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de Alimentos

**Executive Board
Annual Session**

Rome, 12–16 June 2006

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For consideration

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REPORT OF THE INSPECTOR GENERAL



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NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for consideration.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal point indicated below, preferably well in advance of the Board's meeting.

Director, OSD:

Mr A. Khan

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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms C. Panlilio, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).



EXECUTIVE SUMMARY

In accordance with Article VI (2) (b) (viii) of the WFP General Regulations, the Board is provided with a biennial report of the Inspector General for its consideration and forwarding to the United Nations Office of Internal Oversight Services, as established by Board decision WFP/EB.3/96/3. This is the sixth report of the Inspector General and covers the period from January 2004 to December 2005.

This document:

- presents an overview of the mission of the Oversight Services Division, its strategy, the standards it operates under, the resource availability, the activities, the quality assurance and client satisfaction;
- summarizes audit, investigation and inspection activity and management challenges highlighted through this work and Management's response thereto;
- reports total losses of over US\$8.8 million and recoveries of funds and assets of over US\$1.57 million during the period;
- provides a broad picture of trends as requested by the Board;
- provides information on the follow-up of "best practice initiatives";
- describes cooperation with other oversight units and host governments;
- provides a preview of work in 2006–2007; and
- provides a list of audits and inspections and a summary of significant investigations conducted during the biennium in the annexes.

DRAFT DECISION*

The Board takes note of the Report of the Inspector General (WFP/EB.A/2006/6-F/1) and will forward it to the United Nations Office of Internal Oversight Services along with its comments.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations (document WFP/EB.A/2006/16) issued at the end of the session.



INTRODUCTION

1. The office of the Inspector General was established in 1994 and its first report to the Board was issued in 1996. In 2001 all oversight functions¹ were consolidated and placed within an Oversight Services Division (OSD) headed by the Inspector General and Director, OSD. In 2003 the evaluation function was detached from OSD and placed under the newly created Results Based Management Division (OEDR). In 2005 the Executive Director endorsed and approved the Charter for the Oversight Services Division which can be found in Annex I.
2. This report covers 2004–2005, and is the sixth in a series of reports by the Inspector General to the Board.

MISSION

3. OSD's mission is to provide the Executive Director with independent and objective assurance, investigation and consulting services that are designed to add value to and improve WFP's operations. It achieves this through internal audits, inspections, investigations and other advisory services.

STANDARDS

4. OSD carries out its audit function in compliance with the standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA), and its investigation function in conformity with the Uniform Standards for Investigations adopted by the Third Conference of International Investigators of United Nations Organizations and Multilateral Financial Institutions.

STRATEGY

5. The oversight strategy for the biennium was embedded in a broad range of corporate governance initiatives undertaken by WFP, either through OSD or otherwise, to strengthen its internal control environment. These included, among others, results-based management, risk management, the strengthening of the internal audit committee and strengthening of financial management.
6. Following a risk-based approach for field offices, OSD adopted a strategy to audit all high-risk country offices annually and all others in a three-year cycle, keeping in view the work plan of the external auditor. Field offices were ranked on the basis of risk, with about 26 ranked as "high risk". As they were unlikely to be audited because of their low-risk profile, some country offices were covered through inspections conducted by the Office of Inspections and Investigations (OSDI). Separate risk-based strategies were adopted for audit of Headquarter entities and for information technology (IT).

¹ Office of Internal Audit (OSDA), OSDI and Office of Evaluation (OEDE).



7. Key innovations in the strategy were client orientation and enhanced management consultation. This resulted in enhanced prioritization and the effective and efficient use of resources. Risk assessment and prioritization of the field offices as well as of key Headquarter and IT entities were undertaken in consultation with Management.
8. Although conducting investigations remained the key priority of OSDI, proactive elements of the strategy to reduce risk of fraud, corruption and mismanagement were also pursued throughout the biennium, such as promotion of Hotline, preparation and distribution of awareness posters, issue of notices from the Inspector General, the conducting of management briefings and active participation in country director trainings.

RESOURCES

9. To pursue its strategy OSD received increased resources during 2004–2005 compared to 2002–2003. Table 1 gives a comparison:

	2002–2003	2004–2005
PSA fund (in million USD)	3 373	5 586
Professional	8	16
General service	7	8
Total OSD staff	15	24

10. Some supplementary resources were made available through TNT and the Department for International Development to work mainly on enterprise risk management (ERM) and through the *pro bono* services of PricewaterhouseCoopers (PwC) for the auditing of WFP's response to the Indian Ocean tsunami. In addition, regional bureaux, country offices and other divisions supplemented investigation services by supplying subject-matter experts on major cases and local staff for conducting investigations under OSDI direction as necessary.

ACTIVITY

11. OSD carried out the following key activities during the biennium in comparison to 2002–2003:

	Internal audit				Investigation	Inspections
	Field	Headquarters	IT	Advisory services		
2002-2003	24	9	2	185	77	6
2004-2005	62	13	1	255	150	7



12. There was a major increase in oversight activity during the biennium. All high-risk field offices were audited annually, except for those where management had made specific requests for more time in order to implement recommendations emanating from the prior year audit, or where an external auditor visit was expected. Annex II gives a detailed list of audit and inspections and Annex III provides a summary of key investigations.

