

Internal Audit of WFP Management of Donor Funding

Office of the Inspector General
Internal Audit Report AR/15/13



World Food Programme

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I. Executive Summary





Introduction

1. As part of its annual work plan for 2015, the Office of Internal Audit conducted an audit of WFP's internal management of donor funding; in 2014, WFP raised a record \$5.38 billion (\$4.38 billion in 2013) in voluntary contributions.
2. The audit focused on activities from 1 January 2014 to 31 March 2015. The audit was conducted between 25 May and 31 July 2015 and involved interviews with staff at WFP Headquarters in Rome, WFP Offices, Regional Bureaux (RBx), as well as meetings with donor counterparts, review of documentation and review of responses to a survey questionnaire sent to all WFP country offices (CO).
3. The audit was conducted in accordance 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 **satisfactory**. Conclusions are summarised in Table 1 by internal control component:

Table 1: Summary of conclusions by Internal Control Component

Internal Control Component		Conclusion	
1.	Internal environment	Medium	
2.	Risk management	Medium	
3.	Control activities	Medium	
4.	Information and communication	Medium	

Key Results of the Audit

Positive practices and initiatives

5. The audit noted some positive practices and initiatives that go some way to addressing certain of the risks relating to the management of donor funds. These included: the Corporate Partnership Strategy and the pro-active role of the RBx in assisting COs in the preparation of country specific funding strategies; the development of the Country Director Accountability Framework, including elements related to resource mobilization; the definition of a common reporting format for the Standard Project Report narrative, including consultations with donors; the establishment of a Donor Information Hub, as a single source of information for donor relations; and the regular provision to donors of information and updates on the functioning and performance of WFP through consultations, the Management Plan and Operational and Development Resourcing updates.



Audit conclusion

6. WFP's funding environment has become increasingly challenging in recent years. In 2014, the organization faced concurrent Level 3 and Level 2 emergencies and raised a record \$5.38 billion in voluntary contributions in response to a 26 percent increase in its programme needs.

7. Overall, the audit confirmed WFP's management of donor funds to be satisfactory, with some areas requiring improvement; as noted above under positive practices, certain of these areas are already being addressed in a proactive manner by management. The audit demonstrated that WFP is able to meet donors' needs and expectations in a challenging environment, with donors confirming that WFP is viewed very favourably in terms of its ability to meet the needs and expectations of the donor community. WFP's logistics capability and its ability to manage large scale operations were cited by donors as its main comparative advantages. Donors also confirmed their satisfaction with the responsiveness of the organization (especially the Partnerships, Governance and Advocacy Department and the Government Partnerships Division) while noting, however, that the timeliness and quality of responses varied. The audit noted that funding is not always constant or flexible and that specific requirements (e.g. in reporting) are increasing, challenging WFP's current processes and systems. Finally, the audit noted that the quality and timeliness of reporting, in particular donor specific ad-hoc financial reporting, were key areas for improvement.

Audit observations

8. The audit report contains ten medium-risk observations. These include recommendations relating to: the acceptability of terms and conditions relating to the administration of funds and requirements regarding reporting and donor reviews/assessments (Observation 3); donor specific ad-hoc financial reporting (Observation 9); the visibility of multilateral funding (Observation 4); and the identification, recording and sharing of donor related risks (Observation 2).

Actions agreed

9. Management has agreed to take measures to address the reported observations and work is in progress to implement all the agreed actions.

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

David Johnson
Inspector General

II. Context and Scope

WFP funding environment

11. WFP's funding environment is becoming increasingly challenging. In 2014, which was dominated by the responses to concurrent Level 3 and Level 2 emergencies, WFP raised \$5.38 billion (\$4.38 billion in 2013) in voluntary contributions.

12. The Level 3 emergencies were 78% funded in 2014 and donor contributions to the Ebola and Iraq emergencies late in the year exceeded expectations and enabled continuation of activities into 2015. Excluding these emergencies, WFP's programmes were only 57 percent funded in 2014, in line with historical trends.

