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منظمة  
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# FINANCE COMMITTEE

**Hundred and Eighty-sixth Session**

**7–9 June 2021**

**Annual report of the Audit Committee**

*Queries on the substantive content of this document may be addressed to:*

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*Documents can be consulted at [www.fao.org](http://www.fao.org)*

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EXECUTIVE SUMMARY

- The “Annual report of the Audit Committee” is submitted to the Board for consideration.
- The Executive Summary of the “Annual report of the Audit Committee” is included within the main document presented to the Committee for its review.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to review the “Annual report of the Audit Committee” and to endorse it for consideration by the Executive Board.

Draft Advice

- **In accordance with Article XIV of the General Regulations of WFP, the FAO Finance Committee advises the WFP Executive Board to approve the draft decision as outlined in the document “Annual report of the Audit Committee”.**



World Food Programme  
Programme Alimentaire Mondial  
Programa Mundial de Alimentos  
برنامج الأغذية العالمي

**Executive Board**  
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Resource, financial and budgetary matters

For consideration

Executive Board documents are available on WFP's website (<https://executiveboard.wfp.org>).

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## Annual report of the Audit Committee

### Draft decision\*

The Board takes note of the annual report of the Audit Committee (WFP/EB.A/2021/6-C/1).

### To the Executive Board

Firstly, the Audit Committee congratulates the WFP for the sterling work done to reduce world hunger and the consequent recognition of the WFP as a recipient of the Nobel Peace Prize.

The WFP Audit Committee is pleased to submit its Annual Report to the Executive Board for consideration, as required under the WFP Audit Committee Terms of Reference<sup>1</sup> decided at the 2011 second regular session, updated at the June and November 2017 Executive Board sessions and revised at the November 2018 second regular session.

The report is intended as a summary of the principal activities and opinions of the Audit Committee from 1 April 2020 to 31 March 2021. The latter date coincides with finalization of the annual financial statements – an important focus of the Audit Committee. More detailed information on the committee's activities can be found in the Audit Committee's meeting minutes, action items attached to meeting minutes and summaries of discussions with the WFP Executive Board Bureau.

The Audit Committee stands ready to discuss the report or any other aspect of its work with the Board.

Suresh P. Kana  
Chairperson  
May 2021

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\* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.

<sup>1</sup> WFP Audit Committee Terms of Reference (WFP/EB.2/2018/10/1).

## Executive summary

The Audit Committee implemented its work plan in accordance with its terms of reference with the full cooperation of the Executive Director and management.

While there are clear areas of opportunity for improvement, no material weaknesses were identified in the governance, risk management or control processes in place across WFP that would seriously compromise the overall achievement of WFP's strategic and operational objectives. Further, no material misstatements in the annual financial statements of WFP for the year ended 31 December 2020 were brought to the Audit Committee's attention. In this regard the Audit Committee relied on assurances and presentations from management, the Office of the Inspector General and the External Auditor.

The External Auditor has agreed to issue an unqualified opinion on the audited annual accounts at 31 December 2020.

This is the tenth year that WFP is providing an overall statement on internal control. This assurance is provided on the basis of controls exercised by management, the work performed by the Enterprise Risk Management Division, the Office of the Inspector General and the self-certification provided by directors and managers in the country offices, regional bureaux and headquarters in Rome.

Overall the enterprise risk management process continues to evolve, and the work done in obtaining assurance from the regional bureaux and country offices on the formalization of risk management processes is becoming more robust, thus strengthening the second line of defence. However the Enterprise Risk Management Division's maturity must evolve further so that its work is integrated and used in decision making by the leadership team.

During the period, a special assurance exercise was performed with the aim of establishing whether the internal controls were compromised due to the operational challenges posed by COVID-19. It is comforting to note that, despite the substantial impact posed by the disease, internal controls in the field were not relaxed to any significant extent.

On the implementation of the anti-fraud and anti-corruption policy, continued awareness training of the policy has to be conducted to achieve optimal results for WFP in its aim of zero tolerance to fraud and corruption.