QUALITY ASSURANCE

13. OSD had commissioned an external review in 2003. This resulted in benchmarking OSD work processes against industry best practice. During the biennium OSD undertook 49 projects to implement the recommendations of the review and to strengthen its internal working. OSD is subjecting itself to further reviews in 2006.
14. The Institute of Internal Auditors (IIA) conducted a quality assessment of OSDA in February 2006 to:
- assess conformity of its activities to the IIA's International Standards for the Professional Practice of Internal Auditing (Standards);
 - evaluate its efficiency and effectiveness; and
 - identify opportunities to enhance its management of resources and work processes.
15. It concluded that "Overall the OSDA Activity 'generally conforms'² to the standards". OSDI will be peer reviewed by the Inter-American Development Bank and the European Anti Fraud Office (OLAF).

CLIENT SATISFACTION

16. As part of its client-focused approach, at the conclusion of each audit and inspection engagement, OSD asks for feedback on the process from the entity that has been reviewed. This is carried out through a standard client satisfaction survey. The survey consists of 20 questions covering five key areas of engagement, which respondents are asked to rate on a scale of 1–5 where 1 represents "not at all satisfied" and 5 "extremely satisfied". Overall, the clients/managers rated OSD as 4.1 "satisfied". Annex IV gives the ratings across key areas. OSD uses the survey results to identify and implement measures that add value and thereby continually improve its service delivery to its clients.

² Extract from Final Report. The IIA provides a system of rating the level of conformity to the standards, which consists of three categories: generally conforms, partially conforms, and does not conform.

In our terminology, "generally conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in accordance with the standards, with some opportunities for improvement, as discussed in our recommendations. "Partially conforms" means that the activity is making good-faith efforts to comply with the requirements, but has fallen short of achieving some of their objectives. Still, the exceptions found did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does not conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

Overall the OSDA activity "generally conforms" to the standards. The standards are divided into two major categories: "attribute standards" and "performance standards". It is the opinion of the quality assurance team that the OSDA activity at United Nations WFP generally conforms to the attribute standards and the performance standards. It also "generally conforms" to the Code of Ethics, which is a part of the IIA Professional Practices Framework.



MANAGEMENT CHALLENGES

17. WFP's mission is to use food aid to support economic and social development, to meet refugee and other emergency and protracted relief food needs and to promote food security. The goal of WFP's Strategic Plan is to contribute to meeting the Millennium Development Goals through food-assisted interventions targeting poor and hungry people. The plan highlights five strategic and seven management objectives. It also articulates five corporate risks. During the biennium, consistent with its mandate, OSD has aimed to provide independent assurance, add value and recommend improvements to WFP's operations.
18. OSD recognizes that during the biennium Management undertook several initiatives to improve its processes and procedures and to enhance its performance. Based on work undertaken and/or reports issued in 2004–2005, OSD considers that, despite progress made, WFP continued to face challenges in the following areas in ensuring that its objectives are met in compliance with its policies, procedures and rules and regulations.

Financial Management and Reporting

19. Recognizing the need to strengthen its financial management, WFP established a "Strengthening Financial Management Fund" with an allocation of US\$6.3 million in 2004–2005. This allowed recruitment and training of finance staff, improvement of financial reports and issuance of a consolidated finance manual. The fund is to continue in 2006–2007. OSD audits of interim financial statements and of country offices as well as investigation of financial fraud in the Johannesburg regional bureau (Southern Africa) (ODJ) indicate that, among others, the following areas need continued management attention:
 - appropriate segregation of duties;
 - reconciliation of bank accounts and review thereof;
 - reconciliation of vendor accounts and review thereof;
 - maintenance of vendor accounts in WFP Information Network and Global System (WINGS);
 - cross-charging of expenditures between programme categories;
 - accounting for commodity loans and borrowings between programme categories; and
 - strengthening of controls in the electronic payment system.
20. Audit and investigations made 461 recommendations in the area of financial management and reporting. Of these, 22 emanated from the investigation of financial fraud in ODJ. Management has initiated action on these recommendations through a series of projects for enhancement of financial management.

Resource Mobilization

21. WFP is a voluntarily funded organization. As a result, raising resources to meet needs is a major management objective. The strategy to raise resources relies on strengthening resource mobilization efforts in traditional donor countries, encouraging emerging donors, engaging the private sector and leveraging. During the biennium, management has issued policy and guidance on: WFP private donor guidelines; procedures for the emerging donor-matching fund special account; consolidation of locally generated funds within WFP's



financial and administrative framework; and new partnerships to meet rising needs — expanding WFP's donor base. While substantial progress has been made in streamlining policies and procedures, OSD's audit of the Interim Financial Statements 2004–2005 in addition to field office audits during 2004–2005 indicate that additional work is required on issues related to:

- full-cost recovery from governments' in-kind contribution;
- full-cost recovery on services rendered on behalf of third parties (e.g. governments);
- full-cost recovery from private sector contributions; and
- valuation and recording of in-kind commodity and in-kind service contributions.

