

Internal Audit of WFP Operations in the Democratic Republic of Congo

Office of the Inspector General
Internal Audit Report AR/14/21



World Food Programme

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Internal Audit of WFP Operations in the Democratic Republic of Congo

I. Executive Summary

Introduction

1. As part of its annual work plan for 2014, the Office of Internal Audit conducted an audit of WFP Operations in the Democratic Republic of Congo (DRC). WFP's direct expenses in DRC in 2012 totalled USD 128.6 million, representing three percent of WFP's total direct expenses for the year. The audit covered activities from 1 January 2012 to 31 December 2013. The audit looked at events prior and subsequent to this period as required. The audit included visits to the country office (CO) in Kinshasa, field offices in Bukavu and Goma, and a review of related corporate processes with 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. The Office of Internal Audit has come to an overall conclusion of **unsatisfactory**. Conclusions by internal control components are summarised in Table 1 by internal control components:

Table 1: Summary of conclusions by Internal Control Components

| Internal Control Component | Conclusion | |
|----------------------------------|------------|---|
| 1. Internal environment | High |  |
| 2. Risk management | Medium |  |
| 3. Control activities | High |  |
| 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 including the way in which the WFP DRC Country Strategy Document was aligned to the United Nations Development Assistance Framework (UNDAF) priority areas and Growth and Poverty Reduction Strategy; and a thorough and a well-documented Risk Register. These practices and initiatives were identified as strengthening WFP's capability to respond to the needs of its operations in the DRC.

Audit observations

5. The audit report contains two high-risk and ten medium-risk observations for which solutions have been developed and actions agreed with the CO and other relevant offices in Headquarters. The high-risk observations were as follows:



Corporate organisational and reporting structure: Structural realignment with operations

– The CO’s two main projects ended in June 2013 and the succeeding activities converged into one Protracted Relief and Recovery Operation (PRRO) project. The organisational structure of the CO was not realigned to this effect in a proactive manner. The CO also had some key positions vacant for a long time, e.g. Deputy Country Director, Deputy Head of Programme and a logistics officer. Additionally, the CO abolished a position of donor relations officer. All this led to existence of a sub-optimal structure to support the programme activities for some time after the launch of the new project until the corrective actions begun. This also impacted the CO’s ability to adequately respond to strategic priorities during that time.

Finance and accounting: Delays in recording obligations, and unrecorded commitments –

During 2012 and 2013, significant delays occurred in recording obligations in all cost categories. Direct support costs amounting to USD 3.55 million relating to regular expenditures were not recorded for a long time during 2012 and 2013. Since the discovery of the omission the CO recorded all this Direct Support Cost (DSC) expenditure by the end of year 2013. At the end of 2013, the CO had unrecorded obligations of about USD 500,000 towards Field Level Agreements. Unrecorded obligations can negatively affect the CO’s ability to plan in a timely manner.

Management response

6. 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 implement all the agreed actions.

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

A handwritten signature in blue ink, which appears to read 'D Johnson', is positioned above the printed name and title.

David Johnson
Inspector General

II. Context and Scope

The Democratic Republic of Congo

8. The DRC, Africa's second largest country, with nearly 70 million inhabitants, experiences severe food shortages. The 2013 United Nations Development Programme Human Development Report ranked DRC last out of 187 countries, and the national average level of Global Acute Malnutrition in DRC was 11 percent. According to an October 2012 World Food Programme (WFP)/Food and Agriculture Organization (FAO) food security survey, 6.3 million people required humanitarian assistance. Out of this total, an estimated three million were located in the five conflict-affected provinces (Orientale, North and South Kivus, Katanga and Maniema) where the Global Acute Malnutrition rate exceeded the emergency threshold of 15 percent.