While no organization can confirm a comprehensive response to cybersecurity attacks, significant progress has been made to protect WFP against such attacks.

The Executive Director has set a strong tone from the top in relation to harassment, sexual harassment, abuse of authority and discrimination and protection against sexual exploitation and abuse policies. The inter-divisional standing committee overseeing the implementation of these policies continues its work diligently, and the Senior Advisor for Workplace Culture focused on initiatives to improve the culture in this area within WFP. Increased training and awareness activities are being delivered. Reporting of offences has increased significantly as has the caseload of investigations.

A new hotline available to all within WFP and external stakeholders for reporting misconduct was launched in March 2020 which offers service in multiple languages.

Despite serious challenges posed by COVID-19, the Office of the Inspector General has delivered well on its audit plan for 2020. The office has now allocated its increased funding and deployed the additional capacity and achieved a broader skills base.

The execution of the 2020 audit plan and investigations in progress was reviewed in the light of COVID-19 travel restrictions and mobility constraints. Certain audits were not completed in line with the original approved plan and the timeline for the completion of the audits and investigations has been extended. However, the revised audit plan has still enabled the Office of the Inspector General to provide assurance on the operation of WFP's internal control system.

The number of investigations arising from the implementation of the anti-fraud and anti-corruption, harassment, sexual harassment, abuse of authority and discrimination and protection against sexual exploitation and abuse policies has increased significantly and the resource base in this area is under pressure. COVID-19 has placed pressure on the conduct and finalization of investigations with the internal benchmark of six months for the completion of investigations being exceeded. However, the period of completing investigations is still within the United Nations norm of twelve months.

With the dramatic increase in humanitarian assistance expected as a result of COVID-19, management will be continually stretched to ensure that the internal capacity in terms of resourcing, information technology, risk management and internal controls continues to be enhanced to cope with the surge in activity over the foreseeable future. WFP has done exceptionally well on fundraising and efforts in the area should continue.

## Introduction and functions of the Audit Committee

### Terms of reference

1. The Audit Committee's (AC) terms of reference which were adopted by the Board at its 2011 second regular session were revised at the 2017 annual session of the Executive Board to specifically include the oversight strengthening activities such as the advice on the performance of the Inspector General and Director, Oversight Office and on the annual plan for oversight activities of the Oversight Office. The terms of reference were further expanded at the 2017 second regular session to include the oversight of ethics within WFP as part of its core mandate and to change the composition of the selection panel.
2. During 2018, in line with the Joint Inspection Unit's recommendations, the terms of reference of the Audit Committee were expanded to: i) include an annual self-assessment of its performance and an independent performance evaluation every three years and report thereon to the Executive Board and Executive Director, and ii) provide incoming AC members with a one-day induction, similar to that arranged for new Executive Board members and observers, prior to their first meeting. Additional changes to the terms of reference expanding the scope of the AC to include oversight of the Office of Evaluation, an increase in meetings to four times a year and conducting an independent performance evaluation every three years will be proposed for approval at the 2021 second regular session in November.
3. The AC Rules of Procedure, which provide additional guidance, are available on the AC web page<sup>2</sup>. Changes made this year to the Rules of Procedure include the requirement for an annual self-assessment.
4. For the year ended 31 December 2020, the AC's responsibilities include advising the Board and the Executive Director on:
  - internal audit;
  - risk management and internal controls;
  - financial statements;
  - accounting;
  - external audit;
  - values and ethics; and
  - allegations of inappropriate activity.

### Composition of the Audit Committee

5. A list of the AC's current members is provided in annex I. This composition reflects gender and regional balance as determined by the Board.

### Audit Committee activities

6. This report covers the period from 1 April 2020 to 31 March 2021. It provides an overview of the AC's work and highlights issues that require the attention of the Board and the Executive Director.

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<sup>2</sup> <https://executiveboard.wfp.org/audit-committee>.

