Internal Audit of WFP's Operations in Iraq

Office of the Inspector General
Internal Audit Report AR/16/08

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Contents

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I. Executive Summary

Introduction and context

1.   As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP's operations in Iraq from 1 January to 31 December 2015. Expenditure in Iraq totalled USD 213 million in 2015, representing 4.5 percent of WFP's total direct expenses for the year. The audit team conducted the in-country fieldwork from 28 February to 23 March 2015, which included onsite visits to various locations in Iraq and a review of related corporate processes that impact across WFP.

2.   In 2014 and 2015, WFP scaled up its operations in Iraq in response to the displacement of civilian populations from the Ninewa and Al-Anbar governorates. WFP declared a Level 2 emergency in June 2014 and within two months increased its response to Level 3 emergency as the number of internally displaced persons (IDPs) grew from 480,000 to 1.8 million. By the end of 2015, the number of IDPs nearly doubled to 3.2 million persons. This rapid escalation of operations led to challenges in internal control, governance and risk management practices as the Country Office (CO) struggled to cope with the scale, complexity and operational capacity required to respond to such a large humanitarian emergency.

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

Audit Conclusions

4.   Despite the prevailing insecurity and dynamic nature of the humanitarian emergency in the country, in 2015 WFP's Iraq Office was able to deliver assistance to over 1.9 million IDPs, distributing USD 62 million worth of food vouchers and 95,605 mt tonnes of food. WFP also continued to provide food assistance to over 112,000 vulnerable refugees in Iraq. The CO was taking steps to improve targeting and registration, implementing innovative solutions through SCOPE and piloting new forms of food assistance. Business process and capacity improvement were underway for the monitoring, finance and supply chain functions.

5.   The audit identified short-term contract arrangements with partners, delays in payments, as well as reduced and staggered delivery of assistance to beneficiaries due to funding shortfalls and brief funding windows. In addition, constraints in the supply chain and monitoring functions also led to reporting delays and challenges in the planning and management of pre-packaged foods (PPFs) and retail services. The rapid and evolving nature of the emergency delayed the initiation of targeting activities and led to weaknesses in the segregation of duties and coordination issues.

6.   Based on the results of the audit, and considering the country context, the Office of Internal Audit has come to an overall conclusion of *partially satisfactory*. This means that governance, risk management practices and internal controls were generally established and functioning but needed improvement, in particular with regard to the delivery of assistance to IDPs and refugees under EMOPs 200433 and 200677. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity, in particular school feeding programmes under PRRO 200035. Conclusions are summarised in Table 1, according to internal control component.

Table 1: Summary of risks by Internal Control Component

	Internal Control Component	Risk	
1.	Internal environment	High	🟥
2.	Risk assessment	Medium	🟨
3.	Control activities	Medium	🟨
4.	Information and communication	Low	🟩
5.	Monitoring	Medium	🟨

Key Results of the audit

7. The audit report contains one high-risk and 11 medium-risk observations. The high-risk observation is:

Agreements with the Government of Iraq (GoI) for the Resumption of School Feeding Activities: The CO's PRRO 200035 suspended school feeding activities at the request of GoI in January 2014. Since then the CO has not planned or implemented school feeding activities in the scale originally foreseen because management is still evaluating the resolution of a claim for restitution. In addition, contributions of USD 17 million provided by GoI for the implementation of school feeding programmes had not been used, requiring the disclosure of a contingent liability in WFP's financial statements (per IPSAS requirements).

Actions agreed

8. Management has agreed to address the reported observations and work is in progress to implement the agreed actions.

9. 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

Iraq

10. Iraq is classified as an upper middle-income country, ranking 121st of 188 countries in the 2014 Human Development Index and 58th of 104 in the 2015 Global Hunger Index. Despite its upper-middle income status, Iraq has in recent years faced severe economic challenges. The decline in oil prices and the financing needs associated with fighting the ISIS insurgency have contributed to a sharp deterioration of economic activity, leading to poverty levels that stood at 22.5 percent in 2014 and leaving 2.8 million people living below the poverty line. In addition to the estimated 250,000 Syrian refugees residing in northern Iraq, the on-going violence has forced 3.2 million Iraqis to abandon their homes, leaving them without access to food, water and other essentials.

11. According to the United Nations' 2016 Humanitarian Needs Overview, 2.4 million people are currently food insecure in Iraq, with one out of every four households reporting not being able to meet their basic needs. Seventy percent of IDP living outside the camps report food as their top priority. The 2016 Humanitarian Response Plan (HRP) targets 1.5 of the 2.4 million people in need of food assistance (Figure 1).

