

Internal Audit of WFP's Country Capacity Strengthening

Office of the Inspector General
Internal Audit Report AR/16/14



World Food Programme

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Internal Audit of WFP's Country Capacity Strengthening

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 Country Capacity Strengthening activities. Focusing on the period 1 January 2015 to 31 July 2016, the audit reviewed specific interventions at country level in a sample of eight countries (Cuba, Gambia, Guatemala, Indonesia, Lao PDR, Rwanda, Tajikistan and Tanzania), then complemented with analysis at Headquarters and Regional Bureaux levels.

2. WFP's capacity development and technical assistance role in the area of food security is stated in WFP General Regulations and Rules (Article II), last revised in 2004, and in the 1994 WFP Mission Statement. Capacity development and handover have been a specific Strategic Objective of WFP in the 2004-2007 and 2008-13 Strategic Plans, then mainstreamed as capacity strengthening in the 2014-17 Strategic Plan. Related policies have been evaluated by WFP's Office of Evaluation in 2008 and 2016 (report issuance in 2017).

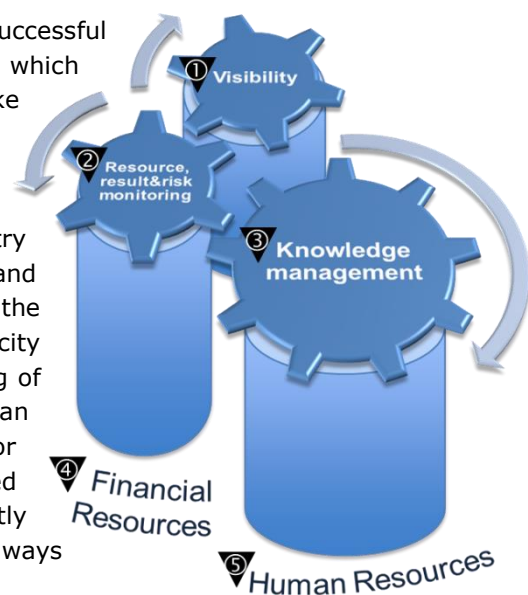
3. The audit work was coordinated with the Evaluation Office and built on both offices' complementary mandates, with the Office of Internal Audit specifically reviewing the adequacy and effectiveness of the processes associated with the internal control components of Country Capacity Strengthening activities. The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

Audit Conclusions

4. The audit found in the sample of countries reviewed successful examples of country capacity strengthening interventions, which however in their design and implementation do not make optimum use of existing corporate concepts, guidance and tools.

5. Ultimately, this results in WFP's engagement in country capacity strengthening activities having limited internal and external visibility. Two further high risk issues contribute to the under-reporting of WFP contributions and results in capacity strengthening: corporate systems for monitoring and reporting of resources and results as applied in country offices have kept an output-oriented focus applicable to the transfer of cash or commodities. Furthermore, scarcely existing and fragmented knowledge management systems and practices (which recently started to improve), leave WFP with a corporate culture not always supportive of capacity strengthening.

6. The above shortcomings are closely linked to inadequate systems, processes and practices in the mobilisation and management of both financial and human resources for capacity strengthening, also flagged as high risk observations in this report. Further weaknesses identified








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concern internal controls along the programme management cycle, which were either not established corporately for capacity strengthening activities or not applied at country office level. At corporate level, the unit coordinating all policy related to Country Capacity Strengthening comprised one full time staff member at the time of the audit. As highlighted by the Office of Evaluation, financial resources have consisted almost exclusively of an approximately \$4 million trust fund established in 2008, and which expired after four years.