7. The AC met virtually (due to travel restrictions) five times during this period – in April 2020, September 2020, December 2020, February 2021 and March 2021. Between formal meetings, telephonic conferences were held by AC members or by the AC Chair with the Inspector General, WFP management, the External Auditor and the Executive Board Secretary regarding matters that required the AC's attention. The Executive Director met with the AC at most of its meetings. The AC continued with the practice of holding executive sessions with the Deputy Executive Director and the Inspector General at each of its meetings during this period. The AC also met with the Director of Internal Audit and the Director of Inspections and Investigations.
8. On the first and last days of each meeting, the AC holds executive sessions, generally with the Executive Director or Deputy Executive Director and the Chief of Staff. These sessions focus on strategic issues and provide the AC with insights into WFP's priorities and needs. The sessions are also used to share the AC's insights and concerns with the Executive Director/Deputy Executive Director/Chief of Staff and to communicate matters requiring the Executive Director's immediate attention.
9. The AC's meetings with the Executive Board Bureau continue to be an essential link to the Board. The Bureau provides the consolidated views and priorities of WFP's Member States. This interaction is the AC's primary means of advising the Board on the status of WFP's governance, ethics, risk and control efforts.
10. The Independent Audit Advisory Committee (IAAC) of the United Nations held the fifth meeting of the United Nations System Oversight Committees virtually on 8 and 9 December 2020. A member of the AC participated at this meeting where WFP continued to be commended for its governance, maturity and practices. The AC also participated in reviews conducted by the Joint Inspection Unit (JIU).
11. Field visits are critical for AC members' understanding of WFP's operations. Visits are planned in consultation with the Deputy Executive Director, the Executive Board Bureau, the Executive Board Secretariat and the country directors. Expenses are covered by the AC budget and are minimized by arranging travel in the geographic region of the AC member participating in the field visit. However, in view of COVID-19 travel restrictions field visits could not be undertaken during the period. These will be resumed once travel restrictions are lifted and vaccines taken by AC members.

### **Financial statements**

12. The draft annual financial statements were presented to the AC. Management and the External Auditor assured the AC that the financial statements had been prepared in accordance with International Public Sector Accounting Standards (IPSAS).
13. The AC commends management's success on the substantial increase in funding to USD 8.9 billion (2019: USD 8.3 billion).
14. Total expenses increased to USD 8.1 billion (2019: USD 7.6 billion) with cash-based transfers (CBTs) remaining at the 2019 level, despite a strong increase in a number of operations compensated by the reduction of CBTs in Turkey. Food commodities distributions increased by 3 percent with growth in some operations and a decline in the largest operation, Yemen. The CBT modality is at 90 percent of the level of food assistance.
15. The surplus has increased to USD 850 million (2019: USD 658 million). This is largely due to the growth in revenue and the time lag between revenue recognition and spending. This surplus is largely realized at headquarters level mostly due to multilateral contributions, investment income and currency exchange gains.

16. Total assets increased by USD 983 million primarily due to the growth in contributions receivable, cash and investments driven by the growth in operations. Total liabilities are at a similar level to 2019.

#### **Treasury and investment oversight**

17. The AC received information on the performance of the WFP investment management. The activities within the investment management were reported to be compliant with the WFP policies and risk tolerance. The longer-term employee benefit funds portfolio rose by 17.3 percent in 2020 and outperformed the blended benchmark by 3.2 percent. As a consequence the funding ratio of the longer-term employment benefit liabilities increased from 75 percent to 91 percent and is on track to reach a fully funded status during 2023, two years ahead of schedule.
18. Ninety-three percent of WFP's cash balances are with A- or better rated banks or securities investments. This indicates a very low overall credit risk for the cash and short-term investment balances.

#### **External audit**

19. This is the fifth year of WFP's six-year contract with the Cour des Comptes or the Auditor General of France for the external audit of WFP. The External Auditor audited WFP's audited annual accounts for the year ended 31 December 2020 and conducted performance audits on WFP's management of information on beneficiaries and critical corporate initiatives. Several recommendations were formulated around effectiveness and efficiency, none of which affect the overall effectiveness, efficiency and economy of WFP's operations.
20. No material misstatements were reported by the External Auditor to the AC. The External Auditor will issue an unqualified opinion.
21. With regard to prevention and detection of fraud, WFP continues to raise fraud awareness among its internal and external stakeholders (staff members, consultants, suppliers, cooperating partners). The results of the performance audits in 2020 recommended providing more training, especially in the field and strengthening internal controls. This area still requires continuous strengthening.

