

Internal Audit of WFP CBT Retailer Implementation in Jordan and Lebanon

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World Food Programme

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Internal Audit of WFP CBT Retailer Implementation in Jordan and Lebanon

I. Executive Summary

Introduction and context

1. As part of its Syria +5 Assurance Plan agreed with management in September 2016, the Office of Internal Audit conducted an audit of WFP's Cash-Based Transfers Retailer Implementation in Jordan and Lebanon. The audit focused on the period 1 October 2015 to 31 October 2016. The audit team conducted the fieldwork from 7 November to 8 December 2016 in the Jordan and Lebanon Country Offices and through onsite visits to various locations in Lebanon and Jordan.

2. The protracted conflict in Syria has forced millions of people to seek refuge in neighbouring countries, including Jordan, Lebanon, Turkey, Iraq and Egypt. There are more than 4.5 million refugees in the region. Since July 2012, WFP's Regional Emergency Operation has provided lifesaving food assistance to the most vulnerable displaced Syrians in neighbouring countries, essentially through cash-based transfers through restricted e-voucher modality. Cash-based transfers enabled refugees in the region to purchase food of their choice in more than 670 retail shops in Jordan and Lebanon, providing a sense of normalcy to beneficiaries' lives and support to local economies.

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

Audit Conclusions

4. The review of WFP's Retailer Implementation in Jordan and Lebanon concluded that internal controls, governance and risk management practices were generally established and functioning, but needed improvement. Several weaknesses that could negatively affect the achievement of the objectives of the audited process were identified.

5. Both country offices have developed comprehensive special operations around shop selection and contracting and monitoring to address what they felt were gaps in WFP's corporate guidance. These are in their early stages of implementation. There was improvement in the availability of expertise on retail implementation and retail strategy, with efforts to train local staff for continuity. The Regional Bureau plays a major role in supporting the country offices in this respect. Both country offices are also evolving their processes and engaging in innovations to improve their retailer engagement.

6. In their cash-based transfers operations, both the Jordan and Lebanon country offices went through a fresh selection of shops allowing for an expansion in the number and type of partner shops to include both chains and individual shops, diversifying the profiles and associated risks. The countries also enhanced contractual terms to meet WFP requirements and to include the recommendations of the new retailer strategy and programme lessons learnt.

7. The audit noted efforts to improve the tools used in monitoring the retailers' operations through automated sales data analysis, analysis of transactional data and onsite monitoring in Lebanon. In Jordan, a triangulation database was also developed to analyse sales data (including itemised sales data) and the country office will pilot an onsite-monitoring tool directly linked to its database. There

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were significant efforts in price monitoring through calculation of internal price index and incrementally to market price index, with the aim of reducing prices in contracted shops to the average price or lower.

8. While noting the reach and structure of both country offices’ monitoring mechanisms, with improvement thanks to the use of data analytics, the analysis performed did not always translate into follow-up action in Jordan or consistent responses in Lebanon. There was no corporate guidance on key data, tests and analysis for shop data monitoring. Lack of beneficiary awareness of feedback mechanisms or violations/issues that should be reported limited the effectiveness of the hotline mechanism.

9. As the requirement to check on beneficiaries’ identity is transferred onto the retail shops in both countries’ cash-based transfer operations, the audit noted instances where the beneficiary identity was not consistently verified. The Jordan Country Office implemented biometrics identification in the camps, which resulted in cost efficiencies and stronger control on the beneficiary lists.

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

Table 1: Summary of risks by Internal Control Component

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

Key Results of the audit

11. The audit report contains one high-risk and four medium-risk observations. The high-risk observation is:

Monitoring: Several weaknesses impacted on the effectiveness of monitoring activities such as the lack of clear criteria and tools for monitoring; lack of clarity on monitoring roles and responsibilities; delays in follow-up of onsite monitoring recommendations; and lack of documentation of follow-up actions on data analysis reports in Jordan. There was also limited monitoring of data trends due to limited capacity at the country office. Partner shops had limited capacity and systems to provide WFP with required data for analysis in both countries.

