

Internal Audit of WFP's Management of Treasury Operations

Office of the Inspector General
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World Food Programme

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I. Executive Summary






Introduction

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP's management of treasury operations in headquarters, focusing on corporate issues. The audit covered the period from 1 January 2015 to 30 September 2016 and looked at events prior and subsequent to this period, as required. The audit team conducted the fieldwork from 17 October to 18 November 2016. This work was carried out at WFP's headquarters in Rome and included a desk review of treasury operations, covering a sample of nine country offices. The processes reviewed included the following: management of cash, bank accounts, payments, foreign exchange, petty cash, and replenishment process.
2. Treasury management operates at multiple levels and involves many different processes, ranging from overall governance to operational activities (for example, cash management and payments). Treasury management processes have a direct impact in the field, mostly through cash replenishment, management of bank accounts and foreign exchange transactions.
3. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

Audit Conclusions

4. The audit observed that significant attention and effort has been, and continues to be, directed towards the area of treasury management, recognizing the importance of such activities in achieving WFP's objectives. Positive practices and initiatives are highlighted under paragraph 22 and include: the achievement of a more centralized cash management; a significant reduction of cash balances held locally; a strong decrease of operational and fraud risks in the payment process through the introduction of the Bank Communication Manager module; regular counterparty risk monitoring and assessments; a deep awareness of the foreign exchange risks following the World Bank's study.
5. The audit report contains observations related to aspects of governance and oversight, risk management, and internal controls in relation to treasury management. The interdependency of these issues is important to recognize; sufficient staff; clear attribution of roles and responsibilities of treasury management activities; design and implementation of internal controls; and the assignment and execution of oversight responsibilities. All are essential and mutually-reliant activities for effective treasury management.
6. The audit concluded that internal controls, governance and risk management practices were generally established and functioning. But in light of the increase of operations centrally managed by headquarters, they could be improved. In fact, treasury operations have grown in volume, complexity and number, and several weaknesses that may negatively affect the achievement of the objectives of the audited process were identified.
7. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory**. Conclusions are summarized in Table 1, sub-divided by internal control component:

Table 1: Summary of risks by Internal Control Component

Internal Control Component		Risk	
1.	Control Environment	Medium	
2.	Risk Assessment	Low	
3.	Control Activities	Medium	
4.	Information and Communication	Low	
5.	Monitoring Activities	Medium	

Audit Observations

8. The audit report contains no high-risk observations and six medium-risk observations.

Actions Agreed

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

10. 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

Treasury Operations

11. Pursuant to a decision memorandum signed by the Executive Director (ED) on 28 October 1998, WFP established the Treasury Branch (RMFT) and assumed full responsibility for the management of its cash resources as of 1 January 1999. RMFT reports to the Finance and Treasury Division (RMF) Deputy Director and counts a current dedicated staff force of nine employees, including the RMFT Chief.

12. As of 30 September 2016, WFP held balances in 395 bank accounts, including eight short-term investment accounts, across 86 banking relationships in 95 different countries. Following the conclusion of the WFP Global Banking Partner Request for Proposal (RFP) in mid-2012, bank account balances across the globe are being consolidated, where feasible, with the four winning banks in order to leverage a more robust legal framework.

13. WFP's cash balance as of 30 September 2016 totalled USD 180 million, subdivided as follows: headquarters (HQ) liquidity USD 106 million and field liquidity USD 74 million. In line with WFP's objective to pool cash resources centrally, RMFT provides all country offices (COs) funding requirements, through either zero balance accounts (ZBAs) or direct replenishment. All regional bureaux (RBx) and most large COs use ZBAs, which have the great benefit that COs do not need to hold substantial cash balances locally.

14. With major programmes in regions such as West and Central Africa, WFP decided to build local currency cash pools. In 2014, WFP implemented a XOF cash pool in seven West African Economic and Monetary Union (WAEMU) countries: Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger and Senegal. WFP located the master account in Dakar, Senegal, and set up a sub-account for each CO. In 2015, a similar structure was implemented in the Central African Economic and Monetary Union (CAEMU), with a XAF-denominated cash pooling covering Cameroon, Central African Republic, Chad and Republic of Congo, with a header account in Yaoundé, Cameroon. Local offices conduct payments from their sub-account and reconcile their bank account movements as usual, but balances are zero at the end of each day. These cash pools have helped WFP to manage the XOF and XAF liquidity and counterparty risk more effectively, by centralizing balances in multiple bank accounts.

