

# Internal Audit of WFP Operations in Yemen

Office of the Inspector General  
Internal Audit Report AR/16/13



**World Food Programme**

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# Internal Audit of WFP Operations in Yemen

## I. Executive Summary

### Introduction and context

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP operations in Yemen from January 2015 to April 2016. WFP's direct expenses in Yemen totalled USD 367 million in 2015, representing 7.8 percent of WFP's total direct expenses for the year. The audit team conducted the in-country fieldwork from 18 July to 4 August 2016, including onsite visits to various locations in Yemen, the Djibouti and Amman hubs, and a review of related corporate processes that impact across WFP.

2. In March 2015, Yemen's conflict escalated into a full nationwide conflict involving international military intervention and resulting in a mandatory United Nations-wide evacuation of its international staff. On 3 July 2016, the emergency escalated from a Level 2 to a Level 3 corporate emergency. The conflict has severely disrupted the regular supply of food, with serious implications for Yemen's vulnerability and food insecurity levels. According to the 2016 Integrated Food Security Phase Classification (IPC), nine out of 22 governorates and 7 million individuals are under emergency (IPC phase 4). Ten governorates and 7.1 million individuals are under crisis (IPC phase 3).

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

### Audit Conclusions

4. The context of operations in Yemen is complex. Political instability coupled with security and access restrictions and bureaucratic impediments were major constraints to capacity and operations on the ground. Any movement of assistance and people required significant negotiations and coordination with the actors involved in the conflict. Limited slots for UN personnel and visa restrictions have challenged the ability to get international staff into the country, while accessibility issues have limited WFP presence on the ground. Despite the response being conducted in an active war zone, where bombs were being dropped daily for most of the audit period, WFP provided assistance to a progressively increasing number of beneficiaries.

5. Cooperating partners highlighted positive working relationships and periodic meetings recently put in place with the Country Director contributed to significantly improved donor relationships. Continuity of assistance delivery during the "evacuation phase" was effectively ensured thanks to the national staff. Mobile Vulnerability Analysis and Mapping Food Security surveys, Vulnerability Analysis and Mapping assessments and market monitoring reports were made available to the humanitarian community and the IPC working group, as well as the call-centre for real time progress information on project activities.

6. At a corporate level, the activation of the Level 3 emergency did not translate into the effective implementation of protocols and mechanisms to mobilize WFP global resources, necessary to ensure the scale and speed of the response adequately covered the needs. The number of concurrent humanitarian crises, some of them protracted, stretched resources and WFP's responsiveness was affected, with trained and experienced staff, as well as management attention, being over-extended over multiple priorities.

7. The review of the governance, risk management and internal control system of WFP operations in Yemen identified certain weaknesses that have resulted in audit observations and areas where tools or processes could be improved to provide a more effective emergency response in the future.

8. Based on the results of the audit, and with consideration of the country context, the Office of Internal Audit has come to an overall conclusion of unsatisfactory, i.e. internal controls, governance and risk management practices were either not established or not functioning well. Some issues identified could compromise the achievement of the overall objectives of the Yemen operation. 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. Control environment	High 
2. Risk assessment	Medium 
3. Control activities	High 
4. Information and communication	Medium 
5. Monitoring activities	Medium 

## Key Results of the audit

### Audit observations

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

**Set up of the Level 3 emergency and risk management:** The set-up of the Yemen operations did not translate into the effective implementation of WFP Level 3 activation protocols. Multiple actors required to attend the Operational Task Force, for corporate-level operational decision-making and common operational analysis to address operational issues, were either not participating or not represented at the required managerial level. Risks and issues were not systematically identified and/or addressed, nor was there a comprehensive and consistent approach to reflect or use risks to update the risk register in a structured way. Therefore, the register was not accurate. Operational analysis was also not consistently performed to identify and/or address issues and risks with partners. Some of the responsibilities of the Regional Bureau or the Deputy Emergency Coordinator were not clear. The emergency set up did not address the accountability and capacity of the Djibouti Country Office in support of the Yemen operations quickly enough.

**Targeting, identification and registration of beneficiaries and management of distribution:** The audit noted a lack of clarity in the allocation of distribution among partners:

- Criteria not clearly defined and formalized.
- Insufficient consideration of all costs incurred by the Country Office when almost doubling distribution to its major implementing partner, in November 2015.
- Lack of coordination with WFP and local authorities for implementing distribution and reporting delays.
- Insufficient consideration of the risks of concentrating distribution activities.

Multiple Field Level Agreements were reflected late in corporate systems because they were signed with Cooperating Partners after the beginning of the agreement's validity period. During the audit period, WFP staff were unable to effectively assess the Cooperating Partners' targeting of beneficiaries. Differences were noted in planned vs. distributed commodities and no structured process was in place at the time of the audit for assessing the nutritional impact of partial distribution. Cash Voucher-Traders' Network and General Food Distribution quantitative data collected through Cooperating Partners and reported in monitoring reports and Standard Project Reports were based on assumptions and pro-rated computations from aggregated beneficiary data, which the Country Office did not clearly disclose.

