

Internal Audit of Financial Service Providers for Cash-Based Transfers

Office of the Inspector General
Internal Audit Report AR/17/01



World Food Programme



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Internal Audit of Financial Service Providers for Cash-Based Transfers

I. Executive Summary

Introduction and context

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of Financial Service Providers for Cash-Based Transfers. The audit covered the period from 1 October 2015 to 30 September 2016 and looked at events prior and subsequent to this period as required. The audit team conducted the fieldwork from 21 November to 16 December 2016. This included work at WFP headquarters in Rome; a review of a sample of contracts with financial service providers selected from the Afghanistan, Egypt, Haiti, Honduras, Mauritania, Nigeria, Somalia, South Sudan and Zimbabwe country offices; a review of related corporate processes that impact across WFP; and a review of work on financial service providers carried out during recent internal audits.

Financial service providers play a key role in supporting and executing the delivery of cash-based transfer assistance to WFP's beneficiaries, distributing cash to more than nine million beneficiaries in 2015. They provide WFP with significant flexibility to reach beneficiaries through a variety of new assistance channels, at scale and with speed, while providing added benefits of recipient empowerment and dignity, financial inclusion and support to local markets. The scope of the audit encompassed only commercial financial service providers, and did not consider provision of services by other entities; further details are provided in paragraph 17.

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

Audit Conclusions

3. The audit noted a positive trajectory in the development and adoption of normative guidance, standard business processes and controls to facilitate the selection and management of financial service providers. Moreover, at the corporate level WFP has strengthened capacity to respond to demands for technical support from field operations, augmenting the capacities of the WFP Legal Office, the Finance Business Development Cash-Based Transfers Branch, and Regional Bureaux.

4. While there were significant improvements in the operational and financial risk assessment of financial service providers, assessment outcomes did not always align to the actual risk mitigation strategies adopted by country offices. Policies, processes and delegated authorities for the procurement and contracting of financial service providers would benefit from review and streamlining to increase efficiency and effectiveness.

5. Through the Global Beneficiary Payments Solutions platform, WFP has been active in securing long-term agreements for financial services with recognized global leaders in payment solutions. The audit recognizes these efforts as an important strategic step in achieving potential cost efficiency gains and speeding up the deployment and implementation of cash-based transfer services. However, risks associated with the platform were noted. These included the need to identify and assess potential sub-contractors delivering services and the need for a corporate mandate to enable the realization of economies of scale as well as a structured rollout plan.



6. The audit identified that attention needs to be given to agency agreements and sub-contractors working for, or associated with, contracted financial service providers. Detailed assessments of such arrangements are required to ensure related risks are identified and mitigated.

7. The audit noted a number of positive practices including: the deployment of a comprehensive suite of financial risk management tools to safeguard WFP’s assets; use of a robust set of contract clauses to safeguard against potential financial, operational and reputational risks; and significant training efforts and corporate investments to bring field personnel up-to-speed with the latest policies, tools and processes for the assessment and management of financial service providers.

8. The audit of Financial Service Providers for Cash-Based Transfers 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.

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

Table 1: Summary of 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 | Low | |
| 5. | Monitoring activities | Low | |

Key Results of the audit

10. The audit report contains no high-risk observations and six medium-risk observations. Observations are detailed in Section III, Table 4.

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 their assistance and cooperation during the audit.

David Johnson
Inspector General

II. Context and Scope

Financial Service Providers for Cash-Based Transfers

13. Cash-based transfer (CBT) modalities are now a mainstream form of food assistance in WFP. WFP's CBT prioritised plan of work has grown from USD 798 million in 2015 to USD 1.3 billion in 2016 and is projected to reach USD 1.4 billion in 2017.

14. As is the case for in-kind food assistance, WFP's CBT interventions rely on partners and service providers, including financial service providers (FSPs), for the implementation of programmes. WFP's working definition of an FSP is: 'a business entity that can deliver cash to beneficiaries and/or reimburse retailers for redeemed vouchers through the use of its banking, communications or mobile network facilities'.

15. In 2015, FSPs enabled the distribution of CBT assistance in 54 countries, encompassing 84 projects. Service providers were engaged to deliver assistance through a variety of channels, including mobile money transfers and paper and electronic vouchers, in addition to traditional banking services. In the period covered by the audit, WFP engaged 56 commercial service providers including banks, mobile network operators, micro-financial institutions, as well as other payment solutions providers. More than USD 10.7 million worth of services was procured from these entities.

16. Following WFP's decentralised management model, the identification, assessment, contracting and management of the FSPs is the responsibility of country offices (COs). They operate within the framework of policies, procedures and delegated authorities established by headquarters units including the Finance Business Development Cash-Based Transfers Branch (RMFB), the WFP Legal Office (LEG), the Supply Chain Division (OSC) and the Policy and Programme Division (OSZ). In addition to establishing normative guidance, these corporate units also provide support and advice, and may be heavily involved in the negotiation of agreements and review of contracts with FSPs. WFP's Regional Bureaux (RBs) provide support and oversight of COs and may also be involved in the identification, assessment and selection of FSPs.