WFP Operations in DRC

9. WFP has been present in DRC since 1968 and has 12 field offices throughout the country. WFP's assistance in DRC focussed on vulnerable populations and food insecurity as a consequence of armed conflict, lack of access to basic social services, low agricultural productivity and chronic poverty. During the period covered by the audit, WFP assistance was provided through the following projects:

- A protracted relief and recovery operation (200540), launched in June 2013 for targeted food assistance to victims of armed conflicts and other vulnerable groups;
- An emergency operation (200480), launched in October 2012 to address the life-saving food needs of new internally displaced persons in the provinces of North and South Kivus, Katanga, and Maniema whose livelihoods had been severely disrupted by conflict;
- A protracted relief and recovery operation (200167), launched in January 2011 to address the protracted relief and early recovery needs of targeted populations in conflict areas as well as in areas with low food security and high malnutrition rates;
- A special operation (200504), launched in 2013 to continue the provision of aviation services for the humanitarian and donor community;
- A special operation (200456), launched in July 2012 for Logistics Cluster Coordination and road infrastructure repairs in support of WFP and the humanitarian community in DRC.

10. WFP's direct expenses in DRC in 2012 totalled USD 128.6 million, representing three percent of WFP's total direct expenses for the year.

Objective and scope of the audit

11. 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 DRC. Such audit 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.

12. 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 prior to the audit.

13. The scope of the audit covered WFP's operations in DRC for the period from 1 January 2012 to 31 December 2013. Where necessary, transactions and events pertaining to other periods were reviewed. The audit team visited the CO in Kinshasa and field offices in Bukavu and Goma, and related corporate processes.

III. Results of the audit

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

Table 2: Positive practices and initiatives

1. Internal environment

- Updated Host Country Agreement including reference to food assistance and to updated privileges and immunities.
 - Draft Country Strategy Document clearly aligned to UNDAF priority areas and Growth and Poverty Reduction Strategy.
 - A thorough process for the 2012 Assurance Statement, including full use of the internal control self-assessment checklists to support its statements.
-

2. Risk management

- A thorough and well documented Risk Register.
 - Effective analysis by the CO of its risks and use of the new corporate system for risk and performance management, Performance Risk Organizational Management Information System, PROMIS, for 2013.
 - Positive, proactive and clear response to ethics and fraud by the CO management, who dealt promptly with incidents under their managerial responsibility, tracking all incidents to their conclusion and reporting all significant cases to the Office of Inspections and Investigations.
-

3. Control activities

- Revision of the project implementation plan and sharpening focus to meet donor expectations.
 - Well-functioning standard internal controls including bank reconciliations, filing system and tracking of mandatory security training in Bukavu. Significant reduction in outstanding UN Humanitarian Air Services receivables, well organised filing in the CO's logistics unit, and successful roll-out of corporate national payroll system.
 - Good country-wide delivery rate in the provision of logistics services to the humanitarian actors, and provision of normative guidance and technical support to field offices on commodity management; Good organisation of distribution on site in Bukavu.
 - Proactive allocation of resources to harmonise Cash & Voucher procedures across the country, and to establish strong working relations and partnership with NGOs and Agencies engaged in Cash & Voucher activities, particularly by the Goma Area Office, and active participation in the Cash Working Group.
 - Close monitoring of each project's funding situation, as well as relations with donors, which are managed through a matrix recording all relevant activities.
 - Development of IT solutions to support the business; standardised IT infrastructure across the field offices that enhance the stability of services and connectivity, and enable better and simpler management and support of the field offices.
 - Improved cost and budget tracking and monitoring measures being adopted for direct support cost.
-

4. Monitoring

- Proactive allocation of resources to address challenges in monitoring and evaluation.
- Well-functioning standard controls over timeliness and accuracy of distribution data capture and monitoring coverage.

15. Having evaluated and tested the controls in place, the Office of Internal Audit came 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) | Risk (Corporate) |
|---|--------------------------|---------------------|
| 1. Internal environment | | |
| Corporate organisational and reporting structure | High | High |
| Strategic planning and performance accountability | Medium | -- |
| Delegated authority | Low | -- |
| Assurance statement | Low | -- |
| 2. Risk management | | |
| Enterprise risk management | Medium | -- |
| Emergency preparedness and response | Medium | -- |
| 3. Control activities | | |
| Finance and accounting | High | High |
| Programme management | Medium | Medium |
| Transport and logistics | Medium | Medium |
| Commodity management | Medium | -- |
| Procurement | Medium | Medium |
| Human resources | Low | -- |
| Property and equipment | Medium | -- |
| Administration and travel | Medium | -- |
| Security | Low | -- |
| Mobilise resources | Medium | -- |
| 4. Information and communication | | |
| Information and Communications Technology | Low | -- |
| External Communication | Low | -- |
| Internal communications | Low | -- |
| 5. Monitoring | | |
| In-country Monitoring | Medium | -- |
| Corporate Monitoring | Low | -- |

16. Based on the results of the audit, the Office of Internal Audit came to an overall conclusion of **unsatisfactory**¹.