Figure 1: Displacements Trends 2014-2015[1]
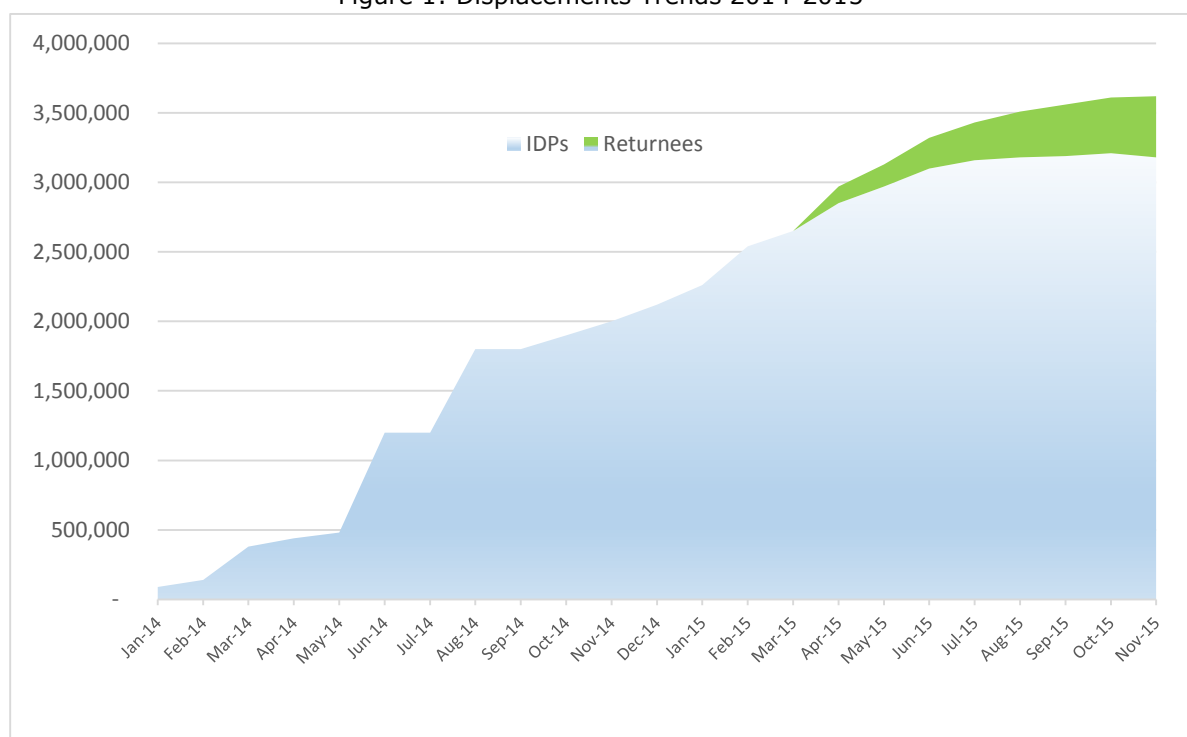
WFP Operations in Iraq

12. WFP has had an operational presence in Iraq since 1991 and is currently operating under PRRO 200035 (2010-2016), EMOPs 200433 (2012-2016) and 200677 (2014-2016) and Special Operation 200746 (2014-2016). Expenditure in Iraq totalled USD 213 million in 2015, representing 4.5 percent of WFP's total direct expenses for the year. WFP has the largest share of the combined requirements under the 2016 Humanitarian Response Plan, with a share of USD 222 million or 26

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[1] Data obtained from the 2016 Humanitarian Needs Overview report, United Nations Humanitarian Country Team and partners (for Iraq), document prepared by the United Nation's Office for Coordination of Humanitarian Affairs, November 2015.

percent of total requirements. WFP is present in 18 governorates throughout Iraq under both the control of GoI or insurgent groups, assisting vulnerable IDPs and refugees.

13.   The main activities in the period under review included:

- *EMOP 200677 Emergency Assistance to Populations Affected by the Iraq Crisis*: EMOP 200677 targets a total of 2.2 million beneficiaries from 1 April to 31 December 2016. EMOP 200677 was launched to respond to the needs of 240,000 displaced people from Anbar governorate. Budget Revision 4 expanded the scope of the operation to assist 2.2 million food insecure people affected by the Iraq crisis in all 18 governorates. WFP implements its programmes through three assistance modalities: Family Food Packages (FFPs), vouchers, and Immediate Response Rations (IRRs). Through EMOP 200677, WFP also supports GoI's resumption of the Public Distribution System (PDS) in order to harmonise assistance.