13. Funding has not always been constant or flexible; indeed, WFP recently reported that only limited progress has been made in obtaining predictable, timely and flexible resources¹. Donor specific reporting requirements are increasing, specifically ad-hoc financial reporting requirements, putting a strain on the capacity of WFP's process and system to meet all requirements while complying with the organization's full cost recovery policy. WFP continues to seek flexible long-term funding, which is considered to be central to good humanitarian donorship. In 2014, the organization secured \$452 million in multilateral contributions. While this represented an increase of 17 percent in absolute terms with respect to 2013, it also represented a decrease as a proportion of total funding for the fourth year running (from 9 percent to 8 percent).

14. 2014 was a record year in terms of multi-year contributions, with \$630 million being received. It was also a record year, in both absolute and relative terms, for cash contributions which totalled \$4.1 billion (i.e. 75 percent of total voluntary contributions). Donors made a third of such contributions available to repay project advances, thereby helping WFP make effective use of its working capital and supporting the use of advance financing².

15. In recent years, there has been gradual shift away from raising resources on an individual transaction basis towards the creation of ongoing relations with donors, with the latter in the role of partners that require attentive nurturing through effective communication. WFP's Corporate Partnership Strategy 2014-2017 promotes excellence in partnership by building on the organization's known strengths as a partner and providing a framework to analyse priorities and optimize partnerships. WFP continues to rely on traditional donors and is making efforts to increase the support it receives from non-traditional donors and the private sector³.

WFP management of donor funding

16. Increasing the level of financial inflows is a priority for WFP and, while the bulk of the organization's financial support will continue to come from traditional donors, this can also be achieved by expanding the number of donors to include non-traditional donors (such as the BRICS⁴) and increasing the proportion of multi-year and multilateral funds.

17. In order to prepare a realistic and prioritised work plan, WFP forecasts contributions on the basis of past trends and information provided by donors, taking into account the potential for increased and flexible funding through an expanded donor base and WFP financing instruments. To maximise the impact of donor funding, innovations have been introduced, including advance financing mechanisms (Working Capital Financing Facility) and new financial instruments to help donors focus on specific areas of interest.

18. The WFP Management Plan for 2015-2017 notes that '*sound programme design tailored to particular circumstances with effective systems for monitoring and evaluation, internal control and*

¹ WFP Annual Performance Report 2014.

² Based on information from WFP Annual Performance Report for 2014.

³ Joint Inspection Unit report '*An Analysis of the Resource Mobilization Function within the United Nations System*' dated 2014.

⁴ Being Brazil, Russia, India, China and South Africa.



reporting are pre-requisites for increasing funding from donors'. With this in mind, WFP introduced a new Management Results Framework⁵, in which the dimensions used to measure management results include Process and Systems, Programmes and Accountability.

19. To ensure adequate engagement with donors, the organization has a Partnership, Governance and Advocacy Department (PG) based in HQ and WFP offices in a few capitals around the world, with responsibility for managing government donor relations, amongst other key partnership responsibilities.

20. PG has around 80 staff of which 40-45 are based at WFP Headquarters in Rome (HQ) with a further 20 staff based in the WFP Offices. The department coordinates a DRO (Donor Relations Officer) network with an email distribution list that currently includes some 270 staff involved in resource mobilisation management in WFP. In addition to PG, the management of donor funding also involves other units based in the field, including the COs, RBx and the Resource Management Department (RM).

Objectives and scope of the audit

21. The objective of the audit was to evaluate and test the adequacy and effectiveness of the internal controls, governance and risk management processes over WFP's management of donor funding. Such audits are part of the process of providing an annual and overall assurance to the Executive Director on governance, risk management and internal control processes.

22. The audit was carried out in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors. It was completed according to the approved planning memorandum and took into consideration the risk-assessment exercise carried out prior to the audit.

23. The scope of the audit covered fundraising and internal fund management activities for the period from 1 January 2014 to 31 March 2015. Where necessary, transactions and events pertaining to other periods were reviewed. The specific areas reviewed were coordination of donor relations management, management of obligations and risks, financial management, and reporting and communication.

24. While focusing on activities from 1 January 2014 to 31 March 2015, the audit was conducted between 25 May and 31 July 2015 and involved interviews with staff at HQ, WFP Offices, RBx, in addition to meetings with donor counterparts, review of documentation and a review of responses to a survey questionnaire sent to all COs to obtain their views on the adequacy of the systems and processes surrounding the management of donor funding. Audit scope was limited to the management of government donor funding and excluded trust funds.

