

Internal Audit of WFP's Construction Projects

Office of the Inspector General
Internal Audit Report AR/16/05



World Food Programme

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Internal Audit of WFP's Construction Projects

I. Executive Summary

Introduction






1. As part of its annual work plan, the Office of Internal Audit conducted an audit of **WFP's Construction Projects** that focused on the period 1 January 2014 – 31 August 2015. WFP's direct expenses on construction projects totalled USD 119 million in this period. The audit team conducted the in-country field work, which included onsite visits to construction projects in Nepal and Djibouti, to review the management, implementation and monitoring of selected activities and a review of related corporate processes that impact across WFP. For security reasons, the audit included a desk-top review of the South Sudan Feeder Roads Project, the most expensive construction project carried out by WFP. Internal Audit reviewed the management of the Ebola Virus Disease Response construction projects as part of a wider audit¹. Relative results were not included in report AR/15/12 and are reflected in this report as appropriate.

2. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Audit Conclusions

3. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory**. Conclusions are summarised in Table 1, according to 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	Low 
5. Monitoring	Low 

Key Results of the audit

Positive practices and initiatives

4. The audit noted the following positive practices and initiatives. (i) The construction of a Humanitarian Staging Area (HSA) in Nepal to facilitate a more rapid, efficient and effective response from the onset of emergencies. This proved to be a timely and critical investment by the humanitarian community, and highlighted the need to rapidly implement the other planned HSAs not yet constructed at the time of the emergency. (ii) An international humanitarian engineering partnership with the assistance amongst others of the Munich Innovation Centre. The partnership will, among other things, develop a network of engineering expertise; make engineering knowledge available to the entire humanitarian engineering community; and provide technical leadership and representation. (iii) The successful provision during emergency responses (such as the construction of Ebola treatment centres) of engineering expertise to other UN Agencies/Non-Governmental Organization (NGOs) which paved the way to further collaborations.

¹ Audit report AR/15/12 issued in November 2015.



Audit conclusion

5. WFP has conducted construction activities since the onset of WFP's first operations. However, only in 2009 this resulted in the formal introduction of engineering services, initially focusing in the area of security infrastructure. The focus, then, shifted to aiming at providing appropriate infrastructure to enable WFP and the humanitarian community to operate in challenging environments.

6. WFP Engineering provides engineering services including project management, assessments, survey and design services, construction procurement, contracting and supervision, as well as turn-key infrastructure and facility solutions.

7. WFP Strategic Plan 2014-2017 highlights the growing role engineering services and construction activities have in supporting food security and sustainable development, and the needs of the wider humanitarian community across a variety of projects. WFP is now a leading provider of common services, which include construction and engineering through construction projects under Special Operations and Food Assistance for Assets (FFA)².

8. In addition to its expanded role, WFP's Engineering has made substantial progress in formalizing processes and procedures. The recently approved Construction Manual provides for a structured engineering services approach and framework, which will inform WFP's construction projects and ensure homogeneity throughout WFP's operations. The review of the governance, risk management and internal control system of WFP's construction projects highlighted overall valuable service provision and delivery, however identified certain weaknesses that have resulted in audit observations. The audit also identified certain areas where tools or processes could be improved to provide more effective construction activities in the future.

Audit observations

9. The audit report contains two high-risk and five medium-risk observations. The high-risk observations are:

Project Management - Programming and monitoring of the scope of work: Project plans provide for recording of key projects elements, and allow monitoring of progress, expenditure and compliance with standards and policy. For some of the projects selected, Country Offices (COs) did not provide evidence of project plan formalization, systematic update, and/or sharing among relevant actors. In addition, programming activities did not always ensure work programme certainty, to respect project planning and deadlines and to limit presence of contractor on the ground.

Project Management - Contractors' performance security: As part of the procurement process, contractors generally provided bonds (i.e. performance and advance bonds) to ensure a high-quality performance and project delivery. However, the COs did not provide evidence for some of the projects selected of WFP request for bond or of a due diligence to check the bond validity.

