

# **Internal Audit of WFP's Management of NGO Partnerships**

Office of the Inspector General  
Internal Audit Report AR/16/12



**World Food Programme**

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# Internal Audit of WFP's Management of NGO Partnerships

## 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 management of non-governmental organisation (NGO) partnerships. The audit covered the period from 1 January 2015 to 31 March 2016, and looked at events prior and subsequent to this period as required. The audit team conducted the fieldwork from 18 July to 26 August 2016. This included work at WFP headquarters in Rome; a survey and desk review of NGO partnership management covering a sample of 18 country offices (COs) and several NGO partners; a review of observations relating to NGO partnership management arising from previous internal audits; and a review of related corporate processes that impact across WFP.

WFP enters into partnerships with a variety of actors, ranging from national governments to civil society organisations, to deliver programmes in line with its mandates. In many such partnerships WFP assigns the implementation of programmes to such partners and provides the financial resources required for the work. In other instances WFP engages partners that do not receive WFP funding but work closely with WFP to achieve common goals and objectives. The audit focused only upon partnerships involving civil society organizations including international NGOs, national NGOs and community-based organizations (CBOs), as well as member organisations of the Red Cross and Red Crescent Movement. For the purposes of this report these civil society partners are referred to collectively as "NGOs".

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

### Audit Conclusions

3. The audit observed that significant attention and effort has been and continues to be directed towards the area of NGO partnerships management, recognising the importance of such partnerships in the achievement of WFP's objectives. Some positive practices are highlighted below, including the Annual Partnership Consultations process which, having been in place for a number of years, has recently been revised to place NGO partners in a leadership role and encourage open dialogue.

4. However the audit also noted the presence of critical unresolved issues, some of which have been highlighted repeatedly in previous audit and oversight reports, which pose a risk to effective NGO partnerships; these include in particular issues related to effective and timely contract management. There are also risks arising from changes in transfer modalities and donor funding preferences, which highlight the need for open dialogue and for WFP to maintain efforts to listen to the concerns and priorities of its partners.

5. The audit report contains a number of observations related to aspects of governance and oversight, risk management and internal controls in relation to NGO partnership management. The interdependency of these issues is important to recognise; effective identification of risks, design






and implementation of internal controls, and the assignment and execution of oversight responsibilities are all essential and mutually reliant activities in the development and maintenance of partnerships which meet the needs and expectations of both WFP and its NGO partners.

6. The audit noted a number of positive practices: in 2015 WFP commissioned a study to analyse the strengths, limitations, opportunities and benefits of working with NGO partners, which highlighted key issues of interest and concern and made suggestions for how WFP might take forward its engagement with NGO partners in the years ahead; the format of the Annual Partnership Consultation with NGO partners has been revised to ensure that management-level dialogue around strategic issues is a feature of this biannual global meeting; and a new internal communications tool is being harnessed to create a tailored community of WFP staff engaged in NGO partnership management.

7. The audit of WFP's management of NGO partnerships concluded that internal controls, governance and risk management practices were generally established and functioning, but needed improvement. Several weaknesses that may negatively affect the achievement of the objectives of the audited process were identified.

8. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory**. Conclusions are summarised in Table 1 by internal control component:

**Table 1: Summary of risks by Internal Control Component**

Internal Control Component		Risk	
1.	Control environment	Medium	
2.	Risk assessment	Medium	
3.	Control activities	Medium	
4.	Information and communication	Medium	
5.	Monitoring activities	Medium	

## Key Results of the audit

9. The audit report contains one high-risk observation and nine medium-risk observations. The high-risk observation is:

**Processes for engaging and managing NGO partners in COs:** The audit noted recurrent issues impacting the timeliness and effectiveness of processes for engaging and managing NGO partners at a CO level. Such issues pose a potential risk to WFP's ability to develop and maintain effective partnerships. These issues included:

- Inconsistent standard operating procedures (SOPs) at CO level detailing WFP's and partners' roles and responsibilities for project activities.
- Recurrent delays in finalising and signing Field Level Agreements (FLAs) between WFP and NGO partners.



- Recurrent and persistent delays in payments to NGO partners, which arise in many cases as a result of lengthy service invoice verification processes, and also because of minor discrepancies in commodity amounts.

Observations are detailed in Section III, Tables 4 and 5.

