

# Internal Audit of WFP Corporate Trust Funds

Office of the Inspector General  
Internal Audit Report AR/15/05



**World Food Programme**

## Contents

---

		Page
<b>I.</b>	Executive Summary	3
<b>II.</b>	Context and Scope	5
<b>III.</b>	Results of the Audit	7
<b>IV.</b>	Detailed Assessment	13
	Annex A – Definition of Audit Terms	16
	Annex B – Acronyms	19

# Internal Audit of WFP Corporate Trust Funds

## I. Executive Summary






### Introduction

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP Trust Funds, specifically covering the overall governance and management of corporate trust funds. As of 1 October 2014, WFP had 137 active trust funds (TF) with a total available balance of USD 320 million, of which 53 Corporate TF had an available balance of USD 210 million. Contribution revenue obtained through TF for the year 2014 represented 2.5 percent of WFP's total contribution revenue of approximately USD 5.4 billion.
2. The audit focused on activities from 1 January 2013 to 31 August 2014. It also looked at events prior and subsequent to this period as required. The audit was based in WFP headquarters (HQ) in Rome during the months of October, November and December. The field work was conducted between 3 November and 9 December 2014. The audit comprised of meetings with TF Managers (TFM) and staff in various departments, review of documentation and two surveys sent to all TFM including those based in the field.
3. The audit was conducted in conformance with the *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 **unsatisfactory**. 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	High 
2. Risk management	High 
3. Control activities	Not audited 
4. Information and communication	Medium 
5. Monitoring	Medium 

### Key Results of the Audit

#### Positive practices and initiatives

5. The audit noted some positive practices and initiatives. The Organizational Budgeting Service (RMBB) commenced the WFP Trust Fund Lifecycle Review in April 2014 as part of the Business Process Review to 'standardize trust fund procedures in WFP'. The review involved the following areas which were also covered by the audit, although with a focus is on the country portfolio budget:
  - a) identifying the gap between available corporate guidance and the current operational environment;
  - b) documenting the current process and recommending improvements, proposing responsibilities for the various units involved in the process;
  - c) presenting results of the review to Regional Bureaux, obtaining and analysing feedback as a basis for an improved set of guidance; and

- d) developing policies, procedures and manuals for the establishment and implementation of TF, and additional support mechanisms such as training modules.

### **Audit observations**

6. The audit report contains two high-risk and three medium-risk observations. These ranged from a limited strategy of using this funding mechanism to the lack of corporate monitoring of the activities funded by TF. The high risk audit observations are:

**Governance: Strategy for using TF** - Corporate understanding of TF was limited to that of a mechanism allowing for the programming of funds received from donors for non-core activities. There was no comprehensive view of the various types and categories of existing TF, which are diverse. TF were used to fund core activities against WFP's own definition of TF and for purposes which may not have been consistent with that as originally intended. Medium and long term needs of the activities were not aligned with the funding from TF which was frequently short term. WFP Management has agreed to take an inventory of all existing TF and develop further a policy decision addressing the defining factors of TF and their future use, for decision and promulgation by the Executive Director.

**Governance/Enterprise Risk Management: Distribution of accountabilities and responsibilities relating to TF** - The processes relating to TF, including the establishment, management and operations of TF, had not been documented. The distribution of responsibilities and accountabilities was not clear and had not been articulated. As a result, there was no systematic process for risk assessments of TF and the associated grants, taking into account factors such as the appropriateness of the relationship and arrangements with the donor. WFP Management has agreed to complete policies and procedures governing the establishment, risk assessment and approval of TF and submit them for corporate approval.

### **Actions agreed**

7. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations. Management has started to implement the five agreed actions.
8. 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

### Trust Funds in WFP

9. A TF is an identifiable subdivision of the WFP Fund, established by the Executive Director for a special contribution, the purpose, scope and reporting procedures of TF have been agreed with the donor. WFP treats TF as those funds which have been received from recipient governments or other donors for activities that promote the mission and strategic priorities of the organisation but are outside the scope of WFP projects.

10. The circulars that provide for the governance of TF are:
- ED2006/007 Management of Extra-Budgetary Resources at WFP;
  - ED2006/015 Consolidated of locally generated funds and approval of Trust Funds;
  - ED2007/002 Bilateral Operations;
  - ED2012/004 Financial Resource Management Manual (section 8); and
  - CFO Directive 2007/001 Consolidation of locally generated funds.