15. Concerning the foreign exchange (FX) operations, since the implementation of the Systems, Applications and Products in Data Processing (SAP) Treasury and Risk module for FX transactions, deposits and money market investments, RMFT has, via enhanced business processes, significantly increased the volume of FX conversions of donor funds into local currencies on behalf of COs. Volumes have now reached a level that is consistent to the overall contributions received by WFP in a given year.

16. The Electronic Payment Systems (EPS) allow electronic payments to approved payees directly from a WFP bank account to the payee's bank account. System ownership, information use and system administration are separate functions. In addition, the principle of dual control is applied to the execution of all payments or transfers, requiring input and authorization to be separate functions. HQ has three EPS in place.

17. Since July 2013, the newly-introduced payment system, namely Bank Communication Manager (BCM), has created a new communication model by linking SAP to banks via SWIFT. The idea originated to facilitate the realization of corporate objectives, by leveraging technology in order to reduce the risk of losses through fraud or negligence, improve internal controls, and reduce transactional costs. In those countries where the new disbursement system has been implemented, EPS have remained only for back-up purposes and not for everyday use. There are no changes in the roles and responsibilities in the disbursement and bank reconciliation process. The main changes with the introduction of this new payment system is that an automatic process takes over the manual work to create payment files (avoiding manual entries) and the bank authorization



process takes place in WFP's Information Network & Global System (WINGS) instead of bank proprietary EPS, benefiting from pre-existing authorization profiles in WINGS.

Objective and Scope of the Audit

18. The purpose of this assignment was to evaluate and test the adequacy and effectiveness of the processes associated with internal control components over WFP's management of treasury functions, with a specific focus on corporate issues. Such audits are part of the process of providing an annual and overall assurance statement to the ED on governance, risk management and internal control processes.

19. The audit was carried out in conformance with *the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing*. It was completed according to an approved engagement plan and took into consideration the risk assessment exercise carried out prior to the audit.

20. The scope of the audit covered WFP's management of treasury operations from 1 January 2015 to 30 September 2016 and encompassed management of cash, bank accounts, payments and FX, as well as the management of counterparty, market and operational risks. Where necessary, transactions and events pertaining to other periods were reviewed. The audit fieldwork took place at WFP HQ, Rome, involving seven different divisions.

III. Results of the Audit

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

Table 2: Positive practices and initiatives

Risk Assessment

- Since the conclusion of the global banking services RFP in 2012, the four main global banking partners account for a large share of WFP's cash balances. Since 2013, the UN Secretariat has implemented the Banking Harmonization Project to ensure the benefits of coordinated RFPs for Banking Services and Master Banking Agreements, such as the reduction of operational risks and significant savings in local effort required for selection, documentation and monitoring. Twenty-one RFPs for banking services have been completed and more are scheduled, leading to more secure, efficient and cost-effective banking services. Ninety-three percent of WFP's balances are with A- or better-rated banks or securities investments. This indicates an overall low credit risk for the cash and short-term investment balances. RMFT is monitoring cash balances in the field to ensure these are commensurate with short-term operational needs, reducing counterparty and country risks. The only concern remains for those areas that have no banks present with formal credit ratings. Nevertheless, these banks hold a small portion of WFP's overall funds and are periodically monitored by RMFT in the 'Counterparty Risk Report'. RMFT performs an important risk monitoring activity via credit risk assessments on these unrated banks, taking into consideration identified balances. Balances held at banks without a formal credit rating from the international rating agencies amounted to USD 42.1 million or 1.9 percent of total cash and short-term investment balances as of 30 September 2016, with 91 percent having been analysed.
 - RMF has paid significant attention to counterparty risk related to cash-based transfers (CBT), starting in 2015, and has issued a new CBT Manual, entirely dedicated to financial and resource management. The CBT macro assessment of financial service providers is performed at HQ by the Business Development, Finance Cash-based Transfers and Field Support (RMFB). This is complemented by a micro assessment at the field level, using a set of recently implemented tools (for example, the Micro Financial Assessment template checklist). RMFB, jointly with RBx, is responsible for providing guidance and giving clearance to the COs on financial assessments and the response analysis phase of the CBT Business Process Model. The efforts to enhance financial risk management for CBT have resulted in a commitment to hire a new dedicated finance officer (P3) in each RB, as well as a financial risk management officer (P4) in RMFB.
 - In 2015, WFP commissioned the World Bank to undertake a study on potential hedging mechanisms, reviewing WFP's main FX exposures and how risks related to such exposure are mitigated and/or accepted at corporate and project level. The study was a result of heightened FX volatility across major world currencies since mid-2014 and relevance for WFP under Corporate Risk no. 14: 'Volatility of currency exchange rates to evaluate and determine mitigating actions in this area'. The feasibility of establishing a contribution-receivable hedging programme, as proposed by the World Bank, was assessed by WFP. However, the requirement of a large central corporate reserve, diverting funds from existing risk mitigating reserves, was not deemed feasible by management. WFP currently has an effective hedging programme in place for the Euro (EUR) portion of the Programme Support and Administration (PSA) staff costs, which has removed the FX volatility on this portion of the budget.
 - WFP has developed a structured process of Enterprise Risk Management to achieve strategic, operational and individual objectives, enabling the identification of major risks and the mitigation of their impact. As a first step, each unit has to perform a
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Risk Self-Assessment to prepare the Risk Register, which indicates detected risks and related remediation actions. Subsequently, the Risk Register of each unit is consolidated in the Corporate Risk Register issued by the Assistant Executive Director for Resource Management and Chief Financial Officer.