**Skillset and capacity to support the Level 3 emergency:** Programme critical areas did not have a Head of Unit for the majority of the period under review. Release of other re-assignees for the Yemen operations required significant negotiations by the Country Director with other Country Directors as well as significant time to allow for mandatory security trainings or for uptake of leave before deployment. Progress on recruitments to achieve the November 2015 approved scaled-up structure for the Country Office was limited with process delays by Human Resources and hiring managers. Recruitments for the Hodeida sub-office had been put on hold because of insufficient workspace and inadequate accommodation. Staff raised concerns on the inadequacy of training provided to support skills development in the period under review. The majority of hiring managers did not complete national staff leave plans in 2015 and delays were noted in 2016, leading to staff losing leave days.

**Transporters' market assessments:** In the period of audit, the Country Office has continued to use its pool of long-term shortlisted transporters through contract extensions, after shortlist reviews and performance evaluations in line with the transport manual. Current rate determination is based on a succession of Requests for Quotes to existing transporters for the lowest quote on each route, followed by a counteroffer from the Country Office as per the manual. This does not consider actual market rates that may be in place nor is there a follow-up on significant discrepancies in rates quoted by the transporters.

**Vendor management and contracting:** Issues were noted with regards to contracting and vendor performance assessment. At the peak of the emergency, equipment procured for two ministries to ensure WFP operations continuity was done without an agreement to regulate asset transfer, including value of transferred assets, subsequent maintenance/repair costs and liabilities. The Country Office had since received requests for further equipment to be delivered to other public entities and was in the process of evaluating them.

#### **Actions agreed**

10. Management has agreed to address the reported observations. It has indicated that some agreed action components relative to certain observations have been implemented and is working to implement all agreed actions by their respective due date. The Office of Internal Audit will verify all implemented actions through its standard system for monitoring agreed actions.

11. 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

### Yemen

12. Yemen is a lower middle-income food-deficit country ranked 160 out of 188 countries in the Human Development Index 2015. Yemen suffers from alarming levels of food insecurity and is ranked as the tenth most food insecure country in the world by the Global Hunger Index 2015.

13. In March 2015, Yemen's conflict escalated into a full nationwide conflict involving international military intervention, disrupting the regular supply of food, with serious implications for its vulnerability and food insecurity levels. According to the 2016 IPC, nine out of 22 governorates and 7 million individuals are under emergency (IPC phase 4). Ten governorates and 7.1 million individuals are under crisis (IPC phase 3).

### WFP Operations in Yemen

14. Following the escalation of the conflict, WFP activated a Level 3 corporate emergency response on 3 July 2015.

15. WFP's direct expenses in Yemen in 2015 totalled USD 367 million, representing 7.8 percent of WFP's total direct expenses for the year. Six projects were ongoing during the audit period, Emergency Operation (EMOP) 200890 (2015-2016), Protracted Relief and Recovery Operations (PRROs) 200305 (2013-2015) and 200636 (2014-2015), and Special Operations 200798 (2015), 200841 (2015-2016) and 200845 (2015-2016), with approximately USD 1.2 billion revised budget and USD 0.7 billion received funds as of June 2016 - a shortfall of 40 percent.

16. In April 2016, the office comprised 277 staff (228 national and 49 international) in six offices (one Country Office (CO), three Sub Offices (SOs), two hubs in Djibouti and Amman).

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

- *EMOP 200890 - Emergency Food Assistance to the Food Insecure and Conflict-Affected People in Yemen.* At the onset of the crisis, WFP shifted the focus of its Protracted Relief and Recovery Operation (PRRO 200636), launched in mid-2014, from recovery and resilience to emergency food distribution and nutrition interventions for acutely malnourished Yemenis. To better respond to the rapidly evolving situation, WFP transferred its lifesaving activities to a dedicated Emergency Operation (EMOP 200890) in October 2015, with the aim of assisting 4 million people with General Food Distribution (GFD), nutrition and a commodity voucher modality, introduced early 2016. Budget revision 1 has extended project duration until December 2016. With the start of the EMOP, PRRO 200636 was frozen, and closed on 31 December 2015, consolidating WFP's humanitarian relief response under the EMOP. From 1 April 2016, EMOP 200890 also incorporated food assistance for refugees and migrants in Yemen, previously implemented under PRRO 200305.
- *Special Operation 200841- Logistics and Emergency Telecommunications Augmentation and Coordination to Support Humanitarian Operations in Yemen.* WFP led the Logistics Cluster and Emergency Telecommunications Clusters throughout Yemen under three Special Operations: 200798, and 200841. Special Operation 200841 was launched in April 2015, a month into the escalation of Yemen's conflict, replacing Special Operation 200798, to augment logistics and emergency telecommunications in support of the ongoing emergency food assistance operations. Special Operation 200841 aimed at providing the humanitarian community with adequate logistics services, fuel provision and enhanced coordination mechanisms to deliver relief items to the population of Yemen. In addition, the operation incorporated the Logistics Cluster and Emergency Telecommunications Clusters to provide secure telecommunications services for the humanitarian community.