Actions agreed

12. Management has agreed to address the reported observations and work to implement the agreed actions by their respective due date.

13. 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

Jordan and WFP operations in Jordan

14. Jordan has an estimated population of 6.5 million and is classified as a middle income country. Its overall HDI score is 0.748 — which put the country in the high human development category — positioning it at 80 out of 188 countries and territories. The 2014 Gender Inequality Index for Jordan is 0.473, ranking it 102 out of 155 countries. Jordan is host to about 1.4 million Syrians, including over 655,000 refugees and represents the sixth highest refugee-hosting country in the world. While some 83 percent of all refugees have settled in host communities, particularly in the urban area of Amman and the northern governorates of Jordan, the remaining live in refugee camps.

15. WFP began its Syria response in 2012 and operates through two sub-offices (SOs). EMOP 200433 - Food assistance to vulnerable Syrian populations in Jordan, Lebanon, Iraq and Turkey affected by the events in Syria, was WFP's operational framework for delivering assistance to Syrian refugees in the region. It targeted a total of 687,650 beneficiaries in Jordan from 1 July 2012 to 31 December 2016. Through EMOP 200433, assistance is provided through cash-based transfers (CBTs) for Syrian refugees in camps and host communities via restricted e-vouchers, and through in-kind assistance to Syrian refugees at the north-eastern border (Berm). Outside the camps, WFP Jordan has implemented a targeted approach where extremely vulnerable families receive JOD 20 (USD 28), while vulnerable families receive JOD 10 (USD 14 per month). WFP in Jordan works with approximately 203 newly selected partner shops (up from 86 shops in 2015) that include single shops and chains spread throughout Jordan. In May 2016, WFP launched the iris-scan payment system pilot in Za'atri camp that was expanded to all camps by October 2016. The aim of the iris-scan payment system is to make grocery shopping easier and more secure for Syrian refugees. In November, WFP assisted 529,447 Syrian refugees. Beneficiaries spent a total of JOD 94 million (USD 132 million) in retail outlets in the period October 2015 to September 2016.

Lebanon and WFP operations in Lebanon

16. Lebanon has an estimated population of 4.5 million and is classified as an upper middle income country. Its overall HDI score is 0.769 – in the high human development category – ranking 67 out of 188 countries and territories. The 2014 Gender Inequality Index for Lebanon is 0.385, ranking it 78 out of 155 countries. As of January 2016, more than 1.5 million Syrian refugees were estimated to have arrived in Lebanon, with more than 1.1 million registered with the United Nations High Commissioner for Refugees (UNHCR). This represents the world's highest per capita concentration of refugees in any given country compared to its population. Refugees are spread over communities across the country. There are also non-Syrian refugees registered in Lebanon, as well as Palestine Refugees from Syria (PRS) and Palestine Refugees in Lebanon.

17. WFP began its Syria response in Lebanon in 2012 and operates through three SOs. EMOP 200433 - Food assistance to vulnerable Syrian populations in Jordan, Lebanon, Iraq and Turkey affected by the events in Syria, was WFP's operational framework for delivering assistance to Syrian refugees in the region. It targeted a total of 834,435 beneficiaries in Lebanon from 1 July 2012 to 31 December 2016. Through EMOP 200433, assistance is provided through CBT for Syrian refugees (via restricted e-vouchers), PRS (via cash) and vulnerable Lebanese (via cash). E-cards are WFP's principal means of assistance to the Syrian refugees in Lebanon, accounting for more than 97 percent of the monthly caseload. E-cards were adopted as local markets are able to provide sufficient food for the host and refugee populations alike, eliminating the need to import significant quantities of food. By the end of 2015, except for PRS in Lebanon who were reached through unrestricted cash, WFP food assistance was provided through CBTs using the e-voucher modality.

