

Internal Audit of WFP Operations in Cambodia

Office of the Inspector General
Internal Audit Report AR/14/08



World Food Programme

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I. Executive Summary

Introduction

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP operations in Cambodia. WFP's Direct Expenses in Cambodia in 2012 totalled US\$23.3 million¹, representing 0.6 percent of WFP's total Direct Expenses for the year. The audit covered activities from 1 January 2012 to 31 July 2013. It included field visits to various locations in Cambodia 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 **satisfactory**. Conclusions are summarised in Table 1 by internal control components:

Table 1: Summary of conclusions by Internal Control Components²

Internal Control Component	Conclusion
1. Internal environment	Medium 
2. Risk Management	Low 
3. Control activities	Medium 
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 during the audit, included among them are: well-defined organisational structure and clarity on roles and responsibilities; well-defined work plan; a comprehensive risk register with clear linkages to the work plan; close collaboration with Cooperating Partners (CP) and Government Counterparts (GC) for implementation of programme activities; effective Monitoring and Evaluation toolkit and an M&E database; roll out of emergency preparedness and response package and identification of minimum preparedness actions; co-chairing

¹ Annual Performance Report 2012 - WFP/EB.A/2013/4 - Annex IX-B.

² See Annex A for definitions of audit terms and WFP's Internal Control Framework and Components.

with Action Aid of the Humanitarian Response Forum³ for monitoring and response to the 2013 floods in Cambodia; chair of the United Nations Disaster Management Team (UNDMT) and good coordination with WFP headquarters on delivering key messages to the public through press.

Audit observations

5. No high-risk observations arose from the audit. The audit report contains four medium-risk observations.

Actions agreed

6. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations⁴.

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

³ A network of United Nations (UN), non-government organizations (NGOs), and international organisations (IOs) engaged in emergency preparedness, humanitarian and early recovery response in Cambodia.

⁴ Implementation will be verified through the Office of Internal Audit's standard system for monitoring agreed actions.

II. Context and Scope

Cambodia

8. Cambodia is a developing country, emerging from decades of civil conflict and economic stagnation, aspiring to become a dynamic economy in the Association of South-East Asian Nations. It is ranked 138 out of 186 countries on the United Nations Development Programme 2012 Human Development Index⁵. According to the World Bank estimates the percentage of population living below the national poverty line (US\$0.93 per capita per day) stood at 20.5 percent in the year 2011⁶.

WFP Operations in Cambodia

9. WFP has been involved in humanitarian activities in the country since 1968 and has undertaken various food assistance and rehabilitation projects to support the Cambodian people. WFP's Direct Expenses in Cambodia in 2012 totalled US\$ 23.3 million⁷, representing 0.6 percent of WFP's total Direct Expenses for the year. A brief summary of WFP's active projects during the audit period is provided below.

- Country Programme 2011-2016 (200202): WFP Cambodia's Country Programme included food-based social safety nets in the sectors of Education, Nutrition and Productive Assets/Livelihoods Support with a strong focus on recovery and development. These activities were in line with the national priorities of the Country and were aimed at achieving both positive food security outcomes and broader development objectives. The project was planned for a period of 5 years from 2011 to 2016. The funding for the project as of 1 November 2013 was US\$57.7 million and it aimed to reach 2,836,380 beneficiaries⁸.
- Emergency Operation (200373): The Country Office (CO) managed a one year Emergency Operations project during 2011 and 2012, in response to the 2011 floods. The project provided short- and long-term support to flood affected population through general food distributions (GFD), food for assets (FFA) for infrastructure rehabilitation, and vulnerable group feeding (VGF) activities. The project ended on 14 November 2012. Total funding requirement for the project were US\$11.7 million and by the end of the project, funding of US\$6.7 million was achieved with an overall shortfall of 42.9 percent.

Objective and Scope of the Audit

10. 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 Cambodia. 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.

11. 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.

12. The scope of the audit covered WFP's operations in Cambodia from 1 January 2012 to 31 July 2013. Where necessary, transactions and events pertaining to other periods were reviewed. The audit field work took place in Phnom Penh and various other locations in Cambodia.

⁵ UNDP's Human Development Report 2013.

⁶ World Bank Cambodia Data, Poverty headcount ratio at national poverty line (% of population). Retrieved 16 December 2013.

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

⁸ November Executive Brief: Cambodia. 1 November 2013. WFP Rome

III. Results of the Audit

13. In performing our audit, the following positive practices and initiatives were noted:

Table 2: Positive practices and initiatives

1. Internal Environment

- Well defined organisational structure and clarity on roles and responsibility.
- A clear work plan and timely reviews of the progress on the achievement of work plan.

2. Risk Management

- A consultative approach to develop the risk register which resulted in a comprehensive risk register with clear linkages to the annual work plan.

3. Control activities

- Close collaboration with the Cooperating Partners and Government Counterparts for implementation of programme activities.
- Co-chairing of the Humanitarian Response Forum for monitoring and response to the 2013 floods in Cambodia. Roll out of emergency preparedness and response package and identification of minimum preparedness actions. WFP is the Humanitarian Response Forum (HRF) administrating agency for the related Office of US Foreign Disaster Assistance (OFDA)-grant of 200,000 USD.
- Good documentation of regular inventory stock count at the warehouse level.
- Development of various Standard Operating Procedures (SOP) to provide guidance to the staff on operational matters.
- Good coordination with United Nations Department of Safety and Security (UNDSS) for security related matters.
- Strong efforts at various levels to mobilise resources and raise donor awareness.
- Emergency Preparedness Response Plan rolled out and Minimum Preparedness Actions identified for major functions.
- Effective M&E toolkit with updated checklists and effective M&E database.
- Good coordination with HQ on delivering key messages to the public through the press.