25. Prior to commencement of the audit, the organization had undertaken certain initiatives in relation to the management of donor funding. These included work on improving performance reporting⁶, corporate Customer Relationship Management⁷ and an analysis of donor contribution agreements to identify types of conditions and restrictions. The audit leveraged these efforts to meet the audit objectives of providing assurance to senior management on the internal controls, governance and risk management processes over the management of donor funding.

⁵ WFP Annual Performance Report 2014 and WFP Strategic Plan 2014-2017.

⁶ Report prepared by Performance Management and Monitoring Division on *Performance Reporting Improvement Project* in December 2014.

⁷ Report prepared by the Government Partnership Division on *Corporate Customer Relationship Management in WFP* dated 6 November 2014.

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
<ul style="list-style-type: none"> • The Management Plan articulates how WFP's Strategic Results Framework is implemented and the Management Results Framework provides members with feedback and information on organizational performance, funding approaches, the prioritised plan of work, operational requirements and the programme support and administrative budget for the year; • Operational Resourcing and Development Resourcing Updates are issued to interested donors and Executive Board members to report on WFP's fundraising performance and provide information in relation to its current funding priorities; • WFP is negotiating Framework Agreements under which donors commit to harmonisation of requirements (including reporting), multi-year funding and/or other terms that result in greater flexibility for WFP; • Field DRO training has become an important vehicle for communicating guidance to field operations and has boosted in-country capacity for donor funding management; • The Country Director Accountability Framework, which includes resource mobilization performance indicators for Country Directors together with related monitoring arrangements, is being finalised.
2. Risk management
<ul style="list-style-type: none"> • The Corporate Partnership Strategy '<i>We Deliver Better Together</i>' has been issued to provide guidance on partnering; • RBx are pro-active in providing assistance to COs in the preparation of country specific funding strategies.
3. Control activities
<ul style="list-style-type: none"> • Further detailed guidance is being drafted to assist DROs in the process of forecasting, in particular in relation to determining the probabilities of obtaining contributions; • WFP has held consultations with donors aimed at enhancing the narrative content of Standard Project Reports (SPRs) and defining a single, common reporting format that satisfies donor requirements.

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 processes:

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

Internal Control Component/Business Process	Risk
1. Internal environment	
Coordination of Donor Relations management activities: roles, responsibilities, performance management	Medium
2. Risk management	
Management of obligations and risk: Country specific strategy and donor risk profile, programming of funds, advocacy for multilateral, donor reviews	Medium
3. Control activities	
Financial management: Grant Management system, agreements, forecasting, outstanding receivables, unspent balances, reporting	Medium
4. Information and communication	
Mechanisms and practices for information and knowledge sharing	Medium

28. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **satisfactory**⁸.

29. The audit made ten medium-risk observations, which are detailed in Table 4 of this report.

Action agreed

30. Management has agreed to take measures to address the reported observations and work is in progress to implement the agreed actions⁹. For the purposes of this audit, whenever PGG is recognised as the agreed action owner it implicitly acts on behalf of the PG department, thus representing also offices reporting to PGG (Berlin, Madrid, Paris and Seoul) as well as WFP Offices reporting to PG (Brussels, Dubai, Tokyo and Washington).

⁸ See Annex A for definitions of audit terms.

⁹ Implementation will be verified through the Office of Internal Audit's standard system for monitoring agreed actions.