- *EMOP 200433 Food Assistance to Vulnerable Syrian Populations in Jordan, Lebanon, Iraq, Turkey and Egypt Affected by Conflict in Syria:* EMOP 200433 targets a total of 73,500 beneficiaries in Iraq from 1 July 2012 to 31 December 2016. EMOP 200433 has been WFP's operational framework for delivering food assistance to Syrian refugees in Iraq and the region. The operation is aligned with the inter-agency Regional Response and Resilience Plan (3RP), which provides the international community's strategic framework for assistance to Syrian refugees in the region.

- *PRRO 200035 Support for Vulnerable Groups in Iraq:* PRRO 200035 targets a total of 973,618 beneficiaries from 1 April 2010 to 31 December 2016. The PRRO aims to support long-term development interventions through the provision of technical support and strategic guidance. Through the PRRO, WFP is continuing its cooperation with the Ministries of Health and Education in the implementation of a national school feeding programme and continues to advocate with the Ministry of Labour and Social Affairs for the reform of social safety nets. In 2016, WFP plans to assist 120,000 schoolchildren via school meals and will pilot cash-for-work and cash-for training activities.

- *SO 200746 Logistics Cluster and Emergency Telecommunications Cluster in Iraq:* SO 200470 coordinates the logistics and emergency telecommunications response to ensure the efficient and effective delivery of humanitarian assistance for the period 1 July 2014 to 31 December 2016. The Logistics Cluster manages shared warehouses in Baghdad, Duhok and Erbil for use by partners. In addition, the Emergency Telecommunications Cluster provides emergency telecommunications support to humanitarian organisations.

14.   The CO is in the process of transitioning IDPs in urban and peri-urban areas to Cash-Based Transfer (CBT) forms of assistance, starting with a pilot project in the Akre and Dohuk governorates. The pilot will use WFP's corporate application SCOPE.

Objective and Scope of the Audit

15.   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 operations in Iraq. 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.

16.   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.

17.   The scope of the audit covered WFP's operations in Iraq from 1 January to 31 December 2015. Where necessary, transactions and events pertaining to other periods were reviewed. The audit fieldwork took place in Baghdad as well as various other locations in Iraq.

III. Results of the Audit

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

Table 2: Positive practices and initiatives

1. Internal environment

- Strong engagement by the Country Director with donors to address funding shortages in 2015 resulted in positive funding of projects for 2016 enabling continued assistance to IDPs.

- Completion of a strategy to optimize food assistance in Iraq during the crisis and exploration of investments in sustainable safety net systems in post-crisis scenarios.

- Introduction of electronic delivery cards (SCOPE cards) to augment and diversify its portfolio of transfer modalities. This solution will provide a common platform for the delivery of assistance by the humanitarian community, resulting in increased efficiencies and greater coordination and visibility.

2. Control Activities

- Incremental progress in addressing programmatic issues including targeting, registration and verification processes through the implementation of family profiling exercises and the introduction of biometric registration and verification technology, and extension of these technological facilities to other UN agencies and humanitarian actors in the country.

- Operational readiness for the implementation of the Logistics Execution Support System (LESS), bringing full visibility of food commodities throughout the supply chain and tracking of food supplies in real time (whether on the high seas, in port, on the road or in the most remote warehouse).

- Strong performance and positive feedback from partners and donors in the delivery of logistics cluster services for the humanitarian community in Iraq, facilitating the delivery of humanitarian assistance to affected populations through information management and coordination and provision of warehouse facilities.

- Coordinated assistance with other UN agencies to displaced population on the move through the Rapid Response Mechanism, allowing for quick and effective provision of vital assistance.

- Adoption of corporate security training requirements, facilitating the movements of staff into the country and reducing costs to the organization.

3. Information and communication

- Effective and responsive communication with donors on WFP activities and utilization of funds.

- Responsive engagement of Cooperating Partners.