17. The audit report makes two high risk observations which are detailed in Section IV. Ten medium-risk observations arose from the audit. Table 4 and 5 present the high and medium risk observations, respectively.

Action agreed

18. 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 implement all the agreed actions².

¹ See Annex A for definitions of audit terms.

² Implementation will be verified through the Office of Internal Audit's standard system for monitoring agreed actions.

Table 4: High-risk observations

| Observation | Agreed action | Risk categories | Underlying cause category | Owner | Due date |
|--|--|-------------------------------------|---------------------------|----------------------------------|------------------|
| Internal Environment | | | | | |
| 1 Corporate organisational and reporting structure: Structural realignment with the operations - The CO's two main projects ended in June 2013 and the succeeding activities converged into one PRRO project. The CO did not realign its organisational structure to this effect in a proactive manner. The CO also had some key positions vacant for a long time, e.g. Deputy Country Director, Deputy Head of Programme and a logistics officer. The CO also abolished a position of donor relations officer. | The Human Resources Division (HRM) will update the corporate guidance and tool on the Staffing and Structure Review. | Strategic People Programmatic | Guidelines | Human Resources Division | 31 December 2014 |
| | The Operations Management Department (OM) will issue and disseminate guidance of the use of the updated Staffing and Structure Review in relation to other corporate tools on funding, strategy and operations in COs. | Strategic People Programmatic | Guidelines | Operations Management Department | 31 December 2014 |

| Observation | Agreed action | Risk categories | Underlying cause category | Owner | Due date |
|--|---|---|---------------------------|----------------------------------|------------------|
| Control Activities | | | | | |
| <p>2 Finance and accounting: Delays in recording obligations and unrecorded commitments – During 2012 and 2013 significant delays occurred in recording obligations in all cost categories. At the end of 2013, the CO had unrecorded obligations of about USD 500,000 towards Field Level Agreements. Unrecorded obligations can negatively affect the CO’s ability to plan funds in a timely manner. Further, direct support cost expenses amounting to USD 3.55 million for 2013 were recorded with a delay of six to twelve months.</p> | <p>The CO will address the issue of delays in recording obligations by various units and offices in DRC. The CO will arrange training for the responsible staff, on the best practices for the recording of obligations and for compliance with International Public Sector Accounting Standards (IPSAS).</p> | <p>Compliance Accountability & Funding Compliance</p> | Compliance | DRC Country Office | 31 December 2014 |
| | <p>The Operations Management Department (OM), in coordination with the Resource Management and Accountability Department (RM), will: a) Enhance the use of corporate tools for monitoring budgets and for identifying off-line commitments and omissions of expenditures and its impact on the overall budgets of the office; and b) Reinforce the expectation of strict budgetary discipline, and accountability thereof, through regular corporate messages and follow-up with the COs.</p> | <p>Resources Accountability & Funding Reporting</p> | Compliance | Operations Management Department | 31 December 2014 |

Table 5: Medium-risk observations

| Observation | Agreed action | Risk categories | Underlying cause category | Owner | Due date |
|---|---|--|---------------------------|--------------------------|---------------|
| Internal Environment | | | | | |
| 3 Corporate organisational and reporting structure: Managing the decentralised structure – The CO has a decentralised structure in place. There were communication and coordination gaps between the CO, area office and the sub-offices. This negatively affected overall harmonisation of activities and control environment across WFP DRC operations. | The CO will institute regular coordination meetings between the CO, area offices and the sub offices to improve the harmonisation and coordination of activities undertaken by various units. | Strategic People Institutional | Resources | DRC Country Office | 30 June 2015 |
| | The Human Resources Division (HRM) will ensure the training for all the Country Directors, heads of units, area offices and sub-offices on the management of operations, controls in their areas of responsibilities and coordination with other units and offices before their deployment. | Strategic People Institutional | Resources | Human Resources Division | 31 March 2015 |
| Risk Management | | | | | |
| 4 Enterprise risk management: Elevating the risk of lack of security compliance for the Bukavu compound – The Bukavu compound did not comply with UN security requirements. However alternative accommodation was not available and there was a critical need for operations out of Bukavu. The CO did not have the necessary staff in place to be able to complete this exercise. | The CO will formally elevate the matter of security compliance in the Bukavu compound to the Field Security Unit in WFP headquarters. The CO will expedite the efforts to roll out the corporate emergency preparedness and response package throughout the country. | Operational Processes & Systems Contextual | Compliance | DRC Country Office | 30 June 2015 |

