

# **Internal Audit of Food Quality and Safety in the WFP Jordan and Lebanon Operations**

Office of the Inspector General  
Internal Audit Report AR/17/05



**World Food Programme**

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# Internal Audit of Food Quality and Safety in the WFP Jordan and Lebanon Operations

## I. Executive Summary

### Introduction and Context

1. The Office of Internal Audit conducted an audit of food quality and safety in Jordan and Lebanon from January 2015 to October 2016. This was part of its Syria + 5 risk and assurance plan, agreed with management in September 2016. The audit team conducted the in-country fieldwork from 13 November to 2 December 2016, visited various locations in both countries and reviewed selected corporate processes that impact food quality and safety across WFP.

2. The protracted conflict in Syria has forced more than 4.5 million Syrian people to seek refuge in neighbouring countries including Jordan, Lebanon, Turkey, Iraq and Egypt (the Syria +5 countries). WFP management recognized the need for the Syria +5 programme to evolve from essentially life-saving food assistance through cash-based transfers in Jordan and Lebanon using e-cards, to an increasing focus on livelihood, resilience and nutrition activities, as well as capacity building of national supply chains. A new Regional Protracted Relief and Recovery Operation was approved in November 2016 to replace the Emergency Operation. It started in January 2017 with a focus on more sustainable solutions through human capital and self-reliance support to vulnerable refugees and host communities, while providing life-saving food assistance when needed.

3. Food quality refers to food that is acceptable to consumers and complies with applicable food laws to ensure it is unadulterated and not subjected to any fraudulent practices intended to deceive the consumer. Food safety means ensuring that the food we supply will not cause harm to our beneficiaries, who are often weak and have no power to complain. WFP is ultimately responsible for the quality and safety of the food reaching its beneficiaries. Food quality and safety is recognized as a medium-level corporate risk that may lead to health risk for beneficiaries and reputational damage for WFP. In response to this, a Food Quality and Safety Unit (OSCQ) unit has been established in HQ in 2014, within the Supply Chain Division.

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

### Audit Conclusions






5. A rapid programme evolution for both country offices has challenged their existing set-up, roles and responsibilities. The programme moved from being a cash-based transfer focused operation, to facing a rapid surge in food procurement for Syria operations in Jordan, to a move to nutrition activities under school feeding programmes with local food processing in both countries. The staff's attention has been mostly on emergency rather than development and capacity building activities. These are small at present but likely to increase under the new programme. In addition, programme and supply chain is a critical role from Jordan to Syria and given the reputational food quality and safety risk, with the low presence of WFP at receiving points in Syria, a robust quality management upstream in Jordan is required.

6. The Office of Internal Audit noted a positive trajectory in both country offices (positive practices are detailed in Table 2). The Jordan Country Office (CO) recently addressed control gaps and recommendations from the Food Quality and Safety unit and the Regional Bureau (RB) in Cairo. These included revising the Scope of Work for a new inspection company tender, reviewing food

test specifications (Jordan & Syria operations), and introducing supplier assessments and audits starting in November 2016. The Lebanon Country Office recognized 'Providing low quality and hygiene standards' as a key shop risk in August 2015 and defined controls through the monitoring checks such as cleanliness, adherence to food selling standards, inspection of fridges and expiry dates.

7. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of partially satisfactory, i.e. internal controls, governance and risk management practices are generally established and functioning, but need improvement. The review of the governance, risk management and internal control system of food quality and safety in the WFP Jordan and Lebanon operations identified certain weaknesses that may negatively affect the achievement of the objectives of the audited entities. At a corporate level, the audit identified areas requiring further guidance and improvement around in-kind donations, local food processing as well as incident reporting. Food quality and safety incidents have materialized in the case of Jordan, without the necessary follow-up on the decisions taken. 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 especially in-kind donations	High	
2.	Risk assessment	Medium	
3.	Control activities	Medium	
4.	Information and communication	Medium	
5.	Monitoring activities	Medium	