CBTs enabled refugees in the region to purchase food of their choice in about 473 newly-selected retail shops that include single shops and chains, boosting the local economy and providing Syrians with access to fresh produce, dairy products, poultry and meats. In October, WFP assisted 652,665 Syrian refugees. Beneficiaries spent a total of USD 184 million in retail outlets in the period October 2015 to October 2016.

Objective and Scope of the Audit

18. The objective of the audit was to evaluate and test the adequacy and effectiveness of the processes associated with the internal control components of WFP's CBT Retailer Implementation in Jordan and Lebanon. Such audits are part of the process of providing an annual and overall assurance statement to the Executive Director on governance, risk-management and internal control processes.

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

20. The scope of the audit covered WFP's Retailer Implementation in Jordan and Lebanon from 1 October 2015 to 31 October 2016. Where necessary, transactions and events pertaining to other periods were reviewed. The audit field work took place from 7 November to 8 December 2016 in Jordan and Lebanon COs and various other locations in Lebanon and Jordan.

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

- The development of comprehensive Standard Operating Procedures (SOPs) to guide shop selection and contracting and monitoring in both countries.

Initiatives

- The Lebanon CO designed a shop management structure which aims at ensuring beneficiaries' access to quality and affordable food, assessing strategic priorities for WFP's engagement with shops and ensuring an adequate and harmonized compliance mechanism. It also clarifies roles and responsibilities at CO and SO level.

Risk assessment

- The Lebanon CO has developed a comprehensive risk matrix relating to shop implementation.

Initiative

- There is a planned profiling and assessment of shops to better understand the risks associated with WFP's programme implementation through partner shops in Jordan.

Control Activities

- Both COs shifted the shop selection and contracting process from the programme unit to the supply chain unit. The number and types of partner shops were expanded to include chains and individual shops. Shop contractual terms were enhanced in the new contracting process to include recommendations from the retail strategy as well as programme lessons learned.
- The Jordan CO implemented beneficiary identification through biometrics (iris scan) successfully in camps with resulting cost efficiencies.

Initiatives:

- Both COs plan to provide training and capacity building for shop owners and staff to improve shop management and business practices, to ensure sustainability of the businesses among other objectives.
- The corporate retail strategy addresses key aspects of the CBT retailer implementation such as pricing and competition, and retailers training and capacity building.
- The Lebanon CO plans to establish the farmers-to-markets initiative to connect small farm producers and the beneficiaries at selected markets. This will enable beneficiaries to access local fruit and vegetable products making payment with their e-cards.
- The Lebanon CO is part of the coordinated inter-agency nutrition platform. The CO is interested in possibly expanding nutrition education to CBT beneficiaries including through this platform.

Monitoring activities

- In both COs, there were significant efforts in price monitoring under the retail strategy. This was done by calculating internal price index and incrementally to market price index with the aim of bringing prices in the contracted shops to the average prices or lower. WFP included a clause in the shop contracts to provide the retailers with a price index on a regular basis that they need to comply with.
- Monitoring coverage - both COs managed to conduct the monitoring for the contracted shops through SO field monitors and cooperating partners (CPs) to achieve enhanced coverage, including in the red zones in Lebanon. Spot checks were also conducted on a monthly basis during peak times to ensure that shops are adhering to the requirements.
- Monitoring tools were developed such as Automated Real-time Information Feed (ARIF), itemized sales database and consolidated monitoring database in Lebanon, and the triangulation database and onsite shop monitoring tool in Jordan.

Initiatives

- The Jordan CO plans to enlist beneficiaries as shop monitors using the onsite monitoring app. This is expected to improve the level of feedback from the field and deter shops from committing violations.
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22. Having evaluated and tested the controls in place, the Office of Internal Audit has come to the following conclusions on the residual risk related to the processes:

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

Internal Control Component/Business Process	Risk
1. Control environment	
Governance: Roles and responsibilities	Medium
2. Risk assessment	
Risk assessment	Low
3. Control activities	
Retailer needs assessment	Medium
Selection and contracting of partner shops	Medium
Performance management of partner shops	Medium
4. Information and communication	
Internal and external communication	Low
5. Monitoring activities	
Monitoring of partner shops	High
Beneficiary feedback management	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 one high-risk and four medium-risk observations. Tables 4 and 5 below present the high and medium-risk observations respectively.

