

# **Internal Audit of Cash and Voucher Modalities in the Field – Distribution Cycle and Intervention Closure**

Office of the Inspector General  
Internal Audit Report AR/15/03



**World Food Programme**

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# Internal Audit of Cash and Voucher Modalities in the Field – Distribution Cycle and Intervention Closure

## I. Executive Summary

### Introduction

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of Cash and Voucher (C&V) modalities in the field. The audit focused on activities from 1 January 2013 to 31 January 2014, and also noted events prior and subsequent to this period where necessary. The audit encompassed a review of business processes and testing of internal controls in ten Country Offices (COs) where C&V modalities of food assistance have been implemented.
2. This report focuses on audit observations relevant to the project design and setup phases of the C&V business process, whether these be cross cutting to all modalities or specific to one of the cash or voucher modalities of food assistance, including cash account, immediate cash, paper and electronic voucher distribution models. A separate report has been issued which covers the audit findings for the distribution cycle and intervention closure phases of the business process.
3. The audit was carried out in conformance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

### Audit Conclusions

4. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory**<sup>1</sup>. Conclusions 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	Medium	
2.	Risk management	Medium	
3.	Control activities	High	
4.	Information and communication	Medium	
5.	Monitoring	Medium	

<sup>1</sup> See Annex A for definitions of audit terms.

## Key Results of the Audit

### Positive practices and initiatives

5. The audit noted positive practices and initiatives, including the strengthening of WFP's corporate capacity to support C&V interventions in the field, alignment of C&V interventions with WFP's transition from food aid to food assistance and existing host government policies, support of C&V interventions by governments, beneficiaries and donors, improved rates of utilization of transfers by beneficiaries, rapid deployment of C&V food assistance modalities during emergencies, and opportunities for improved monitoring.

### Audit conclusions

6. C&V transfer modalities allow WFP to exercise programmatic flexibility and enable the rapid deployment and scale up of food assistance in emergencies while leveraging existing organizational capabilities and expertise. These modalities also bring about opportunities for efficiency gains while at the same time improving access to food and nutrition by beneficiaries and providing support to the local economies.

7. These opportunities have brought about new challenges as WFP adapts to ways of delivering assistance through markets and commercial partners. As C&V policies and business processes evolved from the pilot stages, and while WFP has been effective at developing broad policies for C&V, detailed guidelines and tools have lagged behind the rapid scale up of C&V modalities in the field. Functional units in the field have been pressed to adapt and align themselves to their new roles and responsibilities in the face of rapid change, leading to challenges in the implementation and mainstreaming of effective risk management, internal controls and monitoring practices specific to C&V modalities.

8. At the corporate level WFP has gained considerable experience in its use of C&V modalities and has gradually augmented its capacity to provide support to field operations by creating specialized corporate units. Nevertheless, the supply chain function and IT systems need strengthening and investments to support the continued scale up of C&V modalities going forward.

9. Further to adjustments in internal processes, the delivery of food assistance through the market has increased WFP's reliance on external supply chains and outsourced service providers. This reliance has created a demand for stronger corporate and field-level capacities in the assessment, risk analysis and procurement of financial and retailer services. These factors posed the highest risk to the scale up C&V interventions in a controlled and cost efficient manner.

10. The nature of C&V interventions and ensuing reduced contact with beneficiaries also require WFP to review and bolster programme implementation internal controls and monitoring processes, including beneficiary complaint and response mechanisms, food quality and safety, as well as the monitoring of food prices, markets and transfers to beneficiaries, and Cooperating Partner's performance monitoring and evaluation.

11. The review of internal controls for C&V business processes yielded audit observations and agreed actions that are applicable to all types of food assistance, including in-kind transfer modalities. In particular, we noted opportunities for improving the analysis of cost efficiency and effectiveness, monitoring, among others, through mainstreaming the rigorous feasibility, cost efficiency and cost effectiveness analysis required of C&V projects across all proposals and modalities. This would enhance the potential for efficiency gains within the limits of what is appropriate and technically feasible in the field.