19. 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 examined:

Table 3: Conclusions on risk, by Internal Control Component and Business Process

Internal Control Component/Lines of enquiry	Risk
1. Internal environment	
Strategic planning and performance	High
Organizational structure and delegated authority	Medium
Internal oversight	Medium
Ethics	Low
2. Risk management	
Enterprise risk management	Low
Emergency preparedness and response	Medium
3. Control activities	
Finance and accounting	Medium
Programme management	High
Transport and logistics	Medium
Procurement	Medium
Human resources	Low
Travel and administration	Low
Partnership and coordination	High
Security	Medium
Gender	Low
Property and equipment	Low
Information and Communications Technology (ICT)	Low
Resource mobilisation	Low
4. Information and communication	
Internal and external communication	Low
5. Monitoring	
In-country programme monitoring and evaluation	Medium

20. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of partially satisfactory[2].

21. The audit made one high-risk observation and 11 medium-risk observations. Tables 4 and 5 below present the high and medium-risk observations respectively.

Action agreed

22. Management has agreed to take measures to address the reported observations. Work is in progress to implement the agreed actions.[3]

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[2] See Annex A for definitions of audit terms.
[3] 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
1 **Internal environment** - Agreements with the Government of Iraq (GoI) for the Resumption of School Feeding Activities: The CO's PRRO 200035, with a budget of USD 96.6 million and a projected caseload of 655,900 beneficiaries, suspended school feeding activities at the request of the GoI in January 2014. Since then the CO has not planned or implemented school feeding activities in the scale originally foreseen. At the time of the audit, management in the CO/RB/HQ was in the process of evaluating the resolution of a USD 5.6 million claim for restitution related to Iraq donor-funded commodities intended for the 2012/2013 school feeding programme. In addition, a contribution of USD 17 million provided by the GoI for the implementation of the 2013/2014 school feeding programme had not been used as there was an expectation by the GoI that before WFP could proceed to initiate the spending on this 2013/2014 school feeding programme, the USD 5.6m issue has to be resolved first. This uncertainty required the disclosure of a contingent liability in WFP's financial statements (per IPSAS requirements). Delays in the implementation of school feeding activities may impact funding and partners' support for the PRRO and other WFP activities in the country going forward. <u>Underlying cause:</u> Delays in the resolution of potential restitution by WFP to the GoI on commodity losses.	(1) The Country Office (CO), in consultation with the Regional Bureau Cairo (RBC) and HQ senior management, with the guidance of the Legal Office (LEG), will seek a prompt resolution of the USD 5.6 million claim for restitution. (2) The CO will prepare a plan for the resumption and implementation of school feeding activities, taking preparatory steps to ensure supply chain arrangements are in place for the prompt resumption of activities.

Table 5: Medium-risk observations

Observation	Agreed action
2 **Internal Environment** – Oversight and compliance with UN Security Council (UNSC) sanction lists: ***Corporate policies –*** Changes by the UNSC in December 2015 resulted in the introduction of a consolidated sanctions lists. Management considers that it may be desirable to employ the consolidated list available on the UNSC's website, thus including the most recent sanction updates and additional lists during the vetting of suppliers. Further, there is a need to extend corporate guidelines and checks to human resources processes as the sanction lists also include individuals. ***CO level*** - In addition, the CO risk environment should inform whether additional policies and consideration of additional measures and checks might be required to mitigate country-specific risks. While counter-terrorism policy compliance attestation forms were completed by the CO, the due diligence processes followed to vet suppliers and partners were not formally documented. <u>Underlying Cause:</u> Lack of formal updated guidance on UNSC's sanctions lists. WFP has not adapted its policies and due diligence processes to high-risk operating environments.	(1) The Legal Office (LEG), in coordination with the Office of the Executive Director and the OS, RM and PG divisions (and other relevant corporate units) will undertake a review of the current applicable policy and, if appropriate, amend available guidance to reflect changes in the UNSC's sanctions lists. (2) The CO will evidence in its procurement and partnership files the background checks against UNSC's consolidated sanctions list. It will develop specific procedures, including building on interagency practices in country, to assess local partners.
3 **Finance -** Assessment of Country Programme (CP) bank accounts and the upscale of the cash modality: The Field Level Agreements (FLAs) require CPs to "open and/or maintain a bank account with a bank approved by WFP, specifically and solely dedicated to the deposit of the funds received from WFP." WFP had not reviewed or approved these banking arrangements or the selection of Money Transfer Agents (MTAs) prior or subsequent to the start of CBT activities. The banking sector in Iraq suffers from liquidity problems that could put at risk WFP funds in the custody of CPs. There were no further requirements placed on CPs to provide other security or guarantees that would mitigate risks to WFP's resources. The CO, however, requires CPs to provide bank statements for review as part of their reporting package. The expression of interest (EOI) for financial services by the CO resulted in limited interest from qualified service providers that may delay or impede the CO's strategy to scale up unconditional cash transfers. <u>Underlying cause:</u> Inadequate due diligence processes and guarantees to safeguard WFP funds in the custody of CPs. Limited options and limited interest by the Iraqi financial services industry.	(1) The CO will assess the suitability of banks selected by CPs for opening WFP dedicated bank accounts according to the criteria defined in the FRMM and CBT Manual. The CO will also provide CPs with a list of recommended banks following the completion of the Macro Financial Assessment and Micro Financial Assessment, and will update CPs on a periodic basis. (2) The CO will obtain advice from RMFT on the feasibility of the upscale of its cash strategy, to ensure all the risks are duly considered prior to sourcing new FSPs.