Table 4: Medium-risk observations

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
Internal Environment					
<p>1 Accountabilities and performance indicators for effective partnership management: Fundraising efforts are spread across the entire organization with key roles being played by Country directors (CD) and the Partnerships, Government and Advocacy Department (PG).</p> <p>The CD is ultimately responsible for the resources of a CO, including the collection of outstanding receivables for locally negotiated agreements. While the Management Results Framework and new CD Accountability Framework include measurements such as percentage of gross needs met and planned collaboration agreements established, they do not include cash receipt or financial reporting indicators.</p> <p>Fundraising efforts are supported by DROs located at HQ, WFP Offices, RBx and COs. DROs may be fully dedicated to donor relations or may have the role of donor relation focal point, while also being responsible for other functions. While DROs at RBx support CO management of donor funding, such support does not constitute an oversight function.</p> <p>The audit noted inconsistencies in the terms of reference of DROs and their expected results; PGG is replacing existing terms of reference with more appropriately differentiated DRO roles and responsibilities and related career paths, depending on the different locations and the systems and information available to them.</p> <p>DROs do not always have sufficient visibility of the entire donor funding management process, including the roles played by various HQ units. Given that the DRO is the main contact point with the donor, all communication regarding implementation matters such as receipt of cash, unspent balances and reporting is expected to be coordinated by them. DROs, however, often face challenges in carrying out such function due to their limited awareness of the status of operational issues; indeed, the performance assessment of DROs does not cover issues subsequent to the contribution stage such as following up on receivables and unspent balances.</p>	<p>PGG, in conjunction with RM, will:</p> <p>a) Clarify workflows and information flows throughout the entire donor funding management cycle, at all locations including COs and RBx;</p> <p>b) Allocate roles, responsibilities and accountabilities to all parties involved in the management of donor funding;</p> <p>c) Expand the oversight role of RBx to include:</p> <ul style="list-style-type: none"> • Review of CO risk registers with regard to donor relations to ensure that all relevant risks are adequately identified and the appropriate action planned; risks should then be consolidated and escalated to corporate level for action; • The follow up of outstanding receivables and unspent balances; • Relevant aspects of donor ad-hoc financial reporting. <p>d) Establish appropriate performance indicators for all parties involved in the management of donor funding, including DRO, CD, RBx etc.</p>	<p>Strategic</p> <p>Accountability & Funding</p> <p>Institutional</p>	<p>Guidance</p>	<p>PGG</p>	<p>(a) and (b) 30 September 2016</p> <p>(c) and (d) 31 December 2016</p>

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<p>2 CO specific funding strategy: CO risk registers generally identify the challenging fundraising environment as a concern relevant to donor funding, however, rarely provide sufficient detail to inform the country specific funding strategy or articulate specific mitigation actions.</p> <p>The audit noted that not all COs documented their donor funding strategies. The CO survey confirmed that funding strategies are often informal and not documented. CO approaches to funding, where documented, did not always address all the relevant elements suggested by PGG and consultation processes among COs and between RBx, where they existed, were not formalised.</p> <p>There exists a risk that common issues affecting the region and/or the organization at a corporate level are not consolidated in order that appropriate action can be taken.</p>	<p>PGG will:</p> <p>a) Revise its policy so as to require that a minimum level of documentation be provided in relation to specific funding strategy matters such as resource mobilisation, partnership and strategic engagement;</p> <p>b) Establish a mechanism, involving RBx oversight, to share, consult and continuously monitor and adjust funding strategies.</p>	<p>Strategic</p> <p>Accountability & Funding</p> <p>Institutional</p>	Guidance	PGG	30 September 2016