## **Actions agreed**

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

### NGO Partnerships

12. In 2015 WFP worked with 1,008 NGO partners comprising 173 international NGOs, 765 national NGOs, and 70 member organisations of the Red Cross and Red Crescent Movement; approximately 90 percent of WFP COs were working with NGO partners.

13. With regard to the types of activities undertaken with NGO partners during 2015, 629 partners were involved in food and/or cash and voucher distribution, 447 partners were involved in asset creation projects, and 385 partners were engaged in nutrition-focused activities.

14. In June 2014 WFP's Executive Board adopted the 2014-2017 WFP Corporate Partnership Strategy, which includes partnerships with NGOs and civil society. Globally WFP has developed a twin-track approach to engage with its NGO partners:

- A decentralized approach, which allows COs to determine which partnerships are best suited to their context, and how these should be best managed;
- A corporate approach, which ensures NGO partnerships are appropriately prioritised and managed at the Headquarters level.

15. The WFP NGO Partnership team forms part of the Partnerships, Advocacy and Coordination (PGC) division in Rome. The team functions both as a focal point for NGO partners in their interactions with WFP at a corporate level, and as a resource centre for Regional Bureaux and COs seeking guidance and good practice on how best to leverage NGO partnerships for the benefit of the people WFP assists. While WFP's operational agreements with NGOs are managed at country level, the NGO Partnership team advises COs on corporate best practice, drives engagement with NGO partners at the corporate level, and collects relevant NGO partnership data. As the guardian of WFP's NGO partnerships at corporate level, PGC has developed an engagement strategy for the management of these relationships; engagement is framed in the context of the Corporate Partnership Strategy.

### Objective and Scope of the Audit

16. 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 management of NGO partnerships. 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.

17. 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.

18. The scope of the audit covered WFP's management of NGO partnerships from 1 January 2015 to 31 March 2016. Where necessary, transactions and events pertaining to other periods were reviewed. The audit fieldwork took place in Rome, and included a survey and desk review of 18 COs.

### III. Results of the Audit

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

**Table 2: Positive practices and initiatives**

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#### **Risk Management**

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- In 2015 WFP commissioned a study to analyse the strengths, limitations, opportunities and benefits of working with NGO partners. Whilst not all actions have been implemented, the study highlighted key issues of interest and concern and made suggestions for how WFP might take forward its engagement with NGO partners in the years ahead.
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#### **Information and communication**

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- The format of the Annual Partnership Consultation with NGO partners has been revised to ensure that management-level dialogue around strategic issues is a feature of this biannual global meeting; on alternate years this is complemented by working-level consultations on programmatic and operational issues.
  - A new internal communications tool - WFP Communities - is being harnessed to create a tailored community of WFP staff engaged in NGO partnership management. This platform will provide a previously unavailable opportunity for staff to engage the NGO Partnerships Office and each other on key elements of the new NGO partnership guidance, share good practice and common challenges, and drive an approach of continuous improvement to the way WFP partners with NGOs.
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20. 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**

<b>Internal Control Component/Lines of enquiry</b>	<b>Risk</b>
<b>1. Control environment</b>	
Governance and organisational structures	Medium
<b>2. Risk assessment</b>	
Risk management activities	Medium
<b>3. Control activities</b>	
Operation of the NGO Partnership Office	Medium
Selection and management of NGO partners	High
Legal agreements	Medium
Budgets and budgetary control	Low
Interagency cooperation	Medium
Capacity strengthening of NGO partners	Medium
Audit arrangements in respect of NGO partners	Medium
<b>4. Information and communication</b>	
Information systems for NGO partner management	Medium
<b>5. Monitoring activities</b>	
Monitoring and evaluation activities	Medium

21. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of partially satisfactory<sup>1</sup>.

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

#### **Action agreed**

23. Management has agreed to take measures to address the reported observations. Work is in progress to implement the agreed actions.<sup>2</sup>

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

<sup>2</sup> Implementation will be verified through the Office of Internal Audit's standard system for monitoring agreed actions.