Actions agreed

10. Management has agreed to address the reported observations and work is currently in progress to implement them.

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

David Johnson
Inspector General

² Not included in the scope of this audit.

II. Context and Scope

WFP's Construction Projects

12. WFP has conducted construction activities since the onset of WFP's first operations. However, only in 2009 this resulted in the formal introduction of engineering services, initially focusing in the area of security infrastructure. The focus, then, shifted to aiming at providing appropriate infrastructure to enable WFP and the humanitarian community to operate in challenging environments.

13. WFP's Engineering mission is to provide efficient and sustainable infrastructure to enable WFP and the humanitarian community to operate in challenging environments. In particular, WFP's Engineering provides:

- direct support to WFP's projects, in terms of critical logistical and project infrastructure such as roads, warehouses, airstrips and school kitchens; and
- indirect support by providing safe and secure facilities, such as offices and accommodation, and technical guidance, support and policy in the field of engineering and project management in humanitarian operations.

14. WFP's Engineering services include planning, assessments, survey and design services, construction procurement, project management, supervision and reporting as well as new construction, refurbishment and modification of buildings, facilities and/or infrastructure.

15. WFP Engineering is directly involved or supports over 200 projects in 40 countries, including 10 major projects with an estimated value of USD139 million. This total does not include micro-construction projects under Food for Asset where WFP invests 1.2 to 1.5 percent of its USD 4.5 billion yearly revenues restoring, rehabilitating or creating community assets under emergency, recovery and enabling development operations in over 50 countries³. Some of WFP's major projects, in the audit period, included the: construction of a humanitarian logistics hub in Djibouti; a network of feeder roads in South Sudan; humanitarian staging areas and logistics hubs in Nepal; an airport terminal and treatment facilities as part of the response to the Ebola Virus Disease in West Africa. The variety of projects and locations reflects WFP's operational presence.

16. WFP follows a decentralized governance and project management model where the resourcing for and delivery of projects are the direct responsibility of Country Directors in the field, with headquarter units providing normative guidance, technical support and oversight. Large construction projects have, for the most part, an appointed project manager with administrative reporting lines to the local Country Director and functional reporting lines to the Chief Engineer in HQ. WFP's Engineering function, at the time of the audit, was composed of five permanent staff and 8 consultants in HQ and a network of approximately 50 project-funded engineers and technical experts in the field directly involved in the execution, management and oversight of projects.

17. Total construction and engineering expenditure in the audit period was approximately USD 119 million. A recently approved Directive⁴ requires the Director, Management Services Division (RMM) to ensure that an appropriate reporting mechanism is established within the corporate financial system to provide 'real time' information with regard to the number and value of engineering services and construction activities within WFP, allowing structured financial data to ensure all field construction activities and expenditures are visible and activities coordinated or overseen by RMM.

³ Due to the specificity of relative processes, FFA projects are not within the scope of this audit.

⁴ Directive RM 2015/004 dated September 17, 2015.



Objective and Scope of the Audit

18. The objective of the audit was to evaluate and test the adequacy and effectiveness of the processes associated with the internal control components of WFP's Construction Projects. 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.

19. 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 engagement plan and took into consideration the risk assessment exercise carried out prior to the audit.

20. The scope of the audit covered WFP's Construction Projects from 1 January 2014 to 31 August 2015. Where necessary, transactions and events pertaining to other periods were reviewed. The audit field work, which took place between 23 November 2015 and 15 December 2015, included onsite visits to construction projects in Nepal and Djibouti to review the management, implementation and monitoring of selected activities and a review of related corporate processes that impact across WFP. For security reasons, the audit included a desk-top review of the South Sudan Feeder Roads Project, the most expensive construction project carried out by WFP. Internal Audit reviewed the management of the Ebola Virus Disease Response construction projects as part of a wider audit⁵. Relative results were not included in report AR/15/12 and are reflected in this report as appropriate.