| Observation | Agreed action | Risk categories | Underlying cause category | Owner | Due date |
|---|--|---|---------------------------|--|------------------|
| Control Activities | | | | | |
| <p>5 Finance and accounting: Budget Management – The budget management at COs has traditionally been split between three divisions across WFP. The coherence and coordination between these three units has been a challenge for DRC and many operations. Some of the corporate initiatives in this line proved useful and need to be further developed and mainstreamed. The budget structure for large, decentralised operations such as DRC also needs to be decentralised with fund centres for each field office.</p> | <p>The Business Innovation and Support Office (RMI) will further develop and mainstream its efficiency review toolkit under the Resource Management and Accountability Department RM's initiative of strengthening CO resource management guided by "fit for purpose" organisational strengthening initiative, so that large operations can benefit from better financial insight.</p> | <p>Strategic Accountability & Funding Institutional</p> | Resources | Business Innovation and Support Office | 31 December 2014 |
| | <p>The Project Budget and Programming Service (RMBP) will issue guidelines for the COs to raise their knowledge and understanding of the various available options in WFP's corporate Enterprise Resource Planning system, WINGS, to setup and track budgets up to field office level in order to capture and facilitate better cost and budget monitoring at COs with reasonable granular clarity.</p> | <p>Strategic Accountability & Funding Institutional</p> | Guidelines | Project Budget and Programming Service | 31 March 2015 |
| <p>6 Finance and accounting: Financing procedures to support operations in funding crisis – The CO requested for financial assistance of USD 12.8 million after sustaining large deficits in Landside Transport, Storage and Handling and Direct Support Costs. Corporate guidelines on preventing and addressing (non-controllable) deficits and surpluses in project funds are yet to be developed.</p> | <p>The Budget and Programming Division (RMB), in consultation with other stakeholders, will issue consolidated guidance to clarify the strategies available to the COs to address projected structural surpluses and deficits in cumulative funds for associated costs. The financial assistance for addressing the funding deficits will be tied to viable business plans for course correction from COs, ensuring sustainable operations after the assistance and maximising the possibility of repayment of advanced funds.</p> | <p>Strategic Accountability & Funding Programmatic</p> | Guidelines | Budget and Programming Division | 31 March 2015 |

| Observation | Agreed action | Risk categories | Underlying cause category | Owner | Due date |
|--|---|---|---------------------------|-------------------------------------|------------------|
| 7 Finance and accounting: Performance bonds and customer accounts for the Logistics Cluster and UNHAS – (a) A misunderstanding of the procedure for safeguarding performance bonds led to vendor cheques not being deposited at the bank as required by the relevant Financial Procedure. (b) A single vendor account was used for separate and distinct customer activities and WINGS did not allow the use of sub-accounts under vendor accounts. | The Finance and Treasury Division (RMF) will: (a) Implement the internal audit recommendation first issued in 2011, to clarify Finance Procedure FP2009/006 to ensure correct interpretation of procedures by COs, and (b) Review the current WINGS and business procedures for the management of customer accounts and develop procedures and guidelines for COs for effective management of customer sub-accounts. | Operational Processes & Systems Institutional | Guidelines | Finance and Treasury Division (RMF) | 31 December 2014 |
| 8 Programme management: Cash & Vouchers – (a) The CO did not have a comprehensive country strategy for Cash and Vouchers with operational plans and procedures for each functional unit. (b) There was potential for duplicate registration efforts and data conflicts at field level under the System for Cash Operations (SCOpe) project, as beneficiary data already available and potential coordination with other UN agencies had not been considered. (c) Segregation of duties in handling vouchers and physical security of vouchers needed improvement. (d) The market assessments used country-wide averages for internal and external transport rates in their “Alpha Value” assessment, while the use of market or region-specific costs would improve accuracy of the analysis. | The CO will: (a) Develop country Standard Operating Procedures, including “sub-procedures” for functional units and regional Standard Operating Procedures in each province. The CO will further develop the Cash & Voucher strategy to identify the roles and comparative advantages of WFP as well as those of partners; (b) Identify and map available beneficiary registration data sources, and engage other partners to coordinate efforts before implementing SCOpe; (c) Develop procedures and guidelines for the appropriate custody, record keeping and disposal of vouchers; and (d) Use detailed information on transport costs to provide accurate and market-specific information on the Alpha Value, and assess requirements for logistics and vendor data when the Omega tool is implemented. | Operational Programmes Programmatic | Guidelines | DRC Country Office | 30 June 2015 |