Table 4: Summary of high-risk observations

Observation	Agreed action
<p>1 <b>Control activities</b> – Processes for engaging and managing NGO partners in COs</p> <p>The audit noted recurrent issues impacting the timeliness and effectiveness of processes for engaging and managing NGO partners at a CO level. Such issues pose a potential risk to WFP’s ability to develop and maintain effective partnerships, and to the effectiveness of operations.</p> <p>These issues included:</p> <ul style="list-style-type: none"> <li>• Inconsistent standard operating procedures (SOPs) at CO level detailing WFP’s and partners’ roles and responsibilities for project activities. There is no mechanism in place to provide assurance that SOPs developed at CO level do not contradict corporate guidance.</li> <li>• Recurrent delays in finalising and signing Field Level Agreements (FLAs) between WFP and NGO partners. Numerous situations were identified where agreements were signed, either by both parties or at least by one of the parties, after commencement of activities.</li> <li>• Recurrent and persistent delays in payments to NGO partners. Such delays arise in many cases as a result of lengthy service invoice verification processes, and also because of minor discrepancies in commodity amounts between WFP and partners records; corporate processes do not offer flexibility in such situations.</li> </ul> <p><u>Underlying Cause:</u> In some areas corporate guidance supports a high degree of flexibility for COs to determine how they will engage with NGO partners, but it appears that there is a lack of prioritisation and/or investment in such processes by some COs. In other areas corporate processes do not permit flexibility to efficiently expedite critical aspects of partnership management administration. In addition variations in staff skills and understanding of partnerships among COs are also weakening processes for engaging with NGOs.</p>	<p>PGC will:</p> <ol style="list-style-type: none"> <li>(a) Work with Regional Bureaux to support adequate capacity, including awareness of guidance at CO level, to promote more efficient administrative processes to support partnerships with NGOs; and</li> <li>(b) Work with the Policy and Programme Division (OSZ) and the Resource Management Department (RM) to identify and address existing bottlenecks to ensure administrative processes cater for effective management of partnerships, including reducing delays in finalising FLAs and disbursing payments.</li> </ol>

Table 5: Summary of medium-risk observations

Observation	Agreed action
<p>2 <b>Control environment</b> – Governance issues relating to NGO partner management</p> <p>Corporate guidance for engaging with and managing NGO partners has evolved over recent years to incorporate several additions to the originally issued guidance. New and separate guidance has also been issued with regard to partnership management issues in the context of cash-based transfers. The audit observed that some users at the CO level find guidance disparate and in some cases difficult to understand, and that guidance does not provide sufficient detail on such areas of partnership management including conducting capacity assessments, due diligence and performance evaluations of potential and existing partners.</p> <p>The audit also observed that guidance has not been developed for some non-standard modalities and arrangements with NGO partners, including consortia arrangements where WFP is not the prime recipient of funding and capacity strengthening agreements.</p> <p><u>Underlying Cause:</u> There is a lack of coherence and clarity of ownership regarding corporate guidance materials and who should maintain and consolidate them.</p>	<p>PGC will:</p> <ul style="list-style-type: none"> <li>(a) Work with the Policy and Programme Division (OSZ) to identify ownership of existing corporate guidelines related to the management of NGO partnership and to ensure new NGO partnership guidance links effectively with programmatic guidance for other functional areas;</li> <li>(b) Complete a revision of existing guidance which will include a broader set of tools and detailed templates to enable more effective management of NGO partnerships;</li> <li>(c) Provide materials and support for training and sensitisation for WFP field staff on use of NGO partnership guidance (using techniques including remote learning and training of trainers); and</li> <li>(d) Strengthen existing guidelines on the contractual arrangements with NGOs required with respect to non-standard modalities and arrangements.</li> </ul>
<p>3 <b>Control environment</b> – Oversight mechanisms in respect of NGO partners</p> <p>Cooperating Partner Committees (CPCs) are established in some COs and have an oversight role over issues such as review of proposals and contractual matters. However while generic terms of reference for CPCs have been developed, these do not define the authority of the CPC over all aspects of partnership management.</p> <p>Regional Bureaux (RB) partnership units do not have a defined oversight role over COs. The audit noted that the level and nature of oversight and the composition of partnership units varies between RBs; in some cases oversight of aspects of partnership management including contract management rests with programme rather than partnership staff, and in many cases the nature of interaction between RBs and COs is support rather than oversight. The COMET tool is not used by RBs to oversee aspects of partnership management in COs.</p> <p>Whilst FLAs include a clause regarding WFP’s right to conduct audits of NGO partners, a limited number of COs have set up audit arrangements to provide assurance on use of funds transferred to NGO partners. Moreover, this is not always done in a systematic way to allow visibility at the corporate level of assurance gained and issues raised.</p> <p><u>Underlying cause:</u> Existing guidelines are not clear on the assignment of oversight roles and responsibilities.</p>	<p>PGC will:</p> <ul style="list-style-type: none"> <li>(a) Work with the Policy and Programme Division (OSZ) to explore the need to expand CPC terms of reference to emphasise the CPC's potential authority regarding all aspects of the management of partnerships across WFP operations;</li> <li>(b) In parallel with the ongoing Executive Management Group (EMG) review and consideration of RB oversight functions, initiate/facilitate discussions with RBs regarding scope and ownership of oversight of COs' management of NGO partnerships;</li> <li>(c) Work with the COMET development team to develop exception reports that will serve as oversight reports of CO's management of partnerships; and</li> <li>(d) Facilitate discussions with relevant units in HQ on how to structure oversight over NGOs on a risk-based approach, including where relevant the need to develop guidance on how and when to audit NGO partners.</li> </ul>