## Key Results of the Audit

8. The audit report contains one high-risk and ten medium-risk observations. The high-risk observation is that 33 percent of total in-kind date paste donated to the Jordan Country Office had to be destroyed after becoming either unfit for consumption or unfit for production. This led to food quality and safety incidents in the country office programme. Furthermore, there were control gaps with the originating country factories for the dates and date paste which impact on downstream quality and safety and which should be identified, addressed and monitored. In the Lebanon Country Office, there were no quality inspection checks or laboratory tests performed prior to loading and dispatch.

## Actions Agreed

9. Management has agreed to address the reported observations and work is currently in progress to implement the agreed actions by their respective due date.

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

### Jordan and WFP Jordan Operations

11. 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 is 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. Jordan has its own national standards and legislations on food quality and safety. Its regulatory framework is centralized, with the Jordanian Food and Drugs Administration responsible for food quality and safety and assessed as strong by a recent OSCQ unit mission.

12. In September 2016, under the Regional Emergency Operation (EMOP), WFP Jordan provided cash-based transfers (CBTs) to 220,926 extremely vulnerable and 202,744 vulnerable Syrian refugees in communities. Within the camps, WFP reached 95,198 refugees with cash transfers of USD 28 every month. In addition, in 2015 the Jordan CO received dates (300 mt) and date paste (500 mt) from a regular annual in-kind donation. The Jordan CO resumed its school feeding programme (Development Project 200478) in formal and informal schools inside the camps reaching 19,955 Syrian refugee school children in the same month with the distribution of locally-produced date bars from the in-kind date paste. In 2015, WFP also launched the Healthy Kitchen pilot to deliver freshly baked meals for an entire school year, reaching 6,700 school children thus far.

13. Fresh bread is also distributed in the camps on a daily basis through cooperating partners (CPs). Furthermore, food commodities are procured locally from traders (net importers), stored and transported for both Jordan and Syria operations. In November 2016, WFP Jordan resumed its life-saving assistance at the Berm at the north-eastern border with Syria, reaching 15,000 households with food (mostly rations) and non-food items.

### Lebanon and WFP Lebanon Operations

14. 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 it 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, over 1.5 million Syrian refugees were estimated to have arrived in Lebanon, with over 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 through communities across the country. There are also non-Syrian refugees registered in Lebanon, as well as Palestine Refugees in Lebanon. Lebanon has its own national standards and legislations on food quality and safety. However, responsibilities for enforcing the national framework involve several ministries that may not have sufficient capacity. In addition, Lebanon has a sizeable informal unregulated market.

15. In June 2016, the Lebanon CO expanded its retail network from 470 to 502 shops. In September 2016, 650,282 Syrian refugees in the community received USD 27 each on their e-cards on a monthly basis for the purchase of fresh produce, dairy products, poultry and meats. Lebanon received in January 2016 an in-kind donation of dates. The CO re-started its school meals

programme in late September 2016, benefitting 10,000 Lebanese and Syrian primary school children in 13 schools.

## Objective and Scope of the Audit

16. The objective of the audit is to assess whether the internal controls, governance and risk management of: (i) the outsourced supply chain of the cash-based transfers (CBT) retailer activity; (ii) the receipt of in-kind donations; (iii) local food processing and (iv) the sourcing, warehousing and transporting of food commodities are sufficiently robust to ensure the quality and safety of food to beneficiaries.

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

18. The scope of the audit covered WFP's operations in Jordan and Lebanon from January 2015 to October 2016. Where necessary, transactions and events pertaining to other periods were reviewed. The audit field work, which included onsite visits to various locations in both countries and comprised of visits to camps, communities, shops, schools, kitchens and warehouses took place from 13 November to 2 December 2016.

