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INVESTIGATION ON WFP OPERATIONS IN SOMALIA: ADDENDUM

EXTERNAL AUDITOR ADVICE TO THE EXECUTIVE BOARD: SOMALIA

This document is provided by the External Auditor in response to the Board's request. It proposes terms of reference for a detailed review of contracting, delivery and distribution of food aid in Somalia to facilitate recommendations for improvement and to enhance the framework of control.

This document is printed in a limited number of copies. Executive Board documents are available on WFP's Website (<http://www.wfp.org/eb>).



National Audit Office

WORLD FOOD PROGRAMME

ADVICE TO THE EXECUTIVE BOARD: SOMALIA

The National Audit Office (NAO), headed by the Comptroller and Auditor General of the United Kingdom, provides an external audit service to the World Food Programme (WFP).

The External Auditor has been appointed by the Executive Board in accordance with the Financial Regulations. In addition to certifying the accounts of the WFP under Article XIV of the Financial Regulations, the External Auditor has authority under the mandate, to report to the Executive Board on the efficiency of the financial procedures, the accounting system, the internal financial controls and the general administration and management of WFP.

The aim of the NAO's audit is to provide independent assurance to the Executive Board; to add value to the WFP's financial management and governance; and to support the objectives of the Programme.

This report responds to a request from the President of the Executive Board to provide advice on how to review the procedures and controls used by WFP in Somalia over contracting, delivery and distribution of food aid, with the objective of recommending improvements and enhancements as necessary.

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Introduction

1. The World Food Programme has operated in Somalia since the 1960s, and in 2009 the Programme incurred direct expenditure of some US\$268 million on food aid and related costs for over 2 million beneficiaries. As well as proving a difficult operating environment in terms of security and logistics operations Somalia has presented problems for the general administrative operations of WFP, arising from the absence of stable government and a poor reputation for business practices, the country is recognised as having significant levels of corruption (Transparency International's Corruption Perceptions Index has rated it as the lowest of the 180 countries represented in its surveys).
2. In March 2010 allegations of corruption, theft and diversion of food aid were made against the WFP's operation in Somalia by the United Nations Monitoring Group on Somalia (MGS) which echoed allegations made by the United Kingdom Channel 4 News in June 2009. These allegations are of significant concern to WFP, consequently the President of the Board has invited the External Auditor to provide advice on how to review the procedures and controls used by WFP in Somalia. The External Auditor has been asked to suggest terms of reference for a detailed review of contracting, delivery and distribution of food aid in Somalia to facilitate recommendations for improvement and to enhance the framework of control.

Executive summary

3. This report sets out what we consider to be an appropriate response to the allegations made, and a suggested approach to the terms of reference for a more detailed review of Somalia operations. The stages we have recommend are to:
 - Obtain evidence concerning the allegations;
 - Review the quality of the evidence to advise the Executive Board; and
 - Design and perform a review of food distribution controls in Somalia.
4. The WFP Inspector General and Oversight Office (OS) has assessed the risk to the Somalia programme as "high" and undertaken regular audits in recent years. In addition, OS undertook a special investigation of the allegations made by Channel 4 News. The External Audit team have monitored the work of OS in Somalia over the years and have not identified any significant breakdowns in internal control on the scale implied by the MGS report. This suggests a difference between OS's evidence on the operation of the Somalia programme, and the allegations made by MGS. In our view this difference can only be resolved by WFP obtaining and analysing the evidence supporting the MGS report, which will in turn inform the level of resources which WFP should dedicate to the response.
5. It is essential that WFP follow its usual procedures in investigating the allegations made by MGS and that the normal rules of evidence gathering and assessment are followed. This work would be subject to oversight by the External Auditor to provide independent assurance to the Executive Board on the methodology and rigour of OS's investigation. We believe that this would constitute an appropriate response while also providing the opportunity for the External Auditor to report to the Executive Board in respect of the process and findings.