Action agreed

25. Management has agreed to take measures to address the reported observations.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: High-risk observation

Observation	Agreed action
<p>1 Monitoring – Operationalizing SOPs and data analysis</p> <p>Both COs have developed comprehensive SOPs to guide the monitoring of shops. In Jordan, some key performance areas did not have clear criteria and tools for monitoring, meaning that the relevant performance information was not collected as required.</p> <p>There were inconsistencies between the SOP and the retailer contracts as the former provided for the issuance of warnings to shops, which was not reflected in the latter. No warnings or written communication on areas of improvement had been issued in the audit period.</p> <p>It was unclear from the SOP which specific offices/staff were responsible for performing the tasks defined, particularly the follow-up of monitoring findings and the upload and update of shop lists in the triangulation database. The audit noted delays or insufficient evidence on the follow-up of exceptions raised in monitoring reports or through the analysis of shop sales data or shop itemised receipts.</p> <p>Sales data is available to both COs from the payment platform and the shop checkout systems (itemized sales data). At the time of the audit the <u>Jordan</u> CO still had limited capacity for the analysis of data at the CO and SO levels and the responsibility to conduct the data analysis actions was unclear. The SOs also did not have direct access to shop sales data which is necessary to ensure prompt follow-up of anomalies noted and to inform their monitoring activities.</p> <p>The CO endeavours to reconcile 10 percent of the physical shop itemized receipts to receipts from the payment platform to check for anomalies, inconsistencies and red flags, as well as to track commodity prices. The audit noted delays in the receipt of itemized receipts from all shops which limited the CO's sampling coverage; the absence of a formal process to follow up on the issues noted; and the difficulty of matching the payment system's and shop receipts in the absence of a common unique identifier in the two systems.</p> <p>Automation of the reconciliations, in view of the volume of data managed, had challenges as:</p> <ul style="list-style-type: none"> Some shops did not avail data in the format required; 	<p>(1) The Supply Chain Division (OSC) will develop guidance on data analysis based on risk and scenario assessments, to provide COs with a reference point in designing country specific detective controls.</p> <p>(2) The Jordan CO will:</p> <ul style="list-style-type: none"> (i) Define criteria and tools to collect shop monitoring information as per Key Performance Areas defined in the SOP. (ii) Align and harmonise the shop contracts and the shop monitoring SOPs. (iii) Define and communicate roles and responsibilities to fully implement the requirements of the SOP. (iv) Assess the requirement for data analysis and subsequent follow up actions at CO and SO level and allocate adequate staff resources to perform the required tasks. (v) Ensure that anomalous and suspicious data trends are followed up promptly and that the conclusions of follow-up actions are properly documented and reported. (vi) Establish a direct link between shop sales systems and the WFP database for the upload of itemised sales data. <p>(3) The Lebanon CO will:</p>

Observation	Agreed action
<ul style="list-style-type: none"> • Shop data was not directly linked to and uploaded into the triangulation database – with a risk of data manipulation prior to uploading to the WFP portal; and, • The absence of a unique identifier to match information available in the payments and shop systems. <p><u>In Lebanon</u>, the CO was in the initial stages of obtaining data from retailers and so far had access to itemized sales data for 70 out of 203 shops; all shops had committed as per contract to allow such access. The CO had not yet started analysing the itemised sales data to identify anomalies, including comparison with bank sales data. There were also challenges in obtaining data in the format required by WFP and no direct link between shop data and itemized receipts database.</p> <p><u>Underlying Causes</u>: Constraints in staff time and resources to define criteria and develop tools for assessment of Key Performance Areas. Lack of alignment of the shop contracts and the recently developed SOP as the SOP is recently developed and the CO is still in the process of assessing and communicating the responsibilities for the various processes. Lack of capacity and systems in smaller community shops. Resource and technical constraints leading to delays in completing the processes required to ensure that shop data can be directly linked to the WFP database.</p>	<ul style="list-style-type: none"> (i) Design tests and processes to analyse and examine the itemized sales data, including developing a link between the analysis on bank data in ARIF and that in the itemized sales database to better identify areas of risks of fraud and misappropriation. (ii) Establish a direct link between shop sales systems and the WFP database for the upload of itemised sales data.