19. The audit did not cover food quality and safety in informing the design of the food basket in the programmes in each country. Furthermore, transshipment of commodities from Turkey through the Beirut port is only subjected to food quality and safety checks on arrival in Syria, and was therefore not in the audit scope.

### III. Results of the Audit

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

**Table 2: Positive practices and initiatives**

<b><u>Jordan Country Office</u></b>	<b><u>Lebanon Country Office</u></b>
<ul style="list-style-type: none"> <li>✓ Significant efforts to address control gaps and recommendations from Food Quality and Safety missions (HQ / RB) and from external audit with support from the Syria CO Food Technologist on a short term mission. These include developing a Scope of Work for the new inspection company tender; review of food test specifications (Jordan &amp; Syria operations); establishing supplier visit schedules; and performing the first supplier visits in November 2016.</li> <li>✓ Food quality and safety risks are included in the 2016 CO risk register.</li> <li>✓ Consultations with WFP food technologists in areas requiring expert input.</li> <li>✓ On rations, positive practices included: <ul style="list-style-type: none"> <li>▪ Local market survey undertaken by procurement to check on the availability of items to be procured;</li> <li>▪ A quality and quantity (Q and Q) company contracted to perform lab tests and inspections at on-loading and off-loading; and</li> <li>▪ Monthly physical inventory checks performed at CP warehouses by field monitors.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓ The Lebanon CO demonstrated a good understanding of the regulatory risk exposure in country. The national regulatory gap on food quality and safety over the cold chain is addressed through specific monitoring checks at shops contracted in the CBT programme.</li> <li>✓ The CO Standard Operating Procedures (SOPs) on voucher shop standards aim at providing high quality and hygiene standards. Control steps are in place through monitoring checks such as cleanliness, adherence to food selling standards, inspection of fridges and expiry dates.</li> <li>✓ The Consumers Protection Directorate within the Ministry of Economy &amp; Trade confirmed an improvement in food quality and safety in shops working with WFP.</li> <li>✓ The CO promptly followed with HQ to ensure in-kind dates were shipped and distributed to beneficiaries on a timely basis, while minimising the risks of food quality and safety incidents.</li> </ul>
<ul style="list-style-type: none"> <li>✓ CBT guidelines in place over the visual inspection of commodities in shops.</li> <li>✓ CO practice used to inform the development of the draft corporate guidelines for food quality and safety.</li> </ul>	

21. 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/Lines of enquiry	Risk
<b>1. Control environment</b>	
In-kind donations guidelines and controls	High
Skills and capacity	Medium
Inability to follow-up on decisions	Medium
Technical review of food processing	Medium
<b>2. Risk Assessment</b>	
Third party risk	Medium
Berm operations	Medium
<b>3. Control activities</b>	
In-kind donation	Medium
Food processing	Medium
Food procurement	Low
CBT	Low
<b>4. Information and communication</b>	
Exception reporting	Medium
<b>5. Monitoring activities</b>	
Monitoring	Medium

22. Based on the results of the audit, and with consideration of the country context, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory**<sup>1</sup>.

23. The audit made one high-risk and ten medium-risk observations. Three observations lead to corporate agreed actions and two observations are common to both countries. In addition, there were five audit observations specific to the Jordan CO and one observation specific to the Lebanon CO. Tables 4 and 5 overleaf present the high and medium-risk observations respectively.