- *Special Operation 200845 - Provision of Humanitarian Air Services in Yemen.* Special Operation 200845 catered for humanitarian air services under the United Nations Humanitarian Air Service. The Special Operation was launched in April 2015, replacing Special Operation 200789, to facilitate the humanitarian response through safe and reliable air transport services, until the end of 2016. An air bridge between Sana'a and Djibouti ensured a means for aid workers to move in and out of Yemen without international commercial flights. From May 2016, WFP also provided connections to Sana'a from Amman.

## 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 operations in Yemen. 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 operations in Yemen from January 2015 to April 2016. Where necessary, transactions and events pertaining to other periods were reviewed. The audit field work, which included onsite visits to various locations in Yemen, the Djibouti and Amman hubs and a review of related corporate processes that impact across WFP, took place from 18 July to 4 August 2016.

### III. Results of the Audit

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

#### Table 2: Positive practices and initiatives

##### Control Environment

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- Although WFP Emergency Response Activation Protocol requires Level 2 responses to be coordinated through an Operational Task Force, for the Yemen operations both the Strategic Task Force and the Operational Task Force were operating before the activation of the Level 3 emergency in July 2015.

##### Control Activities

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- The national staff made extraordinary efforts at the onset of the Level 3 emergency to ensure continuity of the CO operations amidst difficult conditions with daily airstrikes, fuel and electricity cuts, and when all internationals had been evacuated.
- Cooperating Partners (CPs) highlighted the positive working relationship with WFP. Good communication and relationships with partner organizations were noted in the Logistics Cluster and Djibouti hub. Good relations with the governor and local authorities were also noted in the Hodeida Sub-office.
- Significant efforts from the Logistics team to address issues raised by a Regional Bureau (RB) oversight mission in February 2016, resulting in the cessation of the fleet transport which has utilized USD 8.2 million of the Landside Transport, Storage and Handling budget from 2015 to date and updates to system data entries and clearing of Landside Transport Instructions.
- WFP Yemen, as lead Logistics Cluster and Air Service in the country, evacuated more than 400 humanitarian aid workers in less than 24 hours in March 2015. WFP cluster also provided a passenger boat along the Djibouti- Aden- Djibouti route to address the lack of connection with the south of the country.
- From April to August 2015, WFP Logistics Cluster procured, shipped and handled more than 5 million litres of fuel, half of which was distributed to more than 60 partners free of charge. From September 2015 onwards, the fuel provision service continued under a Service Level Agreement on a cost recovery basis.
- The introduction of staff rotation in the Hodeida SO contributed to build the capacity of national staff.
- Lessons learned exercises were conducted by the Logistic Cluster and the Djibouti CO following an incident with WFP cargo on board a maritime vessel, as well as by the Yemen CO in the pilot phase of the Cash Voucher-Traders' Network (CV-TN) activity involving all partners.
- Vulnerability Analysis and Mapping (VAM) team performed systematic Mobile Vulnerability Analysis and Mapping Food Security surveys to collect and provide data and information on food availability, access, utilization and stability including coping strategy index. VAM assessments and market monitoring reports made available to the humanitarian community and to the working group for the IPC.

##### Information and Communication

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- Quarterly meetings and face-to-face meetings between the Country Director (CD) and the King Salman Centre significantly improved donor relationships from April 2016 onwards.

##### Monitoring Activities

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- The CO set up a call centre to perform remote call monitoring and data collection. This involves conducting daily phone interview with Food Distribution Points Focal Point for providing real time progress information on monitored projects.

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

23. Based on the results of the audit, and with consideration of the country context, the Office of Internal Audit has come to an overall conclusion of **unsatisfactory**<sup>1</sup>.

24. The audit made five high-risk and six medium-risk observations. Three observations lead to corporate-agreed action. Tables 4 and 5 below present the high and medium-risk observations respectively.

### Actions agreed

25. Management has agreed to address the reported observations and work is currently in progress to ensure that all of agreed actions have been implemented.