11. Apart from these, there are no procedural manuals or official guidance documents or other forms of review and approval processes such as those existing for regular projects e.g. the Programme Guidance Manual (PGM) and the System for Project Approval (SPA).

12. For the year ended 31 December 2013, WFP recognised USD 136 million as revenue from contributions through TF while expenditures totalled USD 177 million. TF related net assets comprising mainly cash, short term investments, receivables and payables amounted to USD 345 million or 9 percent of the total net assets of WFP.

13. Although the contributions from TF in 2013 account for approximately 3 percent of total contributions, their significance cannot be judged by this statistic alone. When analysed by region and country, the figures reveal the importance of TF to the funding of operations. By region, country-specific TF in 2013 were concentrated in Latin America and the Caribbean, accounting for around 92 percent or USD 66 million of the USD 72 million overall country-specific TF resources. In Latin America, 38 percent of total funding for the region was from TF. In Cuba, Honduras and Colombia, 90, 75 and 40 percent of funding, respectively, were from TF.

14. In addition, TF by nature have a high profile with accountability to the donor in terms of the specificity of activities, timelines and reporting requirements.

15. There has been a steady increase in contributions through TF from 2006 to 2013. The total value of grants signed in 2006 was USD 103 million as compared to USD 202 million signed in 2013.

16. There are no consolidated figures of the total value of the associated agreements for TF. As of 1 October 2014 there were 137 active TF: 76 country specific, 8 bilateral and 53 corporate. The available resources on the same date were USD 320 million, including USD 210 million relating to corporate TF.

17. Cumulatively, from June 2009 to December 2013, the contributions for Corporate TF were USD 592 million, which were mainly from private donors (USD 136 million), the Governments of Canada (USD 71 million), Spain (USD 47 million), UK and Saudi Arabia (USD 41 million each), and USA (USD 36 million) making up the majority of government contributions.

18. Cumulatively, from June 2009 to December 2013, the contributions to country-specific TF amounted to USD 394 million, with the main contributors being Honduras (USD 122 million), Ethiopia (USD 67 million) and Colombia (USD 28 million).

### Objective and scope of the Audit

19. The objective of the audit was to evaluate and test the adequacy and effectiveness of the processes associated with the governance of WFP's corporate TF. 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.

20. The audit was carried out in conformance with the International Standards for the Professional Practice of Internal Auditing. It was completed according to an approved engagement plan and took into consideration the risk assessment exercise carried out prior to the audit.

21. The scope of the audit covered the governance of WFP's corporate TF from 1 January 2013 to 31 August 2014 although events prior and subsequent to this period were reviewed, as required. The audit was based in HQ in Rome during the months of October, November and December 2014. Field work was conducted between 3 November and 9 December 2014.

22. The scope of the audit did not include management of TF in Country Offices (CO), which may be the subject of a separate audit. Procurement processes and implementation of activities funded by the TF were also outside the audit scope.

23. The assignment did not seek to audit specific TF, and as such it does not provide assurance with regards to any specific TF. A sample of TF were reviewed to assess the governance of TF in practice.

24. The audit comprised of meetings with TFM, staff from various departments including Resource Management, Partnership, Governance and Advocacy, the Legal Office and the Ethics Office, a review of documentation and two surveys sent to all TFM including those based in the field.

25. The audit encountered numerous limitations that precluded it from covering its original scope, which included lack of certain key processes in the establishment of TF. This led to some of the observations below. The limitations include the following:

- a) Not all TFM were identified due to lack of corporate information and unsatisfactory or untimely replies. There was a lack of ownership or understanding of the TFM roles and responsibilities.
- b) Inconsistent information was available on the financial status of TF under review.

### III. Results of the Audit

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

**Table 2: Positive practices and initiatives**

---

#### **1. Internal environment**

---

- RMBB commenced the WFP Trust Fund Lifecycle Review in April 2014 as part of the Business Process Review to 'standardize trust fund procedures in WFP', covering several aspects which were also covered in the scope of the audit. However, the review focused on the country portfolio budget. The review:
  - Provided a historical overview on how TF have evolved in WFP;
  - Documented current processes; identified gaps between current corporate guidance and existing operating environment based on fit for purpose; identified and mapped a logical process from donor request until final utilization of resources; proposed improvements in processes, including the mechanics for setting up and implementing TF; articulated all relevant responsibilities; and provided an overview of TF by Region.
  - Highlighted analytical and monitoring tools to be rolled out in Country Office (CO)/Regional Bureau (RB); presented results of review to RBs and obtained feedback; analysed feedback to incorporate learning as a basis for an improved set of guidance; received and consolidated feedback from the RBs/COs on regional priorities and improvements needed in the process; and
  - Developed draft policies, procedures and manuals and additional support mechanisms such as modules for other training platforms; and provided support tools / best practices to assist CO/RB in the implementation of TF resources.