### Actions agreed

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

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

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



**Table 4: Summary of high-risk observation**

Observations	Agreed actions
<p>1 <b>In-kind donation</b> – Guidelines, accountability and supplier audit (corporate)</p> <p>In the Jordan CO, the 2014/15 donation of in-kind date paste led to quality and safety issues which resulted in 167mt<sup>3</sup> or 33 percent of total paste requiring destruction because of becoming either unfit for consumption (100 mt) or unfit for production (67 mt). Furthermore, the audit noted performance issues<sup>4</sup> with the originating factories for the dates and date paste upstream of the in-kind donation for Jordan. Examples included poor vacuum packaging for date paste and no record or log-book of despatches to WFP by production date.</p> <p>In the Lebanon CO, receipt of in-kind dates in 2016 did not result in any food quality and safety incidents. However, the audit showed that no quality inspection checks and laboratory tests are performed prior to loading and dispatch.</p> <p><u>Underlying causes:</u> Absence of approved food quality and safety guidelines over accepting in-kind donations. Draft Food Quality and Safety (OSCQ) guidelines shared with the Partnership, Governance and Advocacy Department (PG) not sufficiently known or applied. No supplier audit of the originating factories.</p>	<p>Operations Division (OS) will approve OSCQ established guidelines on food quality and safety assurance for in-kind donations by donor relations, RB and CO. The guidelines will include:</p> <ul style="list-style-type: none"> <li>(i) requesting the donor to provide audit certifications for the quality and safety management systems of suppliers or, where possible, to allow WFP to conduct the supplier audits;</li> <li>(ii) the requirement for donor relations to liaise with OSCQ for every in-kind contribution; and</li> <li>(iii) the need for OSCQ to review, in liaison with donor relations and shipping, the quality and safety documentation provided by the donor or supplier prior to acceptance into the WFP pipeline.</li> </ul>

<sup>3</sup> From the first 200 mt dispatched and out of a total of 500 mt.

<sup>4</sup> As per reports of the Q & Q inspection company contracted by the Jordan CO to perform checks on their in-kind allocation from the Saudi recurring donation of dates in Saudi Arabia.

**Table 5: Medium-risk observations**

Observations	Agreed actions
<p>2 <b>In-kind donations</b> – Reliance on government controls and estimating in-kind needs (common)</p> <p>The Jordan CO relied on Jordan Food and Drug Administration import controls on dates and date paste and did not perform any independent laboratory tests. In the case of the date paste, the controls did not detect the microbial contamination as its test specifications did not cover the specific microbe<sup>5</sup>. The Lebanon CO also relied solely on government laboratory tests and did not independently test dates either before dispatch from the donor country or upon arrival at the Beirut port.</p> <p>In addition, unlike the Lebanon CO, the Jordan CO’s basis for estimating the quantity of in-kind date paste to accept for local processing into date bars was not clear. For instance, there was no mention of the number of refugees or school children to benefit from this commodity, etc. As a result, Jordan CO ran the risk of accepting a large quantity of date paste despite constraints in safe storage capacity and in timely processing, to avoid contamination or expiry.</p> <p>OIGA notes however: (i) recent engagement by the Jordan CO with the Jordan Food and Drug Administration to clarify role and controls; and (ii) no food quality and safety incidents in Lebanon during the audit period.</p> <p><u>Underlying causes:</u> Overreliance on government controls without a clear understanding of the types of lab tests undertaken by the national authorities. Jordan CO’s absence of clear criteria for assessing the amount of in-kind donations that can be programmed.</p>	<p>(1) The Jordan CO will:</p> <p>(i) formalize requests to the Jordan Food and Drug Administration for its test results on food commodities and perform further independent due diligence tests where needed; and</p> <p>(ii) establish clear criteria for assessing the amount of in-kind donations that can be programmed and hence that can be accepted.</p> <p>(2) The Lebanon CO will independently perform laboratory tests to verify the safety of in-kind dates before distribution to beneficiaries.</p>
<p>3 <b>In-kind donations</b> – Warehousing &amp; stock record keeping (Lebanon CO)</p> <p>The audit noted when visiting a CP warehouse that there was no inventory log with records of dates in and out of the warehouse. It found stock movement records are destroyed three months from the final collection date. The Lebanon CO only became aware of this when OIGA noted it as a control weakness during the audit and would therefore not have known if there were any losses of dates stock in the custody of the CP.</p> <p><u>Underlying causes:</u> Insufficient understanding of the Lebanon CO staff of the importance of inventory record keeping at third-party warehouses and the need to verify such records. Insufficient consultation with the Lebanon Syria corridor logistics team or with the Regional Bureau in Cairo (RBC) for advice in this area. Absent monitoring of the contractual requirements for records keeping by CPs as per the Field Level Agreement (FLA).</p>	<p>The Lebanon CO will, in consultation with the Lebanon Syria corridor and RBC logistic teams, work to ensure CP records of stock movement are gathered and made available for all in kind parcels in future.</p>

<sup>5</sup> Clostridium perfringens, a common cause of food poisoning.