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

Table 4: Summary of high-risk observations

Observation	Agreed action
<p>1 <b>Internal environment/Risk management</b> - Set-up of the Level 3 emergency and risk management.</p> <p>The attendance to the meetings of the Operational Task Force, responsible for “<i>corporate-level operational decision-making and for providing a common operational analysis, coordinating among the various functional areas to address operational issues</i>”, was not in line with the protocol, with multiple actors either not participating or not represented at the required managerial level. This may have impacted the organization’s capacity to provide adequate corporate support and solutions to the operation.</p> <p>Operational analysis was not consistently performed to identify and/or address issues and risks, including lack of capacity assessment of partners, or lack of documentation thereof, to support relative selection. The audit noted insufficient analysis to guide engagement and activities implemented through third-party monitoring, or with public entities for the monitoring of beneficiary identification and registration of food distribution. There were no performance evaluations of CPs or Third Party Monitoring (TPM) service providers to guide and inform decision-making. For the new TPM tender, management informed the audit team that an evaluation was performed prior to the new tender launch as per procurement rules.</p> <p>During the emergency, risks have been identified in some ad hoc assessments at process level (for example, the procurement plan for the first half of 2016), as well as escalated and discussed at Headquarter (HQ) level, during the Strategic Task Force chaired by the Executive Director. However, these efforts did not translate into a comprehensive and consistent approach, nor were they reflected in/used to update the Risk Registers in a structured way.</p> <p>The CO had not completed the 2015 Risk Register (RR) and was preparing the RR 2016 in July 2016. Some data in the draft RR 2016 was not accurate and risks highlighted in/by other tools and/or noted during the audit had not been assessed/consolidated. Some actions appeared to be too general. Management informed us that the above aspects will be addressed in the mid-year review.</p> <p>The Level 3 emergency protocol appoints the Regional Director as Corporate Response Director (CRD). The activation memorandum created the position of a Deputy Emergency Coordinator (DEC) to “ensure backstop support” for the CD. This was not paired with a clear definition of roles and responsibilities of the DEC or for other managerial roles in the CO to whom staff reported as per the performance assessment process. From April 2016, the DEC has been also re-assigned as Deputy Country Director Operations. The Regional Bureau Cairo (RBC) role was also not clearly defined. RBC oversight included a few missions and support via complementary roles, for Procurement and Security.</p>	<p>(1) The CRD, using the Yemen emergency operations as a starting point, will liaise with HQ and RB units as appropriate to:</p> <p>(a) Reinforce appropriate understanding of roles and responsibilities in the Level 3 emergency (for instance, further disseminating Level 3 rules to all relevant parties in the Yemen operations).</p> <p>(b) Assess the Level 3 protocol/regulations for set up effectiveness considering concurrent emergencies in the region and clarify roles and responsibilities at RB/HQ level.</p> <p>(2) The CO will:</p> <p>(a) Liaise with HQ units as appropriate to clarify the role of the DEC for current emergency and as a lesson learned for future emergencies.</p> <p>(b) Formalize criteria and perform a capacity, risk and performance assessment of current implementing partners and assess availability and capacity of other potential partners to expand/diversify CPs pool.</p> <p>(c) Finalize the 2016 RR, ensuring valid risks identified by different sources are assessed and reflected as appropriate, and specific mitigating actions are defined.</p> <p>(d) Perform a capacity assessment, cost-benefit analysis and a risk assessment of TPM service providers, including for the agreement with public entities. Assess their performance on a regular basis - at the least at the end of contractual agreement.</p> <p>(e) Assess the current set up and anticipate future needs, in case Yemeni ports were to be under blockade again. Coordinate with RBC Units as appropriate.</p>

Observation	Agreed action
<p>The emergency set up did not properly address the accountability of the Djibouti CO in the Yemen operations, the Djibouti CO Logistics corridor being outside the region and under the authority of the Ethiopia CO. The increased workload was remediated by temporary assignments and a staff review was launched by the Djibouti CO to address structural issues at the end of 2015. This also resulted in a significant cargo backlog and increased logistics costs (demurrages).</p> <p><u>Underlying cause:</u> Multiple Level 3 emergencies, resources being overstretched and management attention being over-extended. Corporate protocols for Level 3 emergency implementation and management were not adequately implemented, and/or responsibilities articulated. Lack of a structured process to identify and review risks and relative mitigating actions. Lack of guidance on and implementation of operational analysis and assessments (needs, capacity and performance assessment, cost-opportunity analysis and/or risk assessment) in support of operations.</p>	
<p>2 <b>Programme management</b> - Targeting, identification and registration of beneficiaries and management of distribution.</p> <p>The audit noted a lack of clarity in the allocation of distribution among partners: criteria not clearly defined and formalized; insufficient consideration of all costs incurred by the CO when almost doubling distribution to the CO major implementing partner, in November 2015; lack of coordination with WFP and local authorities for implementing distribution and reporting delays; and insufficient consideration of the risks of concentrating distribution activities.</p> <p>Multiple Field Level Agreements (FLAs) have been signed with CPs after the beginning of the FLA validity period, thus they were reflected late in corporate systems.</p> <p>During the audit period, WFP staff were not able to effectively assess the CPs' targeting of beneficiaries: attendance to beneficiaries targeting consultation meetings with CPs and local authorities were limited given access/security restrictions or lack of coordination with the major partner; TPM reports in January 2016 indicated that the CPs were using the Social Welfare List (updated in 2008) as a source for beneficiary identification even though WFP had defined and shared new criteria in June 2015; and independent control checks were not performed on the list of registered beneficiaries received from CPs.</p> <p>Differences were noted in planned vs. distributed commodities. Ration cuts were mainly caused by last minute operational problems and partners reported lack of timely communication to disseminate this information to beneficiaries. No structured process was in place at the time of the audit for assessing the nutritional impact of partial distribution, given the complexity of the operation, the reduced ration and the alternate month distribution.</p> <p>WFP also distributed wheat grain in areas where there is no milling capacity and beneficiaries prefer wheat flour. The CO was working on addressing the issue.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> <li>(a) Formalize criteria for allocating distribution and calculate actual cost of distribution taking into account collateral costs, evaluate exposure/dependency risks and ensure all commitments are indicated in the FLAs.</li> <li>(b) Ensure FLAs are formalized and reflected in corporate systems in a timely fashion.</li> <li>(c) Strengthen mechanisms for obtaining up-to-date accessibility and security assessments and allowing WFP staff to attend beneficiary targeting and registration in non-restricted areas. Where access is not possible, consider developing mechanisms for remote independent checks on beneficiaries' targeting and registration (i.e. a call centre capacity to call a sample of beneficiaries also at these stages of the process).</li> <li>(d) Liaise with CPs to implement mechanisms to ensure operational coordination i.e. for targeting and registration by major partner at SO level.</li> <li>(e) Implement mechanisms to: <ul style="list-style-type: none"> <li>(i) communicate partial distribution to CPs in time for dissemination among beneficiaries, evaluate the impact of partial distribution and assess the cost-benefit of implementing retroactive distribution, and</li> <li>(ii) periodically re-assess the validity of current GFD approach, taking into account the results of food security assessments.</li> </ul> </li> <li>(f) Where possible, finalize/seek agreements with donors to allow for milling.</li> </ul>