17. WFP's cooperating partners (CPs) and government partners may also act in the capacity of FSPs either through direct delivery of payment services or through sub-contracting with commercial service providers. The selection, contracting and management of CPs and sub-contracting of FSPs by these entities follows a separate process outside the scope of this audit¹.

Objective and Scope of the Audit

18. The objective of the audit was to evaluate and test the adequacy and effectiveness of the processes and internal controls, governance and risk management processes over the delivery of financial services for CBT. 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

¹ An internal audit of WFP's Management of NGO Partnerships (AR/16/12) was issued in November 2016.



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

20. The scope of the audit covered commercial FSPs for CBT from 1 October 2015 to 30 September 2016. Where necessary, transactions and events pertaining to other periods were reviewed. The audit fieldwork included work at WFP headquarters in Rome; a review of a sample of contracts with FSPs selected from the Afghanistan, Egypt, Haiti, Honduras, Mauritania, Nigeria, Somalia, South Sudan and Zimbabwe country offices; a review of related corporate processes that impact across WFP; and a review of work on FSPs carried out during recent internal audits.

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

- Continuous efforts to update corporate policy, guidelines and business processes to incorporate lessons learned and best practices in the management of FSPs.
- Growth in the maturity and adoption of standard CBT business processes by COs, aiding in the selection, assessment, management and monitoring of FSPs.
- Augmentation of the capacity of RMFB and LEG to support field operations and creation by the Finance and Treasury Division (RMF) of finance officer positions within RBs to support CBT.
- Significant training efforts and investments by Resource Management (RM) and Operations Services (OS) departments to bring field personnel up-to-speed with the latest policies and tools in the management of FSPs. This includes development of webinars and online training materials which have contributed to a marked improvement in field staff's comprehension of CBT-related processes.

Risk Assessment

- Evolution and refinement of sectorial assessments, including the Macro and Micro Financial Assessments (MAFA and MIFA); almost 100 percent completion of MAFAs for COs implementing CBT.
- Development and implementation of a comprehensive suite of financial risk management tools (such as performance bonds, cash deposits, insurance and staggered transfers) to safeguard WFP assets and mitigate potential losses.

Control Activities

- Inclusion of a robust set of clauses in standard contract templates to safeguard WFP against potential financial, operational and reputational risks related to working with FSPs.
-

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 examined:

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

| Internal Control Component/Lines of enquiry | Risk |
|---|-------------|
| 1. Control environment | |
| Strategy, organisational structures and governance mechanisms | Medium |
| 2. Risk assessment | |
| Service provider assessment and financial risk management | Medium |
| Business continuity | Low |
| 3. Control activities | |
| Sourcing and procurement of financial services | Medium |
| Counter-party risk assessment and mitigation | Medium |
| Contracting of financial service providers | Medium |
| Sub-contracting of financial services to third parties | Medium |
| Financial service delivery management | Low |
| Data management and security | Medium |
| 4. Information and communication | |
| Financial service provider reporting | Low |
| 5. Monitoring activities | |
| Monitoring and control of CBT funds | Medium |
| Financial service performance management | Low |
| Monitoring and oversight of financial service providers | Low |

23. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of partially satisfactory².

24. The audit made six medium-risk observations. These are presented in Table 4 below.

Action agreed

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

² See Annex B 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: Medium-risk observations

| Observation | Agreed action |
|--|---|
| <p>1 Risk management – Risk management</p> <p>While Macro-Financial Assessments (MAFAs) had been completed for all countries included in the audit sample, some assessments were not updated or did not include mobile service providers in the analysis. Conclusions were sometimes vague and/or not consistent with COs' decisions to adopt CBT modalities. Furthermore, in several cases Micro-Financial Assessments (MIFAs) and supporting narrative conclusions were found to be inconsistent, late, waived or pending completion. In a number of cases COs were not aware of some MAFA and MIFA requirements, leading to gaps in the capacity and risk assessments of FSPs. Opportunities were identified to streamline and automate MAFA and MIFA processes.</p> <p><u>Underlying cause:</u> Resources have only recently been made available to perform MAFA. Current MIFA processes and tools do not guarantee completeness. Higher level review process by RBs is inconsistent. Decisions by COs not to follow the results of risk assessments are not consistently documented and communicated to the RB and RMFB levels to ensure accountability and focused oversight.</p> | <p>RMFB will develop tools to enhance the consistency and completeness of the MAFA and MIFA and will define business processes to improve the visibility and utilisation of financial risk assessment data.</p> |
| <p>2 Control activities – Group agency and outsourcing by FSPs</p> <p>The audit noted that FSPs' agency and sub-contracting arrangements were not evaluated in depth to identify and assess operational, compliance, credit and reputational risks. Such evaluations are particularly important given that agents are at the forefront of WFP's CBT programmes and in a number of instances have been at the core of programme delivery challenges.</p> <p><u>Underlying cause:</u> Capacity assessment is focused on FSPs and not the agents. Current request for proposal (RFP) requirements and a lack of corporate guidelines on third party agency arrangements do not facilitate a complete and accurate assessment of agency relationships and identification of potential risks.</p> | <p>RMFB will review and strengthen policies and procedures regarding the assessment of FSPs' agency arrangements and agent-related risk mitigation strategies.</p> |