27. 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 governance of corporate TF at HQ:

**Table 3: Conclusions on risk, by internal control component and business process**

Internal Control Component		Risk
1.	Internal environment	High
2.	Risk management	High
3.	Control activities	Not audited
4.	Information and communication	Medium
5.	Monitoring	Medium

28. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **unsatisfactory**<sup>1</sup>.

29. The audit report makes two high-risk observations which are explained in detail in Section IV. A further three medium-risk observations arose from the audit. Tables 4 and 5 present the high and medium-risk observations, respectively.

### Action agreed

30. Management, in discussion with the Office of Internal Audit, has agreed to take measures to address the reported observations. Management has started working on the five agreed actions<sup>2</sup>.

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

<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

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<b>Internal environment</b>					
<p>1 <b>Governance: Strategy for using TF</b> - The strategy for using the TF mechanism was limited to allowing for the programming of funds received from the donors for non-core activities.</p> <p>The TF mechanism had been used in a range of ways from funding non-core activities to being an accounting mechanism to allow the programming of funds regardless of the activities. TF were also used to fund core activities, not satisfying WFP's own definition of the uses for this mechanism.</p> <p>There was no comprehensive view of the various types and categories of TF or the management structures at the corporate level.</p>	<p>Budget and Programming (RMB), in conjunction with the Partnership, Governance and Advocacy Department (PG), will take an inventory of all existing TF, including identifying the relevant TF managers and the different types of TF, purposes, uses and associated management structures.</p>	<p>Strategic Programmes Contextual</p>	<p>Guidance</p>	<p>Budget and Programming (RMB)</p>	<p>30 June 2015</p>
	<p>The Resource Management Department (RM), in collaboration with Operation Services (OS), will develop a policy decision addressing the defining factors and future use of TF, taking into account elements such as the nature and timeframe of the activities, the changing environment and the strategic direction of the organisation. The decision will be promulgated by the Executive Director.</p>	<p>Strategic Programmes Contextual</p>	<p>Guidance</p>	<p>Resource Management Department (RM)</p>	<p>31 December 2015</p>
<b>Internal environment/ Risk Management</b>					
<p>2 <b>Governance / Enterprise Risk Management: Distribution of accountabilities and responsibilities relating to TF</b> - The processes relating to TF, including the establishment, management and operations of TF, had not been documented. The existing circulars were high level, not operational, or not updated. Thus, the distribution of responsibilities and accountabilities was not clear and had not been articulated.</p> <p>As a result' the process of what needed to be reviewed, the extent of the review and the associated responsibilities had not been clearly articulated for TF and the associated grants.</p> <p>Although some review of the grant agreements for legal clauses and reporting requirements did take place, there was no evidence of a process</p>	<p>The Operations Management Support Unit (OMS), in coordination with RM, OS and PG, and building on the experience of the current electronic and strategic programme review process (e-PRP/s-PRP) process, will complete the drafting of the policies and procedures governing the establishment, risk assessment and approval for grant agreements and TF, including for corporate TF their corporate reporting and oversight, and will submit these for corporate approval.</p>	<p>Operational Processes &amp; Systems Institutional</p>	<p>Guidance</p>	<p>Operations Management Support Unit (OMS)</p>	<p>31 December 2015</p>

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<p>where reviews and risk assessments were undertaken on other aspects of the TF such as the appropriateness of relationship and arrangements with donor in its entirety (including procurement, where relevant); the proposed governance and management structures; and extent of use of WFP capacity for non-core activities.</p>					