Control Activities

- Since July 2013, the BCM module in WINGS allows for the integration of SAP and external banking systems for straight-through processing of payments and automatic bank statement uploads via SWIFT. The roll-out process of BCM is in progress and expected to conclude in 2019. At present, BCM is used by HQ, 6 RBx, and 31 COs. In 2015, USD 2.26 billion, or 54 percent of all WFP disbursements by value were paid through BCM. BCM-initiated payments (excluding fund movements) grew to 61 percent of all WFP disbursements by value, up from 54 percent at year-end. In monetary terms, BCM volumes reached USD 2.05 billion, up from USD 1.72 billion on September 2015 and representing a 19 percent year-on-year increase. The introduction of this system has strongly improved the management of payments, decreasing operational and fraud risks.
- WFP has made arrangements with several international banking groups to provide worldwide ZBAs and a zero balance cash pool structure in different currencies. Daily withdrawals from the subsidiary ZBA are automatically replenished from the master ZBA, bringing the balance of the subsidiary ZBA to zero at close of business every day. RMFT maintains a buffer balance in each master ZBA, allowing funds to be centralized at HQ. The buffer amount is based upon the pattern of withdrawals in the subsidiary ZBAs. The major benefit of the ZBA and cash pool systems is that COs do not need to hold substantial cash balances locally. A well-managed office using a ZBA can operate with almost zero local funds apart from petty cash. In practice, most ZBA offices maintain balances in their local imprest accounts for on-going requirements and as a contingency measure.

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/Business Process	Risk
1. Control Environment	
Governance relating to Treasury Operations	Medium
Enterprise Resource Planning System in Treasury Management	Low
2. Risk Assessment	
Assessment of Financial Service Providers	Low
Monitoring of Financial Service Providers	Low
Headquarter Business Continuity Management Plan	Low
3. Control Activities	
Replenishment Process	Medium
Management of Bank Accounts	Medium
Payments and Systems	Medium
Foreign Exchange Management	Medium
4. Information and Communication	
Reporting System for Treasury Activities	Low
5. Monitoring Activities	
System of Monitoring	Low
Oversight Role for Treasury Activities	Medium

23. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory**¹.

24. The audit made no high-risk observations and six medium-risk observations, which 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.²

¹ See Annex B for definitions of audit terms.