Observations	Agreed actions
<p>4 <b>Food processing</b> – Subject matter expert review (corporate)</p> <p>In the Lebanon CO, WFP’s food technologists were not involved or consulted at the design stage of the school feeding programme. Local food processing has been outsourced to third parties and implementation is through the CP. In particular, while the FLA with the CP was cleared by Legal at HQ level, the technical expertise on the adequacy of food quality and safety control checks was lacking. This insufficient subject matter expert involvement was also highlighted in the external audit report on food procurement (2008).</p> <p><u>Underlying cause:</u> No corporate requirement for a technical review of local food processing prior to contracting.</p>	<p>Corporately, for local food processing prior to contracting, OSC through Food Technologists will technically review the process to ensure that food quality and safety risks and controls are adequately integrated and addressed at the contracting stage.</p>
<p>5 <b>Food processing</b> - Third party risk (common)</p> <p>The audit noted insufficient checks on outsourced third-party activities along the supply chain in both countries, especially in local food processing as well as in the warehousing, transporting and distribution phases.</p> <p>In the school feeding programme with locally-processed date bars, WFP’s partner for school feeding, the Ministry of Education (MoE) handles transport, warehousing and distribution with no independent checks by the Jordan CO. Weak stock management practice (not on a ‘first in, first out’ basis) in the final distribution phase from factory to schools only came to light after 140 mt of date bars had to be recalled following reports that they contained foreign material. The audit acknowledges that foreign material presence in 100 mt of the date bars produced arose because of issues with the supplier’s production process. The supplier took full responsibility for replacing the total amount. However, the donor reported concern that WFP had not identified weak practices that may affect commodities in third party custody.</p> <p>In the Lebanon CO, procurement and commodity handling are outsourced to its CP in its school feeding programme and local food processing activity. This exposes WFP to reputational risk if food quality and safety are not ensured. OIGA noted the following issues:</p> <ul style="list-style-type: none"> <li>• procurement was not involved to ensure that the CP process is aligned to WFP procedures (a requirement of the FLA), while programme staff attended evaluations and bid openings;</li> <li>• the CO did not independently vet the food quality and safety management systems of suppliers contracted by the CP; and</li> <li>• programme contracting of the laboratory for food tests in March 2016 was rushed. Programme selected an unaccredited laboratory based on price and time rather than technical capacity.</li> </ul> <p>OIGA notes, however, the CO clarification that it has developed a responsibility matrix to discern roles of programme versus procurement for the 2017 school meals modality.</p>	<p>(1) The Jordan CO will:</p> <ol style="list-style-type: none"> <li>establish independent control checks on third-party warehouses and transportation;</li> <li>track expiry dates of food items with a third party to ensure distributing items before expiry; and</li> <li>consult with OSCQ for providing staff training in food quality and safety.</li> </ol> <p>(2) The Lebanon CO will:</p> <ol style="list-style-type: none"> <li>clarify roles between programme and procurement for the school feeding activity and clearly assign responsibilities for consultations with food procurement and food technologists at HQ and RB levels. Ensure food quality and safety controls are in place and due procurement and contracting processes have been followed;</li> <li>leverage the regional Long Term Agreement in place for inspection companies. Modify the existing Scope of Work to include support in assessing food quality and safety management systems to put in place at the CP contracted suppliers and for performing food and quality checks during transport, storage and distribution of food commodities by third parties; and</li> <li>consult OSCQ or the regional Food Technologist for providing staff training in food quality and safety.</li> </ol>