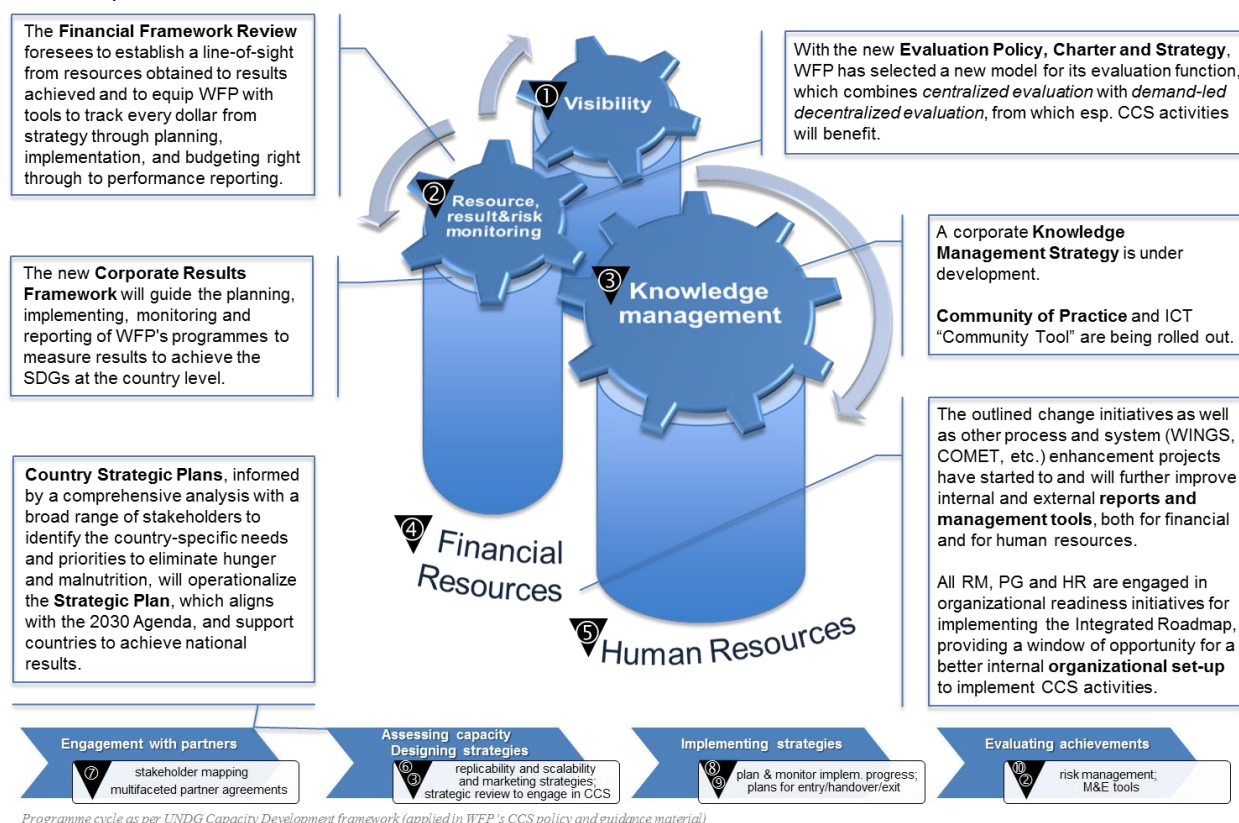
7. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **unsatisfactory**, i.e. that for the period under review the issues identified are such that there are key risks challenging the achievement of the corporate objectives of country capacity strengthening.

8. 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	High 
4.	Information and communication	High 
5.	Monitoring activities	High 

9. The audit recognizes that, with the implementation of the Integrated Roadmap and other on-going change initiatives, WFP is already in the process of addressing some of the issues highlighted in this report.



10. The audit report contains five high-risk and four medium-risk observations. Observations are detailed in Section III, Tables 4 and 5.

Actions agreed

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

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

David Johnson
Inspector General

II. Context and Scope

Country Capacity Strengthening

13. Country Capacity Strengthening (CCS) is not new to WFP: its capacity development and technical assistance role in the area of food security is stated in WFP General Regulations and Rules (Article II) last revised in 2004 and in the 1994 WFP Mission Statement. With consideration to bridging the divide between relief and development, WFP has recognized that more systematic efforts are needed to integrate emergency preparedness and response into *national development agendas* through capacity strengthening and long-term, constructive and strategic partnerships with authorities of affected countries.

14. WFP's expenditure for Capacity Development and Augmentation¹ (CD&A) amounted to USD 432 million. In OSZ, the unit coordinating all policy related to Country Capacity Strengthening comprised one full time staff member at the time of the audit. As highlighted by the Office of Evaluation, financial resources have consisted almost exclusively of an approximately \$4 million trust fund established in 2008 and which expired after four years.

Changes to the operating framework for CCS activities

15. The Agenda 2030 '*Changing People's Lives: From Delivering Aid To Ending Need*', the *Grand Bargain Commitments*, and the Quadrennial Comprehensive Programmatic Review call for better responses to countries' differentiated needs, and for the UN to be better geared to deliver results effectively and efficiently along the lines of the Sustainable Development Goals.

16. In recognition of its World Humanitarian Summit and Agenda 2030 commitments WFP is devising a new and comprehensive architecture by introducing four inter-related processes – the Strategic Plan (2017-2021), the Policy on Country Strategic Plans, the Financial Framework Review and the Corporate Results Framework. This integrated package, the Integrated Roadmap, is intended to enable WFP to demonstrate its contribution to the Sustainable Development Goals (SDGs), notably SDG 2 "*End hunger, achieve food security and improved nutrition and promote sustainable agriculture*" and SDG 17 "*Strengthen the means of implementation and revitalize the global partnership for sustainable development*".

17. Although not finalized at the time of the audit, OIGA considered the Integrated Roadmap and other change initiatives when drawing conclusions on issues and actions to be taken, acknowledging that the four work streams will provide a new framework for WFP's CCS.

¹ Capacity Augmentation refers to activities under Special Operations, such as logistics/ fleet/ ICT augmentation, emergency infrastructure, UN common services and UN cluster that relate to short term increase of capacity to support e.g. EMOPs.

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 involved in the implementation of CCS activities under the current operating framework. This audit is 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. To achieve reasonable assurance on the internal controls, governance and risk management processes over WFP's CCS activities, the audit followed a bottom-up approach, using specific CCS activities at country levels as starting points, which were then complemented through analysis at Headquarters and Regional Bureaux levels. In view of the ongoing change initiatives, the audit took a forward-looking approach in assessing controls 'as is' and 'to be'.