12. The audit would like to highlight that beneficiary registration and verification processes present WFP with significant opportunities for increased cost efficiencies in both C&V and in-kind interventions; these opportunities are at risk if WFP fails to close the technological gap that enable registration and verification vulnerabilities.



### **Audit observations**

13. The audit report contains one high-risk observation, and eleven medium-risk observations. The high-risk observation is as follows:

**Programme Management: Exchange of vouchers for Cash at discounted values** - In some instances, the prioritization of needs drives beneficiaries to exchange their voucher entitlements for cash at discounted values to obtain resources for shelter and other non-food items. While gaps in non-food assistance are contextual conditions that lie outside the control of WFP, WFP identified the risk of transfers not being used for their intended purpose in its 2014 corporate risk register. The audit noted WFP's significant efforts to prevent and detect these exchanges. The audit also noted that the frequency at which vouchers were exchanged for cash was significantly lower than the estimated exchanges of in-kind food commodities for cash.

The organization agreed to develop a framework to determine the acceptable level of residual operational risk in delivering food assistance through paper and electronic vouchers. This framework would support the identification of triggers for the review of transfer modality decisions, and provide a rationale for investments in enhanced control mechanisms and in technology by operations in the field.

### **Actions agreed**

14. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations. Work is in progress to implement the agreed actions.

15. 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

## II. Context and Scope

### WFP C&V Operations

16. C&V are ways of transferring resources to beneficiaries, who receive cash or vouchers that can be used to gain access to food items in the marketplace. C&V transfers have been used for some time in WFP, in one form or another and formally were endorsed by the Executive Board with the Management Plan 2010-11 and Strategic Plan 2008-2013.

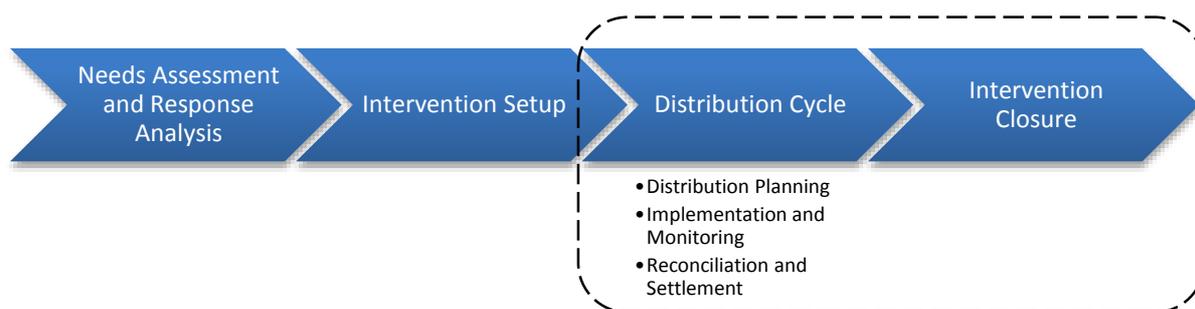
17. The initial pilot stages, starting in 2008, encouraged innovations by WFP's field operations in the delivery of food assistance through market-based solutions, providing WFP a wealth of knowledge and experience that set the foundation for the development of standard C&V business models in 2012. Since then WFP has refined these business models, investing in its corporate capacity to help field operations and gradually defining corporate policies and guidelines to enable the mainstreaming and scale up of C&V transfer modalities.

18. C&V transfers to beneficiaries have seen significant growth rates since the pilot stage, with up to three digit yearly increases in actual transfers to beneficiaries from 2010 to 2013, reaching USD 507 million in 2013. As at the end of 2013, nearly 20 percent of the value of WFP's food and food equivalent transfers were C&V transfers. Planned distribution of food assistance through C&V modalities continue to show a strong scale up to an estimated USD 1.3 billion dollars in 2014 and USD 1.5 billion in 2015.