⁵ Audit report AR/15/12 issued in November 2015.

III. Results of the Audit

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

Table 2: Positive practices and initiatives

1. Internal Environment

- Donors (including for example the European Union and Canada) are funding projects where the engineering component, and in particular the designs, governance or oversight by WFP Engineering, is the core activity. This is an opportunity for WFP Engineering to be visible as a qualified provider of engineering services to the wider humanitarian community.
- An international humanitarian engineering partnership with the assistance of the Munich Innovation Centre and others, will, among other things, develop a network of engineering expertise; make engineering knowledge available to the entire humanitarian engineering community; and provide technical leadership and representation.
- During the Ebola emergency response WFP provided engineering expertise to other UN Agencies/NGOs (such as for the construction of Ebola treatment centres). This paved the way to further collaboration and support, for example during the Nepal emergency.
- An Interagency Engineering Initiative has been launched with UNICEF and others to combine expertise and experiences and strengthen support to humanitarian and development operations.
- In South Sudan, WFP:
 - has been a key partner by providing technical assistance and support to both the Feeder Road Steering Committee and the Feeder Roads Technical Committee; and
 - contributed to the development of the National Engineering Standards. The three-volume South Sudan Low Volume Roads Manual, which was co-authored by WFP's Engineering staff, was published by the South Sudan Ministry of Transport, Roads & Bridges in mid-August 2013. The South Sudan Low Volume Roads Manual was developed to provide a uniform national standard for low volume road construction and maintenance in South Sudan and shall be the basis for all future feeder road design, construction and maintenance activities.

2. Risk Management

- In South Sudan, WFP contributed to the development of the Environmental Standards. In January 2013 preliminary discussions with the then Ministry of Roads and Bridges (MRB, now MTRB) took place regarding environmental impact assessments. The MTRB, in conjunction with the World Bank, is developing guidelines for the road and transport sector in South Sudan which were to be published under the Environmental and Social Safeguard Assessment Framework. WFP continues to work closely with the MTRB to implement these guidelines to the extent possible. Use of these environmental guidelines will help assess potential impacts of the feeder roads during construction and operations.
- In particular for the Humanitarian logistic hub in Djibouti, a safety method statement was adopted by the Contractor, under the supervision of the WFP engineer, to outline the hazards involved and to include a step by step guide on how to do the activities with high risks (i.e. erection of scaffolding and installation of the roof sheeting).

3. Control Activities

- The construction of a Humanitarian Staging Area (HSA) in Nepal to facilitate a more rapid, efficient and effective response from the onset of emergencies. This proved to be a timely

and critical investment by the humanitarian community, and highlighted the need to rapidly implement the other planned HSAs not yet constructed at the time of the emergency.

- After the earthquake in Nepal, WFP Engineers went to Nepal to perform a visual assessment to verify the damage to households. This also included the evaluation of existing WFP buildings and of the ones proposed to be used as part of WFP response.
- During the preliminary design phase, in preparation of the upcoming tenders for the construction of roads and bridges, the South Sudan Country Office launched a pre-qualification process, which ensured adequate expression of interest by vendors and reduced time for the effective execution of the tender. This also built up knowledge of local vendors and goodwill with the industry and government representatives.

4. Monitoring

- For the Humanitarian logistic hub in Djibouti, :
 - the Field Engineer provided a punctual monitoring of the eventual changes in the scope of work, formalizing relative instructions in a systematic way;
 - close monitoring by WFP engineers allowed timely identification of quality issues and acceptable workarounds, given the challenging working environments.

5. Information and Communication

- The WFP Engineering Construction Manual promotes harmonization of construction activities in different countries, and for different projects, in line with international standards. WFP Engineering is promoting a process to explain the implications and benefits of the Construction Manual to the WFP engineering community and a forum for exchange of experience is in the process of establishment.
- In South Sudan, WFP collaborates with other implementing partners, e.g. UNOPS and the World Bank, through discussion of best practices and information sharing to maximize the benefit of construction, capacity building and maintenance work in country.

