain in urgent need of nutritional food assistance in five provinces in the North East of the Country. DPRK's Global Hunger Index, currently at 19⁶, continues to be significantly high and despite improved harvests in recent years, DPRK continues to suffer from widespread food shortages.

WFP Operations in DPRK

11. WFP has been active in DPRK since 1995. Since inception, WFP's assistance has focused on addressing the nutrition gap that exists among young children and pregnant and breastfeeding women rather than reducing the food gap in the country and has delivered over four million Metric Tonnes (MT) of food assistance to the people of DPRK. While the Government was responsible for the storage, transportation and delivery to distribution points of food commodities, WFP's activities involved coordinating the arrival of food at the points of entry, monitoring food commodity storage and movements and conducting pre- and post-distribution monitoring. WFP's outreach in DPRK comprises a Country Office in Pyongyang and three unstaffed field offices, in Wonsan, Hamhung and Chongjin regularly visited by field monitors and other WFP international staff. The projects implemented during the period under review were:

- An Emergency Operation (200266): Emergency Food Assistance to Vulnerable Groups Nutrition Support for Women and Children, 1 April 2011 to 30 June 2012; project funding as of June 2013 was US\$ 84.3 million with 2,339,687 beneficiaries.
- A protracted relief and recovery operation (PRRO)(200114): Nutrition Support for Women and Children, 1 July 2010 to 30 June 2013; project funding as of June 2013 was US\$ 86.9 million with 1,909,352 beneficiaries.

12. WFP's direct expenses in DPRK in 2012 totalled US\$ 96.5 million⁷, representing two percent of WFP's total Direct Expenses for the year.

13. A Letter of Understanding (LoU) outlined the activities, duties and responsibilities of WFP and the Government. Over the past 10 years, WFP's cooperation and communication with the DPRK Government evolved substantially. The terms of the current LoU demonstrate these progressive steps as WFP enjoys the most significant operational access in North Korea.

⁵ Joint Food and Agriculture (FAO), Crop and Food Security Assessment Mission (CFSAM) and WFP Crop and Food Security Assessment Mission Joint Assessment September/ October 2012.

⁶ 2011 Global Hunger index (GHI) report jointly published by the International food Policy Research Institute, Concern Worldwide and German Afro Action.

⁷ WFP/EB.A/2013/4 – Annual Performance Report for 2012 – Annex IX-B.

14. Overall, the Government has been consistent in granting access rights to WFP project sites to Country Office field monitors and other missions. Generally, it is noted that the Government occasionally imposes access restrictions, for example, during periods of hazardous weather conditions (July to September) which sometimes damage the country's transportation.

Objective and scope of the audit

15. The objective of the audit was to evaluate and test the adequacy and effectiveness of the processes associated with internal control components of WFP's operations in DPRK, as part of the process of providing an annual and overall assurance statement to the Executive Director on governance, risk management and internal control.

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

17. The scope of the audit covered WFP's operations in DPRK for the period from 1 January 2012 to 30 June 2013. Where necessary, transactions and events pertaining to other periods were reviewed. The audit, which took place from 24 July to 16 August 2013, included visits to various locations in DPRK and in the Beijing Support Unit based in China.

III. Results of the audit

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

Table 2: Positive practices and initiatives

1. Internal environment

- The Country Office's senior management had established an effective working relationship with the National Coordinating Commission (NCC), WFP's counterpart at the Ministry of Foreign Affairs, with regular, weekly meetings at the WFP office.
 - The Country Office monitoring staff and Senior Government County officials had established effective and efficient working relationships and County officials came to meetings with the Country Office monitoring missions with most of the required supporting documentation.
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2. Risk assessment

- The Country Office management's decision to prioritize suppliers able to deliver goods and services in DPRK but receive payment outside DPRK, assisted the Country Office to manage its in-country liquidity shortage caused by the on-going UN Security Council and other Member States' sanctions.
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3. Control activities

- The DPRK Country Office established its main non-food procurement function under the Beijing Support Unit in Beijing, China. The Unit facilitated access to the more competitive Chinese procurement market and a larger pool of vendors that had the capacity to deliver goods and services in DPRK. This setup ensured that the Country Office obtained the best value for its money which could not be achieved in DPRK because the procurement market was controlled by the Government.
 - The Country Office widened the scope of its fundraising strategy by focusing on emerging donors who provided small but frequent and consistent contributions and achieved commendable results.
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4. Monitoring