Observation	Agreed action
<p>CV-TN and GFD quantitative data collected through CPs and reported in monitoring reports and Standard Project Reports were based on assumptions and pro-rated computations from aggregated beneficiary data, which the CO did not clearly disclose.</p> <p><u>Underlying cause:</u> Urgency, complexity and fluidity of the emergency. Lack of clarity in the definition of criteria for allocating distribution. Limited CP presence/offices at field level. Lack of mechanisms to verify beneficiaries registered and proper assessment of vulnerabilities by the CPs, based on accessibility and security assessments. Funding and pipeline constraints not allowing for distributing the full ration in multiple moments of the emergency. Local authorities' request to expand targeted areas, to prevent cohesion problems in the communities and avoid protest/unrest at distribution sites. Insufficient commodity stock and lack of facilities/milling capacities on the ground. Lack of harmonized beneficiaries system and manual and cumbersome process for CPs to collect and register the data accurately.</p>	<ul style="list-style-type: none"> <li>(g) Plan sensitization activities to ensure beneficiaries are aware of the quality and nutritional aspects of food distributed.</li> <li>(h) Implement e-vouchers and digital registration of beneficiaries to speed up the registration process and enable the collection and reporting of accurate data.</li> <li>(i) Evaluate the possibility of introducing a harmonized beneficiary management system for GFD.</li> <li>(j) Ensure data estimates are indicated in project documentation and/or communicated to stakeholders in a clear and timely fashion.</li> </ul>
<p>3 <b>Human resources-</b> Skillset and capacity to support the Level 3 emergency.</p> <p>There was no Head of Logistics for the majority of the period under review, despite Logistics being identified from the onset of the Level 3 emergency as a programme critical area. The post was advertised twice through the re-assignment process without success and eventually filled with a person close to retirement who spent only two weeks in country. Similarly, the equally programme critical security officer position has been advertised, with no candidates having applied at the time of the audit fieldwork. The release of other re-assignees for the Yemen operations required significant involvement of the CD to negotiate release with other CDs, and significant time to allow for mandatory security trainings, or for uptake of leave before deployment.</p> <p>The staffing for the CO's scaled-up structure, as defined in November 2015, was far from achieved with process delays in the long listing of candidates by Human Resources (HR) and in the technical evaluation performed by the hiring managers. Errors in the written test administered by HR also slowed recruitments in some cases. Importantly, in the case of the Hodeida SO, recruitments were also put on hold because of insufficient workspace and inadequate accommodation facilities for international recruits. Staff raised concerns on the inadequacy of training provided to support skills development in the period under review. While the structure and delivery heavily depended on national staff, their leave plans were not completed on time in 2015, leading to 71 staff members losing leave days. 2016 submissions were limited, despite several reminders from HR and the CD.</p> <p><u>Underlying cause:</u> Absence of an effective fast track mechanism to support emergency response staffing, coupled with insufficient incentives for WFP staff to be deployed in complex emergencies. Absence of leadership and shared responsibility in achieving the new structure and ensuring appropriate training plans are in place. Lack of accountability of hiring managers in properly planning and managing national staff's leave. Disconnect between the accountability of the CD for the security and safety of staff and the level of delegation of authority to approve security</p>	<ul style="list-style-type: none"> <li>(1) The CRD will use the Yemen emergency as a reference point and liaise with the HR Division in HQ to review and establish a fast track mechanism for deploying the right skills and capacity to the Level 3 emergency in Yemen as appropriate and to future similar emergencies.</li> <li>(2) The CO will liaise with RB and HQ units as appropriate to: <ul style="list-style-type: none"> <li>(a) Implement a process for HR and hiring managers, under the leadership of the Deputy Country Director Administration, to report on a regular basis to the CD on progress against the approved structure.</li> <li>(b) Liaise with HQ units as appropriate to assess and align the CD delegation of authority for the safety and security of staff and office premises and accommodation set-ups in the sub-offices.</li> <li>(c) Hold unit managers accountable for timely and effective planning and management of national staff leave.</li> <li>(d) Develop a training plan to support skills development for staff.</li> </ul> </li> </ul>