| Observation | Agreed action | Risk categories | Underlying cause category | Owner | Due date |
|---|---|--|---------------------------|--------------------|------------------|
| 9 Transport and logistics: Landside Transport Storage and Handling cost (LTSH) matrix review and rate revision – LTSH matrix for the CO’s previous PRRO was not regularly reviewed during 2011 and 2012. While the actual transport costs increased, this partly contributed to the overall deficit in LTSH funds of USD 12.8 million. | The CO will institute periodic reviews of LTSH matrices to ensure that: (a) assumptions used in LTSH matrix computation are valid; b) the logistics delivery plan and LTSH matrix are aligned with the distribution plan in terms of destinations and tonnages; (c) contractual rates are valid; and d) food procurement plan and any deviations in sourcing location of commodities are properly accounted for in the LTSH matrix. | Operational Accountability & Funding Institutional | Compliance | DRC Country Office | 31 December 2014 |
| 10 Procurement: Opportunities for improvement in the CO’s procurement process – (a) the CO did not maintain its non-food vendor roster in accordance with corporate guidelines; (b) Food procurement was centralised in Kinshasa, while area offices closer to the suppliers were not involved in the process; (c) the CO did not visit the registered food vendors to assess their capacity, which could lead to delays in deliveries and performance issues; and (d) Inadequate expertise and supplies from the local market caused delays during a road rehabilitation project. | The CO will: (a) Maintain the non-food vendor roster according to the provisions of the non-food procurement manual; (b) Review the country-wide local food procurement roles and responsibilities to identify opportunities for improvement in information and process flow; (c) Visit the key the food vendors at least once a year to verify their capacities; and (d) Anticipate constraints within the road-building market as much as possible and make all reasonable efforts to include the market in the procurement process so that the principle of competition is maintained wherever possible. | Compliance Processes & Systems Institutional | Compliance | DRC Country Office | 31 December 2014 |

| Observation | Agreed action | Risk categories | Underlying cause category | Owner | Due date |
|--|---|---|---------------------------|---------------------------|----------------------|
| <p>11 Mobilise resources: Resource mobilisation and donor relations – The CO’s PRRO by design had 70 percent weightage given to relief activities and 30 percent to early recovery and capacity development activities, based on a progressive scenario. However due to the disconnect in expectation with a donor, the recovery and capacity development, activities could not secure adequate funding.</p> | <p>The CO will finalise the revision of the programme implementation plan with donor consultation and prepare budget revisions for appropriate approval to reflect the revised focus of programme activities. The CO will regularly hold meetings with donors to avoid any future expectation gaps and take timely actions to discuss any proposed deviations.</p> | <p>Strategic Programmes Contextual</p> | <p>Resources</p> | <p>DRC Country Office</p> | <p>30 June 2015</p> |
| <p>Monitoring</p> | | | | | |
| <p>12 In-Country Monitoring: Discontinuation of the CO’s monitoring and evaluation system – The CO had discontinued its locally developed monitoring application but did not have any alternate solution in place. The corporate monitoring and evaluation system was not yet available. Collection and entry of distribution data was a challenge as cooperating partners were late in submitting distribution reports, and the data requirements had increased significantly. In Bukavu, cooperating partners’ periodic reports were not being tracked and any problems identified were not systematically followed up and addressed.</p> | <p>The CO will develop a comprehensive interim methodology and approach for collecting monitoring and evaluating data, gathering and aggregating it, and ensure consistent application of approved toolkits across all the field locations. The CO will strengthen the system for following-up on receipts of quarterly distribution reports from Cooperating Partners in Bukavu.</p> | <p>Reporting Processes & Systems Programmatic</p> | <p>Guidance</p> | <p>DRC Country Office</p> | <p>31 March 2015</p> |