22. 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/Lines of enquiry	Risk
1. Internal environment	
Governance	Medium
2. Risk management	
Project risk management	Medium
Environment, Health and Safety (EHS)	Medium
3. Control activities	
Project management	High
Engineering partnership management	Low
Service providers management	Medium
Strategy	Low
Human Resources: staffing and capacity	Low
Human Resources: skills	Low
Construction resource management	Low
Funding mechanism	Medium
4. Information and communication	
Innovation	Low
5. Monitoring	
Construction projects monitoring	Low

23. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory**⁶.

24. The audit made 2 high-risk observations, detailed in Section IV of this report and 5 medium-risk observations. Tables 4 and 5 below present the high and medium-risk observations respectively.

Action agreed

25. Management has agreed to take measures to address the reported observations. Work is in progress to implement the agreed actions.⁷

⁶ See Annex A for definitions of audit terms.

⁷ 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
Control Activities					
<p>1 Project Management - Programming and monitoring of the scope of work – Project plans provide for recording of key projects elements, and allow monitoring of progress, expenditure and compliance with standards and policy. For some of the projects selected, Country Offices (COs) did not provide evidence of project plan⁸ formalization, systematic update, and/or sharing among relevant actors.</p> <p>In addition, programming activities did not always ensure work programme certainty, to respect project planning and deadlines and to limit presence of contractor on the ground.</p>	<p>The Country Offices will:</p> <p>(a) ensure implementation of WFP’s construction guidelines and prepare/update the project plan for each current project at each phase and ensure sharing with relevant actors at Country Office, Regional Bureau (RB), Headquarter (HQ) level; and</p> <p>(b) liaise with HQ to define appropriate ways for formal sharing/approval from relevant management. For Project Plans, this could include the use of an online environment.</p> <p>RMM will evaluate the need for a coordinated (CO/RB/HQ) review or intervention in any specific project at appropriate project gateways or ad hoc events, as a lesson learned from the audited projects, and to avoid the impact of lack of construction management experience on the ground.</p>	<p>Operational</p> <p>Processes and Systems</p> <p>Institutional</p>	Best practice	<p>Nepal CO</p> <p>Ethiopia CO</p> <p>South Sudan CO</p> <p>RMM</p>	01 June 2016
<p>2 Project Management - Contractors' performance security – As part of the procurement process, contractors generally provided bonds (i.e. performance and advance bonds) to ensure a high-quality performance and project delivery. However, the COs did not provide evidence for some of the projects selected of WFP request for bond or of a due diligence to check the bond validity.</p>	<p>Finance and Treasury (RMF) will finalize corporate guidance for defining responsibilities, operating modalities and detailed tasks to be undertaken for ensuring validity of bonds.</p> <p>The COs will:</p> <p>(a) ensure performing of bond validity check for all current projects; and</p> <p>(b) assess retention period needs for current projects and ensure implementation.</p>	<p>Operational</p> <p>Processes and Systems</p> <p>Institutional</p>	Compliance	<p>RMF</p> <p>Ethiopia CO</p> <p>Nepal CO</p> <p>South Sudan CO</p>	<p>30 June 2016</p> <p>1 June 2016</p>

⁸ A formal document Project Plan⁸ was introduced as part of the recently approved Construction Manual.