- The geographical coverage of the Country Office's monitoring activities was commendable.
 - WFP was authorized by the Government to recruit international Korean-speaking staff to work in the Country office.
 - Programme and Logistics staff were given access to all WFP food commodity sites including ports, warehouses, public distribution centres and beneficiaries' households by first applying for access to the Government's NCC at Country Level and Senior County Officials at institutional level.
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19. Having evaluated and tested the controls in place, the Office of Internal Audit has come to the following conclusions on the residual risk related to the processes – both in the Country Office and at the corporate level (where applicable) – as follows:

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

Internal Control Component/ Business Process	Risk (Country Office)
1. Internal environment	
Internal Environment and Risk Management	Medium
2. Risk assessment	
Emergency preparedness and response	Medium
3. Control activities	
Finance and accounting	Medium
Programme management	High
Transport and logistics	Medium
Commodity management	Medium
Procurement	Medium
Human resources	Medium
Mobilize resources	Medium
Property and equipment	Low
Administration and Travel	Low
Security	Low
IS/IT acquire and implement	Medium
4. Information and communication	
External relations and partnerships	Low
5. Monitoring	
Programme monitoring and evaluation	Medium

20. Based on the results of the audit, the Office of Internal audit has come to an overall conclusion of **partially satisfactory**⁸.

21. One high-risk recommendation was made, which are detailed in Section IV of this report, and 14 medium-risk recommendations. Tables 4 and 5 present the high and medium-risk recommendations respectively.

Management response

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

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

⁸ 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 ⁹	Underlying cause category	Owner	Due date
Internal Environment:					
Control Environment					
1 Programme Management: Programme implementation – The Country Office did not prioritize the most vulnerable in instances of pipeline breaks and provide assistance in accordance with the obligations outlined in the project document.	Review the current practice of distribution planning in order to address discrepancies between the actual and planned beneficiaries while taking prioritization into account.	Operational Operational Efficiency Programmatic	Compliance	DPRK Country Office	March 2014

⁹ See Annex A for definition of audit terms.

Table 5: Medium-risk recommendations

Observation	Recommendation	Risk categories ¹⁰	Underlying cause category	Owner	Due date
Internal Environment					
2	Strategic Planning and Performance Accountability: Strategic planning, performance reporting and Emergency Preparedness and Response – The Country Office had not formulated and/or finalized key strategic documents and activities including (i) The Annual Performance Plan 2013 (ii) The Emergency Preparedness and Response Plan (iii) The Country Strategy and (iv) Determined, assessed, evaluated and reported its achievements against its set targets giving rise to the risk of inadequate strategic visions, direction and plans.	Compliance Stewardship Institutional	Compliance	DPRK Country Office	March 2014
3	IS/IT Plan & Organize: ICT Segregation of Duties and User Access rights – Access restrictions on national staff seconded from the Government, combined with international staff shortfalls resulted in inadequate Segregation of Duties environments in the Country Office network application systems and COMPAS database which may lead to errors, omissions and potentially, fraud not being detected and remedied on a timely basis.	Resources Stewardship Institutional	Resources	DPRK Country Office	January 2014
4	Delegated authority: Assessment of 'No Access, No Food' requirement – In the absence of documented analyses and evaluations by the Country Office of the Governments' reasons for the denial of access to WFP staff of WFP project sites, the Country Office could not demonstrate that its agreement with the Government on access is fully complied with.	Strategic Stewardship Institutional	Compliance	DPRK Country Office	January 2014

¹⁰ See Annex A for definition of audit terms.