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

Table 4: Summary of medium-risk observations

Observation	Agreed action
<p>1 Control Environment – Governance relating to Treasury Operations</p> <p>The WFP Financial Resource Management Manual (FRMM), specifically Section 11 ‘Cash and Treasury Management’, provides guidance on treasury management. It was noted that the manual does not reflect recent changes and practices (for example, BCM implementation and the introduction of cash pool structure).</p> <p>There is a lack of clarity between the attribution of roles and responsibilities of treasury management activities. This is due to the absence of a functional chart, systematically defining duties performed by each function within the unit.</p> <p>In addition, despite the fact that generic job profiles are available, no formalized detailed terms of reference/job descriptions have been introduced for the majority of staff in RMFT, with the exception of non-rotational positions and employees on consultants contracts. This impedes transparency and clear attribution of staff job assignments. It is important to note that this is not a compliance issue but rather a best practice, given the sensitive activities managed by the branch.</p> <p>Lastly, there is a lack of a formalized back-up system to ensure the coverage of all essential activities if staff are absent. For example, if staff members are on temporary duty (TDY) or are completely assigned to another unit or CO for several months, segregation of duties between operating and control activities could be compromised.</p> <p><u>Underlying Cause:</u> <i>Guidelines</i> - Need for improvement in written policies, procedures or tools to guide staff in the performance of their functions. <i>Resources</i> - Need for more resources (for example, funds, skills, staff) to carry out an activity or function. <i>Best practice</i> - Opportunity to improve in order to reach recognized best practice.</p>	<p>RMFT will:</p> <ul style="list-style-type: none"> (i) Update the WFP FRMM Section 11 ‘Cash and Treasury Management’ in order to reflect revised processes and functions. Define the Internal Control Framework (ICF) strictly on treasury management related-activities, in order to improve risk awareness and give a clear overview of the control environment, specifically on the organizational structure and roles and responsibilities of key players; (ii) Issue job descriptions, in line with leading practices, for all RMFT staff members to improve transparency and give clear staff job assignment and accountability; and (iii) Ensure a back-up system is introduced and formalized to guarantee coverage of all essential activities during the absence of staff (for example, staff members on TDY).

Observation	Agreed action
<p>2 Control Activities – Replenishment Process</p> <p>Monitoring and control activities need to be effective enough to adequately manage the replenishment process. With reference to the newly introduced zero balance cash pool structure, the audit detected that it is possible for COs to perform withdrawals above the daily thresholds without notifying HQ and make payments in excess of their replenishment request without sending an amendment.</p> <p>In the selected zero balance cash pooling account, some daily cash drawings exceeded the ZBA disbursement amount threshold (USD 2 million) without evidence that the CO advised RMFT at least one working day in advance, as prescribed in WFP FRMM Section 11 'Cash and Treasury Management' and clearly specified in RMFT's clearance instructions.</p> <p>The Field Accounts Cash Tracking System (FACTS) reports need to ensure effective monitoring of cash management. Given that these provide a snapshot at month-end, the FACTS does not currently capture funds kept locally for a long period of time or if inaccurate forecasts and above daily threshold withdrawals were executed.</p> <p><u>Underlying Cause:</u> <i>Compliance</i> - Requirement to comply with prescribed WFP regulations, rules and procedures. <i>Guidelines</i> - Need for improvement in written policies, procedures or tools to guide staff in the performance of their functions. <i>Guidance</i> - Need for better supervision and management oversight. <i>Human error</i> - Mistakes committed by staff entrusted to perform assigned functions.</p>	<p>RMFT will:</p> <ul style="list-style-type: none"> (i) Introduce a periodic ex-post monitoring activity by HQ, or alert to HQ, when COs perform withdrawals above the daily thresholds without prior notification to HQ; and (ii) Introduce a risk-based monitoring system to capture whether excess funds are kept locally during the course of a month.

Observation	Agreed action
<p>3 Control Activities – Management of Bank Accounts</p> <p>The audit noted that the current set-up of the local banking relationships does not ensure effective second level controls to adequately manage bank accounts. Given the decentralized nature of WFP, it would not be practical for RMFT to maintain ordinary local banking relationships; however, its involvement should be intensified in certain key processes (for example, closing of bank accounts).</p> <p>In particular, RMFT does not always receive formal confirmation from the bank regarding the closing of a bank account. Due to limitations in directly communicating with local banks, sometimes located in remote areas, current practice is for RMFT to provide the CO with an original HQ-signed letter for delivery. This limits HQ’s monitoring of the local bank account’s effective closure. It could lead to the closing of the bank account in WFP’s system (WINGS) not corresponding to its formal closing at the bank, which could expose WFP to fraud risks. For certain selected bank accounts, there is no evidence of communication from the bank confirming account closure, as requested. Despite operational difficulties, it is important for RMFT to increase COs’ awareness of the importance of obtaining official communication of a bank account closing.</p> <p>With reference to the selected bank accounts, the periodic monitoring on the alignment between delegation of bank signatories in place and bank account signatories deposited at the bank is not formally documented and traced by RMFT for 2015 and 2016.</p> <p>With reference to the bank reconciliation process, it was noted that the General Accounts Branch (RMFG) bank reconciliation focal point does not have access to online bank statements to perform the reconciliation, which could compromise the independence of the related control.</p> <p><u>Underlying Cause: Compliance</u> - Requirement to comply with prescribed WFP regulations, rules and procedures. <u>Guidelines</u> - Need for improvement in written policies, procedures or tools to guide staff in the performance of their functions. <u>Guidance</u> - Need for better supervision and management oversight.</p>	<p>RMFT will:</p> <ul style="list-style-type: none"> (i) Ensure that a control enhancement is introduced for the closing of bank accounts by requesting the local bank to also send written confirmation of its official closing to HQ. This could be stated in the account closing letter from HQ. In addition it is suggested that confirmation from the local bank of the closing of the requested account should be received prior to its closing in the system (WINGS) in order to avoid misalignments; (ii) Ensure that the periodic monitoring on the alignment between delegation of bank signatories in place and the bank account signatories deposited at the bank is carried out, on a risk-based approach by RMFT, and formally documented and traced; and (iii) Ensure that the RMFG bank reconciliation focal point is granted access to online bank statements in order to guarantee independence in the bank reconciliation process.