19. The Syria Regional Emergency countries made up a large portion of the actual C&V transferred to beneficiaries with actual transfers of USD 311 million, or 61 percent of the total actual C&V transfers in 2013, increasing to USD 868 million, or 70 percent of the total approved transfer values in 2014. The average rate of growth from 2013 to 2014 in approved C&V transfers for non-Syria Regional Emergency countries was 326 percent. This is a strong indication that C&V modalities are increasingly accepted as a mainstream mode of food assistance.

### The C&V Business Process

20. C&V business process and project lifecycle is divided into four phases as follows:



21. The distribution cycle processes encompasses planning distributions, managing vouchers, effecting transfers, monitoring accounts and supply chains, as well as key controls over verifications and reconciliations prior to settling obligations with retailers, cooperating partners and other service providers.

22. The last stage of the C&V business process is the intervention closure when ex-post analysis of costs efficiency and effectiveness are completed and lessons learned gathered. Outputs and outcomes are measured and reported at this stage.

23. The audit observations presented in this report focus on the distribution cycle and intervention closure phases of the C&V business process, whether these be cross cutting to all modalities or



modality-specific. A second report will be issued to cover the audit observations for the audit findings for the needs assessment, the response analysis, and the intervention setup phases of the C&V business process.

## Objective and Scope of the Audit

24. The objective of the audit was to evaluate and test the adequacy and effectiveness of the internal controls, governance and risk management processes associated to C&V modalities in the field. 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.

25. The audit was carried out in conformance 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.

26. The scope of the audit covered WFP's operations in a sample of ten Country Offices (Ethiopia, Haiti, Iraq, Jordan, Kenya, Lebanon, Malawi, Niger, Sudan, and Zimbabwe) and selected sub-office(s) and field locations from 1 January 2013 to 31 January 2014. Where necessary, transactions and events pertaining to other periods were reviewed. The audit field work took place from April to September 2014.

### III. Results of the Audit

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

**Table 2: Positive practices and initiatives**

#### 1. Internal Environment

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- Capacities for policy making and field support at the corporate level have been strengthened over time, in particular in the areas of Programme and Finance.
- C&V interventions are aligned with WFP's transition from food aid to food assistance by providing field operations greater flexibility through an enhanced portfolio of programmatic tools. The choice of a transfer modality, or combination of them, is requiring a more rigorous analysis of the type of the food assistance modes to be adopted. The increased attention to pilots and scaling-up of C&V transfer modalities has led to a more critical review on how WFP designs its programmes.
- In some countries, and depending on the context, C&V interventions are the first choice of beneficiaries and host governments, and are increasingly encouraged and supported by key donors. C&V transfers aim at empowering beneficiaries by allowing them access to a wider range of foods options, positively impacting dietary diversity and food consumption outcomes while enhancing the dignity of food assistance recipients.

#### 3. Control activities

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- Decision to implement C&V modalities by operations in the field have led to a significant decrease in the reported exchanges of vouchers for cash with traders and intermediaries by beneficiaries when compared to exchanges of food commodities under in-kind distribution modalities, with a greater proportion of transfers reaching the intended beneficiaries. It should be noted these exchanges are outside the control of WFP as beneficiaries prioritize the use of transfers to areas lacking support from other actors to cover needs including shelter, health, education, etc.
- Where functioning markets exist, C&V modalities can be rapidly deployed during emergencies and allow flexible, of cost effective and efficient scale up and scale down of transfers to beneficiaries.

#### 3. Monitoring

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- C&V modalities, in particular voucher modalities, offer opportunities for the application of technology and analytical procedures for monitoring distributions and food consumption patterns of beneficiaries.

28. 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**

	<b>Internal Control Component/ Business Process</b>	<b>Risk</b>
1.	Internal environment	
	Strategic planning and performance accountability	Medium
2.	Risk management	
	Enterprise risk management	Medium
3.	Control activities	
	Finance and accounting	Medium
	Programme management	High
	Transport and logistics	Medium
	Procurement	Medium
	Mobilise resources	Medium
4.	Information and communication	
	Information and communications technology	Medium
5.	Monitoring	
	Programme monitoring and evaluation	Medium

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

30. The audit report makes one high-risk observation, which is explained in detail in Section IV of this report. Eleven medium-risk observations arose from the audit. Tables 4 and 5 present the high and medium risk observations, respectively.