22. The issues involved are complex. Management is in the process of developing additional guidelines for dealing with matters of full-cost recovery.

Emergency Response

23. WFP is one of the leading humanitarian emergency response agencies of the United Nations system. Its first strategic objective is to save lives in crisis situations. Its major corporate risks arise from its involvement in natural and man-made emergencies all over the world. In 2004–2005 it dealt with at least four major emergencies — Sudan, the tsunami, Niger and Pakistan. The Executive Director expects to have a support structure that would allow WFP to respond effectively to up to three sudden, major emergencies at the same time. OSD's audit and investigation work highlighted several areas of improvement that are needed in order to realize these objectives:

- strengthening emergency response mechanisms;
- ensuring adequate control frameworks at the onset of operations; and
- providing adequate back-office support at the onset of emergency.

24. Operations Department (OD) organized a workshop that focused on WFP's emergency response mechanism. It also carried out a study, the recommendations of which are in the process of being implemented. In addition, the Executive Director has recently issued a directive concerning activation protocol for responding to corporate emergencies. OSD understands that work is also under way to deal with internal control and back-office support issues at the onset of an emergency.

Commodity Management and Losses

25. In 2004–2005 WFP handled 10.8 million mt of food. Its key tool in commodity management and tracking is the Commodity Movement Processing and Analysis System (COMPAS), and the roll-out of its second version is almost complete. WFP relies heavily on COMPAS for generating post-delivery loss reports and for reporting in Standard Project Reports. OSD's audit, investigation and inspection work indicated a breakdown in commodity-management controls, particularly at the onset of emergencies. The areas requiring strengthening include:

- clearing backlogs in recording waybills in COMPAS;
- tracking commodities to the final distribution to the beneficiaries;



- capturing commodity borrowings and repayments accurately;
 - enhancing and improving monitoring mechanisms of food distribution; and
 - improving warehouse management.
26. As a result of an investigation into food diversion in Cambodia, OD issued a circular directing the international staff of all country offices to spend at least seven days a month in the field in order to inspect food for work projects and monitor food distribution; in addition, a new manual for food for work activities has been created.

Programme and Project Management

27. All WFP operations are implemented in some form of programme or project. It is as a result vital that its programme and project management and reporting commands have the full confidence of stakeholders. OSD's audit, investigation and inspection work has identified certain areas that continue to challenge management. These are:
- programme implementation and reporting by cooperating partners;
 - monitoring systems and procedures;
 - coordination between programme and logistics;
 - needs assessment and beneficiary targeting;
 - approval procedures for bilateral operations; and
 - corporate programme database/information system to manage programme activities.
28. Of the areas listed above, the elements of programme implementation and reporting from cooperating partners and monitoring systems pose the greatest challenge to Management. Coupled with weaknesses in the commodity-management system, if these are not efficient, adequate assurance that all food has been distributed to intended beneficiaries and that there have been no abnormally large food diversions and/or food losses cannot be obtained. OSD understands that a Common Monitoring and Evaluation Approach is being put in place that should address some of the recommendations.

Procurement

29. WFP undertakes significant amount of food, non-food items (NFI) and transport procurement. The total amount of procurement in the biennium amounted to approximately US\$3.4 billion, of which food was US\$1.8 billion, NFI US\$530.1 million and transport US\$1.1 billion. WFP has an elaborate system for reviewing and approving procurement, including a unique review mechanism of the Committee on Commodities, Transport and Insurance (CCTI) for high-value food and transport and related activities contracts. OSD's audits brought the following weaknesses in procurement practices to the attention of management:
- absence of formal procurement procedures for contracting ocean freight;
 - necessity for updating guidance manuals for both food and non-food items;
 - absence of formal procedures for selection of suppliers;
 - inadequate compliance with pre-award reporting requirements; and
 - lack of adherence to rules, regulations and delegated authority, particularly in emergency situations.



30. Management agreed to further strengthen controls by making the CCTIs and Headquarters Food Purchase Committee more proactive and relevant. It also agreed to issue updated manuals and guidelines.

Air Operations

31. WFP undertakes humanitarian air operations on behalf of the United Nations system by managing the United Nations Humanitarian Air Service (UNHAS). This is a major undertaking and has grown in proportion. At a peak period, for instance, UNHAS was managing an average of 60 aircrafts for various operations. OSDA audits reviewed the air operations and their management both in the field and at Headquarters. These reviews identified the following challenges facing WFP in managing air operations:
- full implementation of International Civil Aviation Organization recommendations;
 - strengthening of controls and procedures in the area of contractor selection and review;
 - establishment of procedures at the onset of operations;
 - strengthening of procedures for passenger booking and cargo movement to improve transparency; and
 - development of standard reports to highlight performance.
32. OSD findings were consistent with those reported in the External Auditor's comprehensive report on the Review of the WFP's Air Operations (WFP/EB.A/2004/Inf/8-A). Management informed the Executive Board that it had implemented the recommendations emanating from this report.