Observation	Recommendation	Risk categories ¹⁰	Underlying cause category	Owner	Due date	
Control Activities						
5	Programme Management: Local Food Processing – The Country Office had not updated the Memorandum of Understanding on Local Food Processing with the Government to reflect its current activities and had not developed a tracking system to monitor the implementation status of the recommendations on improving recipes used in the production of fortified foods made by the food technologist to ensure that processed food commodities met corporate standards.	Update the Memorandum of Understanding on Local Food Processing in consultation with the Government to reflect the current food production activities to ensure the alignment of current food production with WFP standards and implement the recommendations made by the food technologist.	Compliance Operational efficiency Programmatic	Compliance	DPRK Country Office	January 2014
6	Transport and Logistics: Fuel Subsidy - In the absence of independent third party supporting documentation to justify the fuel subsidy paid to the Government, the Country Office could not demonstrate transparency and value for money.	Review the fuel subsidy rates and ensure that the basis of decisions and corresponding supporting documentation to justify the final agreed rate are maintained.	Operational Stewardship Institutional	Compliance	DPRK Country Office	March 2014
7	Transport and Logistics: Payment of Superintendent Fees (Tallying) - The lack of formalized contractual arrangements with the Tally company and detail on the tally sheets gives rise to the risk that the tally company's invoices may not be accurately stated, and the Country Office may be paying more than is justified by the work performed.	Formalize the arrangement with the Government Tally Company under a contractual agreement and include a requirement for the Tally Company to distinguish day and night shifts on the daily tally sheets and a clause that invoices will be settled only when they are supported by daily tally sheets with the requested information.	Operational Stewardship Institutional	Compliance	Country Office	March 2014
8	Commodity Management: Warehouse management in WFP supported factories – Lack of supervision and oversight and provision of technical guidance by the Country Office of Government factories prevented the effective safeguard of WFP commodities and quality of processed food.	Explore ways of enhancing on-site supervision of the factory warehouses which could include building the technical capacity of food of field monitors in warehouse management and monitoring and providing additional on-site supervision and oversight.	Compliance Operational efficiency Programmatic	Compliance	DPRK Country Office	October 2014

Observation	Recommendation	Risk categories ¹⁰	Underlying cause category	Owner	Due date
9 Procurement: Areas for Improvement in the Procurement Process – There is a need to strengthen procurement controls to ensure transparency in (i) The selection and award of contracts to new vendors; (ii) The timeliness of creating Purchase Orders in the WINGS database; (iii) The basis and justification for waived procurements and (iv) recording of Goods Receipt Notes into the WINGS database.	Development and implement procurement procedures that enable (i) Effective due diligence reviews of potential suppliers; (ii) A systematic approach to invite registered vendors to bid; (iii) A transparent approach to the assessment of waivers of competition and (iv) pre-empt the recording of Goods Received Notes without recipient signature confirmations in the WINGS database.	Compliance Internal Business Processes Institutional	Compliance	DPRK Country Office	April 2014
10 Human Resources: Management of seconded staff – WFP and the Government had not fully complied with the terms and conditions set out in the Letter of Understanding regarding the transparent identification, selection, termination and management of seconded staff.	Renegotiate the terms of the current Letter of Understanding with the Government to include terms which can be realistically implemented and agree on a more transparent process in the identification, selection, termination and management of seconded staff.	Compliance Stewardship Contextual	Compliance	DPRK Country Office	July 2015
11 Human Resources: Strategies in the current and future workforce – The reduction in Country Office staff without the performance of a staffing review exercise and strategic realignment of staffing needs to country office programme objectives resulted in an inadequate human resource structure to effectively implement Country programme activities.	Conduct a full staffing review exercise, including the Beijing Support Unit, to determine the necessary number, skills and competencies of staff in each unit, which should be aligned to the Office's future strategy and programme objectives.	Resources Stewardship Institutional	Resources	DPRK Country Office	July 2014
12 Mobilise Resources: Resourcing shortfall PRRO 200114 and 200532 – The absence of a contingency plan limited the Country Office's ability to effectively prioritize its activities when faced with funding shortfalls.	In consultation with the Operations Management and Governance and Partnerships Departments, develop a contingency plan which should be informed by effective budget monitoring and aligned to the future operating modality of WFP programme in DPRK.	Resources Securing Resources Contextual	Resources	DPRK Country Office	April 2014
13 IS/IT Deliver & Support: Backup servers location, access and execution – The back-up room door in the administration building was not reinforced and back up locations were in close proximity of each other exposing the Country office to the risk of loss of backup server information in the event of destructive incidents in the area.	Explore the option of acquiring alternative back-up storage facilities in the premises of another Pyongyang based UN agency whose buildings are not in close proximity to the Country Office compound . The door of the back-up server room in the administration building should be reinforced and doors of the back-up server storage cabinets should be locked. COMPAS data should be backed up daily by the ICT department.	Resources Operational Efficiency Institutional	Resources	DPRK Country Office	February 2014