### Action agreed

31. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations, and work is in progress to implement the agreed actions<sup>2</sup>.

<sup>2</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	Underlying cause category	Owner	Due date
<b>Control Activities</b>					
1 <b>Programme Management</b> – Exchange of vouchers for cash at discounted values: In some instances, the prioritization of needs drives beneficiaries to exchange their voucher entitlements for cash at discounted values to obtain resources for shelter and other non-food items. While gaps in non-food assistance are contextual conditions that lie outside the control of WFP, WFP identified the risk of transfers not being used for their intended purpose in its 2014 corporate risk register. The audit noted WFP’s significant efforts to prevent and detect these exchanges. The audit also noted that the frequency at which vouchers were exchanged for cash was significantly lower than the estimated exchanges of in-kind food commodities for cash.	(1) The Programme innovation service Division (OSZI) in coordination with OSC (Logistics), OSC (Procurement) and the Business Development C&V unit (RMFB), will develop a framework to determine the acceptable level of residual operational risk in delivering assistance through paper and electronic voucher.	Strategic Accountability and Funding Contextual	(1) Guidelines	(1) OSZI	(1) 31 December 2015
	(2) OSC (Logistics) in coordination with OSC (Procurement), RMFB and the Cash for change unit (OSZIC) will review the appropriateness of relying on retailers to perform key controls where the possibility for conflict of interest exists, and will further develop policies and guidelines on the type of controls that are appropriate at the retailer level, including the use of PIN codes, biometric identification, etc.	Strategic Accountability and Funding Contextual	(2) Guidelines	(2) OSC Logistics	(2) 31 December 2015
	(3) OSZIC in coordination with RMFB, RMTB and OSC (Logistics) will review the effectiveness of controls designed to detect exchanges of paper and e-vouchers for cash, and will develop policies and guidelines for the incorporation of these within the design of the projects.	Strategic Accountability and Funding Contextual	(3) Guidelines	(3) OSZIC	(3) 31 December 2015
	(4) OSC (Logistics) and RMFB will co-lead in coordination with OSZIC and RMTB in the development of a directive for dealing with potential losses of WFP resources through all the stages of the implementation of C&V-modality based projects.	Strategic Accountability and Funding Contextual	(4) Guidelines	(4) OSC Logistics  RMFB	(4) 31 December 2015

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Table 5: Medium-risk observations

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date	
<b>Control Activities</b>						
2	<b>Finance and Accounting</b> – Management of Benefit Cash Accounts (BCAs): The corporate guidelines require that WFP’s CPs and SPs open a dedicated BCA to hold and enable the monitoring of cash transfers for distribution to beneficiaries. The audit noted BCAs were yet to be opened and reconciled in 50 percent of the COs reviewed. Moreover, the monitoring of transactions was hampered by the use of intermediate accounts before distributions to the beneficiaries. Only 50 percent of the COs in the audit sample had requested the advice and support of RMFT to ensure funds were deposited in trustworthy financial institutions. Moreover, the audit noted in some cases the BCAs only specified the SP as the primary account holder beneficiary, leaving WFP with no legal title to the funds in the accounts.	RMFB in coordination with LEG will review Directive OS2013/003 RM2013/005 to develop improved guidance. RMFB will also develop in conjunction with the Regional Finance Officers a compliance checklists to periodically monitor the COs compliance with Directive OS2013/003 RM2013/005 in relation to the opening and monitoring of BCAs by the COs.	Operational Accountability and Funding Institutional	Guidance	RMFB	31 December 2015
3	<b>Finance and Accounting</b> – Treatment and accounting of C&V related costs: The corporate guidelines for resource management and accounting were updated in September 2013 to reflect the financial framework shift from food aid to food assistance and enable expenditure planning and controls against the main programme transfers of food, C&V and capacity development. The audit noted that a few of the COs reviewed were in some instances incorrectly classifying C&V commodity and related costs. Payments of social benefits and recognition of certain obligations in Food assistance For Assets (using cash transfer) (FFA) programmes had no supporting corporate guidelines and were, therefore, inconsistently treated. The audit noted that COs had been slow in adopting corporate guidelines with respect to the use of C&V vendor codes, payable and receivable accounts and were not recognizing these in the correct periods.	(1) RMFB in coordination with OSZIC and LEG will review Directive OS2013/003 RM2013/005 and WFP’s IPSAS Guide and will update these to ensure greater clarity is provided on the treatment of indirect transfers to beneficiaries and recognition of obligations for FFA activities.	Reporting Accountability and Funding Institutional	(1) Guidelines	(1) RMFB	(1) 31 December 2015
		(2) RMFB will finalize checklists, guidelines, analytical tools, and training for the oversight by the RB’s Finance Officers, of COs’ compliance with accounting policies, including the correct and timely assignment of costs for commodity (cash or vouchers) and associated costs.	Reporting Accountability and Funding Institutional	(2) Guidelines	(2) RMFB	(2) 31 December 2015