20. 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.

21. The scope of the audit covered WFP's systems, tools and processes related to the implementation of CCS activities from 1 January 2015 to 31 July 2016. The audit field work took place in August 2016 with field visits in four countries (Guatemala, Indonesia, Rwanda and Tajikistan) and an additional four countries covered through desk reviews (Cuba, Gambia, Lao PDR and Tanzania), covering a range of operating environments and all WFP regions.

III. Results of the Audit

22. The audit noted during field visits and desk reviews a number of positive practices, tools, and innovative approaches, that allow to fill some of the gaps in corporate guidance, as well as successful inter-agency collaboration or partnership, examples of which are highlighted in the chart below:

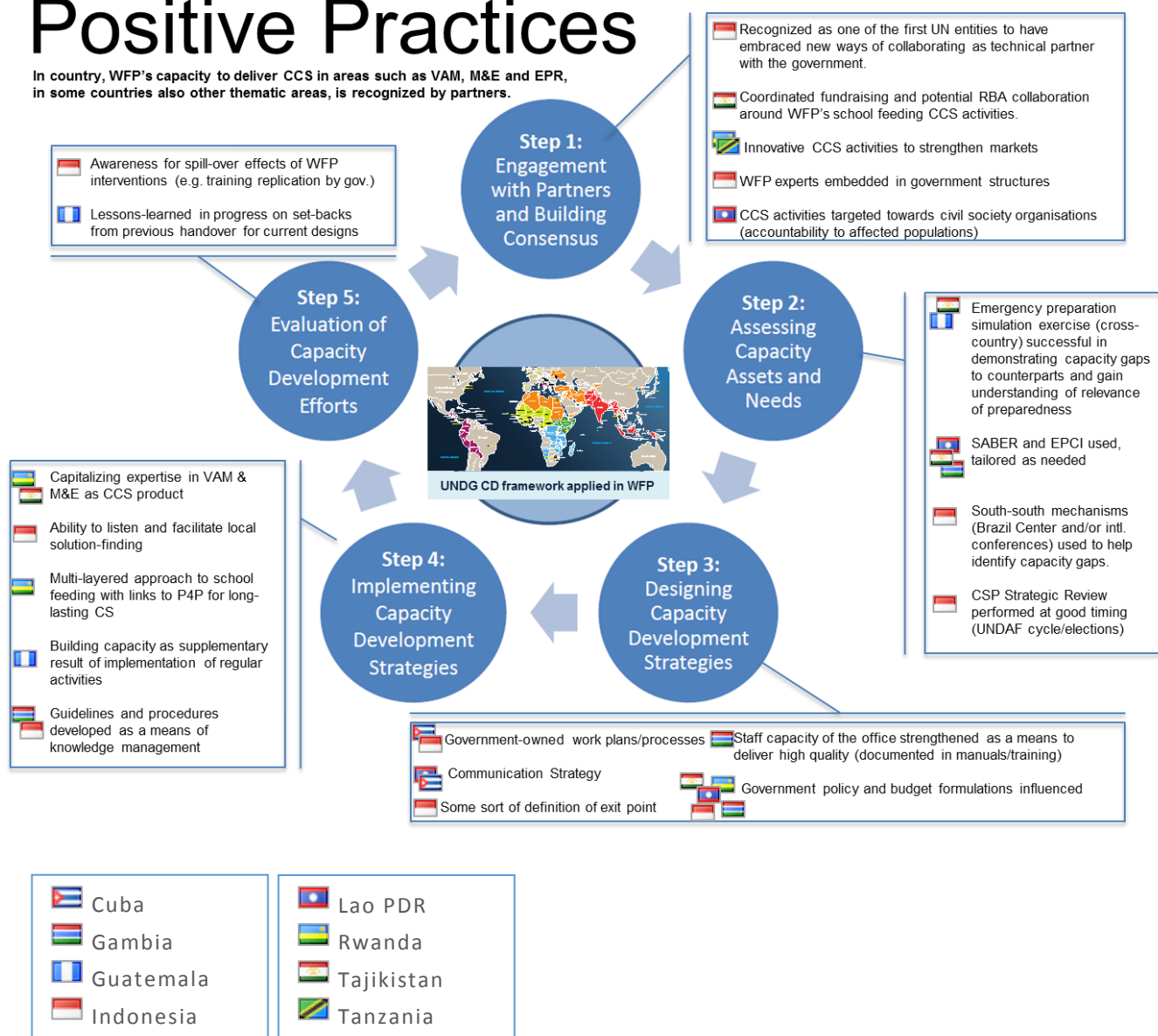
23. These confirm the importance of establishing solid knowledge generation, transfer and marketing strategies to fully build on existing experiences and scale-up.