IV. Detailed Assessment

Internal Environment

High Risk

Observation 1 Corporate organisational and reporting structure: Structural realignment with the operations

19. WFP DRC closed two of its projects (EMOP 200480 and PRRO 200167) in June 2013 and launched one new project (PRRO 200540) in July 2013. This resulted in reduction of caseloads and reduction of programme activities in some sub-offices. The CO started working on alignment of its organisational structure only after the projects closure and undertook a Staffing and Structure Review with the assistance of HRM, and a benchmarking exercise with the assistance of RMI to identify the various cost drivers that affected the operations in DRC. The results of these two exercises crystallised in the CO's plan for right sizing the operations and structure. The Staffing and Structure Review was completed in February 2014 (eight months after the launch of the new project) and the CO was expected to implement the results in April 2014. Both activities- though very useful- were reactive in nature and were aimed to respond to the resource shortfall and deficits in the new project. The CO would have benefitted more if these exercises had been carried out in a proactive manner before the closure of the old projects in order to ensure that the new project started with the right structure.

20. In addition to this, some key positions in the CO were vacant for relatively long periods. For example, the CO had two Deputy Country Directors (DCD) until 2012, when it was left without a DCD for several months in 2013. Three temporary DCDs were appointed in the CO for a few months, although the CO did not have a DCD between 15 March and 1 October 2013. Similarly, the posts for the Deputy Head of Programme and a logistics officer were vacant for a long period. The CO also abolished the position of donor relations officer in March 2013, which shifted additional workload to the CO management.

Underlying cause of observation: The CO did not anticipate the need for the Staffing and Structure Review exercise in advance of closure of two projects. DRC was the first CO to officially pilot the "strengthening country office resource management" initiative, no precedents served as a model to strategically review the office structure in advance of the closure of two projects.

Implication: Lack of structural alignment may result in inefficient uneconomical operations. Delays in filling key positions may increase the work load on senior management which has potential impact on their ability and space to respond to strategic priorities.

Policies, procedures and requirements: Best practices for CO Management

Agreed Action 1: Institutionalising structural realignment: The Human Resources Division (HRM) will update the corporate guidance and tool on the Staffing and Structure Review.

Due Date: 31 December 2014

Agreed Action 2: Institutionalising structural realignment: The Operations Management Department (OM) will issue and disseminate guidance of the use of the updated Staffing and Structure Review in relation to other corporate tools on funding, strategy and operations in COs.

Due Date: 31 December 2014

Control Activities

High Risk

Observation 2 Finance and accounting: Delays in recording of obligations, and unrecorded commitments

21. For the years 2012 and 2013, the CO raised 6,976 Purchase Order (PO) line items, for a total of USD 168 million. About twenty-six percent of these items (1,842 records totalling USD 22 million) were raised in WINGS in a post factum manner where the PO dates were after the dates of the invoices sent by the vendors. The CO's 2012 and 2013 Field Level Agreements tracking sheets for field offices included 18 Field Level Agreements, for which no POs were created in WINGS. The total value of such Field Level Agreements amounted to USD 500,000 (USD 363,013 in LTSH and USD 139,912 in Other Direct Costs).

22. In terms of Direct Support Costs (DSC) as well, some regular expenses were not recorded in the system for a long time in 2013. Such expenses included: the salaries of local staff through another UN agency for the first six months of 2013 amounting to USD 1.8 million; payables to the Global Vehicle Leasing Programme for the last quarter of 2012 and some months of 2013 amounting to USD 0.85 million; payable for staff dispensary USD 60,000; IT per capita of USD 0.8 million (DSC portion); and health insurance for Service or Special Service Agreements up to USD 100,000 per quarter; amongst others. These obligations amounting to USD 3.55 million were recorded with a delay of six months for USD 1.8 million and twelve months for USD 1.75 million. In September 2013 the CO started using DSC expenditure forecasts and managed to record the expenditures for these obligations by end of year 2013. At the time of the audit, the CO had already started working on various improvement actions and was regularly planning ahead to match the DSC expenditures with the forecasted funds.