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date	
4	<p><b>Programme Management</b> – Transfer values for C&amp;V: The value of WFP's transfers to beneficiaries in the form of cash or vouchers needs to be periodically reviewed to ensure these are not in excess or fall short of the needs of the beneficiaries, and are in line with the value of the food basket. While most COs sampled had mechanisms to feed price market data into the adjustments of transfer values, only 20 percent of the COs had established formal mechanisms for reviewing and approving these adjustments on a periodic basis. In addition, there were opportunities for optimizing transfer values by linking them to local market prices and actual household sizes. The audit noted that COs needed to document key non-price drivers when providing a rationale for maintaining, increasing or decreasing the transfer values over the life of the projects.</p>	OSZIC will develop guidelines and tools for use by the COs for the periodic review of transfer values and further take into account seasonality, to ensure consistent methodologies are applied in coordination with the Analysis & Nutrition Services unit (OSZA). OSZIC will also develop a transfer value review and approval framework for the country offices, and oversight mechanism for the RBs C&V focal points, to ensure these are regularly monitored and adjusted as required.	Operational Programmes Programmatic	Guidelines	OSZIC	30 September 2015
5	<p><b>Programme Management</b> - Food price monitoring: The corporate guidelines require that COs monitoring food prices in the market throughout the implementation of C&amp;V interventions. The audit noted inconsistencies in the level of detail, completeness and quality of these monitoring activities by COs. While food prices were monitored on a regular basis, guidelines for food price monitoring lacked specificity, leading to gaps in the monitoring of Consumer Price Indices and other relevant price indicators. Ownership of the process for price monitoring was not clearly assigned, leading to inconsistent approaches.</p>	(1) OSZA will review the current guidelines and tools for price monitoring and will ensure minimum requirements are defined in the C&V manual, including the methodology and sampling techniques to be followed, and will lead in close coordination with OSC (Logistics) and OSC (Procurement) on the development of baseline market and price monitoring indicators, assigning clear ownership for market and price monitoring throughout the process.	Strategic Programmes Programmatic	(1) Guidelines	(1) OSZA	(1) 31 December 2015
		(2) OSZA and OSC (Logistics) will co-lead in coordination with OSC (Procurement) in the development and implementation of standard price and supply chain monitoring methodologies and tools.	Strategic Programmes Programmatic	(2) Guidelines	(2) OSZA	(2) 31 December 2015

