

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 2013, between March and August 2013 the Office of Internal Audit reviewed the 2012 Assurance Statements from fourteen entities in headquarters and the field, and coversheets from their respective Regional Bureaux.
2. 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. Now in its second year since implementation in 2011, the framework builds on the lessons learned in 2012 when WFP presented its first Statement on Internal Control with the annual financial statements. The Statement on Internal Control was based on Assurance Statements on the effectiveness of internal control which were 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 **satisfactory**¹. Conclusions by internal control components are summarized in Table 1:

Table 1: Summary of conclusions by Internal Control Components²

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

¹ See Annex A for definitions of audit terms.

² See Annex A for definition of WFP's Internal Control Framework and Components.

Key Results of the Audit

Positive practices and initiatives

5. There has been improvement in the implementation of practices for enterprise risk management as demonstrated by the selected entities in the Assurance Statements, including the completion of the Risk Registers by the reporting entities, as well as improvements in the rate of completion of the Emergency Preparedness Response Plans (80 percent in 2012 up from 20 percent in 2011), and staff performance appraisals (74 percent of all staff finalized their PACE in 2012 up from 50 percent in 2011).

6. There was a marked increase in the number of entities that completed the voluntary internal control and functional area self-assessment checklists (76 percent in 2012 up from 50 percent in 2011), which were critical in the thorough assessment of internal controls by the reporting entities.

7. As in 2011, the Business Innovation and Support Unit's reporting entities again achieved a 100 percent submission rate for the Assurance Statements.

Audit recommendations

8. The audit report contains seven medium-risk recommendations.

Management Response

9. Management accepted all the recommendations and has reported that five have been implemented³ and two are in progress.

10. 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

³ 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

Internal Control Assurance Process

11. The last decade was marked by large corporate failures and scandals resulting from lapses in the overall control consciousness of management. This drew the corporate world and regulators' attention towards the working 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.

12. 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 Framework

13. 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.

14. In 2012 WFP presented the second 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 controls as well as other sources which were provided by all Deputy Executive Directors, Country and Regional Directors, Liaison Office Directors and headquarters Division Directors.

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 WFP's Internal Control Framework, 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.

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

III. Results of the Audit

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

Table 2: Positive practices and initiatives

1. Internal environment

- Questions and references to the self-assessment and functional area questionnaires were clarified and improved for the 2012 version of the Assurance Statements.
- There was a marked increase in the number of self-assessment checklists completed by the responding entities.
- Completion rates for staff performance appraisals improved in 2012 as compared to 2011.
- The average percentage of positive answers improved in 2012 for every category of the assurance statements as compared to 2011.
- The Business Innovation and Support Unit's reporting entities achieved a 100 percent submission rate for the Assurance Statements.

2. Risk Assessment

- Enterprise risk management practices, including the completion of the Risk Registers and Emergency Preparedness Response Plans significantly improved as compared to 2011. Both the number of entities that completed them and the quality of submissions increased.

18. 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
1. Internal environment	Medium
2. Risk assessment	Low
3. Control activities	Low
4. Information and communication	Low
5. Monitoring	Low

19. Based on the results of the audit, and in the context of the evolving nature of WFP's Internal Control Assurance Process, the Office of Internal audit has come to an overall conclusion of **satisfactory**⁴.

20. A total of seven medium-risk recommendations were made, which are presented in Table 4.

⁴ See Annex A for definitions of audit terms.

Management Response

21. Management has agreed with all recommendations and has reported that five have been implemented and the implementation of the remaining two is in progress.

Table 4: Medium-risk recommendations

Observation	Recommendation	Risk categories ⁵	Underlying cause category	Owner	Due date	
Internal Environment						
1	<p>Internal Control Assurance Process: Completion of the Self-Assessment Checklists - four out of fourteen entities reviewed had not completed the Self-Assessment checklists, whose use is highly recommended when assessing the effectiveness of controls over the reporting period. Some completed checklists indicated a weak rating for the related entities, but did not provide explanations of any mitigating actions or plans for improvement.</p>	<p>Develop mechanisms for encouraging, tracking and corroborating the completion of the Self-Assessment Checklists to ensure Offices log and follow-up the weaknesses and improvement actions noted in the checklists and Assurance Statements.</p>	<p>Strategic Internal Business Processes Institutional</p>	<p>Guidelines</p>	<p>Business Innovation and Support Unit</p>	<p>Implemented</p>

⁵ See Annex A for definition of audit terms.

