

# **Internal Audit of Select WFP Corporate Processes**

Office of the Inspector General  
Internal Audit Report AR/14/09



**World Food Programme**

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# Internal Audit of Select WFP Corporate Processes

## 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 (WFP) operations in the Republic of South Sudan.
2. The audit covered activities from 1 January 2012 to 31 December 2012 and included field visits to various locations in South Sudan and a review of related corporate processes that impact across WFP.
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. The audit made one high-risk and ten medium-risk observations to the Country Office management. These recommendations are included in a separate report<sup>1</sup>.
5. The audit also identified some control issues relating to corporate processes, which are described in this report. Based on these observations, the Office of Internal Audit has come to an overall conclusion for the corporate processes of **partially satisfactory**. Conclusions by internal control component are summarized in Table 1:

**Table 1: Summary of conclusions by Internal Control Components**

Internal Control Component	Conclusion	
1. Internal environment	High	
2. Control activities	Medium	

### Key Results of the Audit

#### Audit Observations

6. This audit report contains one high-risk and four medium-risk observations. The high-risk corporate observation arising from the audit was on corporate organizational and reporting structure.
7. **Corporate organizational and reporting structure:** WFP is increasingly undertaking large construction projects. In South Sudan alone, such construction projects were worth over US \$150 million at the time of the audit. WFP however, has no formally approved technical guidelines for these type of projects, no specific contract templates and no specific guidance regarding recording and monitoring of such costs. The technical team in headquarters has an advisory role only. It is recommended that WFP prepare comprehensive guidelines for construction projects, covering governance, risk management and control activities that are consistent with the International Public Sector Accounting Standards (IPSAS) 11 on Construction Contracts.

<sup>1</sup> Report No. AR/14/04

## Management response

8. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations. Work is in progress and management plans to have all the agreed actions implemented by 31 December 2014.

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



**David Johnson**  
Inspector General

## II. Context and Scope

10. As part of the audit of WFP's operations in the Republic of South Sudan<sup>2</sup>, the team identified some areas for improvement in a selected number of corporate process with an impact going beyond the operations of South Sudan.

11. It was therefore decided to include these observations in a separate report.

12. The observations included in the report are the result of 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 the approved planning memorandum and took into consideration the risk assessment exercise carried out prior to the audit.

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<sup>2</sup> Report No. AR/14/04

### III. Results of the audit

13. Based on the evidence gathered on some corporate processes, the Office of Internal Audit has come to the following conclusions on the residual risk:

**Table 2: Conclusions – categorization of risk by internal control component and business process**

<b>Internal Control Component/ Business Process</b>	<b>Risk (Corporate)</b>
1. Internal environment	
Corporate organizational and reporting structure	High
2. Control activities	
Programme Management	Medium
Transport and Logistics	Medium
Mobilize resources	Medium

14. Based on the results of the audit, the Office of Internal audit has come to an overall conclusion, for the corporate processes covered by this document, of **partially satisfactory**<sup>3</sup>.

15. A total of one high-risk observation was made, which is detailed in Section IV of this report, and four medium-risk observations. Tables 4 and 5 present the high and medium-risk observations respectively.

#### Management response

16. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations. Work is in progress and management plans to have all the agreed actions implemented by 31 December 2014<sup>4</sup>.

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<sup>3</sup> See Annex A for definitions of audit terms.

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

**Table 4: Summary of high risk observations (see section IV for detailed assessment)**

Observation	Agreed Action	Risk categories <sup>5</sup>	Underlying cause category	Owner	Due date
<b>Internal Environment</b>					
1 <b>Corporate organizational and reporting structure:</b> South Sudan managed significant construction projects during the audit period. Even though there was a technical team in Headquarters supporting countries offices in their infrastructure projects, there were no formally approved corporate technical guidelines, no approved templates for construction contracts and no overall comprehensive governance and risk management process.	Prepare comprehensive guidelines for construction projects, covering governance, risk management and control activities and include, amongst others: delegations of authority, technical guidelines for construction and standard contract templates. In the meantime construction operations will continue to comply with existing industry best practice guidelines. Review the financial systems to enable proper recording and monitoring of construction costs in line with sector best practice and IPSAS.	Operational Process and Systems Institutional	Guidelines	Resource Management and Accountability Department – Management Services Division	31 December 2014

<sup>5</sup> See Annex A for definition of audit terms.

**Table 5: Medium risk observations**

Observation	Agreed Action	Risk categories <sup>6</sup>	Underlying cause category	Owner	Due date
<b>Internal Environment</b>					
2	<b>Organizational and reporting structure:</b> Although South Sudan was one of the largest WFP operations in 2012, the Country Office did not have a Compliance Officer. There are currently no formal guidelines stating when and where Compliance Officers should be appointed. It was noted in other countries that the seniority level and professional background of Compliance Officers did not match the standard job profile requirements. Compliance Officers did not have a standard methodology to follow when performing their duties.	Operational People Institutional	Guidelines	Resource Management and Accountability Department – Performance Management and Monitoring Division	31 December 2014
<b>Control Activities</b>					
3	<b>Programme management:</b> Some of the partners used in South Sudan sub-delegated part of their activities to smaller NGOs. The standard WFP agreement used for cooperating partners includes a clause allowing them to sub-contract their activities, whilst still allocating full responsibility to the main partner. However, partners are not required to communicate to WFP how much and to whom activities will be sub-contracted and what controls they will put in place to supervise the smaller partners.	Operational Partnerships Programmatic	Guidelines	Operations Services Department	Implemented