| Observation | Agreed action |
|---|---|
| <p>3 Control activities – Reporting and compliance with contract terms and conditions</p> <p>Reporting - Lack of access to payment platforms and electronic reports was observed to hinder the distribution reconciliation process. In some instances, data was not accessible posing a risk to WFP’s ability to monitor the flow of funds to the level of individual beneficiaries.</p> <p>Data security – In some instances data security requirements were not specified in contracts with FSPs or were not implemented. Whilst some COs completed the Information and Communications Technology country capacity assessments, the Macro and Micro IT and Communication Assessments (MAITA and MIITA), required to provide specific support for the selection of modality, mechanism or FSPs, were not completed.</p> <p><u>Underlying cause:</u> Shortcomings in the assessment of FSP reporting and data security capacity. Absence of data security policy regarding service providers for CBT to guide IT officers in the field.</p> | <p>(1) RMFB, in coordination with the Market Access Programmes Unit (OSZIC) and the Beneficiary IT Solutions Service (RMTB), will re-emphasise the need for additional vetting of reporting and IT security capabilities of potential partners.</p> <p>(2) The Information Technology Division (RMT) will review the MIITA assessment tool to include IT and cybersecurity components.</p> |
| <p>4 Control activities – Counter-party risk assessment and mitigation</p> <p>Beneficiary Cash Accounts (BCAs) – Several cases were identified where no dedicated BCA had been set up in accordance with corporate requirements, or where legislated restrictions were placed on funds transferred to beneficiaries. In these situations WFP’s ability to monitor and control funds was diminished.</p> <p>Performance bonds – Some performance bonds obtained by WFP from FSPs had terms and duration periods which potentially compromised their validity. In some instances bond guarantees were not obtained despite recommendations from headquarters and conclusions of COs’ own risk assessments, or were obtained for amounts below recommended thresholds. Several bonds were submitted by FSPs from institutions with no internationally recognised presence and reputation.</p> <p>Liquidated damages - The liquidated damages clause in the standard FSP contract is not accompanied by a clear definition of how damages may be identified, estimated and agreed.</p> <p><u>Underlying cause:</u> Gaps in the MAFA and project design review. Lack of clarity of RB and RMFB roles in determining the validity of guarantees. Imprecise definition on what constitutes damages to WFP.</p> | <p>RMF will:</p> <p>(a) Work with RBs to re-emphasise to COs the need for BCAs, or establish alternative reliable means to monitor and control funds transferred to beneficiaries, providing advice to COs on acceptable means of financial control;</p> <p>(b) Define the level of authority of RBs and RMFB regarding review of performance bonds and/or other guarantee instruments obtained from COs, to ensure these are reviewed and approved at the appropriate level, and define supporting business processes; and</p> <p>(c) Together with LEG provide basic guidance on the identification and estimation of liquidated damages.</p> |

| Observation | Agreed action |
|---|--|
| <p>5 Control activities – Procurement of financial services</p> <p>Procurement of FSPs - WFP has not yet implemented a specific procurement process for FSPs as previously agreed in a 2015 internal audit report⁴. Under the current general goods and services procurement rules, the process for procuring financial services for CBT remains susceptible to potential weaknesses relating to the principles of fair, transparent and competitive sourcing and selection of service providers, increasing WFP's risk exposure to service delivery failures.</p> <p>FSP rosters – Rosters of FSPs were not always present or updated. Corporate guidelines are not clear on the required frequency of roster updates or which triggers should be considered for updating rosters and accompanying MIFAs.</p> <p>Global Beneficiary Payment Solution (GBPS) platform – While a few FSP regional agreements were implemented during the audit period, after 18 months of tendering the GBPS platform has not finalised long-term agreements with the selected service providers. The audit identified risks associated with recovery of initial set-up investments required to activate long-term agreements and achievement of economies of scale if not enough countries adopt the platform. RMFB is in the processes of preparing interim guidelines and business case templates to assess the viability and implementation of the GBPS on a country-by-country basis.</p> <p><u>Underlying cause:</u> Lack of resources and other priorities (e.g. development of the GBPS) have diverted OSC's attention from policy development. Lack of clarity on the deployment plan and risk mitigation strategy for the GBPS.</p> | <p>(1) OSC will liaise with RMF on the implementation of the audit actions agreed in 2015 and will, in coordination with RMFB, develop specific policies and guidelines for the procurement of financial services in relation to CBT activities.</p> <p>(2) RMF in coordination with OSC will:</p> <p>(a) Develop a detailed roll out plan for the GBPS, identifying potential risk scenarios and mitigation strategies for each potential adopter of the platform; and</p> <p>(b) Propose to the CBT Steering Committee appropriate policy tools required for the adoption of the GBPS by COs, including the potential for mandatory completion of business cases justifying CO decisions against the adoption of the GBPS.</p> |