Table 5: Medium-risk observations

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
Internal Environment					
<p>3 Governance – Roles, communication lines and organizational charts – Roles, responsibilities and reporting lines among the different actors at HQ/RB/COs levels were defined in project documentation and in WFP construction guidelines, however they were not always clearly implemented. Management informed that systematic communications were in place between COs, RBs and HQ, mainly via weekly/periodic conference calls, and that relevant documentation is shared through a cloud storage software. However no evidence of the above was provided.</p> <p>For the sampled projects, roles and responsibilities were illustrated through the use of organizational charts. These were not always timely updated and communicated to relevant units. Roles within each project were not always clearly defined/assigned.</p>	<p>RMM will reassess lines of communication to ensure proper accountability of relevant actors at HQ/RB/CO level, also including the definition and implementation of ways of formally tracking communication flows and decision points.</p> <p>The COs will:</p> <p>(a) ensure organizational charts are regularly updated in line with changes in roles and responsibilities. This should include changes in the structure and/or staff. Updated organizational charts should be sent to all relevant units/actors; and</p> <p>(b) ensure roles and responsibilities of resources within each construction project are formally defined/assigned.</p>	<p>Operational</p> <p>Processes and Systems</p> <p>Institutional</p>	<p>Compliance</p> <p>Guidelines</p>	<p>RMM</p> <p>Ethiopia CO</p> <p>Nepal CO</p> <p>South Sudan CO</p>	01 June 2016

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date	
Risk Management						
4	<p>Project Risk Management and compliance with EHS requirements – Management used a dynamic approach to project risks through (i) Risks assessment/prioritization, and definition of mitigation measures, usually recorded through a risk matrix, and (ii) a detailed EHS risk assessment per project phase/activity prepared by the vendor, as part of the EHS plan. However: (i) the various tools to identify and monitor risks were not reflected in the risk matrix in a structured way, and evidence of the documentation review/approval by relevant management at CO and/or HQ level was not available; (ii) formal evidence of review/approval by WFP of the detailed EHS risk assessment was not available for the entire sample. Contracts assign the identification of EHS requirements in accordance with local legislation and contract specifications, and subsequent control and supervision to the vendor. However, for some of the selected projects, there was no evidence of (i) WFP reviewing the effective performance of the task by the vendor, and (ii) the appointment of the contractor Safety Representative. Finally, WFP had not defined a set of guidelines relating to EHS requirements to be implemented in construction projects/locations, as appropriate.</p>	<p>For ongoing projects, the COs will:</p> <p>(a) update risk matrices and formally share with/submit for approval to relevant management;</p> <p>(b) require vendors to provide an updated EHS plan and ensure review by the engineer; and</p> <p>(c) ensure appointment by the vendor of the Safety Representative/Manager.</p> <p>The COs will liaise with HQ to define process steps to ensure:</p> <p>(a) the correct identification of local EHS requirements and WFP constraints/requirements, as appropriate. This will include the assessment of potential costs associated to the business case;</p> <p>(b) the engineers in charge formally review the EHS documentation provided by the vendor for current projects; and</p> <p>(c) the definition by WFP of checkpoints during the whole life of the project to enforce preventive measures, for example periodic random supervision checks.</p>	<p>Operational and Compliance</p> <p>Processes and Systems</p> <p>Institutional</p>	<p>Compliance Guidelines</p>	<p>Ethiopia CO</p> <p>Nepal CO</p> <p>South Sudan CO</p>	<p>01 June 2016</p> <p>01 June 2017</p>