Observation	Agreed action
<p>4 <b>Risk assessment</b> – Risk management of NGO partnerships</p> <p>Risks relating to limited capacity and availability of NGO partners are included in WFP’s corporate risk register (CRR). However, the audit observed that the CRR does not capture all emerging risks related to NGO partners; for example those associated with evolving and new modalities such as cash-based transfers. Moreover, some mitigating actions in the CRR are presented as being substantially complete but this does not align with observations made during the audit.</p> <p>Whilst WFP has processes and procedures in place to combat fraud and to enhance fraud awareness, the audit observed a need expressed by COs to understand better how anti-fraud measures may be implemented with regard to NGO partners and partnership management, and to receive appropriate training and guidance to support this effort. A detailed set of tools for fraud risk assessment is not in place as part of the general guidance for NGO partners.</p> <p><u>Underlying cause:</u> The current corporate assessment of risk does not consider all relevant aspects of partnership management including new and innovative processes.</p>	<p>(1) RMP, together with PGC, will reassess corporate risks and mitigating actions associated with the management of NGO partnerships. RMPS will include the results of the discussions in the 2017 CRR update.</p> <p>(2) PGC will coordinate the development and deployment of support mechanisms directed at fraud prevention and detection relevant to working with NGO partners; such mechanisms will be linked where appropriate to existing guidance on partner assessment and selection.</p>
<p>5 <b>Control activities</b> – Strategic bilateral partnership agreements with individual INGOs</p> <p>WFP currently has fifteen global Memoranda of Understanding (MoUs) with individual international non-governmental organisations (INGOs), which were signed between 1995 and 2006. These MoUs are basic statements of intent to work together; they do not address bilateral partnership objectives with selected INGOs, largely because they are too generic. It was observed during the audit that some INGOs consider that the MoUs have brought no significant added value to their partnership with WFP; these organisations have a strong interest in developing more specific formal agreements or action plans based on concrete and specific areas for collaboration at a global, regional and country level.</p> <p><u>Underlying cause:</u> Negotiating frameworks agreements with INGO partners has been viewed as a lengthy and difficult process, and is not sufficiently specific.</p>	<p>PGC will:</p> <p>(a) Identify INGOs with which a tailored partnership agreement or action plan on areas of common interest may offer particular strategic value to WFP; and</p> <p>(b) Launch and/or continue discussions with these identified INGOs to explore interest in developing agreements or strategic action plans.</p>