6. In advance of the assessment of the evidence regarding the allegations made by MGS, it is appropriate that the Executive Board have asked us to draw up draft terms of reference for a specific review of Somalia operations. We are recommending that the draft terms of reference cover five key areas:
 - Review the analysis of the level of risk assessment;
 - Establish the design of controls applicable to Somalia operations;
 - Assess the operation of expected controls;
 - Consider the overall effectiveness of the control environment; and
 - Assess any wider issues impacting on WFP operations.
7. Our approach is necessarily limited to the provision of advice on how WFP might wish to consider these allegations and effect an appropriate review of operations.

Scope and suggested approach

8. Recognising that our mandate as External Auditor will be completed following our reporting of the 2009 financial year to the Executive Board in June 2010, we agreed an approach with the President of the Board in March 2010. This recognised that it would not be appropriate for us to undertake either a detailed review of the allegations, or to conduct an assessment of operations in Somalia in the time available. This work must be left to our successors to complete.
9. In March 2010 the NAO presented the outline of our suggested approach to the Executive Director and to the joint meeting of the WFP's Audit Committee and Bureau. We suggested that WFP undertake three specific actions to respond to the allegations made by:
 - **Action 1: Obtaining evidence to substantiate the allegations** - During our audit and in response to requests following the publication of the MGS findings we advised of the importance of requesting the UN Secretary-General to release the detailed facts and evidence supporting the allegations made in the MGS report, and the basis on which they have estimated food losses. At present, WFP have asked, but not been provided with access to this evidence.
 - **Action 2: Reviewing the quality of the evidence to advise the Executive Board** - We have recommended that following the receipt of the specific evidence from the MGS that WFP OS should undertake a proper investigation, in accordance with its rules and regulations, to assess whether the allegations made can be substantiated. We have suggested that this work, and the review of the evidence supplied by the MGS, should be subject to oversight by the External Auditor to provide independent assurance to the Executive Board on the methodology and rigour of OS's investigation. Both OS and the External Auditor's work should be provided to a subsequent Executive Board.
 - **Action 3: Designing and performing a review of food distribution controls in Somalia** – In order to assess the adequacy of the control environment we have suggested that a detailed review of food distribution arrangements should be undertaken, this would cover the adequacy of the design of the controls, the effectiveness of their operation both as evidenced at the time of the allegations, and if possible as evidenced as operating in the field. In our opinion OS are well placed to undertake such a review the results of which should be used to inform an assessment of the control environment and any recommendations for improvement.

10. Following our advice to the Bureau and Audit Committee, the President asked the Executive Board to agree a request to approach us to advise on terms of reference for a review of Somalia operations, and how this might be carried forward by our successors. This report focuses primarily on the third action, and provides suggested terms of reference for review of Somalia operations. The advice in this report is our suggested approach, based on the experience of WFP and other international organisations. The WFP will need to ensure that these suggestions are shared as early as possible with our successor, in order that they can prepare logistics for any review, and determine any specific amendments to the approach which they may deem necessary.

Background

WFP Somalia Country Programme

11. In 2009 the WFP country programme in Somalia expended US\$268 million, directed mainly at the provision of over 250,000 mt of food aid and related costs for some 2 million beneficiaries. WFP have found Somalia an exceptionally dangerous country to work in: four staff working for WFP and non-governmental organisations (NGOs) have been murdered; there is difficulty and danger in undertaking needs assessments and monitoring activities, and the country is widely recognised as having an unstable government and to constitute a high risk for foreign staff. For safety and security reasons, the country office is located in Nairobi, the capital of neighbouring Kenya.
12. Prior to 2009 the bulk of food aid for Somalia was delivered to the port of Mombasa, Kenya. It was then transported overland to distribution points in Somalia. In 2009 Kenya closed the border with Somalia, and WFP had to find alternative delivery options. At present food aid is delivered by ship to Mogadishu, and then transported overland. However, this poses problems due to logistical constraints in Mogadishu harbour and the availability of suitable dock-side warehousing. WFP is taking action to improve the harbour and facilities in Mogadishu to enhance the efficiency of operations.