Observation	Agreed action
<p>4 Control Activities – Payments and Systems</p> <p>The audit covered various aspects concerning payments (for example, execution and monitoring phase). The principal issue is that RMFT has introduced some flexibility in the payment process that has not been reflected in the relevant section of the WFP FRMM and directives.</p> <p>There is an 'Official Headquarters' Signature List', ensuring a joint signatory principle (along a panel A and B staff list), but testing identified this is not always reflected in the BCM system set-up. RMFT has highlighted that in practice the panel A and B joint-signatory principle is only used in case of written instructions to the bank by HQ; however, this aspect is not reflected in WFP procedures.</p> <p>Both releases of each payment can be executed by an officer within the same unit without any limitations. More importantly, payments through BCM can be authorized by staff not listed on the 'Official Headquarters' Signature List'. RMF indicated that the BCM authorization was set-up and implemented to follow the EPS payment authorization practice (for example, two authorizers - where each can be either first or second level authorizer). Given WFP's context, where authorized staff are limited and frequently mobile, select additional staff from the Accounts Payable Branch (RMFA) and the Corporate Payroll Branch (RMFP) were delegated BCM first level authorizers, whilst not being bank signatory, to strengthen segregation of duties. However, current WFP procedures do not reflect this.</p> <p>There is no formal process in place to periodically review the technical user access rights for BCM and EPS, aimed at successfully maintaining the principle of least privilege. This practice is carried out at times, but it is not periodically conducted for the access rights of all users.</p> <p><u>Underlying Cause: Compliance</u> - Requirement to comply with prescribed WFP regulations, rules and procedures. <u>Guidelines</u> - Need for improvement in written policies, procedures or tools to guide staff in the performance of their functions. <u>Resources</u> - Need for more resources (for example, funds, skills, staff) to carry out an activity or function.</p>	<p>RMFT will:</p> <p>(i) Update the WFP FRMM Section 11 'Cash and Treasury Management' in order to reflect the BCM payment workflow/authorization process (for example, regulating the authorization requirements for different payment types, user set-up, related responsibilities across RMF branches, roles of first and second level authorizers) as well as to clarify that the panel A and B joint signatory principle ('Official Headquarters' Signature List') is only applicable in case HQ initiates written instructions to the bank.</p> <p>RMXS will:</p> <p>(ii) Issue a procedure or operating instructions specifying the periodic review process of technical user access rights for BCM and EPS. For example, who extracts the user access rights, how the access rights are sent to the approver, how the approval process is performed and how often the activity is carried out.</p>