Observation		Agreed action
4	**Finance -** CP reporting and payment: Requirements by the CO for the reconciliation of foreign exchange gains and losses by CPs were delaying the submission of reporting packages by CPs and payments by WFP. This had an impact on retailers, some of which had not been paid for several consecutive distribution cycles. In March 2016, five CPs had not received payments relating to the January and February 2016 distributions. A CP refused to implement distributions to beneficiaries for the month of March 2016, as there were delays in the transfers of funds due to new compliance requirements for intermediary banks. Underlying cause: Processes and controls that are not tailored or commensurate with the foreign exchange risk exposure. Compliance requirements affecting the timely transfer of funds to CPs.	(1) The CO will: (a) review and amend the CP reporting requirements to allow for the accrual of foreign exchange differences though periodic reconciliations and adjustments; (b) obtain advice from RMFT and Business Development Branch (RMFB) on the emerging risks and potential mitigating actions associated with current banking arrangements.
5	**Budget Management -** Management of GoI funds resulting from balances in the Oil for Food Programme: The 2004 tripartite agreement between the GoI, the Coalition Provision Authority (CPA) and WFP resulted in grants that by 2009 had unspent balances of USD 37.1 million. In agreement with GoI, these unspent funds were made available to WFP in two tranches (under grants 1001368 and 10016924) with the first tranche to be reprogrammed for School Feeding Activities during the period 2011-2012 under project PRRO 200035. However, the second tranche was not supported by an agreement setting the conditions for the use of the funds. Moreover, both grants did not have recorded terminal obligation dates recorded in the WFP Information Network and Global System (WINGS). Changes in some of the activities or timeline for implementation were not communicated in advance to GoI. At the time of the audit, the CO had unspent balances of USD 27.2 million relating to the aforementioned grants. Underlying cause: Lack of grant agreements and clearly defined terminal obligation dates in the communication with GoI that prevented WFP from recording these in WINGS. Ineffective communication with the Government by the CO.	(1) The CO will liaise with GoI on the utilization of the USD 27.2 million under grants 10013268 and 10016924 and will coordinate with HQ units (LEG, RMBP and PGG) to record the required conditions of the funds in WINGS, adequately reflecting all relevant conditions to allow swift implementation and delivery.

Observation	Agreed action
6	**Programme -** Targeting of beneficiaries: Corporate guidelines require that a food security assessment be conducted in time to make programmatic decisions and to transition assistance based on status to assistance based on needs. The CO started providing assistance to IDPs based on their status and has progressively moved towards a needs based targeting approach through the introduction in 2015 of proxies of food vulnerability, and plans to complete a Comprehensive Food Security and Vulnerability Analysis (CFSVA) in 2016. There is scope for further improvements in needs-based targeting given the significant socio-economic differences within the IDP communities being assisted in Iraq and the food security indicators currently being reported in the Rapid Food Security Assessment (RFSA) and the Post Distribution Monitoring (PDM) analysis reports. Underlying cause: Staffing and recruitment constraints. Lack of access to beneficiaries due to the security situation and difficulty in tracking constantly moving populations. Lack of data to enable the CO to target its assistance at the geographical and household level.	(1) The CO will complete the comprehensive food security and needs assessment and design targeting process to transition its assistance from a status to a needs basis.
7	**Programme -** Beneficiary registration and verification: The audit noted weaknesses in the registration and verification of beneficiaries receiving assistance through the voucher programme. IDP data was not centralized and was not updated consistently with IDP movements. These limitations required WFP to manually update incomplete and inaccurate IDP lists regularly. Data on additional identifiers, including GoI IDs; alternate individual authorized to collect cash on behalf of primary beneficiary; and 'no shows' was not captured. Improvements to the means of beneficiary identification used during distribution and redemption of vouchers, as well as acknowledgement of receipt procedures, were required to provide reasonable assurance that only registered beneficiaries received entitlements. There is a risk that WFP may distribute to individuals that are not entitled to assistance, and an increased fraud risk in the collection of benefits. The CO intends to move to biometric identification through SCOPE , which, if effectively implemented, will address many of the noted weaknesses. Underlying cause: Lack of complete and accurate IDP data. Lack of adherence to beneficiary verification procedures by CPs.	(1) The CO will: (a) reassess the appropriateness of relying on the public distribution system (PDS) as the primary beneficiary identifier; (b) update the beneficiary data and distribution lists with information on alternate beneficiaries and National ID numbers, and will provide guidance to CPs on the correct implementation of verification procedures; and (c) implement biometric verification systems at the earliest opportunity.