Transport and Logistics

33. Transport and logistics is the backbone of WFP operations. In most emergency situations, logistics staff are the first to move and the first to respond. Lapses in transport contract controls were found to be one contributory factor in fraud committed in ODJ. OSD's audit and investigation work in the field indicated the following challenges for management:
- strengthening of coordination between programme and logistics to ensure food reaches the beneficiaries;
 - strengthening and following of procedures in selecting transport companies, extending contracts and reporting to CCTI;
 - strengthening of truck fleet management and ensuring its full utilization;
 - ensuring payments are made to contractors on the basis of valid contracts; and
 - ensuring advances to transport companies are handled and tracked properly.
34. The Transport and Procurement Division (ODT) management has taken several initiatives in order to implement OSD recommendations. This has included the design of a fleet-management system, and the preparation of fleet specifications after a review of the requirements. In addition, ODT has directed all logistics staff to ensure proper documentation for *all* contracting and particularly for events arising from non-compliance with established contracting procedures. Planning for logistics operation has been enhanced and training programmes for logistics officers are planned. ODT also plans to carry out review missions of its own annually.



Information Technology

35. WFP has invested significantly in its information systems and telecommunications infrastructure. This has resulted in significant benefits to the Programme. WINGS is available to over 90 percent of country offices. In addition, over 90 percent of WFP offices are interconnected through economical very small aperture terminal connectivity. Telecom and email connectivity are the back-bone of all emergency operations and WFP has established a leading role in providing inter-agency telecom services. The Oracle database for the Systems, Applications and Products (SAP) production system is secured adequately against internal and external hacking threats. Three major areas that require immediate attention of management are:
- preparation of business-continuity and disaster-recovery plans;
 - updating of the IT strategy, providing high-level direction and control over the value IT needs to deliver and the IT risks that need to be managed; and
 - reviewing of Systems, Applications, and Products in Data Processing (SAP) configuration and control structure to ensure that SAP-provided application control structure is maximized and that conflicting profiles are not assigned to staff, and further that the enterprise resource planning package is configured in a manner that it provides useful report and other decision-making information for country offices.
36. Management has agreed to introduce IT Infrastructure Library standards in managing its service delivery to the Programme and to prepare a “business continuity plan”. Improvements are required in some key IT service delivery processes to ensure that investment in IT systems and infrastructure is controlled adequately.

LOSSES AND RECOVERIES

37. Losses of more than US\$8.8 million were documented during the biennium. This significant increase in losses compared to the previous biennia is primarily attributable to the findings of three main cases. Two of these relate to commodity losses discovered in Cambodia (US\$1.8 million) and in Sudan (over US\$400,000). However, in Sudan the exact amount of the full loss has not yet been calculated. The third major case was a loss of US\$6.047 million owing to financial fraud in ODJ. Over the reporting period, more than US\$1.57 million was recovered. Most of this relates to Burkina Faso and Cambodia where because of management persistence WFP is making good progress in recovering the full extent of the losses.

TRENDS

38. OSD identified ten areas that present particular challenges to Management mentioned above. Among these, commodity management and losses, financial management, procurement, programme and project management and transport and logistics attract the highest number of observations. Indeed, these five areas constituted 58 percent of all observations raised by internal audit, a result which is consistent with the results found from work carried out by inspections and investigations. Furthermore, this result is consistent with the position prevailing in 2002–2003 and reflects a need for continued management focus, particularly at the onset of emergencies.



39. OSDA classifies audit issues by five high-level underlying causes in its database. For the period under review, consistent with the prior period, the “compliance” category continues to dominate as the underlying cause for audit observations. OSD holds that this is mainly because of WFP’s work in emergency situations, which place more stress on compliance with prescribed rules and procedures. It is important that Management examine whether existing rules, regulations and procedures are appropriate for emergency situations. If not, rules, regulations and procedures that are more realistic and applicable yet manage to maintain adequate controls should be designed.
40. On the investigation side, the number of complaints recorded almost doubled compared to the previous biennium. There was a significant increase, for example, in cases involving harassment, abuse of power and sexual harassment/exploitation categories. There were also more cases involving commodity losses. OSD believes that these increases are a result of enhanced staff awareness of the Hotline, high-profile investigations elsewhere in the United Nations system, issuance of various circulars by the Executive Director regarding sexual exploitation, management’s response to issues raised by WFP’s Global Staff Survey and advocacy activities of the Inspector General’s office.

OVERALL MANAGEMENT RESPONSE

41. As part of the “Best Practice Project”, OSD has recently put in place a robust mechanism for following up the implementation of its recommendations. OSD will begin reporting to the Board from the coming biennium on this indicator of management responsiveness on a consistent and statistical basis. However, in the absence of formal statistics, some broad observations on management response can be made. OSD has noted enhanced senior management engagement with oversight in order to understand the issues raised and to initiate corrective actions. Thus, all oversight engagements are concluded with senior management debriefing on issues emanating from them. The Audit Committee’s engagement both with OSD and the Management on emerging risks has increased management focus on issues raised by OSD. Senior management has undertaken monitoring of all high-risk issues arising from OSD’s work.
42. Management has generally accepted all OSD recommendations. A formal mechanism was put in place in 2005 to resolve disputes that might arise from OSD work between OSD and Management. No issue has been taken to this mechanism since its inception.