Table 5: Medium-risk observations

Observation	Agreed action
<p>2 Selection and contracting - Needs assessment criteria and geographical coverage of shops</p> <p><i>Number of retailers:</i> In both countries the audit noted that the number of selected shops exceeded the minimum requirement set. <u>In Jordan</u>, the audit was not provided with documentation on the analysis supporting the shop needs assessment report. While the retail strategy highlights it is beneficial to have more shops to ensure price competitiveness, their high number also results in a heavier administrative workload and cost because of the controls expected for shop management and monitoring. The audit also noted that <u>in Jordan</u> there was no mechanism for continuous assessment of the requirement for shops. <u>In Lebanon</u>, the main criteria for the definition of shop requirement was the number of beneficiaries and access constraints. To ensure the adequacy and suitability of the shops and to continually identify gaps, further criteria should be considered, for example, shops space and proportion of WFP sales per shop per catchment area.</p> <p><i>Geographical coverage:</i> <u>In Lebanon</u>, four locations were not adequately covered with a risk that beneficiaries in these locations do not receive WFP assistance as planned. Despite restricted movement in one of the locations, e-vouchers were redeemed monthly.</p> <p><u>In Jordan</u>, requests made by the programme unit for additional shops in four areas were not addressed. Beneficiaries reported having to walk long distances to camp shops and having to pay for transportation in communities.</p> <p><u>Underlying Causes:</u> In both COs, lack of a defined upper limit or documentation/consideration of the cost-benefit of shops in excess of the minimum required. Security and access constraints in some locations in Lebanon and lack of shops that meet WFP requirements. Staff turnover in Jordan making it difficult for the CO to locate supporting documents. Lack of a systematic documented procedure for continuous shop needs and gap assessment.</p>	<p>(1) The Lebanon CO will:</p> <ul style="list-style-type: none"> (i) Develop criteria and procedures for continuous shop needs assessment that includes additional relevant criteria. (ii) Define the number of contracted shops required to ensure that the beneficiaries' needs are met within reasonable administrative workload and cost by WFP; and with adequate geographical coverage, including through alternative ways when movement is restricted (Masharie Al Qaa) or when qualified shops are not available in some locations. (iii) Continue dialogue with local authorities to smooth beneficiaries' access to Qaa shops and increase number of shops in Qaa. (iv) Reduce administrative costs of monitoring by using the new tools developed by the CO, including the automated reports per stores based on sales data and beneficiary feedback app. <p>(2) The Jordan CO will develop criteria and procedures for continuous shop needs assessment to ensure adequate access by beneficiaries and reasonable administrative cost by WFP.</p>