Observation	Agreed action
8 **Programme -** Controls over CBTs: various issues were noted in the delivery of programmes through CBT modalities including: ***Segregation of duties -*** There were several instances of a lack of segregation of duties in CBT activities, for example in the allocation of responsibilities for printing and handling of scope cards and corresponding personal identification numbers (PINs) for the cash pilot, validation and distribution of vouchers to beneficiaries, database maintenance, printing and reconciliation of vouchers. ***Custody handover -*** The SCOPE cards handover form from the CO to CPs did not include card serial numbers to identify the specific cards that were handed over. ***Reconciliations -*** There was no comprehensive reconciliation that accounted for all vouchers distributed to each CP or all the vouchers that were distributed in a cycle. ***Communication of entitlements -*** Information regarding beneficiary entitlements was either ineffectively displayed or not displayed at some distribution sites for both the voucher programme and the cash pilot distributions visited by the audit team. These issues may result in an increased risk of misappropriation and fraud. The CO plans to introduce biometric registration and verification technology, which will address many of the noted weaknesses. Underlying cause: Lack of staff to take up the different roles required to segregate activities. Deficiencies in the process design. Absence of a voucher registration log and tool.	(1) The CO will review the process design and appropriately segregate roles in line with the corporate guidelines. The CO will create and maintain a log to track the status and custody of all vouchers. The CO will also assign staff to prepare and approve comprehensive voucher reconciliations, in line with corporate guidelines. (2) The CO, in line with the cash SOPs, will develop a plan to train beneficiaries to independently enter their PINs in the Point of Sales (POS) machines in order to ensure the security of transactions and move towards leaner staffing at distribution points.
9 **Supply Chain -** Pre-packaged food parcels and emergency rations: The delivery terms selected by the CO (Delivery and Place) for family food parcels (FFPs) and immediate response rations (IRRs) were not conducive to the assessment of transportation costs. Due to the composition of the IRR rations the CO faced some commodity losses and operational disruptions as parcels had to be reopened to remove expiring commodities. Audit noted items with short shelf life in the pipeline, discrepancies between expiry dates printed in food packages (English and Arabic), as well as inadequate expiry date labelling of IRR and FFP parcels. Untimely and uncoordinated deliveries of break bulk commodities was leading to the distributions of incomplete in-kind rations to beneficiaries. Underlying cause: Unknown demand and uncertain lead times for the distribution of IRR rations as well as deficiencies in the selection and delivery methods of IRR parcels. Short-term strategies to respond to upsurge in commodity requirement. Lack of coordination between programme, logistics and procurement.	(1) The CO will review the composition of the IRR and FFP rations, delivery methods, packaging, labelling of commodities and parcels as well as methods for tracking expiry dates to minimize commodity losses and operational disruptions. The CO will improve cross-functional coordination to ensure timely and full deliveries of in-kind rations to beneficiaries. (2) The CO will identify and assess the delivery terms and associated transportation costs and appropriateness of current delivery terms for commodity purchases and will identify the potential for cost savings by switching to new delivery terms.