PROGRESS ON “BEST PRACTICES IN OVERSIGHT MECHANISM”

43. At its Third Regular Session in 2003, the Board considered the OSD paper “Best Practices in Oversight Mechanisms” (WFP/EB.3/2003/5-D/1), which outlined four best practices: (i) Code of Conduct; (ii) Audit Committee; (iii) Risk Management; and (iv) Statement on Internal Control.
44. OSD’s further research on Code of Conduct revealed that, because of the International Civil Service Commission Approved Standards of Conduct expected of International Civil Servants, it was not necessary to devise a new code. However, it was felt that some areas pertaining to financial and conflict-of-interest disclosures needed reiteration and strengthening. As a result, a draft policy in this regard has been prepared, and a rule change in the Staff Rules to enable disclosure compliance is proposed. It is also proposed that an Ethics Office to monitor and advise on issues pertaining to conflict of interest should be established.



45. The Executive Director strengthened the internal Audit Committee by appointing a majority of external and independent members and an external chair. The newly formed Audit Committee held its first session in August 2004. It engaged with Management, the External Auditor, and OSD to take stock of emerging risks and to gain assurance that risk and control issues are being addressed adequately. The Executive Director further plans to substitute the two internal members with external and independent members.
46. OSD supported the management in implementing risk management in WFP. The Board approved the WFP ERM policy at the Second Regular Session in 2005. OSDA conducted 46 workshops in field offices and at Headquarters, including an executive staff workshop that examined WFP's corporate risks. In its quality-assurance review report, the IIA commended OSDA for its lead role in ERM. The initiative is now being mainstreamed together with Results Based Management by OEDR.
47. The ERM policy stipulates that ERM should be based on the Committee of Sponsoring Organizations of the Treadway Commission "Enterprise Risk Management Integrated Framework"; WFP is moving towards international accounting and financial-reporting standards. With the implementation of these two initiatives, it is expected that WFP will be better placed to include a Statement on Internal Control in its annual financial statements.

COORDINATION WITH EXTERNAL AUDITORS AND OTHER OVERSIGHT AGENCIES

48. During the biennium, OSD in general and OSDA in particular maintained regular contact with the external auditors of WFP, the National Audit Office of the UK. There was particularly effective coordination in the context of the review of the Interim Biennial Financial Statements 2004–2005. OSDA also made presentations on WFP's ERM framework to the meeting of Representatives of the Internal Audit Services of the United Nations system, the Office of Audit and Performance Review of the United Nations Development Programme and some senior staff of United Nations agencies based in New York. OSDI coordinated its work with the Office of the United Nations High Commissioner for Refugees and the European Anti-Fraud Office (OLAF), and assisted the Office of Internal Oversight of the United Nations (OIOS) in an investigation in addition to participating in the Conference of International Investigators of the United Nations Organizations and Multilateral Financial Institutions.

PREVIEW OF 2006–2007

49. In its resolution 60/1 of 16 September 2005, the General Assembly requested the Secretary-General to submit, among other things, "... an independent external evaluation of the auditing and oversight system of the United Nations. This is to include the specialized agencies and the roles and responsibilities of management, with due regard to the nature of the auditing and oversight bodies in question. The evaluation would take place within the context of the comprehensive review of governance arrangements". The Secretary-General has now nominated a steering committee and commissioned PwC to undertake this evaluation. It is likely that the outcome of this exercise coupled with decisions taken as a result by the General Assembly and the respective legislative bodies will have an impact on the overall working of OSD.



50. Internal Audit will implement all recommendations emanating from the IIA review and will develop a follow-up plan for IT audits as recommended by the IIA review. In a strategic shift aimed at providing reasonable assurance based on functional audits, OSDA will focus more on auditing high-risk processes across the organization while still ensuring adequate coverage of high-risk entities and operations on a cyclical basis. Implementing this strategy would obviously entail resource implications.
51. The Investigations and Inspections Office will undergo a peer review in 2006 and will implement all agreed recommendations emerging from the review. WFP is in the process of preparing a revised policy on prevention of harassment and an abuse of power and complaints protocol. An increase in investigations of such cases by OSDI would necessitate a review of the investigative resources available within OSD. The WFP Protection of Whistleblower Policy, the Policy on Conflict of Interest and Financial Disclosures and an Anti-Fraud and Corruption Policy for WFP which is under development will be issued.
52. As indicated above, OSD received a significant increase in resources in 2004-2005 in order to implement the oversight strategy. Budgetary allocation for 2006-2007 was made on the basis of continuing the same strategy. The changes outlined in paragraphs 49-50 above suggest that there would be a need to revisit the resource requirements of OSD.
53. OSD will continue to support the mainstreaming of Enterprise Risk Management through facilitating workshops.