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<p>3 Acceptability of terms and conditions of management of donor funds: There are instances in which the terms and conditions under which contributions will be administered as well as donor reviews and assessments will be undertaken are not sufficiently regulated in donor agreements.</p> <p><u>Administration of contributions</u> Signed contribution agreements with donors form the basis of grant registration and the programming of funds for project implementation. These agreements set out how donor funds are to be used and administered.</p> <p>In certain cases, no contribution agreement is signed with the donor; rather, the terms and conditions of the contribution are formalised in items of correspondence such as Note Verbale, letter etc. Certain conditions including payment terms, TOD/TDD dates, availability of advance financing, reporting dates, resource transfers and unspent balances etc. are not always addressed, risking misinterpretation and failure to meet donor expectations.</p> <p><u>Donor reviews and assessments</u> Certain donors conduct ex-ante and ex-post reviews and assessments. At HQ, these are arranged through the DROs who direct the review teams to the appropriate HQ units. Many such reviews are also conducted in the field, with donor review teams liaising directly with CO staff.</p> <p>The audit noted the following weaknesses (which do not apply to verification exercises conducted by the EU):</p> <p>a) Limited corporate level information exists regarding the extent of such reviews, especially those conducted in the field;</p> <p>b) No strategy or mechanism is in place to ensure that such reviews are not in violation of the single audit principle and that responses to different donors are consistent and reasonable;</p> <p>c) Responses to donor reviews are not coordinated to ensure they are appropriate and that confidential information is properly controlled and duplication of effort avoided.</p>	<p>PGG, with the assistance of the Legal Office, will,</p> <p>a) Take steps to ensure that, where possible, contribution agreements are signed with donors to formalise terms and conditions;</p> <p>b) Ensure that the terms and conditions of how contributions are to be administered are agreed in writing with the donor, even in cases where no contribution agreement is signed (e.g. by making reference to such terms and conditions in a thank you letter or framework agreement);</p> <p>c) Review approval procedures and delegation of authority for accepting contributions that carry conditions that either cannot be met or can only be met with difficulty under WFP standard process and procedures. Non-standard financial reporting conditions will be reviewed together with RMF.</p> <p>PGG will:</p> <p>d) Assess the respective costs and benefits of centralised and decentralised approaches to the handling of responses to donor reviews, including in terms of duplication of efforts;</p> <p>e) Establish a mechanism to collect, record and share lessons learned from such reviews;</p> <p>PGG, in conjunction with the Legal Office as appropriate, will:</p> <p>f) Strengthen internal mechanisms to coordinate the sharing of standard information required by such reviews in order to ensure consistency;</p> <p>PGG, in collaboration with OIG and the Legal Office, will:</p> <p>g) Review the 2006 Directive regarding focal points for such reviews to ensure existing guidance is appropriate.</p>	<p>Strategic</p> <p>Partnerships</p> <p>Contextual</p>	<p>Guidance, Guidelines and Resources</p>	<p>PGG</p>	<p>30 September 2016</p>

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<p>4 Multilateral funds: One of WFP's strategic objectives is to increase the share of multilateral (MU) contributions as a proportion of total contributions in order to provide maximum flexibility to address emergencies and priorities.</p> <p>In recent years, while increasing in absolute terms, the proportion of total funds accounted for by MU has fallen. The audit noted the following issues in MU contributions:</p> <p>a) There were differences in understanding between WFP and the donor community regarding the reporting of MU and the visibility of projects funded by MU;</p> <p>b) Not all contributions reported as MU met the strict definition of multilateral contributions set out in the Financial Regulations; indeed, certain contributions that had been provided for specific countries, specific country programmes, specific activities or to cover specific expenditure were recorded as MU.</p>	<p>PGG, in conjunction with RM and the Legal Office as appropriate, will:</p> <p>a) Develop a policy to address the reporting and visibility aspects of MU;</p> <p>b) Communicate with donors to ensure they and WFP have a common understanding regarding MU funding;</p> <p>c) Ensure contributions are classified consistently (as MU or DMU) in accordance with relevant definitions. To this end, guidance will be issued in relation to the need to review the substance of agreements before they are recorded as MU or DMU.</p>	<p>Strategic</p> <p>Partnerships</p> <p>Contextual</p>	Guidance	PGG	30 September 2016
<p>5 Grant management system: WFP uses the Grant Management (GM) system to record the details of all contribution agreements linked to specific grants. The GM system is then used by all parties in the organization, including COs, to manage such agreements.</p> <p>At the time of the audit, over 4,000 grants were registered in the GM system. The audit noted the following:</p> <p>a) As a result of limited functionality, the GM system did not facilitate the recording of all relevant information, such as donor requirements and conditions, details of relevant periods and payment terms, resulting in issues (e.g. inability to track reporting);</p> <p>b) Not all necessary supporting documentation was recorded in the GM system;</p> <p>c) Contributions were recorded as either MU or Directed MU based on form rather than substance;</p> <p>d) TOD/TDD/Valid from dates were not consistent with related agreements;</p> <p>e) Payment terms were not accurately indicated due to limited choices, leading to an inability to age receivables.</p>	<p>PGG will issue guidance in relation to matters such as registration dates, timely registration and use of Source donor.</p> <p>PGG together with RMT will consider how the GM system could be improved to address existing limitations in system functionality.</p>	<p>Reporting</p> <p>Processes & Systems</p> <p>Institutional</p>	Guidelines	PGG	30 June 2016