24. Following Executive Board approval in November 2016 and pending WFP-wide roll-out, the audit also noted that the Integrated Roadmap and a number of other ongoing corporate initiatives represent on-going efforts representing (partial) solutions to a number of the observations in this audit:

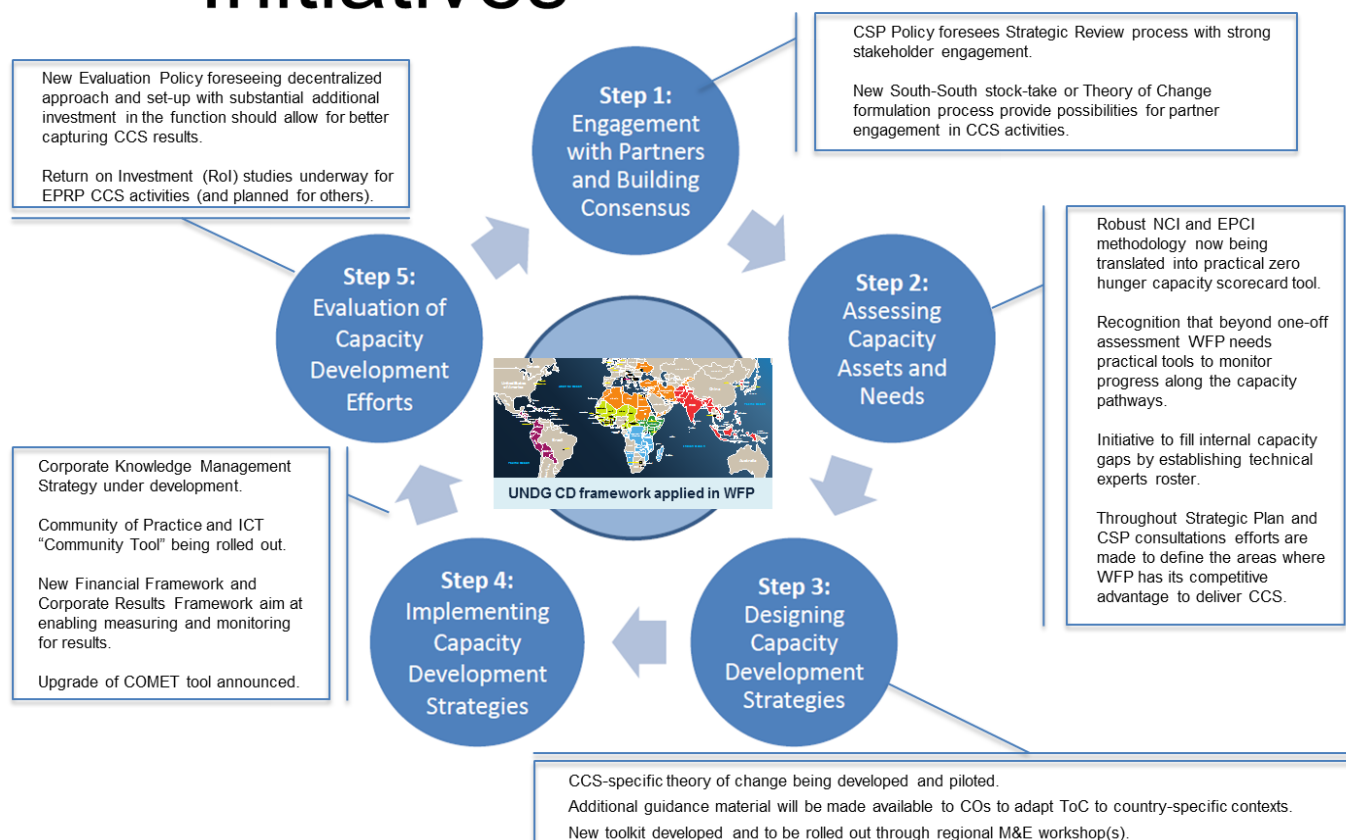
Table 2: Positive practices and initiatives

Positive Practices

In country, WFP's capacity to deliver CCS in areas such as VAM, M&E and EPR, in some countries also other thematic areas, is recognized by partners.



Initiatives



25. Having evaluated and tested the controls in place, the Office of Internal Audit has come to the following conclusions on the residual risk related to the processes examined:

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

Internal Control Component/Lines of enquiry		Risk
1.	Control environment	
	Governance and organisational structures	Medium
2.	Risk assessment	
	Risk management activities	Medium
3.	Control activities	
	Programme design	High
	Programme implementation	Medium
4.	Information and communication	
	Internal and external communication and knowledge management	High
5.	Monitoring activities	
	Monitoring and evaluation activities	High

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26. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of unsatisfactory².

27. The audit made five high-risk and four medium-risk observations. Tables 4 and 5 below present the high and medium risk observations respectively.

Actions agreed

28. Management has agreed to take measures to address the reported observations. Work is in progress to implement the agreed actions³.

² See Annex A for definitions of audit terms.

³ Implementation will be verified through the Office of Internal Audit's standard system for monitoring agreed actions.