Relevant audit work in Somalia

Internal audit

13. The role of Internal Audit is to assess and report on the operation of internal controls within WFP and to provide assurance to the Executive Director regarding their operation. As part of this process OS develops an annual programme to provide this assurance. The Internal Audit unit of OS have undertaken regular audits of the control regime operated in Somalia from the office in Nairobi. OS have assessed the risk profile of the Somalia programme as "high" and responded by undertaking regular audits. The most recent audits were undertaken in July 2008 and November 2009.
14. In addition to these planned audits, OS's Investigation Unit visited the county office in the autumn of 2009 to follow up allegations arising from the United Kingdom Channel 4 News investigation. OS have initiated an analysis of the MGS allegations, but would need the cooperation of MGS in providing access to the evidence base underlying the allegations. We are of the view that no investigation can be effective without the presentation of the evidence in support of the MGS allegations.

External audit

15. The work of the External Auditor is focused on the certification of the financial statements, and in assessing operations within the context of the value and risk to the audit opinion. Each year an assessment is made of the levels of audit risk, the planned coverage by OS and cumulative knowledge and understanding of the business. Over the period of our tenure we have reported our planned visit programme to the WFP Audit Committee, and have sought to place reliance of the work on OS to prevent duplication of audit effort.
16. Based on our monitoring of the level of risk identified by OS in its work in 2008, and its plans for coverage in 2009 we did not determine it necessary to perform an audit of Somalia operations, instead choosing to place reliance on OS work. This allowed us to use our resources to focus on other operations including the Darfur region of the Sudan, which we assessed as high risk on financial and operational criteria. Our programme of visits during the 2008–2009 biennium also included visits to assess controls and finance in each of the regional bureaux and five other countries. The results of these visits did not identify any material risks to our audit of the financial statements.

The Allegations and WFP Responses

Allegations made by Channel 4 News

17. On 15 June 2009 the United Kingdom's Channel 4 News broadcast an item alleging that WFP food aid was being stolen and sold in the markets in Somalia. These allegations were subject to immediate investigation by the country office, and in August 2009 the OS Investigations Unit took over the investigation. Due to security concerns, WFP staff could not enter Somalia, so a local firm employing Somalis was engaged to carry out an in-country review. OS published their report on the allegations in December 2009. The details of the allegations and OS's conclusions are set out below:

Channel 4 News' Allegations and OS's Conclusions

Allegation	Conclusion Reached by OS Investigation Unit
Creating fictional refugee camps and misappropriating food rations sent to those camps, involving the bribery of WFP staff	No evidence was found concerning the creation of fictitious internally displaced person (IDP) camps and the bribery of WFP staff.
Traders buying food directly from WFP staff, or from staff working for WFP Cooperating Partners	No evidence that country office staff or cooperating partners were selling food directly to traders.
A large amount of WFP bagged food aid was found on sale in the markets	OS found that WFP food was available for sale in the markets. They found that beneficiaries sold part of their rations to buy other necessities. OS found no other source of WFP food in the markets.
Beneficiaries receiving partial rations with the balance being sold in local markets or used for paying for security services or for ration cards	OS found some evidence of short delivery of rations, but considered it was due to a number of reasons. There was no evidence that diversion of food was one of those reasons.

Allegation	Conclusion Reached by OS Investigation Unit
Transporters delivering only a proportion of the food aid on their lorries, the balance being taken to markets for sale	When a lorry is making multiple drop-offs, it will leave with food on-board. OS found no evidence that this food was diverted to the markets.
The journalist witnessed refugee children in the Afgoye Corridor having only boiled leaves to eat over a four-day period.	OS concluded that due to access limitations, static beneficiary lists, pipeline breaks and postponement of distribution during the harvest season, it is entirely possible that some IDPs did not receive WFP food aid. However, OS did not identify whole segments of the Afgoye Corridor relying on boiled leaves as their only source of food.

Source: External Audit analysis of OS's Report

Allegations made by UN Monitoring Group on Somalia

18. On 10 March 2010 the UN Monitoring Group on Somalia published a report that was critical of WFP operations in Somalia and contained allegations of extensive diversion of food aid and other irregularities relating to WFP's operations. We have noted that the WFP has provided an initial response to these allegations which are currently subject to a review by OS. The results of this review have not yet been made available to us, although we understand that WFP has not received any corroborating evidence from the MGS.