Observation	Recommendation	Risk categories ¹⁰	Underlying cause category	Owner	Due date
Monitoring					
14 Programme Monitoring and Evaluation: Monitoring Targets and Data Analysis – The Country Office’s monitoring resources and consequently could not be achieved. Further, monitoring activities did not consistently adhere to the set prioritization in the monitoring plan and some elements of the assurance that could have been obtained from the monitoring were overlooked either because of insufficient inclusion of some project elements during data collection or limited analysis of collected data.	Ensure that monitoring targets are aligned to monitoring resources, set prioritizations are followed, and that the depth of analysis of monitoring coverage and results is extended.	Operational Stewardship Operational Efficiency	Compliance	DPRK Country Office	June 2014
15 Programme Monitoring and Evaluation: Classification of Monitoring Activities – In its communication to stakeholders, the Country office included field visits and missions that either did not have monitoring as its main objectives or were planned but not subsequently undertaken as performed.	Distinguish other field visits and missions activities from official Country Office programme monitoring visits in its communication to stakeholders.	Reporting Stewardship Institutional	Human Error	DPRK Country Office	June 2014

IV. Detailed Assessment

Control Activities

High-Risk

Observation 1 Programme Management: Programme Implementation

24. WFP's assistance in DPRK aims to assist the Government to prevent the long-term effects of malnutrition. Accordingly, WFP's activities in DPRK are centred on supporting local production of fortified food blends; providing nutritional support to women and children through the distribution of food baskets containing cereals and pulses; and Food-For-Community-Development (FFCD) programmes.

25. The 2011 and 2012 food security assessments identified DPRK's north-eastern provinces as the most food-insecure areas. Protracted Relief and Recovery Operation 200114 project document indicated that WFP's focus in DPRK would be on the most vulnerable beneficiary groups and that with the exception of orphanages, hospital paediatric wards and pregnant and lactating women, the Country Office would prioritize food distributions on the basis of geographical location and age. Additionally, in the event of food production and distribution pipeline breaks, the project document determined the Country Office's order of prioritization for the distribution of available commodities to targeted beneficiaries.

26. The operation experienced severe funding shortfalls from 1 July 2012 to 30 June 2013, which resulted in food shortages and, from September 2012, significant production and distribution pipeline breaks.

27. General Food Basket Prioritization: All beneficiary groups experienced shortfalls compared with the distribution plan. The Country office did not follow the established order of prioritization in the project document during these pipeline breaks. The audit noted discrepancies in the prioritisation between the activities and beneficiary groups, for example the orphanages, which are the highest priority as not having access to alternatives, received 60 percent of the planned distribution, while children in primary schools, who were third priority, received 75 percent of the planned distribution. Furthermore, an error in the methodology used to calculate the number of pregnant and lactating women resulted in this vulnerable group (second priority) receiving only 25 percent of the planned distributions. Full details of the analysis have been provided to the Country Office.

28. Fortified Foods Distribution Prioritization: A similar analysis between the Country Office's food distribution plan and actual distribution reports for the fortified food blends revealed similar results. All beneficiary groups experienced shortfalls and the Country office did not follow the established order of prioritization in the project document during these pipeline breaks.

29. Geographical prioritization: An analysis of the list of targeted beneficiaries revealed that 48 percent of the targeted beneficiaries were from the north-eastern provinces and that between July 2012 and July 2013, they received 50 percent of the distributed food tonnage, thus demonstrating a limited prioritization.

Recommendation 1

Underlying cause of observation:

The PRRO 200114 was underfunded for the whole year July 2012-June 2013. This put constraints on the Country Office's ability to procure and ship the right amount of commodities at the right time to the right destinations and led to logistical challenges, which affected the distributions. Further, the Country Office tried, in its allocation of available resources, to minimize the time gap between two distributions for all beneficiary groups. This might in part have been at the expense of adhering to the prioritization between beneficiary groups and geographical areas. The Country Office did not perform a periodic reconciliation and verification of the distribution plan to ensure its alignment with the prioritizations.

Implication:

There is a risk that the Country Office may not have prioritized the most vulnerable in instances of pipeline breaks, and may not have provided assistance in accordance with the obligations outlined in the project document.

Policies, procedures and requirements:

The project document for PRRO 200114.

Recommendation: The Country Office should review its current practice of distribution planning in order to address the discrepancy found between the actual and planned beneficiaries taking prioritization into account.

Agreed management actions: The Country Office agreed with the recommendation and:

The CO will review these factors and write them into a clearer Standard Operating Procedure for prioritization.

Target implementation date: April 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 frameworks¹¹ 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).

¹¹ 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 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.¹²

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.

¹² 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

DPRK	The Democratic People’s Republic of Korea
LoU	Letter of Understanding
MT	Metric Tonnes
NCC	The Democratic People’s Republic of Korea Government’s National Coordinating Commission
PRRO	Protracted Relief and Recovery Operation
WFP	The World Food Programme