Observations	Agreed actions
<p><u>Underlying causes:</u> Insufficient focus on food quality and safety risks and controls required to mitigate these in local food processing. Focus of the Jordan CO logistics team and field monitors in both COs on emergency activities (CBT in both and food distribution for Syria in the Jordan CO). Field monitors are mostly focused on shop monitoring and are not trained to detect food quality and safety issues.</p> <p>In the case of the Lebanon CO, options to contract an inspection company to provide support have not been prioritised given concerns over funding sustainability for the school feeding programme. Lack of training of CO staff in food quality and safety. Furthermore, roles and responsibilities between programme and procurement in the school feeding activity have not been clearly defined. Additionally, programme did not consult with food technologists at RB or HQ level for the technical inputs and advice on the right checks and controls needed to ensure food quality and safety.</p>	
<p>6 <b>Food processing</b> – Inconsistent quality in current school feeding Programme (Jordan CO)</p> <p>Notwithstanding the keen interest in the expansion of the Healthy Kitchen Initiative, the audit noted inconsistent standards of quality for the healthy meal from the different kitchens used in the pilot phase. WFP is providing support to the national school feeding programme through capacity development. A CP reported poor quality incidents in recent Zaatari camp distributions, which poses a reputational risk to CP and WFP, who are both visible at the camp distribution site. Ongoing work to open a kitchen in the camp and establish further monitoring by Syrian refugees, as informed by the CO Management, should help mitigate some of the risks. WFP field monitors did not regularly monitor the activities of the kitchen and only checked the physical quantity and quality of food items during visits.</p> <p><u>Underlying causes:</u> Absence of quality standards for all kitchens to follow and inconsistent performance of bakers who may need further training. A clear plan of capacity development activities for the planned expansion phase with respect to such areas as procurement, logistics and monitoring is not yet established.</p>	<p>In the planned expansion phase, the Jordan CO will take into account in the project re-design for a sustainable model the following actions:</p> <ul style="list-style-type: none"> <li>(i) in consultation with OSCQ or the regional Food Technologist, develop specific standards for the quality of healthy meals for all kitchens to follow;</li> <li>(ii) define better criteria for the selection, training and performance monitoring of bakers; and</li> <li>(iii) establish a clear plan for WFP to assist further in capacity development activities relating to the procurement process, vetting of suppliers, monitoring and logistics support.</li> </ul>