Table 4: High-risk observations

Observation	Agreed action
<p>1 Visibility – Corporate visibility and reporting of Country Capacity Strengthening activities and achievements</p> <p>WFP's corporate reporting is formed around the annual standard project report (SPR). Country Offices (COs) prepare ad-hoc reports and advocacy material - not only about results that are directly attributable to WFP but also about partners' efforts and achievements - which are not necessarily captured in corporate tools and databases (COMET). The audit noted that as a result CCS achievements tend to be under-reported and are not visible at the corporate level. Several factors contribute to CCS reporting challenges:</p> <ul style="list-style-type: none"> • Despite the introduction of a CD&A cost component in the previous Financial Framework Review, this cost category is not representative of CCS investment (with large portions of CD&A actuals covering capacity augmentation and service deliveries and other CCS related expenditure hidden in other cost components, e.g. ODOC, or trust funds). • The current budget structure and processes do not facilitate financial analysis and reporting along a value for money or investment case logic. This is due to change with the current Financial Framework Review that incorporates most trust funds into the country portfolio budget and creates a line of sight to better link the resources invested with the results achieved. • Engagements in CCS through trust funds are reported to donors bilaterally and are not captured in corporate systems for results achieved. • Partners' efforts and contributions to CCS results are not captured in existing tools and processes. The focus lies only on WFP's delivery and attributable results despite the possibility to define other outputs and new features in COMET that provide room for documenting complementary partnerships and/or tier two beneficiaries. The audit noted a preference of COs to adhere to familiar indicators and reporting standards, potentially influenced by strict corporate definition of attribution criteria. • While some COs individually make efforts to improve visibility, this is not supported by corporate guidance, templates and tools. • Dedicated communication and/or reports officer positions are rare at CO-level, staff time is invested in standard reporting (SPR) that is not geared towards business practices in the area of CCS (frequency, format, target group, content is not always adequate for promoting CCS activities, requiring adjustments/extra efforts by COs). <p><u>Underlying Cause</u> Insufficient knowledge and use of features and possibilities in corporate systems and processes; compliance culture prevailing; resources and processes not adjusted for CCS implementation.</p>	<p>When rolling out the new Corporate Results Framework, RMP will:</p> <ul style="list-style-type: none"> (a) improve the guidance on the use of COMET and other databases for having information corporately available to ensure comprehensive reporting on progress in the area of CCS, including both partners' and WFP's contribution to CCS achievements; and (b) clarify in consultation with CCS experts in OSZI, OSEP and any other divisions responsible for different corporate reporting formats (SPR and other) which language and other caveats to consider when reporting WFP's direct and indirect results in CCS and which options exist to report about partners'/counterparts' efforts and achievements that may not be (fully) attributable to WFP (disclaimer, other formats, other channels).

Observation	Agreed action
<p>2 M&E – Progress monitoring of Country Capacity Strengthening activities</p> <p>Corporate M&E guidelines (MMRs/ SRFs) provide COs with tools to measure capacity enhancement. The sample of project document logframes and related SPRs reviewed showed that performance indicators set and monitored for CCS activities referred to the standard beneficiary and tonnage tools, with limited use of the National Capacity Index. The COs highlighted limitations in their practical use for monitoring CCS activities. OSZI has in the course of 2016 developed more adapted tools to monitor progress in CCS engagements, which have been tested in some countries.</p> <p>COs are also using the standard guidelines to formulate performance indicators in the logframe for outcome and impact of CCS activities. These remain limited in assessing the qualitative nature of capacity strengthening activities. There are no mechanisms to set funds aside for ex-post assessments of project results and impact.</p> <p>Indirect, non-planned results and achievements, e.g. through independent partner scale-up, are not captured, because of lack of clear attribution to WFP engagements.</p> <p><u>Underlying Cause:</u> Inadequate guidance and skills to develop CCS results framework over time; indicators like the National Capacity Index or the Emergency Preparedness Capacity Index not popular among COs /difficult to use for progress monitoring; and COs not using existing flexibility (tailor other output indicators); resistance to change.</p>	<p>When rolling out the new Corporate Results Framework, RMP will liaise with OSZ to</p> <ul style="list-style-type: none"> (a) ensure that new progress indicators for CCS and improved approaches to measure capacity baselines are promoted to COs; and (b) ensure that M&E guidance for CCS activities includes guidance on beneficiaries indirectly reached. <p>(Refer to action 5 regarding funding of ex-post assessments.)</p>
<p>3 Knowledge management – Knowledge generation and knowledge sharing</p> <p>Overall activities related to CCS receive limited visibility – both externally and internally – and as experiences are not widely shared across WFP, they do not contribute to develop a general understanding/corpus of activities where WFP engages in CCS. Projects do not provide for specific knowledge generation such as success criteria, scalability factors, etc. The audit found several instances where COs faced challenges in adapting the available guidance or in developing customized procedures to implement CCS activities which resulted in duplication of efforts.</p> <ul style="list-style-type: none"> • There are limited institutional channels or forums where information or lessons learned can be shared, debated, and potentially adopted at a corporate scale. Existing platforms (e.g. recent introduction WFP communities' online platform) provide an opportunity for sharing. Content is however not reviewed/ vetted as a source of guidance and good practice. • Because of the ad-hoc nature of some CCS engagements, e.g. with secondment of short-term staff/consultants to partner entities, and without structure knowledge management, WFP risks losing experience and knowledge gained. 	<p>OSZ (with input from OSE, OSC, OSN) will improve knowledge management practices for CCS, considering corporate Knowledge Management initiatives, including by exploring Information Technology solutions and other best practices in cost efficient communications and knowledge management approaches.</p>