Observation	Agreed action
10 **Supply Chain -** Responsibilities over CBT: Retail service providers engaged by WFP's partners to redeem vouchers had recurrent issues of poor performance. The CO had not developed a retail strategy to address these issues and explore potential cost efficiency gains. Shop monitoring activities needed to be tailored and tools and responsibilities transitioned to the Supply Chain function. OIGA identified redundancies in the process for certification of expenses that could be eliminated to speed up payments to CPs and reduce costs. Service performance issues, if not effectively addressed in the retail strategies, retail selection and monitoring, increase the risk of sub-standard quality in the delivery of assistance to beneficiaries. Underlying cause: Lack of capacity and a plan to transition responsibilities over CBT to supply chain per the standard corporate model.	(1) The CO will develop a plan to transition all retailer selection responsibilities as well as price and retail monitoring responsibilities from Programme and M&E/VAM to the Supply Chain Function. (2) The CO will develop a retail strategy to address systemic issues in the delivery of retail services under voucher programmes, with due consideration of opportunities for improved cost efficiencies. The CO will assess the appropriateness of current retail contracting arrangements and retail reimbursement certification processes and will strengthen the capacity and ability of the Logistics function to cope with the assumption of new responsibilities.
11 **Security –** Redacted[4]	Redacted

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[4] Redacted / withheld under the WFP Policy for Disclosure of Oversight Reports – WFP/EB.2/2012/4-A/1 paragraph 13

Observation	Agreed action
12 **Monitoring -** Monitoring of exchanges of cash for vouchers: In some instances, the prioritization of needs drives beneficiaries to exchange their voucher entitlements for cash at discounted values to obtain resources for shelter and other non-food items. Specific data on the rate of exchange and discounts of vouchers was not being effectively captured. This meant the CO could not perform a systematic evaluation and quantification of the potential losses of these exchanges and make programmatic decisions on the most appropriate form of transfer modalities and/or mitigating activities. These requirements are reflected in WFP's updated CBT monitoring guidelines, to be implemented July 2016. The risk of losses in the value reaching beneficiaries through voucher modalities may not be fully identified, addressed and mitigated and information required to target and reconsidered voucher transfer modalities may not be available. <u>Underlying cause:</u> Absence of guidelines and criteria needed to estimate the pervasiveness of voucher exchanges for cash. Incorrect targeting of beneficiaries and inappropriate selection of transfer modalities.	(1) The CO will: (a) include criteria needed to detect and estimate the potential losses of value derived from the exchange of vouchers for cash, including the percentage of vouchers being exchanged and estimated discount on vouchers being exchanged; (b) prepare guidelines and provide guidance to staff on how to monitor exchange vouchers for cash, ensuring data is systematically gathered, analysed and reported on a periodic basis.

Annex A – Summary of categorization of observations

Th following table shows the categorisation ownership and due date for all the audit observations. This data is used for macro analysis of audit findings.

Observation		ICF	WFP's Management Results Dimensions	WFP's Risk Management Framework	Underlying cause category	Owner	Due date
			Risk categories				
1	**Internal environment -** Agreements with the Government of Iraq (GoI) for the Resumption of School Feeding Activities	Strategic	Programmes	Programmatic	Compliance	(1) Iraq CO	31 July 2016
		Compliance	Partnerships	Institutional	Resources	(2) Iraq CO	15 September 2016
			Accountability and Funding				

Observation		ICF	Risk categories WFP's Management Results Dimensions	WFP's Risk Management Framework	Underlying cause category	Owner	Due date
2	**Internal environment –** Oversight and compliance with UNSC sanction lists	Compliance	Accountability and Funding	Contextual Institutional	Compliance Guidelines	(1) LEG (2) Iraq CO	31 December 2016 Implemented
3	**Finance -** Assessment of CP bank accounts and the upscale of the cash modality	Operational Strategic	Processes and Systems Accountability and Funding	Institutional Contextual	Compliance	(1) Iraq CO (2) Iraq CO	30 September 2016 30 June 2016

Observation		Risk categories			Underlying cause category	Owner	Due date
		ICF	WFP's Management Results Dimensions	WFP's Risk Management Framework			
4	**Finance -** CP reporting and payment	Operational	Processes and Systems	Programmatic	Best practice	Iraq CO	01 July 2016
5	**Budget management -** Management of GoI funds resulting from balances in the Oil for Food Programme	Compliance Reporting	Accountability & Funding	Institutional	Compliance Guidance Human Error	Iraq CO	30 October 2016
6	**Programme -** Targeting of beneficiaries	Operational	Programmes	Programmatic	Compliance Resources	Iraq CO	31 October 2016
7	**Programme -** Beneficiary registration and verification	Operational Compliance	Operational	Programmatic	Compliance	Iraq CO	31 December 2016
8	**Programme -** Controls over CBT	Compliance	Processes and Systems	Programmatic	Compliance	(1) Iraq CO (2) Iraq CO	31 July 2016 31 August 2016
9	**Supply Chain -** Pre-packaged food parcels and emergency rations	Operational	Processes and Systems	Institutional	Resources	(1) Iraq CO (2) Iraq CO	30 June 2016 31 May 2016