Table 5: Medium-risk observations

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<b>Internal environment</b>					
<p>3 <b>Governance: Governance surrounding TF management</b> - There were no specific Terms of Reference (TORs) or performance indicators for TFM. The TFM role had been defaulted to head of division/CO but was effectively managed by their delegates without any formal delegation of authority. TF were managed no differently from any other allocations from budgetary resources.</p> <p>There was no complete and updated list of TFM, some of whom could not be identified. There was no evidence of the management activities of a TF and there were TF for which the outgoing TFM did not provide handover notes to the incoming TFM.</p> <p>There was no assurance that internal controls had been systematically designed, responsibilities allocated and guidance provided to ensure adequate and appropriate safeguards throughout the process.</p>	<p>OS, in coordination with RM and PG, will develop guidance for TFM including TORs and performance indicators, guidance for the sub-delegation of TFM to staff for the day-to-day management of TF, appropriate internal controls, appropriate document management, especially building institutional memory for key staff and activities for managing TF.</p>	<p>Operational Accountability &amp; Funding Institutional</p>	<p>Guidelines</p>	<p>Operations Services Department (OS)</p>	<p>31 March 2016</p>
<b>Monitoring</b>					
<p>4 <b>Corporate Monitoring: Corporate information and monitoring of TF</b> - There is a different accountability required for TF since there are donor specific objectives, activities, use of funds, reporting requirements and timelines. However, information that needed to be collected and prepared at the corporate level to meet these monitoring and analysis requirements had not been specified. The extent of corporate monitoring had not been defined and the responsibilities not allocated. Results related to activities funded from TF resources, as non-core activities, were also not reported corporately, leading in some instances to under-reporting on WFP's results and achievements.</p> <p>There was a lack of an official corporate repository and the custodian of such a repository had not been assigned.</p>	<p>Following the articulation of the policy referred to in observation 1, OS, in coordination with RM and PG, will review the needs attached to TF monitoring and further clarify corporate requirements in that area.</p>	<p>Strategic Accountability &amp; Funding Institutional</p>	<p>Guidance</p>	<p>Operations Services Department (OS)</p>	<p>31 March 2016</p>

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<b>Information and Communication</b>					
5 <b>Internal/External Communication: Visibility and reporting of activities and achievements of TF -</b> While the substantive achievements of activities funded by TF were reported to the individual donor, these results had not been captured systematically as there were no corporate systems to record the results and achievements of the TF activities. The limited tracking and reporting of TF activities resulted in the low visibility of valuable contributions and achievements.	RM will define the enhancements required on the current tools and processes such as Standard Project Reports, Annual Performance Reports, and the Country Office Monitoring and Evaluation Tool (COMET) to ensure comprehensive reporting on WFP's performance, including TF achievements.	Reporting Programmes Institutional	Guidance	Resource Management Department (RM)	30 June 2016

## IV. Detailed Assessment

### Internal Environment

### High Risk

#### Observation 1 Governance: Strategy for using Trust Funds

31. TF are established when a contribution is received to fund an activity outside of WFP's regular operations. The strategy for using the TF mechanism was limited to allowing for the programming of funds received from the donors for non-core activities.
32. In practice, the TF mechanism was used to fund non-core activities, but also as an accounting mechanism to allow for funding core activities and programming of funds received from insurance pay-out and unallocated interest. Medium and long term needs of activities were not always in line with the funding from TF, which was frequently short term.
33. There was no comprehensive view of the various types and categories of TF. Further, insufficient guidance on TF management structures at the corporate level lead to unclear and ad hoc governance and management arrangements across the board. The audit's sample review evidenced some instances where TF were used for purposes not consistent with the original intent or without corporate endorsement of its purpose and/or related commitments.

**Underlying cause of observation:** The organisation and the context changed over the last few years, so did the quantity, value and variety of TF. However, policies and procedures and corporate monitoring practices had not evolved accordingly.

**Implication:** TF are used for purposes which are not consistent with that as originally intended; Negative impact and risk to the viability of medium/long term activities due to the short term nature of the TF funding mechanism; Inability to assess associated risks on a corporate basis and take appropriate action; and Unavailability of useful information to develop strategy on the future use of TF.

**Policies, procedures and requirements:** Financial Regulation 5.1; Financial Resource Management Manual 8.15

#### Agreed action 1:

RMB, in conjunction with PG, will take an inventory of all existing TF, including identifying the relevant TF managers and the different types of TF, purposes, uses and associated management structures.

**Due date:** 30 June 2015

#### Agreed action 2:

RM, in collaboration with OS, will develop a policy decision addressing the defining factors and future use of TF, taking into account elements such as the nature and timeframe of the activities, the changing environment and the strategic direction of the organisation. The decision will be promulgated by the Executive Director.