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
6 <b>Transport and Logistics</b> – Management and tracking of vouchers: The audit noted opportunities to increase the level of assurance over the accuracy and completeness of payments to retailers and prevention of fraud through the correct management and tracking of vouchers. Inconsistent practices lead to unrecorded and undocumented voucher movements, untimely return and disposal of vouchers, and lack of segregation of duty in the custody and recording of vouchers; moreover, delays in the procurement of printing services and poor voucher quality resulted in voucher distribution disruptions. While guidelines exist for the management of paper vouchers, no guidelines existed for the management and tracking of plastic cards, personal identification number codes or other e-Vouchers value delivery instruments.	(1) OSC (Logistics) in coordination with RMFB, OSZIC and RMTB will work with the RBs C&V focal points, Regional Finance Officers and Regional Logistics Functions to develop procedures for the mandatory review of project internal controls prior to the implementation of paper and electronic voucher modalities. OSC (Logistics) will develop a plan for corporate compliance monitoring in conjunction with the RBs' C&V focal points to ensure control gaps and deficiencies are identified and addressed on a timely basis, and results are fed to OSZIC for systematic analysis and policy development.	Reporting Processes and Systems Institutional	(1) Compliance	(1) OSC Logistics	(1) 31 December 2015
	(2) OSZIC in coordination with OSC (Procurement), OSC (Logistics) and RMFB will examine the feasibility, practicality and cost efficiency of having a standard paper voucher design and technical tools to ease the implementation and enhance controls and operational efficiency over paper voucher modalities.	Reporting Processes and Systems Institutional	(2) Compliance	(2) OSZIC	(2) 31 December 2015
	(3) OSC (Procurement) in partnership with OSZIC will lead corporate procurement efforts in sourcing printing and technical support services for paper voucher modalities globally and/or regionally.	Reporting Processes and Systems Institutional	(3) Compliance	(3) OSC Procurement	(3) 30 June 2015

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date	
7	<b>Transport and Logistics</b> – Monitoring and evaluation of retailers: Whilst retailers engaged by WFP were assessed on a regular basis, these evaluation had not been clearly defined as procurement or monitoring activities and were consequently being performed by different functional units including Programme and Logistics; this led to the use of ad-hoc methodologies and the omission of key indicators including food prices, quality, quantity, customer service and other qualitative and quantitative metrics. Results were not consistently collected or analysed to design remediating actions addressing service delivery issues or manage contracts. Standard methodologies and enhanced monitoring tools were needed to help COs identify suspicious transactional patterns indicative of fraud or voucher trading.	OSC (Logistics) will coordinate with OSC (Procurement), RMTB and OSZIC on the development of a combined policy framework, guidelines and tools for supply chain monitoring, to integrate process monitoring and performance assessment activities, improve the information flows from programme to procurement and logistics and assign clear ownership for process monitoring at different stages of the process.	Operational Processes and Systems Programmatic	Guidelines	OSC Logistics	31 December 2015
8	<b>Transport and Logistics</b> – Voucher verification and reconciliation procedures: The voucher reconciliation and verification processes could be enhanced to increase the level of confidence over the accuracy of CP distribution reports and voucher redemption invoices. Inconsistent and manual paper voucher redemption verification processes were constraining the capacity of COs to scale up C&V programmes and delaying the retailers' settlement processes. Moreover, reconciliation procedures were not detailed enough to provide assurance over the accuracy of individual transfers to beneficiaries, leading to possible undetected errors and systematic fraud. Controls over the existence of sales transactions, including checks of sales records versus Point of Sale transactions and redeemed vouchers were not consistently performed, incorporated in standard operating procedures, or included in the CP and retailer agreements.	OSC (Logistics) in coordination with OSZIC, RMFB and RMTB will lead in the development of detailed guidelines and training to ensure that COs are able to design adequate, efficient and cost effective voucher verification and reconciliation procedures that are tailored to the COs capacities.	Operational Processes and Systems Institutional	Guidance	OSC Logistics	31 December 2015