Executive Director's Circular

(Inspector General & Oversight Services Division)

Date: 28 July 2005

Circular No.: ED2005/007

Revises:

Amends:

Supersedes:

Charter of Oversight Services Division

Mission

1. Its mission is to provide the Executive Director independent and objective assurance, investigation and consulting services designed to add value and improve WFP's operations. It helps WFP accomplish its objectives by bringing a systematic, disciplined approach to evaluate and suggest improvements to the effectiveness of risk management, control and governance processes.

Structure

2. The Oversight Services Division (OSD) comprises two units: the Office of Internal Audit (OSDA) and the Office of Inspections and Investigations (OSDI).

Scope of Work

3. OSD provides internal audit, inspections, investigations and other advisory services to strengthen the functioning of WFP.
4. OSD's work seeks to determine whether WFP's network of risk and results based management, control and internal governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:
 - a) Risks are appropriately identified and managed, including through interaction with the various governance groups;
 - b) Significant financial, managerial, and operating information is accurate, reliable and timely;
 - c) Staff and management's actions are in compliance with policies, procedures, standards, guidelines, and applicable rules and regulations;
 - d) Resources are acquired economically, used efficiently, and adequately protected;
 - e) Continuous qualitative improvements are secured in the Organization's processes;
 - f) Allegations of irregularities (fraud, waste, malfeasance, abuse of authority, etc.) are investigated and that efforts are made to promote an ethical working environment;



- g) Opportunities for improving management control, cost effectiveness, and the Organization's image may be identified during OSD's work. This will be communicated to the appropriate level of management.

Authority

- 5. When conducting assignments OSD personnel have the following authorities:
 - a) Complete and unrestricted access to all records, documents, personnel and physical assets relevant to the subject under review at Headquarters and in the field offices;
 - b) The right to communicate directly with all levels of staff and management in order to discharge OSD responsibilities;
 - c) The right to request any staff member to furnish all information and explanations that OSD deem necessary to discharge its responsibilities;
 - d) Allocate resources, set frequencies, select subjects, determine scope of work, and apply the techniques required to accomplish audit objectives;
 - e) Have full and free access to the Audit Committee;
 - f) Apart from providing advice, the Director and staff in OSD are not involved in the management of any programmes, operations or functions but they do act as observers in key management committees.

Responsibility and Accountability

- 6. The Director of OSD is responsible and accountable to the Executive Director for the work of OSD and together with the staff of OSDA and OSDI is required to:
 - a) Provide annually to the Executive Director and the Audit Committee, and biennially to the Executive Board a report on the activity of the Oversight function summarizing significant oversight findings, recommendations and actions taken in response, and based thereon an assessment of the adequacy and effectiveness of WFP's processes for controlling its activities and managing its risks;
 - b) Develop flexible annual work plans using an appropriate risk based methodology and submit to the Executive Director for approval after receiving comments thereon from the Audit Committee;
 - c) Implement the approved work plans keeping in view their flexible nature to accommodate unforeseen assignments of priority;
 - d) Issue timely and reliable reports on the results of the work undertaken to the management, the Audit Committee, the External Auditor, and other stakeholders as deemed appropriate;
 - e) Adopt best practices in discharging oversight functions;
 - f) Use professionals with sufficient knowledge, skills, experience and any other competencies needed to meet the requirements of this charter;
 - g) Establish a quality assurance and improvement programme that regularly monitors its effectiveness and assures conformity with applicable standards and guiding principles;
 - h) Coordinate with and provide oversight of other control and monitoring functions (risk management, security, legal, ethics, environmental, external audit);
 - i) Periodically meet with the Audit Committee and provide information that will assist it in the proper discharge of its responsibilities, including satisfying itself that the internal audit function is adequate, effective and efficient.



Independence

7. The Director of OSD is appointed by the Executive Director and reports directly to her/him. This helps to secure the independence of the oversight function.

Resources

8. The Executive Director will ensure that OSD is provided with the necessary resources in terms of appropriate staffing, adequate funds and appropriate training to achieve its mission and maintain its independence.

Standards

9. OSD carries out its audit functions in accordance with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, and by the Code of Ethics established by the Institute of Internal Auditors. This Charter complies with the new Standards promulgated on 1 January 2002, which were adopted by the 33rd Meeting of the representatives of Internal Audit Services of the United Nations and Multilateral Financial Institutions on 6 June 2002.
10. Investigatory work is undertaken in conformity with Uniform Standards for Investigations adopted by the 3rd conference of International Investigators of United Nations Organizations and Multilateral Financial Institutions on 8 March 2002.

Amendments of Oversight Charter

11. The Director OSD is responsible for applying this Charter and for keeping it up-to-date. This Charter, approved by the Executive Director taking into consideration comments of the Audit Committee, shall form an annex to the Financial Rules and be communicated to the Executive Board. Amendment of this Charter is subject to the approval of the Executive Director taking into consideration the comments of the Audit Committee.