**Due date:** 31 December 2015

## Internal Environment/Risk Management

## High Risk

**Observation 2 Governance/Enterprise Risk Management: Distribution of accountabilities and responsibilities relating to TF**

34. The processes relating to TF had not been documented, such as establishing grants and TF and associated reviews, receipt of funds, making funds available for expenditure, allowing for expenditures to be recorded in the system, and corporate monitoring. The distribution of responsibilities and accountabilities were unclear and had not been articulated.
35. The process of what needed to be reviewed, the extent of the review and the associated responsibilities had not been clearly articulated for TF and associated grants.
36. Although there appeared to be some review of the grant agreements for legal clauses and reporting requirements, there was no evidence of a process where reviews and risk assessments were undertaken on the following aspects of TF and associated grants:
- appropriateness of relationship and arrangements with donors in its entirety including related procurement activities, if any;
  - proposed governance and management structures; and
  - risks and extent of use of WFP capacity for non-core activities.
37. RMBB had commenced a TF lifecycle review identifying and mapping the current process, from donor request until final utilisation of resources, and proposing improvements thereon. In addition and as a result of the Business Process Review, an Operations Management Department Directive was issued in June 2014 introducing the e-PRP, which addressed the review and approval for projects, including TF.
38. However, a review of the documents in e-PRP on the SPA indicated that:
- not all the areas identified above were addressed;
  - there was no evidence of risk assessments;
  - the routing slip did not detail the type of reviews done and clearances provided, if any;
  - not all cases had evidence of review by the Legal Office;
  - there was no evidence that all relevant aspects had been reviewed and cleared;
  - templates used e.g. Decision Memorandum, TF Detail Form were not standard and consistent.
39. The audit's sample review of TF evidenced in several instances that the lack of appropriate review of the TF agreements and risks attached resulted in inadequate and insufficient internal controls and mitigating activities in the management of the TF.
40. In the approval process, the introduction of a standard Decision Memo that adequately reflects all the necessary information such as rationale for using TF, risks and mitigating actions, budgets, donor reporting, proposed accountability arrangements, full extent of relationship with donor, proposed management structure would enhance controls on the approval process.

**Underlying cause of observation:**

The organisation and the context changed over the last few years and the volume and donor specificities increased; however the governance surrounding TF had not evolved accordingly.

There is no specific requirement to conduct reviews and risk assessments of grants and related TF. The Legal Office's review of grant agreements is focused on the legal risks as articulated in the clauses of the agreement, but does not cover the areas above. Discussions and decisions regarding grants and TF have not been documented or retained in a readily accessible corporate repository.

**Implication:**

TF may not be established in the best interest of WFP. TF are not being managed as they should be, leading to exposure to unidentified or unmitigated risks, as well as operational delays and inefficiencies, and failing to meet TF objectives and donor requirements.

**Policies, procedures and requirements:** Financial Regulation 5.1; Financial Resource Management Manual 8.15; Directive OM2014/002

**Agreed action:**

OMS, in coordination with RM, OS and PG, and building on the experience of the current e-PRP/s-PRP process, will complete the drafting of the policies and procedures governing the establishment, risk assessment and approval for grant agreements and TF, including for corporate TF, their corporate reporting and oversight, and will submit these for corporate approval.

**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 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.

<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.

## 6. Rating system

A 9. Internal control components and processes are rated according to the severity of their risk. These ratings are part of the system of evaluating the adequacy of WFP's risk management, control and governance processes. A rating of satisfactory, partially satisfactory and unsatisfactory is reported in each audit. These categories are defined as follows:

**Table A.5: Rating system**

Engagement rating	Definition	Assurance level
Satisfactory	Internal controls, governance and risk management practices are adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.	Reasonable assurance can be provided.
Partially Satisfactory	Internal controls, governance and risk management practices are generally established and functioning, but need improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.	Reasonable assurance is at risk.
Unsatisfactory	Internal controls, governance and risk management practices are either not established or not functioning well. The issues identified were such that the achievement of the overall objectives of the audited entity could be seriously compromised.	Reasonable assurance cannot be provided.

## Annex B – Acronyms

CO	Country Office
COMET	Country Office Monitoring & Evaluation Tool
COSO	Committee of Sponsoring Organizations of the Treadway Commission
E-PRP	Electronic Programme Review Process
HQ	WFP's Headquarters
OED	Office of the Executive Director
OS	Operations Services Department
PG	Partnership, Governance and Advocacy Department
PGM	Programme Guidance Manual
RB	Regional Bureau
RMB	Budget & Programming
RMBB	Organizational Budgeting Service
RMP	Performance Management and Monitoring Division
S-PRP	Strategic Programme Review Process
SPA	System for Project Approval
TF	Trust Fund
TFM	Trust Fund manager
TOR	Terms of Reference
WFP	World Food Programme