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
9 <b>Transport and Logistics</b> – The Logistics role and resources in C&V activities: all functions and units in the field, including the Logistics function, have roles and responsibilities in ensuring that internal controls are present throughout the C&V business process. However, the involvement of the Logistics function was actually minimal or none in 60 percent of the COs visited, reducing the possibility for segregation of duties through the C&V modality based project's lifecycle. The audit noted that, while most functional HQ units had augmented their capacity (RFTB, RMFB, OSZIC) to support COs in the implementation and scale up of C&V modalities, supply chain (OSC) had only until recently assigned dedicated resources to provide advice and support C&V activities globally.	OSC (Logistics) will review the extent to which logistics is fulfilling its role in existing and proposed C&V programmes per existing corporate guidelines, and assess the needs and workforce capacities of Logistics units in HQ and in the field, and will develop a strategy and plan to augment its HQ C&V capacity to provide training and support to field operations.	Operational People Programmatic	Resources	OSC Logistics	31 December 2015
10 <b>Procurement</b> – Food quality and safety in the context of C&V activities: The audit noted that the standards for food quality, safety, storage and handling to be followed by the retailers were not specific and robust enough for effective implementation or monitoring in the field. While most COs implementing voucher modalities were conducting regular inspection visits of retailers, there was a lack of due diligence in the identification of national standards for hygiene, food quality and safety standards to enable the assessment of compliance by WFP's retailers. The audit noted that systematic processes for food safety monitoring of the local markets and defined food safety risks tolerance levels for C&V interventions needed to be developed.	OSC (Procurement) in conjunction with OSC (Logistics) will establish policies and guidelines for the assessment of food quality and safety in the context of C&V modalities, define minimum requirements at different stages of the project implementation, and work with OSZIC and OSC (Logistics) on the harmonization of assessment and monitoring tools for food quality and safety.	Compliance Processes and Systems Programmatic	Guidelines	OSC Procurement	31 December 2015

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<b>Monitoring</b>					
11 <b>Programme Monitoring and Evaluation</b> – Beneficiary complaints and response mechanism: The corporate guidelines call for the COs to consider setting up context-specific and easy-to-use beneficiary complaints and response mechanisms. The audit noted that these mechanisms were inadequate in 60 percent of the COs visited, resulting in no feedback or ineffective use of the data gathered from beneficiaries to detect poor SP’s and CP’s performance. The analysis of service trends is all the more important as the implementation of C&V modalities may reduce the frequency of WFP and CP’s contact with beneficiaries.	(1) OSZIC will review the COs where effective complaints mechanism have been implemented (e.g. Jordan and Kenya) and identify the best practices and lessons learned, and use these to strengthen and expand the policies and guidelines for complaints and response mechanisms to all stakeholders.	Operational Programmes Programmatic	(1) Guidance	(1) OSZIC	(1) 30 September 2015
	(2) OSZIC will work with RMTB and OSC (Logistics) on the implementation of standard technical tools and accompanying business processes to capture and manage stakeholder complaints and responses (e.g. ticketing systems).	Operational Programmes Programmatic	(2) Guidance	(2) OSZIC	(2) 31 December 2015
12 <b>Programme Monitoring and Evaluation</b> – Outcome and Output indicators for C&V: The audit noted that some of the primary drivers and objectives for the implementation of C&V modalities, including support to the local economy through C&V interventions, cost efficiency, among others, had no corresponding outcome indicators. The audit noted existing indicators were not leveraged to capture the impact of C&V interventions. Furthermore, the use of cash transfers was not being consistently monitored by COs to identify trends in allocation of resources by beneficiaries. Moreover, the realization of cost efficiency and effectiveness gains was not being effectively demonstrated through empirical means.	RMP in coordination with OSZIC will review the compendium of indicators and will identify opportunities for enhancing these in the context of C&V interventions, in order to include relevant indicators that allow COs to capture processes and outputs relevant to C&V interventions.	Strategic Programmes Programmatic	Guidelines	RMP	31 December 2015

## IV. Detailed assessment

**Control Activities****High Risk****Observation 1 Programme Management: Exchange of vouchers for cash at discounted values**

32. In some instances, the prioritization of needs drives beneficiaries to exchange their voucher entitlements for cash at discounted values to obtain resources for shelter and other non-food items. While gaps in non-food assistance are contextual conditions that lie outside the control of WFP, WFP identified the risk of transfers not being used for their intended purpose in its 2014 corporate risk register.