Observation	Agreed action
<p>compliance of new office premises and accommodation set-ups in the Hodeida SO, and restrictions on CO to use local construction or engineers.</p>	
<p>4 <b>Transport and logistics</b> - Transporters' market assessments.</p> <p>In the period of audit, the CO has continued to use its pool of long-term shortlisted transporters through contract extensions (after shortlist reviews and performance evaluations in line with the Transport Manual). Existing transporters, however, operate in other areas of Yemen CO's supply chain and the audit noted that they do respond to request for proposals in other areas such as warehouse management or food imports.</p> <p>Current rate determination is based on a succession of Requests for Quotes to existing transporters for lowest quote on each route followed by a counteroffer from the CO as per the Transport Manual. This does not consider actual market rates that may be in place nor is there a follow-up on significant discrepancies in rates quoted by the transporters. The Logistics team performed a limited rate analysis in 2016, which did not result in any change in contractual arrangements or transporters used.</p> <p><u>Underlying cause</u>: Security constraints and market disruptions following the war in March 2015 resulted in a lack of assessment of transporters, their contracting and sub-contracting arrangements and applicable rates.</p>	<p>The CO will perform a market assessment of transporters, identifying their contracting and sub-contracting arrangements and applicable rates. It will review its contracting arrangements so as to minimize its dependency risks and possible conflict of interests in the provision of supply chain services.</p>

Observation	Agreed action
<p>5 <b>Procurement:</b> Vendor management and contracting.</p> <p>Issues were noted with regards to contracting and vendor performance assessment.</p> <p>In one case, the incorrect definition of delivery dates in the tender, also reported to the Food Committee, resulted in purchases which were not cost effective, and with significant delivery delays as the committee recommendations were not followed. The Committee on Commodity and Transport approval was granted ex post. Failure to report to Procurement Contract Committees (local and HQ) on the vendor's poor performance resulted in its selection for one of WFP's major contracts. The audit noted that no specific measures were taken to ensure the vendor will perform.</p> <p>In another case, gaps in the technical evaluation process, and later contracting, in a very strategic and complex area, resulted in the CO having to extend the previous contract to allow for hand over to/take over by the new vendor. At the time of the fieldwork, the CO was not clear if the new vendor would be able to perform as required in such a complex situation.</p> <p>At the peak of the emergency, equipment was procured for two ministries to ensure WFP operations continuity without an agreement to regulate asset transfer, including value of transferred assets, subsequent maintenance/repair costs and liabilities. The CO had since received requests for further equipment to be delivered to other public entities and was in the process of evaluating them.</p> <p>There were other instances of non-compliance with procedures, including lack of systematic update of the vendor roster; failure to submit to applicable committee for review of due process; incomplete procurement planning and inadequate physical arrangements for tender submissions.</p> <p><u>Underlying cause:</u> Unclear roles and responsibilities as well as a lack of capacity. Procurement process timelines not adequately disseminated. Lack of clarity in conducting vendor performance evaluation and in escalating adequate information to the procurement committees. Overall urgency and insufficient resources leading to procurement process not being adhered to.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> <li>(a) Prepare annual procurement plans and update the vendor rosters.</li> <li>(b) Clarify roles, responsibilities and required skills for conducting procurement process (including definition of technical specifications, technical evaluation).</li> <li>(c) Disseminate/reinforce knowledge of defined timelines for procurement actions.</li> <li>(d) Clarify and strengthen knowledge of vendor performance assessment process and information escalation (at CO and RB/HQ level).</li> <li>(e) Prepare a risks analysis associated to the CV-TN and Security contracts to ensure adequate measures are taken to mitigate performance risks.</li> <li>(f) Ensure the confidential fax box has two locks and the keys are in the hands of two different officers.</li> </ul>

Table 5: Medium-risk observations

Observation	Agreed action
<p>6 <b>Internal oversight</b> - Internal oversight mechanisms.</p> <p>The demands of and restrictions imposed by the emergency situation restricted the primary function of the compliance officer's activity as second line of defence, conducting oversight and process reviews. Instead, the compliance officer mainly worked as a first line of defence, reviewing transactions prior to CD approval. As a result of this, a compliance work plan had not been formalized for 2015 and the work plan for 2016, although formalized, had not been implemented as planned. Some compliance issues were not timely detected, as relative processes had not been reviewed. No structured mechanisms for following up the compliance officer advisory/ recommendations was in place.</p> <p>The contact of the Yemen Feedback Desk, introduced in August 2015 to provide/receive complaints/ observations, was not indicated in the FLAs, as required. A (toll free) Beneficiary Hotline was not available during the audit period. During the fieldwork, management informed us that it was being finalized.</p> <p><u>Underlying cause:</u> Lack of clarity on compliance officer activities and function. Lack of dissemination of the Feedback Desk contacts and delays in establishing beneficiary hotlines.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> <li>(a) Finalize implementation of the beneficiary hotline.</li> <li>(b) Reflect the Yemen Feedback Desk contacts in the FLAs.</li> <li>(c) Define, in coordination with HQ units as appropriate, a methodology for the operationalization of compliance activities, as well as expected coverage and activities.</li> </ul>
<p>7 <b>Finance and accounting</b> – Performance bonds, financial closure and assets inventory.</p> <p>The CO did not check the validity of performance bonds provided by the vendors for sampled procurement actions.</p> <p>The Protracted Relief and Recovery Operation project financial closure was still on going at the time of the audit, after being reopened to allow for closure of open commitments. Donors expressed concern with regards to project financial closure and correct transfer of funds to the EMOP. An action plan had been defined in agreement with HQ to allow for financial closure within newly established deadline.</p> <p>An assets inventory count was done in February 2015, although not evidenced and with no reconciliation report available. Following the looting of assets in Aden in May 2015 an inventory count was performed in October of the same year, yet not reconciled and not written-off in July 2016. The note for the record was incomplete and not signed by the CD. Migration errors were detected from previous and current assets tracking systems which had yet to be corrected at the time of the audit fieldwork.</p> <p><u>Underlying Cause:</u> Emergency and complexity of the context and operations. Applicable rules not adequately disseminated/enforced. Delays in introducing commitments. Accessibility constraints and limited staffing.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> <li>(a) Perform bond validity checks as per financial rules.</li> <li>(b) Implement the action plan defined with HQ for closing open items and reach financial close of PRRO 200636 project.</li> <li>(c) Perform an asset count exercise and formalize reconciliation and eventual adjustments in a timely manner.</li> </ul>