Observation	Agreed action
<p>6 <b>Control activities</b> – Field Level Agreements (FLAs)</p> <p>The audit noted that FLA administrative arrangements are repeatedly problematic, despite the issuance of a reinforcement memorandum in 2013 to ensure consistent application of FLAs at CO level. Whilst there is a need to ensure that standard FLAs are used consistently, the flexibility built into the FLA process is not always being utilised or risk-based. In particular the audit noted limited interest in issuing FLAs for longer than immediate funding horizons, which may negatively impact the fostering of strong partnerships and facilitation of capacity building actions, and may incur additional administrative costs. It was also noted that the existing FLA format does not accommodate special and non-standard arrangements such as consortia agreements.</p> <p><u>Underlying cause:</u> Variations in the level of staff skills and understanding of FLA principles and application amongst COs are impacting the processes for engaging contractually with NGOs.</p>	<p>PGC will:</p> <ul style="list-style-type: none"> <li>(a) Reinforce that standard FLAs should be used consistently in all WFP operations and issue more detailed guidance on how to better use and adapt standard agreements and related annexes; and</li> <li>(b) Assess the need for the development of agreement templates to cater for special and non-standard partnership arrangements with the objective of speeding up sign-off of arrangements, taking into account where relevant advice from the Legal Office.</li> </ul>
<p>7 <b>Control activities</b> – Consortium arrangements</p> <p>Some institutional donors are promoting consortium arrangements, which invite UN agencies and NGOs to work on formal partnerships towards a shared goal. Funding for such consortia arrangements is most often multi-year and exceeds the standard duration of WFP's projects. As part of a consortium led by an NGO as the prime recipient of donor funding, WFP may contribute its logistical and supply chain management capacities and its technical expertise including food security assessments. To date WFP has been engaged in several consortium arrangements in a number of countries.</p> <p>The audit noted instances where conditions included in consortium agreements were accepted by COs which were not in alignment with existing corporate principles, processes and procedures.</p> <p><u>Underlying cause:</u> WFP has not fully adapted internal organisational, legal and financial systems to cater for increased participation of COs in consortia with NGOs.</p>	<p>PGC will:</p> <ul style="list-style-type: none"> <li>(a) Collate lessons learnt from relevant COs which have experience of participating in consortium arrangements, and identify the units in HQ and RBs to be involved in the review of non-standard agreements involving NGO partners; and</li> <li>(b) Work with relevant units to adapt financial, legal and administrative frameworks to facilitate WFP's participation in consortia.</li> </ul>

Observation	Agreed action
<p>8 <b>Control activities</b> – Capacity-building of National NGOs (NNGOs)</p> <p>The audit noted an absence of a strategic approach to capacity-building of national and local non-governmental organisations (NNGOs), and as a consequence the level of engagement in capacity-building of NNGOs was observed to vary significantly at country level.</p> <p>In addition to the lack of an approved guidance on how to build capacity of NNGOs, WFP programmes do not generally include the resources and the tools (including tools for capacity assessments) required for capacity building. Existing capacity-building plans are project oriented and mainly short-term initiatives which are limited by short duration and transaction-based FLAs. As a consequence partnerships are often restricted to those activities directly related to program delivery; capacity strengthening rarely includes wider initiatives. Capacity building is not used as an opportunity for risk mitigation at the programme design level.</p> <p><u>Underlying cause:</u> WFP’s focus on targeted interventions may have affected the development of a robust framework for collaborating with partners at global level and for designing long term capacity strengthening plans. An insufficiently defined accountability system may have also led to a lack of effective decision making on capacity strengthening. WFP’s funding model, with a high level of earmarking to the activity level and a consequent focus on shorter term partnerships, may mitigate against significant investments in capacity strengthening.</p>	<p>PGC will work with OSZI to build the concept of NNGO capacity strengthening into the formulation of Country Strategic Plans and operational plans for capacity strengthening activities.</p>
<p>9 <b>Information and communication</b> – Reports for decision-making on NGO partners</p> <p>COMET serves as WFP’s comprehensive global database for partnerships in place at field level; the partnership segment is an element of the database designed to collect information on NGO partnerships, which was established in consultation with COs, RBs and the NGO Partnership Office.</p> <p>The audit observed that the COMET partnership segment does not include all necessary information required for NGO partnership management, and in addition that there are challenges in obtaining timely and accurate data from COMET regarding food and cash transfers to NGO partners. This is a consequence of current monitoring practice which does not allow for regular registration of NGO partners’ actual results at both the output and outcome levels.</p> <p><u>Underlying cause:</u> Full roll-out of COMET has not yet been finalised and development and enhancements in line with evolving business requirements still need to be implemented. COs do not always prioritise and/or invest in data input and validation processes.</p>	<p>PGC will:</p> <ul style="list-style-type: none"> <li>(a) Work with the COMET team to address system-related issues and inaccuracies detected during the review of COMET partnership data; and</li> <li>(b) Facilitate efforts with RBs to re-emphasise to COs the need for timely validation of partnership data by Programme Officers.</li> </ul>