Observations	Agreed actions
<p>7 <b>Incident management</b> – Inadequate follow-up on mitigation decisions (Jordan CO)</p> <p>OIGA identified two instances where Jordan CO decisions on food quality and safety issues were not actioned to mitigate risks identified in a timely manner.</p> <ul style="list-style-type: none"> <li>In the first instance, the Jordan CO did not undertake laboratory tests on the date paste prior to sending it to the processing factory, as recommended by the RBC food technician in July 2015. The control was only put in place in November 2015, when a further incident occurred and OSCQ reiterated the need for this control to be carried out. It was noted that when the CO followed recommendations of the Food Technician from the onset with regards to the second lot of 300 mt which was received, losses were minimized.</li> <li>Secondly, most of the 40 mt of date bars expired in WFP’s custody without adequate actions undertaken to salvage the cargo to the extent possible (recalled in October/November 2015 with expiry dates ranging from November 2015 to May 2016).</li> </ul> <p><u>Underlying causes:</u> Insufficient understanding from the Jordan CO staff of the capacity constraints in safe storage and timely processing at the factory processing the paste. Absence of clearly assigned dedicated capacity to follow up on and enforce actions relating to food quality and safety issues. Action plan to salvage the cargo not implemented because accountabilities, roles and responsibilities not clearly defined to enforce actions on decisions.</p>	<p>The Jordan CO will clarify roles/responsibilities and assign dedicated capacity to follow up on and enforce actions relating to food quality and safety recommendations from WFP subject matter experts.</p>
<p>8. <b>Skills and capacity</b> – Shift to food distribution and nutrition activities (Jordan CO)</p> <p>With food procurement and distribution for the Syria cross border operations (Berm operations and air drops) in 2016 and with increased focus on nutrition activities for Jordan (planned expansion of school feeding activities), skills to support food quality and safety on a sustained basis have not been sufficient even though there has been evidence of consultations with HQ and RB experts. The audit noted the efforts to address existing gaps with the new clear Scope of Work for inspection companies and revised food and test specifications with a staff seconded from the Syria CO. However, there is a lack of clarity on how roles and responsibilities will be assigned to implement and enforce the new procedures.</p> <p><u>Underlying causes:</u> Absence of a comprehensive assessment (taking into consideration the value, risks and costs associated in the incidents that have occurred) of the expertise needed, whether in-house or external, and the required funding to support food quality and safety in the Jordan and Syria cross-border operations.</p>	<p>The Jordan CO will:</p> <ul style="list-style-type: none"> <li>(i) assess its food quality and safety skills needs and agree with Syria CO and OSCQ on possible shared funding for required expertise, whether in-house or outsourced; and</li> <li>(ii) in consultation with the OSCQ arrange for appropriate staff training–supply chain, programme and field monitors - on food quality and safety.</li> </ul>

Observations	Agreed actions
<p>9 <b>Performance of inspections</b> – Capacity and performance issues with inspection company (Jordan CO)</p> <p>The capacity of the inspection company with seven inspectors is limited given the extent of work it carries out for the Jordan CO. The audit noted several instances of performance issues in the period of review in spite of which the contract was successively extended:</p> <ul style="list-style-type: none"> <li>• insufficient checks on warehouse and storage conditions, on production process and on raw materials used in local processing (checklist as per the contract agreement for raw materials and production process inspection was not used);</li> <li>• inability to detect high microbial levels in date paste or date bars or presence of foreign material in date bars (lab tests as required and not as per WFP specifications);</li> <li>• poor practice observed in recent supplier visits attended by WFP staff; and</li> <li>• inability to detect vegetable oil seal issue and leakage.</li> </ul> <p><u>Underlying causes:</u> Lack of understanding of other players in the market and other arrangements that can be used to support further inspection activities, for example, regional inspection company LTA. Performance of inspection company not actively monitored and/or enforced by WFP.</p>	<p>The Jordan CO will:</p> <ol style="list-style-type: none"> <li>assess the market for other inspection companies with food inspection expertise and consider contracting under the regional LTA in view of the expanding number of companies supporting WFP operations; and</li> <li>establish regular capacity and performance checks of inspection companies for adequacy against contractual requirements.</li> </ol>
<p>10 <b>Early release</b> - Berm operations (Jordan CO)</p> <p>From the sample testing of rations, the audit noted that food quality and safety controls are generally operating. However, in two cases, the complexity, issues of accessibility and unpredictability of the Berm operations triggered the use of waivers for the early release of such commodities. The waivers were approved at HQ level but the necessary food quality and safety controls such as lab tests or visual checks were not performed prior to distribution.</p> <p><u>Underlying causes:</u> Insufficient planning and management of the risks related to food quality and safety at the Berm.</p>	<p>The Jordan CO will, in consultation with OSCQ and Procurement, develop stand-by agreements with selected partners where food commodities can be called forward in instances of urgent need.</p>
<p>11 <b>Exception reporting</b> – Reporting food quality and safety incidents (corporate)</p> <p>The Jordan CO did not promptly report internally and externally the incidents relating to the rejection of date paste (67 mt) by a local factory as unfit for production or to the expired date bars (40 mt). Such food quality and safety incidents require donor approval mediated through PG and pose a risk to donor relations. They also result in significant costs and efforts for destruction of the condemned stocks. Furthermore, delays in reporting the</p>	<p>OSC will revise its incident reporting protocol to ensure compulsory prompt and early reporting of food quality and safety incidents at country office level.</p>