Observation	Agreed action
<p>3 Beneficiary verification processes – consistency and robustness of beneficiary verification procedures.</p> <p>There was lack of consistency in both COs regarding beneficiary verification in the shops as confirmed by monitoring findings and beneficiaries' reports. A robust beneficiary identification method, linking beneficiary verification to transactions, is necessary to ensure that assistance reaches the intended beneficiaries. In <u>Jordan</u>, the CO implemented iris scan for beneficiary verification in the camps in 2016. This has had benefits in streamlining the beneficiary lists. Biometric identification has not yet been implemented in the shops. In <u>Lebanon</u>, the CO commenced the use of beneficiary facial recognition during card distributions in the last quarter of 2016.</p> <p><u>Underlying Causes</u>: Context of the operations in Lebanon. Beneficiary biometric information is not collected at the time of registration with UNHCR and the bank does not have a system to link biometrics to transactions. Delays in the rollout of iris scan in the community shops in Jordan.</p>	<p>(1) The Lebanon CO will explore options to design and implement more robust identification methodologies at the shop level where authorisation to transact is directly linked to the beneficiary identification system.</p> <p>(2) The Jordan CO will, in consultation with the Regional Bureau Cairo (RBC) and HQ, discuss and develop a timeline for the deployment of iris scan in the community shops.</p>
<p>4 Retailer contract management - shop performance evaluations and disciplinary actions</p> <p>In <u>Lebanon</u>, many shops were found to have violated WFP requirements, but were retained on the programme due to lack of alternative qualified shops in some areas. As part of the country-wide shop selection process, the CO was able to replace many such shops. The CO also started a roster of alternative shops, which can be contracted in case of gaps in shop coverage. However the roster does not cover all catchment areas.</p> <p>In <u>Jordan</u>, the CO was not yet clear on how to conduct shop performance evaluations in January 2017 and was planning to define an ongoing ranking system within the triangulation database, which has yet to be completed.</p> <p><u>Underlying Causes</u>: Few alternative shops that qualify for inclusion in the WFP programme in some areas in Lebanon. Delays in consultant recruitment to assist with shop performance evaluation system set-up in Jordan.</p>	<p>(1) The Lebanon CO will:</p> <ul style="list-style-type: none"> (i) Update SOPs regarding shop disciplinary measures, harmonise implementation and provide clear justification for deviations. (ii) Strengthen the roster as a source of alternative shops in all locations. (iii) Define a plan for continuous delivery of sensitization and training to beneficiaries, shop owners and shop employees. (iv) Provide training and capacity building to traders to improve the conditions of contracted shops. <p>(2) The Jordan CO will consider collaboration with the Lebanon CO to use the beneficiary mobile application for rating shops performance using different criteria.</p>

Observation	Agreed action
<p>5 Beneficiary feedback management - hotline management</p> <p><u>In Lebanon</u>, hotlines are managed by CPs and the audit noted issues regarding reporting, follow-up and responsiveness to calls. Beneficiaries were also not generally aware of the hotline number or what incidents/violations could be reported. Starting April 2017, the CO plans to move to a single outsourced inter-agency hotline. Careful planning needs to be undertaken to enable the smooth and effective transition to the new platform.</p> <p><u>In Jordan</u>, both WFP and CPs manage beneficiary hotlines. The cost efficiency of maintaining both hotlines must be reassessed. The CO has a well-equipped call centre operated by well-trained staff and CPs receive relatively few calls, approximately 12 percent of the total call volumes. As in Lebanon, the beneficiaries were also not generally aware of the hotline number or what incidents/violations could be reported. Beneficiaries also complained about the responsiveness to calls made to the hotlines. Issues raised through the WFP hotline are recorded in the triangulation database which allows for recording of follow-up actions. The CO, however, uses excel spreadsheets to record and follow up issues, leading to inconsistencies in the log of open tickets between the spreadsheet and the database. There also exists long outstanding open tickets, over six months.</p> <p><u>Underlying causes</u>: Gaps in controls regarding reporting and documentation of follow-up actions. Use of mobile phones that are prone to poor telephone network connectivity. High turnover of call centre staff. Lack of regular beneficiary sensitization on hotline numbers and reportable shop issues. Resourcing of hotline operators in Jordan.</p>	<p>(1) The Lebanon CO will:</p> <ul style="list-style-type: none"> (i) Develop and maintain a recommendations implementation status report. (ii) Ensure that call centre staff are adequately trained on WFP requirements for logging, recording, escalation and reporting of issues raised by beneficiaries. Enforce adherence to the procedures. (iii) Ensure writing of beneficiary complaints and feedback monthly reports as required and continue providing supporting training and follow-up. (iv) Define a clear timeframe for planning activities and implementation of shift to the inter-agency call centre. (v) Facilitate, enforce and monitor improved responsiveness to hotline calls. (vi) Strengthen beneficiary training and sensitization on shop violations that should be reported to the WFP hotline. <p>(2) The Jordan CO will:</p> <ul style="list-style-type: none"> (i) Enforce the recording of follow-up actions in the triangulation database. (ii) Investigate the reasons for long outstanding tickets and develop a system for reviewing such long outstanding items on a periodic basis. (iii) Reassess or redefine the function of CP hotlines based on cost analysis and value added to the beneficiaries and WFP.