Observation	Agreed action
<p>5 Control Activities – Foreign Exchange Management</p> <p>The audit noted that the World Bank Treasury conducted a review in Q2/Q3 2015 of WFP’s main FX exposures and how risks related to such exposure are mitigated and/or accepted at the corporate and project level. As concluded by this study, a natural hedging strategy could potentially reduce WFP’s exposure to FX volatility by around 27 percent both annually and over a three-year period. The outcome of the study was presented to the Investment Committee (meeting no. 62) on 7 June 2016, and it was noted that WFP acknowledges the FX risks it faces and accepts these risks, as included in the Corporate Risk Register. The hedging programme proposed by the World Bank was assessed, but the requirement of a large central corporate reserve diverting funds from existing risk-mitigating reserves was not deemed feasible by management.</p> <p>The FX management in place for COs is not clearly regulated, since there are no clear instructions regarding roles and responsibilities of officers involved, selection criteria for counterparties or limits on the total value of FX contracts with each counterparty. Moreover, as stated in the WFP FRMM Section 11 ‘Cash and Treasury Management’, paragraph 11.15.3 ‘FX Conversion’ – ‘In Field Offices’, ‘Local currency conversions may be conducted when conversion rates obtained locally are better than those offered to HQ or when HQ is unable to transact in the local currency’; the only aspect taken into consideration is the offered rate. However, given the high volume and riskiness of these operations, a documented procedure should define the risk appetite and the aspects to be considered when transacting locally (for example, counterparty’s reliability).</p> <p><u>Underlying Cause:</u> <i>Guidelines</i> - Need for improvement in written policies, procedures or tools to guide staff in the performance of their functions. <i>Guidance</i> - Need for better supervision and management oversight. <i>Resources</i> - Need for more resources (for example, funds, skills, staff) to carry out an activity or function.</p>	<p>RMFT will:</p> <ul style="list-style-type: none"> (i) Introduce a periodic evaluation of effectiveness of the existing natural hedge strategy currently in place using EUR and Japanese Yen (JPY) corporate balances held to meet expenditures in these two major currencies. The assessment of natural hedge possibilities of additional currencies may be evaluated, which could potentially reduce the FX volatility exposure on WFP’s programmes; and (ii) Issue dedicated guidelines, addressed to RBx and COs, regarding the management of FX transactions in the field in order to identify the roles and responsibilities of those involved, selection criteria for counterparties (for example, introduction of background checks, issuance of a list of counterparties that WFP is authorized to trade with), and limits on the total value of FX contracts with each counterparty. Define the risk appetite and aspects to be considered when transacting FX locally.

Observation	Agreed action
<p>6 Monitoring Activities – Oversight Role for Treasury Activities</p> <p>Mechanisms to ensure oversight of WFP’s management of treasury activities should be reinforced. The audit noted that an independent Risk and Compliance function (not reporting to RMF) is not present. Therefore, certain activities are not performed by an independent function to RMF, such as: compliance checks on investments, management of operational and reputational risks, supporting business units for risk management issues, ensuring oversight and overall risk monitoring to senior management.</p> <p>The oversight role of treasury operations by RMF and RB finance officers needs further definition and to be formalized in a dedicated document. Roles and responsibilities as well as activities to be performed need to be clearly defined and standardized. It was noted that the current practices in place are not sufficient to guarantee an adequate oversight of COs. Specifically, the following has emerged:</p> <ul style="list-style-type: none"> • RMFG is not involved in the planning of missions to be performed by RB finance officers, which could also prove useful for monitoring purposes; • Outcomes of RBx missions are not always communicated to RMFG, and it is not clear if this is mandatory; • RMFG is not in charge of analysing the oversight reports received or of providing feedback to RB finance officers. It could also be useful to homogenize the implementation actions of similar issues in different regions, since only RMFG would have a global vision of such issues; • The ‘Regional Finance Officer Financial Oversight Checklist’ template, which is the main tool provided by RMFG to RB finance officers for conducting oversight activities, does not include all relevant controls related to treasury operations. <p><u>Underlying Cause:</u> <i>Guidelines</i> - Need for improvement in written policies, procedures or tools to guide staff in the performance of their functions. <i>Guidance</i> - Need for better supervision and management oversight. <i>Resources</i> - Need for more resources (for example, funds, skills, staff) to carry out an activity or function. <i>Best practice</i> - Opportunity to improve in order to reach recognized best practice.</p>	<p>RMF will:</p> <ul style="list-style-type: none"> (i) Evaluate the opportunity to introduce an independent Risk and Compliance function, which could be responsible for activities including, but not limited to, the following: compliance checks on investments; management of operational and reputational risks; supporting business units for risk management issues; ensuring oversight and overall risk monitoring to senior management; offering support and oversight to RB finance officers (for example, by defining the methodology and tools to be adopted; supporting them in planning missions and subsequent monitoring progress against the predefined plan; monitoring of oversight mission reports in order to create an up-to-date consolidated database, allowing for the homogenization of the implementation actions). At a minimum, ensure that this suggestion is periodically brought to the attention of and evaluated by the Investment Committee, taking into consideration the risk appetite of the organization; and (ii) Ensure that RMFT and RMFG, jointly with the RBx, define the risks related to oversight aspects, in terms of which kind of controls and testing to put in place for treasury operations.