Observation	Agreed action
<ul style="list-style-type: none"> Limited analysis of replicability and scalability and further sharing and communication strategy within and outside the organization, prevent WFP from anchoring its experience in CCS and demonstrating relevance vis-à-vis donors and governments. <p><u>Underlying Cause:</u> Lack of institutional knowledge management, as well as at programme level.</p>	
<p>4 Staffing/resourcing – Internal & external capacity/skills for Country Capacity Strengthening</p> <p>The audit noted that WFP’s capabilities and services provided through its staff in COs working directly with government bodies, e.g. placed in ministries at national levels and at community levels, are highly recognized and appreciated. However, COs are facing a range of staffing-related challenges:</p> <ul style="list-style-type: none"> Key CCS posts are oftentimes filled with short-term staff, without adequately addressing the risk of lack of continuity in the relationship established with partners; Recruitment procedures and requirements do not allow the timely engagement of staff/consultants at competitive rates; Availability of WFP staff with CCS relevant skills is not visible or accessible to COs and successful initiatives to change / increase capacity of national staff not replicated at scale; Standard Terms of Reference do not reflect the specific requirements and responsibilities of staff working in the context of CCS activities. <p>Where complementing the WFP staffing structure with external expertise is adequate, COs were insufficiently aware of existing options and how to tap into those:</p> <ul style="list-style-type: none"> For alternative sourcing options (e.g. south-south and triangular cooperation) there is insufficient guidance, or access to guidance, developed throughout 2016; A Technical Experts Network has only recently been (re)established. <p><u>Underlying Cause:</u> Insufficient visibility on skills available, and/or skills not available internally; alternatives to staffing COs through regional or organizational level pooling, partnering with academia, companies, south-south cooperation mechanisms not available or disseminated; inadequate contracting processes (HR selection & procurement); funding framework and other contracting processes not aligned to long-term nature of CCS; limited investment in CCS roll-out at HQ.</p>	<p>OSZ – building on feedback from COs and other HQ divisions – will:</p> <ul style="list-style-type: none"> (a) perform a stock-take of the needs (CCS-related competencies & skills); (b) outline skills building and sourcing options that could be considered; and (c) on the basis of the resulting gap analysis engage with OS, HR, and the Integrated Roadmap for solutions that address both internal skills enhancement and mechanisms to best use and allocate existing staff resources as well as access to external expertise (e.g. technical experts, south-south and triangular cooperation, etc.).

Observation	Agreed action
<p>5 Funding of CCS activities – Fundraising tools and processes</p> <p>According to WFP’s General Regulations and Rules, General Rule X.8: Availability of resources, the Executive Director shall ensure that development projects submitted to the Board for approval, and development projects and country programme activities approved under the Executive Director’s delegated authority, can be implemented within estimated available resources. The audit noted the following issues with regard to funding of CCS activities:</p> <ul style="list-style-type: none"> Planned / proposed CCS interventions still follow a needs-based planning approach. However, with uncertain/unknown funding sources WFP risks not to be able to deliver. No funding mechanisms are available to engage in seed or pilot projects that could create the basis for engaging with stakeholders, potential donors, and inform project design as CCS project definition may prove a longer process at times. Also, there are no mechanisms to set funds aside for ex-post assessments of project results and impact. Advance funding mechanisms are not easily accessible for CCS engagements, esp. when financed through trust funds. COs face a range of fund raising challenges for CCS activities at the local level: <ul style="list-style-type: none"> In particular in Middle Income Countries (a target group of WFP CCS activities), it is difficult to generate funds from traditional donors. Despite a strategy to increase the donor base, there is limited guidance and support. Some private sector engagements were identified. However, the full potential may not be fully explored. Host government contributions may imply conditions on reporting/disclosure requirements (audits) that are not available or involving corporate validation. Short-term funding limits continuity of longer-term CCS engagements. <p><u>Underlying Cause</u> WFP corporate guidance, tools and systems in the area of resource mobilisation and management not sufficiently adjusted to the resourcing requirements of CCS engagements (needs-based/ appeal approach prevailing at HQ-level in outreach and funds allocation); lack of partnership /resource mobilisation /proposal or report-writing skills at CO-level.</p>	<p>With the support of the other stakeholder departments and divisions, OSZ will:</p> <ul style="list-style-type: none"> (a) ensure that the upcoming Country Strategic Plan template adequately reflects resource-based planning as necessary for CCS delivery; and (b) liaise with RMB and PG to ensure that programme design guidance, fundraising guidance, and budgeting and expenditure accounting guidance is updated to align CCS within the new financial architecture and equip COs with additional means to raise funds for CCS.