Summary of MGS Allegations and Response of WFP Executive Team

Allegation made by MGS	WFP Executive Team Briefing to the Board
50 per cent of food aid to Somalia was diverted to non-beneficiaries.	WFP has questioned the evidence of such a massive diversion of food aid, given that 50 per cent would be some 130,000 mt, or about 7,000 truckloads.
80 per cent of food delivery contracts in 2009 went to three contractors.	The percentage of contracts in 2009 that went to the three contractors was 66 per cent, down from 81 per cent in 2008. Since November 2009 WFP was trying to allocate contracts more equally. The Somalia country office has been instructed to give no new contracts to the three contractors accused of forming cartels.
The looting in a livestock market on 25 September 2008 was staged.	WFP believe it to be genuine looting. The company concerned had in any case replaced the cargo in full.
There was another large diversion in June 2009.	No evidence of losses or looting was found: WFP had receipts for the food delivered.
The road from Eel Ma'aan port to Ilasay airstrip is not used for humanitarian aid delivery.	The road is used by WFP trucks to circumvent a dangerous transport route.
There is an apparent conflict of interest between transporter Deeqa Construction and the WFP cooperating partner SAACID.	WFP became aware of the possible conflict in October 2009; the transporter and cooperating partner no longer work in the same areas.

Source: External Audit summary of WFP Board Briefing Paper, 12 March 2010

Draft Terms of Reference for a review of Somalia operations (for discussion)

19. Based on our review of the evidence available, and our understanding of WFP's business and control framework, we recommend that WFP adopt a systematic approach to reviewing the controls over contracting, delivery and distribution of food aid in Somalia. This approach is based on the established audit methodology of reviewing the design of the controls which should be in operation, assessing the extent to which they were operating, and making an assessment of whether controls were appropriate and effective both at the time of the allegations, and as currently operated.
20. Our suggested approach provides details of the nature and extent of enquires that we would consider necessary to form a view on the control environment in respect of food distribution in Somalia. We have made suggestions on how to perform the review and the evidence that we would require to support any analysis and conclusions and to provide the basis for making recommendations.
21. Our expectation is that the review would be undertaken under the auspices of our successor as External Auditor. We believe OS are well placed to lead the detailed review together with WFP management in Headquarters, the country office and Somalia. OS and management have the knowledge and experience of complex and high-risk operations and this will be important given the lack of familiarity with WFP processes. This approach and the means of delivering it will of course be determined by our successors, as they will have their own professional perspective on how these matters might be investigated.
22. In order to ensure that WFP obtain the maximum value from this review the principal output should go beyond merely a retrospective assessment of the control regime at the time of the allegations and focus on providing recommendations to:
 - Strengthen the cost-effectiveness of current procedures and controls;
 - Enhance monitoring regimes and mechanisms to increase the level of oversight and assurance to management in respect of the operation of controls;
 - Identify any controls and procedures that are duplicated or redundant or which might create additional risk to staff; and
 - Provide an assessment of how findings within the report might be applied to other complex, high-risk situations.

Specific areas for review

Step 1. Review the analysis of the level of risk. *The design of a framework of control should always be proportionate to the risk faced. This would require documentation of the specific risks facing WFP and UN operations in Somalia, and identify the level of risk which WFP considered acceptable (the risk appetite). Evidence should be provided documenting the actions taken over the past year to mitigate any identified risks.*

23. Evidence to be provided should include:

- Review by the country office of risks to the WFP programme in Somalia, and wider UN consideration of risks in-country.

What we would expect to see:

- clarification of the WFP/Somalia risk appetite (e.g. tolerance of minor losses, small payments of money or food to checkpoints);
- a risk register covering country, programme and project risks, with UN considerations (risks might include: identifying the right beneficiaries, security, delivery pipeline issues, quality of food, pay-offs, food distribution, theft of food at each stage of the delivery pipeline, risks from delivery partners, checking deliveries, deliberate manipulation of records, division of duty, rotation of staff);
- a risk mitigation strategy: actions taken and planned to mitigate risks;
- actions taken in the past year to address and mitigate each risk.