⁴ Report AR/15/02 "Internal Audit of Cash and Voucher Modalities in the Field – Project Design and Set Up" issued in January 2015

| Observation | Agreed action |
|---|--|
| <p>6 Control activities – Contracting of FSPs</p> <p>The audit identified examples of contracts issued to FSPs without prior review by LEG or RMFB, resulting in contradictory contract clauses, terms and conditions, or in misalignment between the services under contract and actual services provided.</p> <p>Programmatic design issues not cleared prior to review by LEG, lack of clear roles and responsibilities of different HQ functional units and RBs, lack of information from COs, and unclear communication channels were observed to impact the contract review process and to delay the finalisation of contracts with FSPs. The audit noted instances of clauses being removed from standard templates and execution copies of contracts not being shared with HQ, thereby diminishing confidence that expert advice from LEG and RMFB was received and actioned at the CO level.</p> <p><u>Underlying cause:</u> The contract review process is not optimised and streamlined, and does not always involve relevant functional area expertise early in the process, leading to gaps of information and potential risk exposures and delays.</p> | <p>OSZIC, in consultation with LEG, RMFB, relevant functional units and field operations at the regional and country levels, will develop a streamlined contract review process, specifying the roles of RBs and relevant HQ units in providing advice to COs.</p> |

Annex A – Summary of categorization of observations

The following table shows the categorization 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 Risk management – Risk management. | Strategic | Processes and Systems | Institutional | Guidelines | RMFB | 31 December 2017 |
| 2 Control activities – Group agency and outsourcing by FSPs | Operational Compliance | Processes and Systems | Institutional | Guidelines | RMFB | 31 December 2017 |
| 3 Control activities – Reporting and compliance with contract terms and conditions | Operational Reporting | Processes and Systems | Institutional | Guidance | RMFB | 31 December 2017 |
| | | | | Guidelines | RMT | 30 June 2017 |
| 4 Control activities – Counter-party risk assessment and mitigation | Operational | Processes and Systems | Institutional | Guidelines Guidance | RMF | 31 December 2017 |
| 5 Control activities – Procurement of financial services | Operational | Partnerships | Institutional | Resources | OSC | 31 December 2017 |
| | Strategic | | | | RMF | 31 December 2017 |
| 6 Control activities – Contracting of FSPs | Operational | Partnerships | Institutional | Best practice Guidance | OSZIC | 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 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.⁵

Table B.2: Categorization 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. |

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

⁵ An audit observation of high risk to the audited entity may be of low risk to WFP as a whole; conversely, an observation of critical importance to WFP may have a low impact on a specific entity, but have a high impact globally.

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."⁶ WFP recognises five interrelated components (ICF components) of internal control, all of which need to be in place and integrated for them to be effective across the above three areas of internal control objectives.

Table 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 their 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:

⁶ 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

| | |
|-------|--|
| BCA | Beneficiary Cash Account |
| CBT | Cash-Based Transfer(s) |
| CDs | Country Directors |
| CPs | Cooperating Partners |
| CO | Country Office |
| COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| EMG | Executive Management Group |
| FSPs | Financial Service Providers |
| GBPS | Global Beneficiary Payment Solution |
| HQ | Headquarter |
| ICF | Internal Control Framework |
| IIA | Institute of Internal Auditors |
| LEG | Legal Office |
| MAFA | Macro Financial Assessment |
| MAITA | Macro IT and Communications Assessment |
| MIFA | Micro Financial Assessment |
| MIITA | Micro IT and Communications Assessment |
| OIGA | Office of Internal Audit |
| OSC | Supply Chain Division |
| OSZ | Programme and Policy Division |
| OSZIC | Market Access Programmes Unit |
| RBs | Regional Bureaux |
| RMF | Finance and Treasury Division |
| RMFB | Finance Business Development Cash-Based Transfers Branch |
| RMT | Information Technology Division |
| RMTB | Beneficiary IT Solutions Service |
| UN | United Nations |
| WFP | World Food Programme |