Observation	Recommendation	Risk categories ⁵	Underlying cause category	Owner	Due date
<p>2 Internal Control Assurance Process: Need to enhance Criteria for Review of Assurance Statements - The criteria needed to review elements of the Assurance Statements, such as the Risk Register, the Annual Performance Plan (APP), Performance and Competency Enhancement (PACE) completion rates, etc. were not sufficiently clear, affecting the Regional Bureau's (RBs) and HQ Divisions' ability to correctly interpret and perform adequate reviews of the reporting entities and resulting in inadequately supported answers.</p>	<p>Develop guidelines for the RB and headquarter divisions on the minimum standards for completing the Assurance Statement, and supporting criteria and methodology for completing the questions related to the Review Cover sheet.</p>	<p>Strategic Internal business process Institutional</p>	<p>Guidelines</p>	<p>Business Innovation and Support Office</p>	<p>Implemented</p>
<p>3 Internal Control Assurance Process: Absent references in the Assurance Statements - the Assurance Statements (AS) did not maintain clear references to the relevant questions in the Internal Control Self-Assessment Checklist that would allow Managers to consider all the facts and relevant information needed to correctly complete the AS.</p>	<p>Review the Assurance Statements and ensure all relevant questions in the Internal Control Self-Assessment Checklist are referenced to the AS. Consider referencing the Functional Area Self-Assessment Checklists.</p>	<p>Reporting Internal business processes Institutional</p>	<p>Guidelines</p>	<p>Business Innovation and Support Office</p>	<p>Implemented</p>

Observation	Recommendation	Risk categories ⁵	Underlying cause category	Owner	Due date
4 Internal Control Assurance Process: Assurance Statement Period - Some responses in the Assurance Statement were incorrectly based on actions and conditions that existed after the end of the reporting period (31 December 2012).	Incorporate specific instructions and guidance in the Assurance Statements and throughout the supporting guidelines to ensure correct understanding of the length of the reporting period.	Reporting Internal business processes Institutional	Guidelines	Business Innovation and Support Office	Implemented
5 Internal Control Assurance Process: Guidelines for Monitoring User Access - the Assurance Statements require assurance to be provided that access to information systems is restricted to authorized users only. However, the guidelines provided by the Information Technology Division (OST) were not clearly referenced and did not contain enough information and detail, resulting in an ad-hoc approach for the monitoring of user access.	The Information Technology Division (OST) should take the lead in ensuring the Management Information Systems Committee (MISSC) considers the data, supporting systems and applications that require restricted user access and establishes appropriate enabling monitoring guidelines and mechanisms over user access monitoring.	Reporting Internal business processes Institutional	Guidelines	Information and Technology Division	30 June 2015
Control Activities					

Observation	Recommendation	Risk categories ⁵	Underlying cause category	Owner	Due date
6	Security: Security of Staff - the Assurance Statements provided assurance of the physical risk for WFP assets but did not include an element for the security of staff.	Reporting Stewardship Institutional	Guidelines	Business Innovation and Support Office	Implemented
Information and Communication					
7	Internal Communications and feedback: Communication Strategy - The communication strategies evaluated had varying degrees of detail and quality. Some strategies included or excluded stakeholders without clearly explaining the rationale for doing so. In addition, some strategies identified objectives and key performance indicators, and tracked achievements against those objectives, while others did not.	Reporting Internal business processes Institutional	Guidelines	Communications Division	30 June 2014

Annex A – Audit Definitions

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 COSO⁶ 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 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).

⁶ 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 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.

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.⁷

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 effect 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.

⁷ 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. 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.

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

COSO	The Committee of Sponsoring Organizations of the Treadway Commission
IS/IT	Information Systems/Information Technology
OIGA	Office of Internal Audit
UNDAF	United Nations Development Assistance Framework
WFP	World Food Programme