Table 5: Medium-risk observations

Observation	Agreed action
<p>6 Programme design – Strategic review of decisions to engage in Country Capacity Strengthening</p> <p>In reviewing the design and related e-PRP/s-PRP approval processes, the audit found that for CPs, Dev, PRRO and EMOPS (as well as trust funds) the specific nature of CCS may not have been sufficiently considered, specifically where, when and with whom to engage in CCS. In the case of one sample country where the new Strategic Review was piloted, features of a strategic assessment of WFP's competitive advantage in a given context as well as some review of internal capacities were evident. For other projects the e-PRP/s-PRP documentation available did not cover areas needing improvement as identified in this report.</p> <p>A future internal design review process needs to timely provide assurance that strategic decision-making on WFP positioning among the other stakeholders and partners (with attention to South-South opportunities) and the fundability of its CCS offerings are sound and corporately decided.</p> <p><u>Underlying Cause:</u> Inconsistent / insufficient checkpoints to consider when reviewing CCS-related projects.</p>	<p>As the Project Review Process (sPRP/ePRP) is updated to accommodate the new generation of Country Strategy Papers, OMS will reconsider in conjunction with relevant divisions amending the guidelines to include specific reference to:</p> <ul style="list-style-type: none"> (a) assessment of WFP's comparative strengths in CCS, including lessons learned from evaluations (refer to observation 8); (b) stakeholder/partner analysis leading to a clear specification of roles and responsibilities (refer to observation 7); (c) a resourcing plan to ensure adequate and reliable resource availability (refer to observation 5); (d) a replicability, scalability, lesson learning and knowledge sharing analysis (refer to observation 3).
<p>7 Partnership Agreements & stakeholder mapping – Roles and responsibilities</p> <p>In the SDGs context, the United Nations is expected to play a role in providing technical assistance, facilitating collaboration and exchange of good practice and brokering knowledge. This includes facilitating knowledge exchange or sharing among stakeholders, including local, national and international policy makers and government officials, think tanks and researchers and other key practitioners (i.e. civil society, private sector).</p> <p>CCS activities often involve multi-faceted partnerships (recipient, joint implementation, contributor, and donor) with the same counterparts. Existing WFP agreement templates are however not appropriately used by COs (insufficient acknowledgement of the difference to direct implementation of hunger solutions with simpler relationship set-ups), partially also because there are gaps in the types of business relationships that templates cover (e.g. an FLA equivalent template for cash transfers to government implementing partners is only now under development).</p> <p>CCS projects do not clearly specify roles and responsibilities of the various partners, as well as inputs and outputs expected. As a result, expectations and expected deliverables from each partners may not be adequately managed and met.</p> <p>The audit observed that COs– when aligning with national planning and budgeting processes and when coordinating with other multi- and bilateral actors (beyond the UN Country Team also with</p>	<p>In the process of piloting the Country Strategic Plans, OSZ with the support of PG will:</p> <ul style="list-style-type: none"> (a) analyse the types of CCS activities (beyond direct food assistance programmes) and review frequent partnership set-ups to assess whether the available tool set of agreements is comprehensive and conducive to CCS implementation; and then work together with LEG on relevant instruments and guidance for multi-faceted partnerships identified as missing in the gap analysis; (b) monitor alignment of the timing of the Strategic Review and Country Strategic Plan elaboration with the UN Development Assistance Framework and national planning cycles; and (c) update guidance and support for stakeholders mapping as a continuous process throughout the Country Strategic Plan cycle.