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
Control Activity					
<p>5 Service provider management – Issues relating to procurement and contracts – The audit noted some issues relating to vendor selection and contract finalization which resulted in some cases in a delayed start. Delays in the execution of the procurement process were noted in almost the entire sample. The COs did not provide evidence of:</p> <ul style="list-style-type: none"> - adequate due diligence and checks on selected vendor (for example verification of references and CVs, internet search, visits to the bidder's company as appropriate); and - formal definition/approval of detailed evaluation criteria during the bidding preparation phase and prior to tender issuing. <p>The audit noted that the reconsideration of the method of execution, where inputs are specified to one where the objectives to be achieved/ outputs are specified, could generate efficiencies. This could be relevant to the extent local market maturity allows or under adequate supervision.</p>	<p>The COs will:</p> <ul style="list-style-type: none"> (a) perform and keep evidence of due diligence and qualification checks as appropriate prior to contract sign-off; and (b) take the opportunity to consider a simplified delivery approach (perhaps design, procurement, contract form, delivery methodology) depending on value/complexity of the project(s). <p>For future projects COs will:</p> <ul style="list-style-type: none"> (a) maintain evidence of a formal approval of detailed evaluation criteria prior to tender launch; (b) consider, to the extent local market maturity allows and/or under adequate supervision, defining in the request for proposal the objective to be achieved (output) instead of methods of execution by the contractor (input); and (c) consider the use of more conservative initial procurement strategy, that provide flexibility for changes to the procurement strategy to deal with potential difficulties or unexpected events. 	<p>Operational and Compliance</p> <p>Processes and Systems</p> <p>Institutional</p>	<p>Compliance</p> <p>Best Practice</p>	<p>Ethiopia CO</p> <p>Nepal CO</p> <p>South Sudan CO</p>	01 June 2017

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<p>6 Service provider management - Issues relating to variations – The audit noted instances of project variations issued and approved outside delegated authority, post factum and/or not ensuring adequate segregation of duties.</p> <p>There are no agreed actions because the emergency project had ended and/or COs have taken actions to address the above aspects.</p> <p>In addition, during the audit of the Ebola virus disease emergency, project variations occurred in the entire sample analyzed and were formally approved post factum for Terminal H, Guinea and Liberia. This was mainly due the pace of the emergency and to the limited knowledge of the virus, in particular in the early stages of the emergency. This also resulted, in most cases, in POs being raised post facto.</p>	<p>RMM will include in its planned training activity, ways to manage variation to ensure, in future, project variations timely approval and definition of price prior to execution and agreement with Partners as per necessary.</p>	<p>Operational</p> <p>Processes and Systems</p> <p>Institutional</p>	<p>Compliance</p> <p>Guidance</p>	RMM	01 June 2017

Observation	Agreed action	Risk categories	Underlying cause category	Owner	Due date
<p>7 Budget monitoring - Project Budget Plan predisposition, revisions and monitoring – Initial budgets were defined for each project (mainly Special Operation projects), before project launch, and structured to achieve project objectives. Budget versus actual analysis was performed using WFP corporate tools (i.e. Fund consumption reports).</p> <p>The audit noted that a detailed budget and a budget versus actual analysis, by tasks/activity, was not available/prepared in a systematic way. This would allow for monitoring expenditures in line with project implementation plan and for timely detection of potential delays or anomalies. In addition, the COs did not provide evidence that after the initial project budget a forecast analysis and/or cost benefit analysis was performed in a systematic way (for example considering possible scenarios/alternatives). This would have been relevant in supporting key decisions, particularly in cases where funds were not yet available.</p>	<p>The COs will liaise with HQ, as per necessity, to define criteria and most effective ways to monitor expenditure along with project implementation plan (i.e. budget vs actual and forecast by task/activity, per type of project) in line with WFP construction guideline and will implement it for ongoing projects.</p>	<p>Operational</p> <p>Accountability and Funding</p> <p>Programmatic</p>	<p>Guidelines</p>	<p>Ethiopia CO</p> <p>Nepal CO</p> <p>South Sudan CO</p>	<p>02 January 2017</p>

IV. Detailed Assessment

Control Activities

High Risk

Observation 1 Project Management - Programming and monitoring of the scope of work

26. For the sample of projects selected key projects elements and phases were usually registered and recorded in tools/documents, mainly the Project Plan. This was formally introduced as part of the recently approved Construction Manual. The Project Plan/tool allowed (i) tracking of contracts, planned costs and programme; and (ii) monitoring of progress, expenditure and compliance with standards and policy. The Project Plan/tool, created at the start of the project, forms the basis of the project plan for the remainder of the project duration and, although kept as a live document throughout the life of the project, the programme needs to be updated when necessary to form the basis of reviews at the completion of each project phase. For some of the projects selected Country Offices (COs) did not provide evidence of project plan formalization, systematic update following project evolution/phases, and/or sharing among relevant actors.