Observation	Agreed action
<p>8 <b>Transport and logistics</b> - Food quality and safety: warehousing and shipping conditions.</p> <p>Only 30 percent of special nutritious product were under the required cold storage conditions in the Hodeida warehouses. The 70 percent remaining stock was exposed to temperatures in excess of 30 degrees and humid conditions. In addition, none of the latter stock when transported, stored at the Food Distribution Points and distributed by the CPs were at any point in time under the right conditions for storage. Furthermore, 1 percent of total shipment of vegetable oil received in the period from December 2015 to July 2016 from Djibouti through bulk shipping required re-bagging and reconditioning.</p> <p><u>Underlying causes:</u> Insufficient cold storage capacity in existing warehouses, lack of capacity in Djibouti for the proper handling and storage of cargo and use of bulk shipping for vegetable oil.</p>	<p>The CO will ensure that:</p> <ul style="list-style-type: none"> <li>(a) Adequate temperature controlled conditions are in place for warehouse storage of the special nutritious product stocks.</li> <li>(b) Vegetable oil in transit through Djibouti is shipped in containerized vessel to avoid damage and mishandling of the cargo.</li> </ul>
<p>9 <b>Security</b> - Security and Minimum Operating Security Standards compliance.</p> <p>Security threats, notably armed conflict, terrorism, and crime, are substantial in Yemen.</p> <p>Updated Minimum Operating Security Standards (MOSS) were released by UN Department of Safety &amp; Security in January 2016 and a revised Country Security Plan applicable to all UN agencies in the country was issued in 2016.</p> <p>The audit noted instances of non-compliance with MOSS, mainly due to delays in the custom clearance, and the envisaged new CO premises had not been upgraded or cleared for security purposes. The RB had not performed a MOSS compliance mission during the audit period.</p> <p><u>Underlying Cause:</u> Custom restrictions and lack of clearance for security equipment. Limited WFP Security staff in the country. Lack of priority in performing a MOSS compliance mission from RB.</p>	<ul style="list-style-type: none"> <li>(1) The CO will continue following up with local authorities to obtain clearance of security equipment.</li> <li>(2) The RB will perform a MOSS compliance assessment / security monitoring mission.</li> </ul>
<p>10 <b>Internal and external communication</b> - Donor relations and resource mobilization: engagement and information sharing.</p> <p>None of WFP's Yemen donors are represented in-country. As a result, some relationships are managed centrally through HQ while others are through the intermediary of WFP offices such as Berlin or Dubai. The top four donors reported the difficulty in obtaining clear, transparent and pro-active communication on challenges faced by the WFP management and team at the beginning of the emergency as their main concern. Concurrently, there has been a significant increase in requests for information, beyond those normally foreseen in donor agreements. Examples include requests for the raw data underlying WFP's VAM or for a full detailed list of beneficiaries in support of donor TPM activities.</p> <p><u>Underlying cause:</u> Absence of clarity on the role and engagement of the CD with donors in their capital. Absence of corporate guidance on sharing and protection of beneficiary information.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> <li>(a) In consultation with the Partnership, Governance and Advocacy Department and RBC, clarify the levels of engagement of the CD with donors in their capital in a resource strategy for the Yemen operations.</li> <li>(b) In consultation with the Partnership, Governance and Advocacy Department and Legal, clarify the confidentiality attached to beneficiary data for further disclosure to donors upon request.</li> </ul>



Observation	Agreed action
<p>11 <b>In country programme monitoring and evaluation</b> – Management of Third Party Monitoring service providers.</p> <p>The CO’s Standard Operating Procedures on TPM did not include provisions on their selection and assessment.</p> <p>On-site monitoring activities performed by WFP staff were not implemented on the basis of a systematic methodology throughout the audit period, and a field-monitoring programme had not been developed.</p> <p>Data cleaning and validation processes by the Monitoring and Evaluation Unit were not properly documented.</p> <p><u>Underlying Cause</u>: Operational challenges, such as security, accessibility constraints, and limited staff availability. Lack of a dedicated structure (i.e. Steering Committee) to ensure coordination with TPM service providers and to address operational issues.</p>	<p>The CO will:</p> <ul style="list-style-type: none"> <li>(a) Review and update current Standard Operating Procedures on TPM to include the selection and assessment of TPM service providers.</li> <li>(b) Review its Monitoring and Evaluation Strategy and monitoring plans to also include field visits by WFP staff.</li> </ul>