<sup>6</sup> See Annex A for definition of audit terms



Observation	Agreed Action	Risk categories <sup>6</sup>	Underlying cause category	Owner	Due date
4 <b>Transport and logistics:</b> The South Sudan logistics cluster provided services to other humanitarian partners charging a mark-up for costs relating to Logistics Headquarters in Rome (clearly identified in the invoice and in line with current policies and procedures) and an additional mark-up to cover local incremental costs (not clearly disclosed in the invoice and not clearly referred to in any internal guidelines but with the full knowledge of Logistics Headquarters in Rome).	Prepare clear guidelines to standardise and assist country offices in the calculation of appropriate mark-ups to cover the incremental costs from the provision of services to humanitarian partners. Ensure that mark-ups are properly communicated to partners.	Operational Process and Systems Institutional	Guidelines	Operations Services Department - Logistics division	Implemented
5 <b>Mobilize resources:</b> South Sudan had difficulties in the distribution of in-kind commodities received from non-traditional donors. The Country Office experienced delays in receipt of commodities, had to deal with delays in the receipt of twinning funds, tight expiry dates, sub-optimal bagging, delays in customs clearance and ultimately some quality problems. Similar difficulties with in-kind donations from non-traditional donors have been observed in other country offices.	Through the Supply Chain Management Group, request the preparation of a lessons-learned exercise on the management of in-kind donations from non-traditional donors.	Operational Accountability and Funding Programmatic	Guidelines	Partnership and Governance Services - Government Partnerships Division	31 December 2014

# IV. Detailed Assessment

<b>Internal Environment</b>	<b>High Risk</b>
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**Observation 1      Corporate Framework for large infrastructure projects**

17. WFP’s management of infrastructure projects in South Sudan dates back to 2004. In 2011 construction activities in the country included a project to build a series of strategic grain reserves across the country (for a budget of US \$96 million, over a period of 36 months) and a project to build feeder roads across the country (for a budget of US \$81 million over a period of 30 months). The Country Office faced delays in the implementation of both projects for a wide range of reasons, some of which were beyond the Country Office’s control (such as security).

18. In reviewing the process in South Sudan, weakness were noted in all Internal Control Framework components.

19. In respect to governance, it was found that as per the current WFP General Rules and Regulations, these type of projects are often set-up as Special Operations. which fall under the delegation of authority of the Deputy Executive Director for up to US \$3 million. Above that threshold, these projects are within the delegation of authority of the Executive Director with no requirement for any specific ex-post disclosure to the Board. Smaller projects are included under normal project documents, but not always clearly identified in the narrative, budgets or annual reporting to donors.

20. There are no specific purchase order categories for these types of projects, nor any ad-hoc delegation of authority. They fall under normal service procurement rules.

21. In reviewing the specific framework for infrastructure projects, it was noted that even though there was a technical team in Headquarters supporting country offices in the infrastructure projects, their role was merely consultative.

22. In terms of risk management and controls, it was also noted that there were no formally approved technical guidelines or approved templates for construction contracts. There is also no formal high level mapping of the risks associated to construction projects.

23. From an information and reporting angle, there are no specific guidelines for the recording of the costs of these projects and construction projects cannot be easily identified in the accounts as they are expensed and recorded under different costs categories.

<b>Observation 1</b>	
<b>Underlying cause of observation:</b>	WFP systems have not been adapted to reflect the specificities of construction projects in terms of governance, risk management and control processes.
<b>Implication:</b>	Risks relating to construction projects may not be identified correctly at country office, regional bureau or Headquarter level and therefore may not be addressed in a timely, efficient and effective manner.
<b>Policies, procedures and requirements:</b>	Best practice risk management. Best practice construction management and compliance with IPSAS 11 on Construction Contracts.
<b>Agreed management actions:</b> WFP Field Engineering has prepared comprehensive guidance in the form of a draft Construction Manual that will govern all WFP engineering and construction related projects. The manual incorporates current industry best practice and provides a comprehensive basis	

for preparing project plans, including governance, appraisal, risk management, construction procurement and execution. This manual has already been used on a trial basis for engineering activities in a number of key WFP operations where WFP Field Engineering has been engaged by Country Office teams. It is currently being refined and finalized on the basis of practical experience and feedback from staff engaged in managing engineering activities. The manual covers all the governance, risk management and control weaknesses identified by the audit. Once the manual is approved by the Executive Director, it will be published and circulated under the terms of an Executive Director Circular. The Finance and Treasury Division of WFP will also review and evaluate the applicability of IPSAS 11 on construction contracts and its relevance for WFP in the context of current and likely operational commitments of WFP.

**Target implementation date:** 31 December 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<sup>7</sup> 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:

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<sup>7</sup> Committee of Sponsoring Organizations of the Treadway Commission.

**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.

**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.<sup>8</sup>

**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 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.

**5. Monitoring the implementation of agreed actions**

A 8. The Office of Internal Audit tracks all high and medium-risk observations. Implementation of observations will be verified through the Office of Internal Audit’s system for monitoring the implementation of audit observations. The purpose of this monitoring system is to ensure that actions agreed with management 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:

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<sup>8</sup> 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.

**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
ED	WFP Executive Director
IPSAS	International Public Sector Accounting Standards
SO	Special Operation
UN	United Nations
UNHAS	United Nations Humanitarian Air Services
WFP	World Food Programme