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	ICF	Risk Categories		Underlying Cause Category	Owner	Due Date
		WFP's Management Results Dimensions	WFP's Risk Management Framework			
1 Control Environment Governance relating to Treasury Operations	Operational	People	Institutional	Guidelines/ Resources/ Best practice	RMFT	(i) 31 December 2017 (ii) 31 December 2017 (iii) 31 December 2017
2 Control Activities Replenishment Process	Operational	Accountability & Funding	Institutional	Compliance/ Guidelines/ Guidance/ Human error	RMFT	(i) 30 June 2017 (ii) 30 June 2017
3 Control Activities Management of Bank Accounts	Operational	Accountability & Funding	Institutional	Compliance/ Guidelines/ Guidance	RMFT	(i) 30 June 2017 (ii) 30 June 2017 (iii) 30 June 2017
4 Control Activities Payments and Systems	Operational Compliance	Processes & Systems	Institutional	Compliance/ Guidelines/ Resources	RMFT RMSX	(i) 31 December 2017 (ii) 31 December 2017
5 Control Activities Foreign Exchange Management	Operational	Accountability & Funding	Institutional	Guidelines/ Guidance/ Resources	RMFT	(i) 31 December 2017 (ii) 31 December 2017
6 Monitoring Activities Oversight Role for Treasury Activities	Strategic	People Programmes	Programmatic Institutional	Guidelines/ Guidance/ Resources/ Best practice	RMF	(i) 31 December 2017 (ii) 31 December 2017

Annex B – Definition of Audit Terms

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 categorization of audit observations

A 2. Audit observations are categorized 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.³

Table A.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.

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

³ 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

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'⁴. 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 recognised by WFP

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

4. Risk categories

A 6. The Office of Internal Audit evaluates WFP's internal controls, governance and risk management processes, in order to reach an annual and overall assurance on these processes in the following categories:

Table A.4: Categories of risk – based on COSO frameworks and the Standards of the Institute of Internal Auditors

1	Strategic:	Achievement of the organization's strategic objectives.
2	Operational:	Effectiveness and efficiency of operations and programmes including safeguarding of assets.
3	Compliance:	Compliance with laws, regulations, policies, procedures and contracts.
4	Reporting:	Reliability and integrity of financial and operational information.

A 7. In order to facilitate linkages with WFP's performance and risk management frameworks, the Office of Internal Audit maps assurance to the following two frameworks:

⁴ OED 2015/016 para. 7

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 and 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 and 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 and Funding:	Predictable, timely and flexible resources obtained – Strategic transparent and efficient allocation of resources – Accountability frameworks utilized – 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 (for example, funds, skills, staff) 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

BCM	Bank Communication Manager
CAEMU	Central African Economic and Monetary Union
CBT	Cash-based Transfers
CO	Country Office
COSO	Committee of Sponsoring Organizations of the Treadway Commission
ED	Executive Director
EPS	Electronic Payment Systems
EUR	Euro
FACTS	Field Accounts Cash Tracking System
FRMM	Financial Resource Management Manual
FX	Foreign Exchange
HQ	Headquarters
ICF	Internal Control Framework
IIA	Institute of Internal Auditors
IPSAS	International Public Sector Accounting Standards
JPY	Japanese Yen
MMC	Minimum Monthly Closure
OED	Office of the Executive Director
OIGA	Office of Internal Audit
PSA	Programme Support and Administration
RB	Regional Bureau
RBx	Regional Bureaux
RFP	Request for Proposal
RMF	Finance and Treasury Division
RMFA	Accounts Payable Branch
RMFB	Business Development, Finance Cash-based Transfers & Field Support
RMFG	General Accounts Branch
RMFP	Corporate Payroll Branch
RMFT	Treasury Branch
RMXS	Financial Systems and Processes Support Branch
SAP	Systems, Applications and Products in Data Processing
SOP	Standard Operating Procedure
TDY	Temporary Duty
UN	United Nations



UNDP	United Nations Development Programme
USD	United States Dollar
WAEMU	West African Economic and Monetary Union
WB	World Bank
WINGS	WFP's Information Network & Global System
WFP	World Food Programme
ZBA	Zero Balance Accounts