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<p>6 Forecasting: PGG currently uses the GM system, rather than a dedicated forecasting programme, to record and manage forecast data. DROs assess information available to them, including information provided by COs, to determine the probability of obtaining a confirmed contribution agreement. Based on requests from the COs and the assessments of the DROs, RMBP programmes the funds (i.e. makes the funds available to the COs for the purpose of charging related expenditures).</p> <p>The audit noted the following weaknesses in the forecasting process:</p> <p>a) Forecasting policies and procedures were not comprehensive; they did not address key matters including certain minimum information requirements (e.g. donor's political context and policies, economic conditions etc.), how to treat different types of information, relevant risk factors and definitions of probability levels etc.;</p> <p>b) There was insufficient documentation to justify and support forecasts;</p> <p>c) Variance analysis was not facilitated as forecasts were adjusted to reflect actuals.</p> <p>At the time of the audit, PGG was introducing improvements to the forecasting process, including changes to the policies and procedures regarding determination of the probability of obtaining a signed contribution agreement.</p>	<p>PGG will:</p> <p>a) Establish comprehensive policies and procedures in relation to the forecasting process, specifically addressing that all relevant information should be considered;</p> <p>b) Complete the revision of existing guidance materials and ensure that that DROs are adequately trained in relation to forecasting activities;</p> <p>c) Consider modifications and enhancements to the system to facilitate forecasting.</p>	<p>Reporting</p> <p>Process & Systems</p> <p>Institutional</p>	Guidelines	PGG	30 September 2016

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<p>7 Outstanding receivables: In accordance with WFP's rules and regulations, confirmed contributions are available for utilisation once registered and programmed. Funds can then be spent by projects notwithstanding the fact that cash may not yet have been provided by the donor. It is a fundamental principle of WFP's business model that funds are programmed for project implementation as soon as contributions are confirmed by donors, irrespective of when the related cash is received.</p> <p>While contributions, which represent sovereign pledges, are considered to be secure, the audit noted that \$420 million of confirmed contributions remained outstanding as at 31 December 2014, and that \$75 million (18%) of the total amount related to agreements signed in 2013 and prior years, in certain cases as early as 2004.</p> <p>The audit noted that there is no corporate process to assess risk in relation to the collectability of cash during the project cycle; it is only when the final SPR is being prepared that the receipt of contributions is considered.</p> <p>The audit also noted that improvements are required in the management of contributions receivable and that the tool used to follow up on outstanding receivables needs strengthening. It was noted that follow up action was not carried out on a regular basis and that it was usually initiated only at the time of project closure; responsibility for follow up was not clear and follow up action was typically not documented. It was noted, however, that significant balances are managed, albeit by exception.</p> <p>The audit noted instances where follow up action was delayed even though the receivable in question was known to be uncollectable. In such cases, appropriate action was delayed due to lack of information regarding the full history of the receivable; inability of CO staff to draft a write-off memo; CO staff being unsure of the procedure; or CO staff not being sufficiently aware of the (e.g. political) implications of such write off.</p> <p>The audit noted that there was insufficient internal visibility of, and oversight over, these balances. In addition, there was a lack of appropriate performance measures for the management of receivables.</p>	<p>PGG, in conjunction with RM, will:</p> <p>a) Introduce a mechanism to ensure that information regarding the collectability of contributions is shared between PGG and RMFC, and inform RMBP on a systematic and timely basis;</p> <p>b) Clarify and allocate roles and responsibilities regarding decision making and follow up actions to be taken based on expectations of collectability, and further on unspent balances;</p> <p>PGG, in conjunction with RMF, will:</p> <p>c) Set up a process for active monitoring of outstanding receivables throughout the lifecycle of a grant to ensure accountability and early action by relevant stakeholders;</p> <p>PGG will:</p> <p>d) Establish appropriate performance measures for all concerned parties, including DROs, CDs, RBx etc.</p> <p>e) Enhance WINGS to enable the documentation of follow up action.</p>	<p>Compliance</p> <p>Accountability & Funding</p> <p>Contextual</p>	<p>Guidelines and Compliance</p>	<p>PGG</p>	<p>(a) and (b) 30 September 2016</p> <p>(c), (d) and (e) 31 December 2016</p>