Observation	Agreed action
<p>the World Bank and other partners, including private sector) – were often quite successful not only in advocating for policy changes and/or national priorities, but also in having budget lines available and/or gaining government support for fundraising for WFP interventions.</p> <p><u>Underlying Cause</u> Inadequate use of and limitations in existing agreement templates; limited practical guidance available on partnership management throughout the CCS life-cycle (assessments, design, implementation, measuring and learning, exit or scale-up); the PGM guidance on applying the UN Development Assistance Framework process outdated and/or not consistently applied; insufficient knowledge/awareness of legal templates available.</p>	
<p>8 Operations design and management – Operational planning</p> <p>WFP's engagements in CCS activities oftentimes are initiated from ad-hoc government requests, by-products of regular projects or funding opportunities. Existing guidelines and tools for Capacity Gaps and Needs Assessments are seen as difficult to apply and to adapt to country specific contexts. Where COs collaborated with governments on stand-alone CCS activities, WFP's role as broker and facilitator often requires agile procurement and contracting processes aligned with government timelines and therefore better operational planning.</p> <p>Monitoring, consideration of capacity needs and counterpart funding, when not fully embedded into a CCS approach in a structured way and with adequate guidance to allow visibility, may impact on the relevance, impact and sustainability of CCS activities, and more generally make it difficult to measure WFP's interventions later on.</p> <p><u>Underlying Cause:</u> Lack of structured approach to project planning.</p>	<p>When finalizing the operational guidance for the new Country Strategic Plan operating framework, OSZ will include guidance on:</p> <ul style="list-style-type: none"> (a) improving the planning for outcomes and related tools for progress monitoring; and (b) improving practical programme management guidance, for example regarding spending planning for grant-specific funded CCS activities, procurement planning, establishment of LTA agreements (incl. utilization of existing LTAs among other UNCT agencies), and similar. <p>It will be clarified, which of such guidance should already be applied by CCS implementing countries when not yet implementing a Country Strategic Plan.</p>
<p>9 Operations design and management – Sustainability of Country Capacity Strengthening activities</p> <p>CCS activities implemented by WFP and their related outcomes face challenges with regards to their sustainability, relevance and longer-term impact.</p> <ul style="list-style-type: none"> • COs did not have clear and detailed plans for entry/handover/exit; • Government partners' expectations reflected in Country Programmes vary across countries while remaining rather vague; and • Existing tools (WFP's Ability and Readiness Index) to guide where CCS activities may be advisable, and subsequently whether activities are on track and should trigger changes in design, are not applied as they are considered not practical. <p>The identification and screening of risks relating to partnership, roles and responsibilities and capacity assessment, should inform risk management, at the project level, and project design. The</p>	<p>When developing guidelines for the upcoming strategic plan, OSZ will consider Capacity Strengthening as an activity or modality for which clear engagement strategies need to be considered with respect to each country context to manage risks and ensure sustainability.</p>

Observation	Agreed action
<p>audit noted that in particular risks resulting from the partnerships, partner capacity, government support, etc. are not systematically captured in project risk logs or in the annual risk assessment exercise. Updates of risk assessments and reviews of mitigating actions during project implementation were not systematically recorded and available.</p> <p><u>Underlying Cause</u> Conceptual framework and guidelines for the design and approach to CCS needing update and better dissemination, recognizing that for implementing complex adaptive system solutions the guidance needs to allow context-specific solutions based on clear principles and sound risk assessments. Corporate risk management framework not adequately used or embedded in the project development and implementation process to capture and manage CCS/partnership risks.</p>	

Annex A – Summary of categorization of observations

The following table shows the categorisation ownership and due date agreed with the auditee for all the audit observations raised during the audit. This data is used for macro analysis of audit findings and monitoring the implementation of agreed actions.

Risk categories							
Observation	ICF	WFP’s Management Results Dimensions	WFP’s Risk Management Framework	Underlying cause category	Owner	Due date	
1	Information and communication – Corporate visibility and reporting of Country Capacity Strengthening activities and achievements	Reporting	Programmes	Institutional	Guidelines	RMP	(a) 30 June 2017 (b) 31 March 2017 for narrative, 31 December 2017 for financial data
2	Monitoring activities – Progress monitoring of Country Capacity Strengthening activities	Reporting	Programmes	Programmatic	Guidelines	RMP	(a) and (b) 30 June 2017
3	Control activities – Knowledge generation and knowledge sharing	Reporting	Programmes	Programmatic	Guidelines	OSZ	31 March 2017
4	Control activities – Internal and external capacity/skills for Country Capacity Strengthening	Operational	People	Institutional	Resources	OSZ	31 March 2017
5	Control activities – Fundraising tools and processes	Operational	Accountability & Funding	Institutional	Resources	OSZ	31 March 2017
6	Control environment – Strategic review of decisions to engage in Country Capacity Strengthening	Operational	Processes & Systems	Institutional	Guidance	OMS/OED	30 November 2017

Observation		Risk categories					Due date
		ICF	WFP's Management Results Dimensions	WFP's Risk Management Framework	Underlying cause category	Owner	
7	Control environment – Roles and responsibilities	Operational	Partnerships	Programmatic	Guidelines	OSZ	30 June 2017
8	Control activities – Operational planning	Operational	Processes & Systems	Programmatic	Guidelines	OSZ	30 June 2017
9	Control activities – Sustainability of Country Capacity Strengthening activities	Operational	Processes & Systems	Institutional	Guidelines	OSZ	30 June 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 categorisation of audit observations

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.⁴

Table B.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.

⁴ 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.

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)

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."⁵ 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 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 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

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:

⁵ OED 2015/016 para.7

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 utilised – 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 recognised 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

CCS	Country Capacity Strengthening
CD&A	Capacity Development and Augmentation
CO	Country Office
COMET	Country Office Monitoring and Evaluation Tools
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CSP	Country Strategic Plan
EPCI	Emergency Preparedness Capacity Index
HQ	Headquarter
ICF	Internal Control Framework
IIA	Institute of Internal Auditors
LEG	Legal Office
M&E	Monitoring and Evaluation
NCI	National Capacity Index
OED	Office of the Executive Director
OIGA	Office of Internal Audit
OSZ	Policy and Programme Division
OMS	Operations Management Support Unit
PGM	Programme Guidance Manual
RM	Resource Management Department
RMP	Performance Management and Monitoring Division
UN	United Nations
USD	United States Dollar
WFP	World Food Programme