33. The audit noted WFP's significant efforts to prevent and detect these exchanges. However some of the COs reviewed had not fully utilized the opportunities afforded by C&V modalities to systematically monitor and detect exchange of vouchers for cash.

34. Notwithstanding these findings, the audit noted that the frequency at which vouchers were exchanged for cash was significantly lower than the estimated exchanges of in-kind food commodities for cash.

**Underlying cause of observation:**

The underlying causes of exchanging vouchers for cash include:

- Prioritization of needs in areas other than food, including rent, essential non-food items, etc. These needs drove beneficiaries to exchange their voucher entitlements for cash at a discounted values.
- Absence of corporate policies and guidelines on the acceptance of the residual operational risks of exchanging vouchers for cash.
- Internal control design deficiencies, including reliance on retailers to perform key controls, including the verification of beneficiaries and enforcement of restrictions in the exchange of vouchers for non-food items. Such controls were ineffective and created an inherent conflict of interest.
- The lack of normalized data, common application and tools make it hard for the organization to create monitoring queries and analytical procedures that would help in the consistent and efficient identification of systemic exchanges of vouchers for cash.

**Implication:**

WFP resources may not all reach the intended beneficiaries and/or be used for their intended purpose as per WFP's fiduciary duty, both for in-kind and C&V distributions, leading to reputational risk and significant resources not reaching the beneficiaries. The exchange of vouchers for cash at discounted values may go undetected.

**Policies, procedures and requirements:**

C&V Manual - A.9, Corporate Risk Register (Risk 12).

**Agreed action 1:**

OSZI in consultation with OSC (Logistics), OSC (Procurement) and RMFB, will develop a framework to determine the acceptable level of residual operational risk in delivering assistance through paper and electronic voucher.

**Due Date:** 31 December 2015.



**Agreed action 2:**

OSC (Logistics) in consultation with RMTB, OSC (Procurement), RMFB and OSZIC will review the appropriateness of relying on retailers to perform key controls where the possibility for conflict of interest exists, and will further develop policies and guidelines on the type of controls that are appropriate at the retailer level, including the use of PIN codes, biometric identification, etc.

**Due Date:** 31 December 2015.

**Agreed action 3:**

OSZIC in consultation with RMFB, RMTB and OSC (Logistics) will review the effectiveness of controls designed to detect exchanges of paper and e-vouchers for cash, and will develop policies and guidelines for incorporating these within the design of the projects, as per agreed actions 1 and 4.

**Due Date:** 31 December 2015.

**Agreed action 4:**

OSC (Logistics) and RMFB will co-lead in collaboration with OSZIC and RMTB in the development of a directive for dealing with potential losses of WFP resources through all the stages of the implementation of C&V modality based projects.

**Due Date:** 31 December 2015.

## 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 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 COSO frameworks<sup>3</sup> and the Standards of the Institute of Internal Auditors**

1	Strategic:	Achievement of the organisation'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.

<sup>3</sup> 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.<sup>4</sup>

**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.

### 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

<sup>4</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.

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

BCA	Benefit Cash Account
CFA	Cash for Assets
CO	Country Office
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPs	Cooperating Partners
C&V	Cash and Vouchers
IPSAS	International Public Sector Accounting Standards
LEG	Legal Office
OSC/OSL	Supply Chain Division – Logistics section
OSC/OSP	Supply Chain Division Logistics Division – Procurement section
OSZ	Policy, Programme and Innovation
OSZA	Analysis and Nutrition Service
OSZI	Programme Innovations Service
RBs	Regional Bureaus
RMF	Finance and Treasury
RMFB	Cash and Voucher Business Innovation Unit
RMFT	Treasury and Financial Risk Management Branch
RMP	Performance Management and Monitoring Division
RMTB	Beneficiary IT Solutions Service
SPs	Service Providers
WFP	World Food Programme