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<p>8 Unspent balances: Since 2009, unspent balances have reduced significantly and have remained between \$6 million and \$11 million.</p> <p>As at 31 May 2015, the total amount of unspent balances relating to projects that had been financially closed between 2003 and 2014 was \$300 million. Of this total amount, \$209 million (69%) was then re-programmed, \$80 million (27%) refunded and the remaining \$11 million is still pending final decision.</p> <p>Unspent balances are reported by project and donor in the annual SPRs, however, donors rarely follow up on the balances reported.</p> <p>The audit noted that there was little evidence that the remaining balances comprising the \$11 million was being analysed to determine whether they were reprogrammable or required to be refunded to donors; there was also little evidence of follow up with donors regarding these balances.</p> <p>Responsibilities and accountabilities for following up on such balances was not clear and there was insufficient internal visibility and oversight over unspent balances. In addition, there were no performance measurements for the management of these balances either for the DRO, Country Director or CO.</p>	<p>PGG, in conjunction with RMB and RMF, will set up a process for active monitoring of unspent balances throughout the lifecycle of a grant to minimize re-financing actions and to pre-empt refunds to donors.</p>	<p>Reporting</p> <p>Accountability & Funding</p> <p>Institutional</p>	<p>Guidance and Compliance</p>	<p>PGG</p>	<p>31 December 2016</p>

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<p>9 Donor ad-hoc financial reporting: An increasing number of donors are requesting that COs provide ad-hoc financial reporting (in addition to the certified SPR) notwithstanding board agreement that the SPR is the default reporting tool. No separate funding is provided by donors for such ad-hoc CO reports. Although most of such reports are not certified at a corporate level, they are relied upon by donors for information and decision making purposes.</p> <p>COs are often pressured into accepting such donor requirements in order to secure funds, and, as a result, risk taking on commitments that they may not be able to satisfy.</p> <p>Donors commented that the timeliness and quality of these CO produced reports often did not fully meet their expectations. The audit identified the following weaknesses in the process of generating such ad-hoc CO financial reports:</p> <p>a) There is limited corporate level information on the extent of such ad-hoc reporting;</p> <p>b) There are limited controls over the accuracy and quality of such ad-hoc reporting;</p> <p>c) The additional efforts required to prepare such specific donor reports have not been quantified/costed to enable full cost recovery;</p> <p>d) There is insufficient monitoring of the timeliness and quality of such reporting;</p> <p>e) There are no performance measures regarding the timeliness and quality of such reporting.</p> <p>The form and content of the SPR were recently reviewed and discussions held with donors with a view to improving standard donor reporting and reducing the volume of requests for ad-hoc reporting¹⁰. The audit noted, however, that financial reporting was outside the scope of such initiative.</p>	<p>RMF in conjunction with PGG will:</p> <p>a) Establish a mechanism to obtain a corporate view of all ad-hoc donor financial reporting;</p> <p>b) Establish a process to ensure that ad-hoc donor financial reporting is accurate and timely.</p> <p>RMF will:</p> <p>c) Establish a mechanism to quantify and cost the additional efforts required to prepare ad-hoc donor financial reports with a view to negotiating reimbursement with donors;</p> <p>d) Assess the costs and benefits of establishing a system to address ad-hoc donor financial reporting requirements.</p> <p>PGG, in conjunction with RMF, will:</p> <p>e) Clarify and allocate responsibilities and accountabilities relating to ad-hoc financial reporting and introduce appropriate performance measures for all concerned, including CDs, RBx etc.</p>	<p>Reporting</p> <p>Accountability & Funding</p> <p>Institutional</p>	<p>Guidelines and Resources</p>	<p>RMF</p> <p>PGG</p>	<p>30 September 2016</p>

¹⁰ Report prepared by Performance Management and Monitoring Division on *Performance Reporting Improvement Project* in December 2014.

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
10 Knowledge management: The audit noted several areas where action is required to improve knowledge sharing and learning in order to support effective management of donor funds, including proper follow up of receivables and unspent balances. The main weaknesses noted were:	PGG will:	Operations	Guidelines	PGG	30 September 2016
a) Exchange of donor related information was not captured in a single searchable database to provide institutional memory and enable effective partnership management. The survey of COs indicated extensive reliance on e-mail and phone conversations as a medium of exchange;	e) Improve intranet content and access to other existing information sharing platforms to support greater exchange of information between HQ and the field;	Process and Systems			
b) A large number of COs had doubts regarding the accuracy of available information or were unaware of the tools available for managing and/or documenting donor relations; information included in the government donor intranet site on WFP Go was perceived to be outdated and Teamworks Space was not widely known/used;	f) Assess options to improve system support for the creation and maintenance of institutional memory; such system support should be available to field offices and include mechanisms to enable bottom-up information sharing by COs.	Institutional			
c) Improvements made in the level of information sharing within PGG were not available to the COs;					
d) There were limited mechanisms to enable bottom-up information sharing by the COs.					