Underlying cause of observation: Inadequate general control consciousness at WFP DRC and sensitivity towards budgetary controls in particular.

Implication: Failure to record obligation in WINGS on a timely basis leads to non-commitment of available funds, which might lead to inability to pay and in worst case scenario may even lead to bankruptcy of operations.

Policies, procedures and requirements: WFP finance manual, best practices, International Public Sector Accounting Standards (IPSAS)

Agreed Action 1: Mandating the timely recording of obligations and staff training: The CO will address the issue of delays in recording obligations by various units and offices in DRC. The CO will arrange training for the responsible staff, on the best practices for the recording of obligations and for IPSAS compliance.

Due Date: 31 December 2014

Agreed Action 2: Improvements in the monitoring of budgets and unrecorded commitments: The Operations Management Department (OM), in coordination with the Resource Management and Accountability Department (RM), will;

- a) Enhance the use of corporate tools for monitoring budgets and for identifying off-line commitments and omissions of expenditures and its impact on the overall budgets of the office;
- b) Reinforce the expectation of strict budgetary discipline, and accountability thereof, through regular corporate messages and follow-up with the COs.

Due Date: 31 December 2014

Annex A – Audit definitions

1. WFP's Internal Control Framework (ICF)

A 1. WFP's Internal Control Assurance Framework follows principles from the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) 7 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 recognises 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 COSO³ 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 programs 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 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. |

³ 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, 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, financial loss through corruption. |

3. Causes or sources of audit observations

A 5. The observations were categorized into the following 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. Audit observations typically can be viewed on two levels. (1) Observations specific to an office, unit or division and (2) observations which may relate to a broader policy, process or corporate decision and may have broad impact.⁴

Table A.4: Categorization of observations by impact or importance

| | |
|-------------|--|
| High-risk | Issues or areas arising referring to important matters that are material to the system of internal control. The matters observed might cause a corporate objective not to be achieved, or leave unmitigated risk which would have a high impact on the corporate objectives. |
| Medium-risk | Issues or areas arising referring to issues that have an important effect on the controls but may not require immediate action. The matters observed may cause a business objective not to be achieved, or leave unmitigated risk which would have an impact on the business unit objectives. |
| 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 systems and business objectives being met. |

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

⁴ An audit observation of high risk to the audited entity may be of low risk for WFP as a whole; conversely, an observation of critical importance for WFP may have low impact for a specific entity, but globally be of high impact.

5. Monitoring the implementation of agreed actions

A 8. The Office of Internal audit tracks all high and medium-risk observations. Implementation of agreed actions are tracked by the Office of Internal Audit. Implementation of agreed actions will be verified through the Office of Internal Audit's system for monitoring implementation of audit agreed actions. The purpose of this monitoring system is to ensure that actions agreed with management are effectively implemented within the agreed timeframe, in order 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 the risk to them. 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, or unsatisfactory is reported in each audit, and 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 |
| DCD | Deputy Country Director |
| DRC | Democratic Republic of Congo |
| DSC | Direct Support Cost |
| HRM | Human Resources Division |
| IPSAS | International Public Sector Accounting Standards |
| LTSH | Landside Transport Storage and Handling Cost |
| OM | Operations Management |
| PO | Purchase Order |
| PRRO | Protracted Relief and Recovery Operation |
| RB | Regional Bureau |
| RM | WFP Resource Management and Accountability Department |
| RMB | WFP Budget and Programming Division |
| RMBP | WFP Project Budget and Programming Service |
| RMF | WFP Finance and Treasury Division |
| RMI | WFP Business Innovation and Support Office |
| SCOpe | WFP's System for Cash Operations |
| UN | United Nations |
| UNDAF | United Nations Development Assistance Framework |
| UNHAS | United Nations Humanitarian Air Services |
| WFP | World Food Programme |
| WINGS | WFP's Information Network & Global System |