## Annex A – Summary of categorization of observations

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

Observation	Risk categories			Underlying cause category	Owner	Due date
	WFP's Internal Control Framework	WFP's Management Results Dimensions	WFP's Risk Management Framework			
1 <b>Internal environment and Risk Assessment</b> Set –up of the Level 3 emergency and risk management	Strategic	Processes and Systems	Institutional	Guidance	CRD	30 November 2016
					Yemen CO	(a), (b), (d), (e) 31 December 2016 (c) 31 October 2016
2 <b>Programme Management</b> - Targeting, identification and registration of beneficiaries and management of distribution	Operational	Programmes	Institutional	Compliance	Yemen CO	(a) 31 December 2016 (b), (c), (d), (e), and (f) 31 October 2016 (g), (h), (i) 30 June 2017 (j) 31 January 2017
3 <b>Human resources</b> - Skillset and capacity to support the Level 3 emergency	Strategic	People	Institutional	Guidance	CRD	31 March 2017
					Yemen CO	(a), (b), (c) 31 October 2016 (d) 31 March 2017

Observation	Risk categories			Underlying cause category	Owner	Due date
	WFP's Internal Control Framework	WFP's Management Results Dimensions	WFP's Risk Management Framework			
4 <b>Transport and logistics</b> – Transporters' market assessments	Operational	Processes and Systems	Institutional	Compliance	Yemen CO	31 December 2016
5 <b>Procurement</b> - Vendor management and contracting	Operational	Processes and Systems	Institutional	Compliance	Yemen CO	(a), (b), (c), (f) 31 October 2016 (d) 31 March 2017 (e) 31 December 2016
6 <b>Internal oversight</b> - Internal oversight mechanisms	Compliance	Processes and Systems	Institutional	Guideline	Yemen CO	31 December 2016
7 <b>Finance and accounting</b> - Performance bonds, financial closure and assets inventory	Compliance	Processes and Systems	Institutional	Compliance	Yemen CO	31 December 2016
8 <b>Transport and logistics</b> - Food quality and safety: warehousing and shipping conditions	Operational	Processes and Systems	Institutional	Guidance	Yemen CO	31 October 2016
9 <b>Security</b> - Security and Minimum Operating Security Standards compliance	Operational	Processes and Systems	Institutional	Guidance	Regional Bureau Cairo Yemen CO	31 October 2016 31 December 2016
10 <b>Internal and external communication</b> - Donor relations and resource mobilization: engagement and information sharing	Operational	Accountability and Funding	Institutional	Guidance	Yemen CO	(a) 31 December 2017 (b) 31 December 2016
11 <b>In-country programme monitoring and evaluation</b> - Management of Third Party Monitoring service providers	Operational	Processes and Systems	Institutional	Compliance	Yemen CO	31 March 2017

## Annex B – Definition of categorization of observations

### 1. Rating system

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 B.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 seriously compromised.	Reasonable assurance cannot be provided.

### 2. Risk categorization of audit observations

2. Audit observations are categorized by impact or importance (high, medium or low risk) as shown in Table B.2 below. Typically audit observations can be viewed on two levels: (1) observations that are specific to an office, unit or division; and (2) observations that may relate to a broader policy, process or corporate decision and may have broad impact.<sup>2</sup>

<sup>2</sup> An audit observation of high risk to the audited entity may be of low risk to WFP as a whole; conversely, an observation of critical importance to WFP may have a low impact on a specific entity, but have a high impact globally.

**Table B.2: Categorization of observations by impact or importance**

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

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

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.

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."<sup>3</sup> WFP recognises five interrelated components (Internal Control Framework 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 B.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 analyses risks to the achievement of WFP's objectives through 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.

<sup>3</sup> OED 2015/016 para.7

#### 4. Risk categories

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 B.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.

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 B.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 utilized – Effective management of resources demonstrated.

**Table B.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 through interventions.
3	Institutional:	Internal to WFP: fiduciary failure, reputational loss and financial loss through corruption.

## 5. Causes or sources of audit observations

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

**Table B.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 recognized best practice.

## 6. Monitoring the implementation of agreed actions

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

CD	Country Director
CO	Country Office
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CP	Cooperating Partners
CRD	Corporate Response Director
CV-TN	Cash Voucher – Traders’ Network
DEC	Deputy Emergency Coordinator
EMOP	Emergency Operation
FLA	Field Level Agreement
GFD	General Food Distribution
HR	Human Resources
HQ	Headquarter
IPC	Integrated Food Security Phase Classification
MOSS	Minimum Operating Security Standards
PRRO	Protracted Relief and Recovery Operations
RB	Regional Bureau
RBC	Regional Bureau Cairo
RR	Risk Register
SO	Sub Office
TPM	Third Party Monitoring
UN	United Nations
USD	United States Dollar
VAM	Vulnerability Analysis and Mapping
WFP	World Food Programme