Observation	Agreed action
	<p>(iv) Facilitate, enforce and monitor improved responsiveness to hotline calls.</p> <p>(v) Strengthen beneficiary training and sensitization on shop violations that should be reported to the WFP hotline.</p>

Annex A – Summary of categorization of observations

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

Observation	ICF	Risk categories		Underlying cause category	Owner	Due date
		WFP's Management Results Dimensions	WFP's Risk Management Framework			
1 Monitoring – operationalizing SOPs and data analysis	Operational	People	Institutional	Resources	OSC	1) 31 July 2017
		Processes and Systems		Guidelines	JOCO	2) (i) 31 March 2017
						(ii) 30 June 2017
						(iii) 31 March 2017
						(iv) 30 June 2017
						(v) 30 June 2017
(vi) 30 June 2017						
				LBCO	3) (i) 30 June 2017	
(ii) 30 June 2017						
2 Selection and contracting - needs assessment criteria and geographical coverage of shops	Operational	Processes and Systems	Institutional	Guidelines	LBCO	1) (i) 30 June 2017
			Contextual	Resources	JOCO	(ii) 30 June 2017
						(iii) 30 June 2017
						(iv) 30 June 2017
			JOCO	2) 30 June 2017		
3 Beneficiary verification processes – consistency and robustness of beneficiary verification procedures	Operational	Processes and Systems	Institutional	Contextual	LBCO	1) 30 June 2017
	Compliance		Programmatic	Compliance	JOCO	2) 30 June 2017

Observation	ICF	Risk categories		Underlying cause category	Owner	Due date
		WFP's Management Results Dimensions	WFP's Risk Management Framework			
4 Retailer contact management - shop performance evaluations and disciplinary actions	Compliance	Programmes	Institutional	Guidelines	LBCO	1) (i) 30 June 2017
	Operational	Processes and Systems	Contextual	Resources	LBCO	(ii) 30 June 2017
						(iii) 30 June 2017
						(iv) 30 June 2017
JOCO	2) 31 March 2017					
5 Beneficiary feedback management - hotline management	Operational	Processes and Systems	Programmatic	Compliance	LBCO	1) (i) 30 June 2017
						(ii) 30 June 2017
						(iii) 30 June 2017
						(iv) 30 June 2017
						(v) 30 June 2017
	JOCO	People	Programmatic	Resources	LBCO	(vi) 30 June 2017
						2) (i) 31 March 2017
						(ii) 31 March 2017
						(iii) 30 June 2017
						(iv) 30 June 2017
(v) 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 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 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 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."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 B.3: Interrelated Components of Internal Control recognized by WFP

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

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:

⁴ 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 (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

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

ARIF	Automated Real-time Information Feed
CBT	Cash-Based Transfers
CO	Country Office
CP	Cooperating Partner
EMOP	Emergency Operation
JOD	Jordanian Dinar
OSC	Supply Chain Division
PRS	Palestine Refugees from Syria
RBC	Regional Bureau Cairo
SO	Sub Office
SOP	Standard Operating Procedures
UNHCR	United Nations High Commissioner for Refugees
USD	United States Dollar
WFP	World Food Programme