James Morris
Executive Director



ANNEX II

Audits and Inspections, 2004 and 2005

2004 Field Audit	
1	Afghanistan
2	Angola
3	Asia Bureau
4	Bangladesh
5	Burundi
6	Côte d'Ivoire
7	DPRK - Korea
8	DRC
9	Ecuador
10	Eritrea
11	Ethiopia
12	FRU US Relations
13	Haiti
14	Indonesia
15	Iraq Operation
16	Kenya
17	Liberia
18	ODPC Bureau
19	Pakistan
20	Palestine
21	PEN NY Office
22	PSPW Bretton Woods Institutions
23	Rwanda
24	Senegal
25	Sudan
26	Tajistan
27	Uganda
28	West Africa Bureau
29	Yemen
30	Zimbabwe

2005 Field Audit	
1	Albania
2	Angola
3	Burundi
4	Cambodia
5	Chad
6	Colombia
7	Egypt
8	Eritrea
9	Rwanda
10	Guatemala
11	Guinea
12	Honduras
13	India
14	Indonesia
15	Iraq
16	Jordan
17	Kenya
18	Lesotho
19	Liberia
20	Madagascar
21	Malawi
22	Namibia
23	ODB Bureau
24	ODJ Bureau
25	Palestine
26	Somalia
27	Sri Lanka
28	Swaziland
29	Tanzania
30	Uganda
31	Yaounde Regional Office
32	Zimbabwe



2004 Headquarter Audit	
1	2002–2003 Financial Statement
2	Ocean Transportation Service
3	HQ Inventory Management
4	Duty or Travel Entitlement
5	Food Procurement Service
6	Non-Food Procurement and Contracts Branch

2005 Headquarter Audit	
1	Payroll
2	ADM's Infrastructure management and construction contracts
3	Internal controls review
4	PSA, DSC, Trust Funds in HQ
5	BPR
6	2004–2005 Financial Statement

2004 IT Audit	

2005 IT Audit	
1	IT controls and governances process (technology infrastructure, change management, service continuity, systems security, access control, database management, data control and operations management)

2004 Inspection	
1	Myanmar
2	Russia
3	Bhutan

2005 Inspection	
1	Azerbaijan
2	Algeria
3	Gambia
4	Ghana

ANNEX III**SIGNIFICANT INVESTIGATIONS****A. Carry-over Cases from 2003 (completed in 2004–2005)**

1. **Entitlement Fraud (ODK).** Staff member submitted falsified dependency claims. Staff member was dismissed and funds are being recovered.
2. **Financial Fraud (ODK).** Staff member cashed cheques greater than amount justified by falsifying financial records. Losses were evaluated at more than US\$20,000. Staff member's contract was not renewed and government requested to initiate criminal proceedings.

B. 2004 Cases

1. **Sexual Exploitation (ODB).** A beneficiary made a complaint against a WFP staff member alleging he had unofficially married her and promised her a house and other goods; however, she claimed that he abandoned her when she became pregnant. DNA analysis proved the staff member was not the father of the child and the case was considered as unsubstantiated and closed.
2. **Theft of Cash (ODJ).** After the resignation of a staff member, it was discovered that more than US\$72,000 in cash that was intended for payment to transporters and other suppliers could not be accounted for. The staff member was traced to another country. However, the regional bureau in consultation with the Legal Division determined that criminal action was not possible at this time.
3. **Harassment (ODK).** A number of complaints concerning harassment and abuse of power were received from both international and national staff. A joint mission was carried out by staff from the Office of Inspections and Investigations and the Human Resources Division which recommended the physical separation of staff and administrative or disciplinary actions. The staff were separated by being assigned to different duty stations; disciplinary measures were recommended but not implemented.
4. **Entitlement Fraud (ODB).** A staff member admitted to knowingly submitting false medical claims. The funds were recovered and the staff member's contract was not renewed.
5. **Financial Fraud (ODK).** A forged cheque for more than US\$41,000 was cashed by Citibank. No evidence of malfeasance on the part of WFP staff was found; the bank refunded the money and the case was closed.
6. **Commodity Loss (ODB).** The investigation uncovered the diversion of commodities by staff of government implementing partners responsible for food-for-work projects, acting in collusion with WFP staff at the local level in all regions of the country. An engineering study was conducted by the country office in consultation with the Office of Inspections and Investigations (OSDI), and losses of more than US\$1.8 million were established. The contracts of 15 staff members involved were not renewed for cause and the Government of Cambodia agreed to recompense WFP with US\$900,000 of rice bought locally. To date, two deposits of US\$300,000 each have been paid; the last payment is due in 2007.