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 and the Standards of the Institute of Internal Auditors

1	Strategic:	Achievement of the organization’s strategic objectives.
2	Operational:	Effectiveness and efficiency of operations and programmes including safeguarding of assets.
3	Compliance:	Compliance with laws, regulations, policies, procedures and contracts.
4	Reporting:	Reliability and integrity of financial and operational information.

A 4. In order to facilitate linkages with WFP’s performance and risk management frameworks, the Office of Internal Audit maps assurance to the following two frameworks:

Table A.2.1: Categories of risk – WFP’s Management Results Dimensions

1	People:	Effective staff learning and skill development – Engaged workforce supported by capable leaders promoting a culture of commitment, communication & accountability – Appropriately planned workforce – Effective talent acquisition and management.
2	Partnerships:	Strategic and operational partnerships fostered – Partnership objectives achieved – UN system coherence and effectiveness improved – Effective governance of WFP is facilitated.
3	Processes & Systems:	High quality programme design and timely approval – Cost efficient supply chain enabling timely delivery of food assistance – Streamlined and effective business processes and systems – Conducive platforms for learning, sharing and innovation.
4	Programmes:	Appropriate and evidence based programme responses – Alignment with Government priorities and strengthened national capacities – Lessons learned and innovations mainstreamed – Effective communication of programme results and advocacy.
5	Accountability & Funding:	Predictable, timely and flexible resources obtained – Strategic transparent and efficient allocation of resources – Accountability frameworks utilised – Effective management of resources demonstrated.

Table A.2.2: Categories of risk – WFP’s Risk Management Framework

1	Contextual:	External to WFP: political, economic, environmental, state failure, conflict and humanitarian crisis.
2	Programmatic:	Failure to meet programme objectives and/or potential harm caused to others through interventions.
3	Institutional:	Internal to WFP: fiduciary failure, reputational loss and financial loss through corruption.

3. Causes or sources of audit observations

A 5. Audit observations are 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. Audit observations are categorised by impact or importance (high, medium or low risk) as shown in Table A.4 below. Typically audit observations can be viewed on two levels. (1) observations that are specific to an office, unit or division and (2) observations that may relate to a broader policy, process or corporate decision and may have broad impact.¹¹

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

High risk	Issues or areas arising relating to important matters that are material to the system of internal control. The matters observed might be the cause of non-achievement of a corporate objective, or result in exposure to unmitigated risk that could highly impact corporate objectives.
Medium risk	Issues or areas arising related to issues that significantly affect controls but may not require immediate action. The matters observed may cause the non-achievement of a business objective, or result in exposure to unmitigated risk that could have an impact on the objectives of the business unit.
Low risk	Issues or areas arising that would, if corrected, improve internal controls in general. The observations identified are for best practices as opposed to weaknesses that prevent the meeting of systems and business objectives.

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

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 is 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.

¹¹ An audit observation of high risk to the audited entity may be of low risk to WFP as a whole; conversely, an observation of critical importance to WFP may have a low impact on a specific entity, but have a high impact globally.

6. Rating system

A 9. Internal control components and processes are rated according to the degree of related 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 or 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

CD	Country Director
CO	Country Office
DMU	Directed Multilateral funds
DRO	Donor Relations Officer
EU	European Union
GM	Grant management
MU	Multilateral funds
PG	Partnership, Governance and Advocacy Department
PGG	Government Partnership Department
RBx	Regional Bureaux
RM	Resource Management Department
RMB	Resource Management Budget and Programming
RMBP	Resource Management Project Budget and Programming Service
RMF	Resource Management Finance and Treasury
RMFC	Resource Management Contributions and Project Accounts
RMP	Performance Management and Monitoring
RMT	Resource Management Information Technology
SPR	Standard Project Report
TDD	Terminal Disbursement Date
TOD	Terminal Obligation Date