14. 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 on risk, by internal control component and business process

Internal Control Component/ Business Process	Risk (Country Office)
1. Internal environment	
Corporate organisational and reporting structure	Low
Delegated authority	Low
Strategic planning and performance accountability	Medium
Assurance statement	Low
2. Risk Management	Low
Enterprise risk management	Low
Emergency preparedness and response	Low
3. Control activities	
Finance and accounting	Low
Programme management	Low
Transport and logistics	Medium
Commodity management	Medium
Procurement	Low
Human resources	Low
Property and equipment	Low
Administration and travel	Low
Security	Low
Resource Mobilisation	Low
4. Information and communication	
Internal Communication	Low
External Communications	Low
Information and Communications Technology	Low
5. Monitoring	
In-country Monitoring	Medium
Corporate Monitoring	Low

15. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **satisfactory**⁹.

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

17. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations.

⁹ See Annex A for definitions of audit terms.

Table 4: Medium-risk observations

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
Internal Environment					
1 Strategic planning and performance accountability: Funding Challenges – The Country Office was facing critical funding challenges at the time of audit. A country strategy and a complementing resource mobilisation strategy would be useful to outline funding sources and to plan resource mobilisation especially in the context of funding shortfalls.	The CO will expedite formulation of country strategy and will compliment it with a resource mobilisation strategy to better support operations.	Strategic Accountability & Funding Institutional	Guidelines	Cambodia Country Office	31 December 2014
Control Activities					
2 Commodity Management: Commodity Management – Weaknesses were noted in tracking of commodity expiry dates and best before dates; general storage and warehouse conditions; and disposing of spoiled commodities due to delays in getting necessary clearances.	The CO will develop an interim system to track commodity expiry and best before dates till the Logistics Execution Support System (LESS) is rolled out. The CO will improve warehouse conditions and expedite the efforts to obtain necessary clearances to dispose of spoiled commodities.	Operational Processes & Systems Contextual	Best Practice	Cambodia Country Office	31 July 2014
3 Transport and Logistics: Transporter Shortlisting – The CO adopted a strategy to avoid contracting transporters with small capacity. This resulted in high dependency on a single transporter for delivering food commodities in one area. There were no safeguards or alternates available to the CO in case the transporter was unable to deliver food commodities. Furthermore, there were delays in the shortlisting exercises.	The CO will revisit the approach to shortlist transporters and avoid dependencies on single transporter. The CO will improve timing and planning of shortlisting exercise.	Operational Processes & Systems Institutional	Resources	Cambodia Country Office	31 July 2014

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
Monitoring					
4	In-country Monitoring: Programme Monitoring – The Country Office did not integrate the results of the monitoring activities of the Cooperating Partners and Government counterparts into its M&E system thus not fully capitalising the benefits of the work done by the partners. The Country Office did not systematically track and follow-up findings of monitoring and status of their resolution.	The CO will integrate the results of the monitoring activities of the Cooperating Partners and Government counterparts into its M&E system and will develop a tracking system for monitoring findings and their resolution.	Operational Programmes Programmatic	Best Practice Cambodia Country Office	30 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 frameworks¹⁰ 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	People:	Effective staff learning and skill development – Engaged workforce supported by capable leaders promoting a culture of commitment, communication & accountability – Appropriately planned workforce – Effective talent acquisition and management.
2	Partnerships:	Strategic and operational partnerships fostered – Partnership objectives achieved – UN system coherence and effectiveness improved – Effective governance of WFP is facilitated.
3	Processes & Systems:	High quality programme design and timely approval – Cost efficient supply chain enable timely delivery of food assistance – Streamlined and effective business processes and systems – Conducive platforms for learning, sharing and innovation.
4	Programmes:	Appropriate and evidence based programme responses – Alignment with Government priorities and strengthened national capacities – Lessons learned and innovations mainstreamed – Effective communication of programme results and advocacy.
5	Accountability & Funding:	Predictable, timely and flexible resources obtained – Strategic transparent and efficient allocation of resources – Accountability frameworks utilised – Effective management of resources demonstrated.

¹⁰ 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 categorisation of audit observations

A 6. The audit observations were categorised 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.¹¹

Table A.4: Categorisation 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 observations identified are for best practices as opposed to weaknesses that prevent the meeting of systems and business objectives.

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

¹¹ 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. Monitoring the implementation of agreed actions

A 8. The Office of Internal Audit tracks all medium and high-risk observations. Implementation of agreed actions will be verified through the Office of Internal Audit's system for the monitoring of the implementation of agreed actions. 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

CO	Country Office
CP	Cooperating Partner
COSO	Committee of Sponsoring Organizations of the Treadway Commission
IO	International Organisation
LESS	Logistics Execution Support System
NGO	Non-government organisation
SOP	Standard Operating Procedure
UN	United Nations
UNDP	United Nations Development Programme
WFP	World Food Programme