C. 2005 Cases

1. **Financial Fraud (ODK).** Staff member cashed counterfeit cheques totalling more than US\$100,000 with United Nations Federal Credit Union (UNFCU) on his personal account. OSDI investigation determined that the staff member was the victim of a confidence scam perpetrated outside WFP and recommended that all financial authorities delegated to the staff member be rescinded.
2. **Abuse of Power (ODB).** A country office investigation determined a staff member falsified a damage report to a WFP vehicle during private use. The staff member's contract was not renewed for cause.
3. **Food Diversion (ODJ).** The country office discovered that an implementing partner and transport contractor diverted commodities valued at more than US\$56,000. The transport agreed to reimburse WFP and US\$2,780 has been recovered to date.
4. **Sexual Exploitation (ODK).** Allegations that staff member demanded "sex for food" made by head of NGO. OSDI investigation determined that the complaint letter was falsified in translation into English. The case was considered as unsubstantiated and closed.
5. **Food Diversion (ODJ).** The country office reported irregularities in the distributions conducted by a major implementing partner. An OSDI investigation in coordination with staff from the implementing partner's regional office confirmed the irregularities and the diversion of commodities. The country office reduced the implementing partner's allotments and is in process of verifying the loss and recovery.
6. **Abuse of Power (ODD).** Claim by staff member against supervisor for improper termination of his contract and the advertising of his post. Claim was substantiated and reinstatement of staff member directed by the regional bureau. OSDI recommended strengthening of country director training concerning disciplinary process.
7. **Procurement Fraud (ODB).** Staff members admitted to submitting falsified vehicle repair bills and their contracts were terminated for cause.
8. **Sexual Exploitation (ODD).** Claim that a consultant who had resigned had been involved with a minor. OSDI investigation determined that complainant was not a minor and made recommendations regarding re-employment.
9. **Internet/email Abuse (ODK).** Staff member's contract terminated for cause after joint OSDI and ADI investigation determined that other staff member's email had been accessed without authority.
10. **Harassment and Abuse of Power (ODP formerly ODPC).** Staff member claimed that supervisor did not allow him/her to present their side of an incident. Investigation determined that claim was substantiated and the complaint was resolved through mediation.
11. **Food Diversion (ODS).** Lapses in logistical controls during complex emergency resulted in excess delays in delivery and the substitution of food bought locally from refugees for new food aid contracted for delivery. Losses estimated at more than US\$373,000. Criminal proceedings were initiated against two WFP staff involved and the country office is in the process of strengthening internal controls.
12. **Sexual Exploitation (ODD).** Allegations concerning the exploitation of trafficked women. Report submitted and disciplinary action in process.
13. **Procurement Fraud (HQ).** Staff member demoted because of irregularities in the sale of surplus articles.



14. **Email/Internet Abuse (ODJ).** Two staff members' contracts were terminated after distribution of discriminatory email.
15. **Procurement Fraud (ODJ). Staff member dismissed because of irregularities in the procurement of furniture from local suppliers.** Loss evaluated at more than US\$13,000. Criminal prosecution has been started by the local authorities.
16. **Miscellaneous (HQ).** Staff member admitted to submitting a falsified visa request from WFP for a friend. Disciplinary action in progress.
17. **Harassment and Abuse of Power (ODK).** Several staff members made complaints of harassment and abuse of power. Report submitted and ADH has requested further investigation.
18. **Financial Fraud (ODB).** A country office investigation determined that staff member had taken more than US\$1,000 from WFP funds. The staff member's contract was terminated for cause and a sub-imprest account was opened as recommended by OSDI.
19. **Miscellaneous (ODD).** Staff member admitted to making undeclared personal phone calls totalling more than US\$17,000. Funds are being recovered and disciplinary action is in progress.
20. **Financial Fraud (ODJ).** The contracts of two staff members were terminated for cause because of payment of more than US\$6.047 million to accounts controlled by them and the manipulation of WINGS in order to conceal the fraudulent payments. Criminal actions have been initiated by the South African authorities and recommendations for the strengthening of WFP controls are being implemented.



ANNEX IV

2004–2005 OSD CUSTOMER SATISFACTION SURVEY REPORT				
	OSDA-2004	OSDA-2005	OSDI-2005	Average
Scope	4.1	4.2	3.9	4.1
Process	3.9	4.2	3.8	4.0
Communication	4.1	4.4	4.3	4.3
Reporting of Findings and Recommendations	3.7	4.1	3.4	3.7
Staff	4.3	4.4	4.3	4.3
Total Average	4.0	4.3	3.9	4.1

Legend:

- 1 - Not at all Satisfied
- 2 - Not Satisfied
- 3 - Somewhat Satisfied
- 4 - Satisfied
- 5 - Extremely Satisfied



ACRONYMS USED IN THE DOCUMENT

CCTI	Committee on Commodities, Transport and Insurance
COMPAS	Commodity Movement Processing and Analysis System
ERM	enterprise risk management
IIA	Institute of Internal Auditors
OD	Operations Department
OEDR	Results-Based Management Division
OIOS	United Nations Office of Internal Oversight Services
OLAF	European Anti-Fraud Office
OSD	Oversight Services Division
OSDA	Office of Internal Audit
OSDI	Office of Inspections and Investigations
PwC	PricewaterhouseCoopers
SAP	Systems, Applications, and Products in Data Processing
UNHAS	United Nations Humanitarian Air Service
WINGS	WFP Information Network and Global System