Observations	Agreed actions
<p>incidents do not allow for timely lessons learned and revision of processes to remedy the gaps identified.</p> <p><u>Underlying cause</u>: OSCQ is developing food quality and safety incident reporting protocols, which comprise a corporate tool for reporting such incidents. However, its use is on a voluntary basis.</p>	

## Annex A – Summary of Categorization of Observations

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

Observation	Risk categories			Underlying cause category	Owner	Due date
	ICF	WFP's Management Results Dimensions	WFP's Risk Management Framework			
1 <b>In-kind donations</b> – guidelines, accountability and supplier audit	Strategic	Processes and Systems	Institutional	Guidance	OS OSCQ	30 June 2017
2 <b>In-kind donations</b> – reliance on government controls and estimating in-kind needs	Operational	Programmes	Institutional	Compliance	Jordan CO Lebanon CO	15 March 2017 30 June 2017
3 <b>In-kind donations</b> – warehousing & stock record keeping	Compliance	Partnerships	Institutional	Guidance	Lebanon CO	31 March 2017
4 <b>Food processing</b> – subject matter expert review	Operational	Programmatic	Institutional	Best practice	OSC	30 June 2017
5 <b>Food processing / in-kind donations</b> - third party risk	Processes and Systems	Processes and Systems	Institutional	Resources	Jordan CO Lebanon CO	31 May 2017 31 March 2017



Observation	Risk categories			Underlying cause category	Owner	Due date
	ICF	WFP's Management Results Dimensions	WFP's Risk Management Framework			
6 <b>Food processing</b> – inconsistent quality in current school feeding programme	Operational	Processes and Systems	Institutional	Guidance	Jordan CO	30 June 2017
7 <b>Incident management</b> – inadequate follow-up on mitigation decisions	Reporting	Processes and Systems	Institutional	Resources	Jordan CO	31 March 2017
8 <b>Skills and capacity</b> – shift to food distribution and nutrition activities	Resources	People	Institutional	Resources	Jordan CO	30 June 2017
9 <b>Performance of inspections</b> – capacity and performance issues with inspection company	Operational	Processes and Systems	Institutional	Resources	Jordan CO	30 June 2017
10 <b>Early release</b> - Berm operations	Operational	Processes and Systems	Programmatic	Best practice	Jordan CO	30 June 2017
11 <b>Exception reporting</b> – reporting food quality and safety incidents	Reporting	Processes and Systems	Institutional	Guidance	OSC	31 March 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.<sup>6</sup>

**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.

<sup>6</sup> An audit observation of high risk to the audited entity may be of low risk to WFP as a whole; conversely, an observation of critical importance to WFP may have a low impact on a specific entity, but have a high impact globally.

	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.

### 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."<sup>7</sup> WFP recognises five interrelated components (ICF components) of internal control, all of which need to be in place and integrated for them to be effective across the above three areas of internal control objectives.

**Table 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 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.
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<sup>7</sup> OED 2015/2016 para.7

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:

**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

CBT	Cash-based Transfers
CO	Country Office
CP	Cooperating Partner
EMOP	Regional Emergency Operations
FLA	Field Level Agreement
FT	Food Technologist
LTA	Long Term Agreement
OS	Operations Division
OSC	Supply Chain Division
OSCQ	Food Quality and Safety Unit
PG	Partnership Governance and Advocacy Department
Q & Q	Quality and Quantity
RB	Regional Bureau
RBC	Regional Bureau in Cairo
SOPs	Standard Operating Procedures
UNHCR	United Nations High Commissioner for Refugees
USD	United States Dollar
WFP	World Food Programme