Observation		ICF	Risk categories		Underlying cause category	Owner	Due date
			WFP's Management Results Dimensions	WFP's Risk Management Framework			
10	**Supply Chain -** Responsibilities over CBT	Operational Compliance	Processes and Systems	Institutional	Compliance	(1) Iraq CO (2) Iraq CO	30 September 2016 30 September 2016
11	**Security -** Redacted	Compliance Operational	Processes and Systems	Contextual Programmatic	Compliance Resources	(1) Iraq CO (2) Iraq CO (3) RBC	Implemented 31 May 2016 31 May 2016
12	**Monitoring -** Monitoring of exchanges of cash for vouchers	Operational Programmes	Processes and Systems	Institutional	Best practice	Iraq CO	31 July 2016

Annex B – Definition of categorization of observations

1. Rating system

A 1.   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.1: 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 compromised.	Reasonable assurance cannot be provided.

2. Risk categorisation of audit observations

A 2.   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.[5]

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[5] 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.

Table A.2: 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 3.   Low risk observations, if any, are communicated by the audit team directly to management, and are not included in this report.

3. WFP's Internal Control Framework (ICF)

A 4.   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 and revised in 2015.

A 5.   WFP defines internal control as: "a process, effected by WFP's Executive Board, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, compliance."[6] WFP recognises five interrelated components (ICF components) of internal control, all of which need to be in place and integrated for them to be effective across the above three areas of internal control objectives.

Table A.3: Interrelated Components of Internal Control recognized by WFP

1	Control Environment:	Sets the tone of the organization and shapes personnel's understanding of internal control.
2	Risk Assessment:	Identifies and analysis risks to the achievement of WFP's objectives though a dynamic and iterative process.
3	Control Activities:	Ensure that necessary actions are taken to address risks to the achievement of WFP's objectives.
4	Information and Communication:	Allows pertinent information on WFP's activities to be identified, captured and communicated in a form and timeframe that enables people to carry out their internal control responsibilities.
5	Monitoring Activities:	Enable internal control systems to be monitored to assess the systems' performance over time and to ensure that internal control continues to operate effectively.

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[6] OED 2015/016 para.7

4. Risk categories

A 6.   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.4: 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 7.   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.5: 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.6: 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 though interventions.
3	Institutional:	Internal to WFP: fiduciary failure, reputational loss and financial loss through corruption.

5. Causes or sources of audit observations

A 8.   Audit observations are broken down into categories based on causes or sources:

Table A.7: 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.

6. Monitoring the implementation of agreed actions

A 9.   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.

Annex C – Acronyms

CBT	Cash Based Transfers
CO	Country Office
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPA	Coalition Provisional Authority
EMOP	Emergency Operation
EOI	Expression of Interest
ERA	Emergency Response Action
FFP	Family Food Parcels
FLA	Field Level Agreement
FSP	Financial Service Providers
GoI	Government of Iraq
HQ	Headquarter
ICF	Internal Control Framework
IDP	Internally Displaced Person
IIA	Institute of Internal Auditors
IPSAS	International Public Sector Accounting Standards
IRR	Immediate Response Rations
L3	Level 3 Emergency
LEG	Legal Office
LESS	Logistics Execution Support System
M&E	Monitoring and Evaluation
MOSS	Minimum Operating Security Standards
MTA	Money Transfer Agent
OED	Office of the Executive Director
OIGA	Office of Internal Audit
OS	Operations Service Department
PDS	Government of Iraq Public Distribution System
PGG	Government Partnerships Division
PIN	Personal Identification Number
POS	Point of Sale Terminal
PPF	Pre-Packaged Foods
PRRO	Protracted Relief and Recovery Operation
RB	Regional Bureau

RBC	Regional Bureau Cairo
RM	Resource Management Department
RMBP	Project Budget and Programming Service
RMF	WFP's Finance & Treasury Division
RMFB	Business Development Cash & Voucher
RMFT	Treasury and Financial Risk Management
RMM	WFP's Management Services Division
SAIT	Security Awareness Induction Training
SFA	School Feeding Activity
SSAFE	Safe and Secure Approaches in Field Environments
UN	United Nations
UNSC	United Nations Security Council
USD	United States Dollar
VAM	Vulnerability Analysis and Mapping
WINGS	WFP Information Network and Global System
WFP	World Food Programme