Step 2. Establish the design of controls applicable to Somalia operations. *The first stage of the review should be to establish and document the design of the systems of internal control within Somalia operations. WFP Headquarters provides guidance to country offices on the design of controls applicable to large and complex operations. These procedures and controls should cover all aspects of WFP's business including the key areas of contracting, delivery and distribution of food aid. Any review should assess the extent to which these controls are appropriate for the nature of the operations in Somalia.*

24. Action to be taken would include:

- Obtain from WFP Headquarters a summary of the key financial and operational procedures and controls which have been established by the Executive Director as applicable to the operations in Somalia in the areas of contracting, delivery and distribution of food aid.

What we would expect to see:

- contracting procedures (including contract letting, vetting of potential contractors, approved contractor lists, anti-fraud procedures, monitoring of contract performance);
- advice on the control of the delivery of food (such as convoys, warehousing, escorts and militia, payment of bribes);

- advice on how to distribute food and check that it has reached its intended beneficiaries (use of NGO partners and government agencies, evidence of receipt by beneficiaries, oversight by WFP, bulk deliveries and drop-off points); and
- advice from Headquarters to the country director on self-assessment of controls to confirm that they are operating effectively.
- Consider the extent to which the WFP's consideration of the use of technology by other logistical organisations could enhance the current control framework and aid in the tracking of deliveries.

Step 3. Assess the operation of expected controls. *Against the expected controls framework an assessment should be undertaken to identify to what extent expected controls operated both during the period of the allegations and the controls that can be currently evidenced in operation. This will include the provision of appropriate evidence by the country office to substantiate the operation of controls. The country office should also explain the processes they adopted for regular reviews of the operations in Somalia to confirm compliance, including any follow-up action. This is particularly important given that the country office is in neighbouring Kenya.*

25. Evidence to be provided might include:

- Obtain from the country office an analysis of the procedures and controls established by Headquarters and their implementation in Somalia;
- An analysis of the system used by the country office to ensure that the procedures and controls have been implemented in Somalia; and
- Verification of evidence, potentially to include verification of actual practices used if the security circumstances permit.

What we would expect to see:

A *step-by-step* analysis of key procedures and controls required by Headquarters and how they were met by the procedures and controls adopted in Somalia;

- a description of the procedures and controls used by the country office in Kenya and in the field in Somalia and evidence that these procedures were followed (these should include desk notes on procedures, local procedure manual, and regular reporting of processing);
- monitoring visits by independent inspectors (including checking warehouse procedures and stocks, review of operations of implementation partners, review of ration cards, assessment of in-country activity, follow-up to previous visits and recommendations); and
- details of warehousing, transportation and distribution security arrangements.

Step 4. Consider the overall effectiveness of the control environment. *The evidence of risks and controls should be reviewed to conclude on the country office's compliance with the expected procedures and controls, and to establish whether an effective system of internal control was maintained, appropriate to identified risks. If any weaknesses are identified, the potential losses that might arise should be quantified.*

26. Evidence to be provided might include:

- Over recent years OS have undertaken standard country reviews of the operations in Somalia and the Inspection Unit has undertaken a special investigation of Channel 4 News allegations. These reports should be reviewed to extract evidence of the country office's compliance with the established procedures and controls.

What we would expect to see:

- list of recommendations and evidence from the country office that identified issues have been addressed and resolved to the satisfaction of OS;
- quantification of any issues identified, to facilitate assessment of the cost-effectiveness of any proposed changes.

Step 5. Assess any wider issues impacting on WFP operations. *Any issues arising in respect of the operation of controls in Somalia should be considered within the wider context of WFP operations to maximise the benefits of the review and to inform the design and operation of food distribution controls in other WFP operations.*

27. Evidence to be provided might include:

- Identify any weaknesses in the framework of controls established by Headquarters;
- Confirm that Headquarters procedures have been implemented;
- Establish the adequacy of the evidence available to the country director that controls were in place and operating effectively;
- From the allegations made against the WFP, identify if they suggest any deficiency in the controls operated in Somalia or more widely across WFP operations; and
- From the work performed by OS and the country office, identify any areas where controls may not have been implemented or operated effectively.