Observation	Agreed action
<p>10 <b>Monitoring activities</b> – Due diligence processes and performance evaluation for NGO partners</p> <p>The audit noted an absence of harmonised criteria for assessing the capacity of potential partners. The majority of COs reviewed had developed their own SOPs regulating assessments; in most cases potential NGO partners go through technical and financial assessments carried out by staff with diversified expertise and representing different CO units.</p> <p>The audit noted that in most country offices reviewed there was an absence of cooperation or interaction with other UN agencies in relation to partner assessment, selection and evaluation. The NGO Partnership Office reported that discussions have commenced with other UN agencies on the establishment of harmonised minimum criteria in these areas.</p> <p>There is no centralised collection of performance evaluation reports to allow information sharing on performance of NGO partners between COs, Regional Bureaux and HQ.</p> <p><u>Underlying cause</u>: Absence of guidance on harmonised criteria for assessment. The organisation may not be fully utilising the Cooperating Partner Committee function to monitor NGO partners' assessments and performance evaluations.</p>	<p>PGC will:</p> <ul style="list-style-type: none"> <li>(a) Review with OS the set of criteria for assessing and selecting NGO partners, for incorporation into WFP's corporate guidance;</li> <li>(b) Continue discussions with other UN agencies with the aim of defining a harmonised position on minimum criteria for partner assessment, to be included in WFP's corporate guidance; and</li> <li>(c) Work with RBs to develop a system to record and share information on assessments and performance evaluations of NGO partners with poor performance.</li> </ul>

## Annex A – Summary of categorisation of observations

The 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	Risk categories			Underlying cause category	Owner	Due date
	ICF	WFP's Management Results Dimensions	WFP's Risk Management Framework			
1 <b>Control activities</b> – Methods of engaging and managing NGO partners in country offices	Operational	Processes & Systems	Institutional	Guidance	PGC	31 December 2017
2 <b>Control environment</b> – Governance issues relating to NGO partner management	Operational	Partnerships	Institutional	Guidelines	PGC	31 December 2017
3 <b>Control environment</b> – Oversight mechanisms in respect of NGO partners	Operational	Processes & Systems	Institutional	Guidance	PGC	30 September 2017
4 <b>Risk assessment</b> – Risk management of NGO partnerships	Strategic	Processes & Systems	Institutional	Guidance	RMP PGC	30 September 2017 30 September 2017
5 <b>Control activities</b> – Strategic bilateral partnership agreements with individual INGOs	Strategic	Partnerships	Programmatic	Guidance	PGC	30 June 2017
6 <b>Control activities</b> – Field Level Agreements (FLAs)	Operational	Processes & Systems	Institutional	Guidelines	PGC	30 June 2017
7 <b>Control activities</b> – Consortium arrangements	Strategic	Partnerships	Institutional	Guidance	PGC	30 September 2017



Observation	Risk categories					
	ICF	WFP's Management Results Dimensions	WFP's Risk Management Framework	Underlying cause category	Owner	Due date
8 <b>Control activities</b> – Capacity-building of National NGOs	Strategic	Partnerships	Programmatic	Best practice	PGC	30 September 2017
9 <b>Information and communication</b> – Reports for decision-making on NGO partners	Reporting	Processes & Systems	Institutional	Guidance	PGC	30 June 2017
10 <b>Monitoring</b> - Due diligence processes and performance evaluation for NGO partners	Operational	Processes & Systems	Institutional	Guidelines	PGC	30 September 2017



## 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 seriously 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.<sup>3</sup>

**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.

<sup>3</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.

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."<sup>4</sup> 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 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.

### 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.

<sup>4</sup> OED 2015/016 para.7

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 through 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

CO	Country Office
COMET	Country Office Monitoring and Evaluation Tools
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPC	Cooperating Partner Committee
CRR	Corporate Risk Register
EMG	Executive Management Group
FLA	Field Level Agreement
FSP	Financial Service Provider
HQ	Headquarter
ICF	Internal Control Framework
IIA	Institute of Internal Auditors
LEG	Legal Office
M&E	Monitoring and Evaluation
OED	Office of the Executive Director
OIGA	Office of Internal Audit
OS	Operations Services Department
OSZ	Policy and Programme Division
PGC	Partnership, Policy Coordination and Advocacy Division
RB	Regional Bureau
RM	Resource Management Department
RMP	Performance Management and Monitoring Division
RMPS	Risk Management Unit, Performance Management and Monitoring Division
UN	United Nations
USD	United States Dollar
WINGS	WFP Information Network and Global System
WFP	World Food Programme