27. Moreover, the audit noted that programming activities did not always ensure work programme certainty, to respect project planning and deadlines and to limit the presence of contractor on the ground. For two projects the planned completion date was postponed several times. Delays were noted also for last minute scope changes and funding problems which should have been detected in advance to allow timely fixing.

Underlying cause of observation: Lack of defined and approved guidance on project management as the Construction Manual was in draft during the audit period. The requirements of the emergency in Nepal did not allow the CO to concentrate on performing the project management and programming steps as reasonably required to achieve programme certainty. Lack of funding.

Implication: Lack of registration and recording might cause the loss of important information about each phase of the project. Lack of live/adequate programming and monitoring of the scope of the project might cause delay, extra costs and non-compliance with standards. Stakeholder expectations might not be met.

Policies, procedures and requirements: Best practices, WFP Construction Manual (in draft during the audit period).

Agreed action: The Country Offices (CO) will:

- (a) Ensure implementation of WFP's construction guidelines and prepare/update the project plan for each current project at each phase and ensure sharing with relevant actors at Country Office, Regional Bureau (RB), Headquarter (HQ) level;
- (b) Liaise with HQ to define appropriate ways for formal sharing/approval from relevant management. For Project Plans, this could include the use of an online environment.

RMM will evaluate the need for a coordinated (CO/RB/HQ) review or intervention in any specific project at appropriate project gateways or ad hoc events, as a lesson learned from the audited projects, and to avoid the impact of lack of construction management experience on the ground.

Due Date: 1 June 2016

Observation 2 Project Management - Contractors' performance security

28. For the sample of projects selected, the request for proposal required vendors to include a certificate from their Bonding Agency to ensure a high-quality performance of the contractors and to mitigate financial risks to WFP (i.e. performance and advance payment bonds).

29. However:

- for all sampled projects, except the selected projects in South Sudan, there was no evidence of the check of the validity and authenticity of the bonds, either advance or performance bonds; and
- for one of the emergency projects in Nepal (Chautara logistic hub), there was no evidence of the request of the performance bonds or of the statement by the bonding agency. In addition, the CO did not apply a retention as warranty for construction fault.

Underlying cause of observation: A lack of knowledge (1) that there is a procedure in place to carry out such due diligence; and (2) a failure to implement any reasonable due diligence verification actions.

Implication: If the contractor will not meet the contract's requirements there may be impact on budget, quality and/or time of the construction. Lack of checks on the bonds might lead to risks of default or fraud by the contractor. Stakeholders' expectations might not be met.

Policies, procedures and requirements: Best practice, WFP Construction Manual; NFI Procurement Manual, Financial Resource Management Manual, Directive FP 2009/006.

Agreed action:

1. Finance and Treasury (RMF) will finalize corporate guidance for defining responsibilities, operating modalities and detailed tasks to be undertaken for ensuring validity of bonds.
2. The COs will:
 - (a) perform bond validity check for all current projects; and
 - (b) assess retention period needs for current projects and ensure implementation.

Due Date:

1. 30 June 2016;
2. 1 June 2016.

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 them 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.
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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.⁹

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.

⁹ 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.

	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.

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
COSO	Committee of Sponsoring Organizations of the Treadway Commission
EB	Executive Board
EHS	Environment, Health and Safety
FFA	Food for Asset
HSA	Humanitarian Staging Area
HQ	Headquarter
ICF	Internal Control Framework
IIA	Institute of Internal Auditors
MTRB	Ministry of Roads and Bridges (South Sudan)
NGO	Non-governmental Organization
RB	Regional Bureau
RMF	WFP's Finance & Treasury Division
RMM	WFP's Management Services Division
UN	United Nations
USD	United States Dollar
WFP	World Food Programme