#### **Enterprise risk management (ERM)**

22. 2020 has been a record year for WFP in more ways than one. Revenues were at record level, reaching USD 8.9 billion, representing an 8 percent growth over 2019. Spending, too, achieved a record of USD 8.1 billion, or a 6 percent growth versus the previous year. Moreover, the incredible work carried out by WFP across some of the most poverty-stricken and conflict-prone nations in the world was recognized when the organization was awarded the Nobel Peace Prize for the year.
23. In 2020, USD 7.88 billion or 88.5 percent of WFP's revenue came from monetary contributions; another USD 509 million or 5.7 percent was in the form of 'in-kind' contributions. Thus, contributions — both in cash and kind — accounted for USD 8.39 billion. This level was by far the highest in the organization's history. A residual USD 514 million or 5.8 percent comprised 'other revenues' such as returns from investments.
24. Of the contribution revenue amounting to USD 8.39 billion in 2020, 83 percent was earmarked for programme category funds and directed to major emergencies as well as other large operations. The remaining balance of contribution revenue was for the General Fund and trust fund operations. During 2020, USD 260 million was directed to the COVID-19 common services trust fund.



25. In 2020, WFP spent over USD 8.05 billion, mostly in distributing food, commodities and cash-based transfers (CBTs) across a large number of crises-affected nations in Africa, the Middle East, Asia and Latin America. Food commodities distribution increased by 3 percent over 2019 to USD 2.41 billion or 28.7 percent of WFP's total spending. CBTs remained more or less stationary at USD 2.12 billion, or 26.3 percent of the total. There was a significant 33 percent rise in contracted and other services to USD 1.13 billion, or 14 percent of total spend, which was largely on account of a major increase in common services in response to COVID-19.
26. In addition to dealing with COVID-19 throughout the developing world, WFP was actively involved in the highest levels of emergencies in its history — in Yemen, the Sahel, South Sudan, north-eastern Nigeria, the Democratic Republic of the Congo and the Syrian Arab Republic, to name some.
27. Success of this far-flung multi-billion dollar global organization operating in some of the poorest and most disturbed regions of the world to dispense humanitarian and developmental assistance — even more so in the backdrop of COVID-19 — necessarily requires a dynamic and effective enterprise risk management (ERM) programme and a rigorous system of internal controls.
28. The AC is explicitly tasked in its terms of reference to examine the effectiveness of WFP's 'internal control systems, including risk management and internal governance practices'.
29. Even five years earlier, WFP did not have an ERM programme that was commensurate with the size and scale of its global operations. Things have changed since then. The AC is pleased to note that over the last few years, WFP's management has been focusing on improving its approach to ERM and internal controls. A Chief Risk Officer is in place; the ERM division is better staffed and more financially resourced than before; and there is a recognition that a global organization such as WFP needs to be supported by a sound ERM programme. The AC considers this to be a positive change.
30. The AC also recognizes that any ERM, especially for an organization of this size and geographical spread, must necessarily be a somewhat evolutionary process; and that the best designed ERM and internal controls systems can never eliminate all risks nor prevent negative events.
31. Having said that, and acknowledging some of the improvements carried out by WFP's ERM programme, the AC observed that for this multi-billion-dollar global organization, its ERM programme still needs significant operational focus and strengthening.
32. Excellent ERM programmes of large global entities invariably satisfy three linked criteria. First, these programmes/exercises not only focus on the key organizational and business risks but also develop strong quantitative estimates of such risks, including clear evaluations of how these could impact an enterprise's operations and existence. Second, and this is no less important, sound ERM programmes clearly suggest to an organization's senior management, its Board and its fiduciaries what specific steps ought to be carried out to moderate such risks, and at what cost. In this regard, ERM's findings have to be integrated into the decision making process of an organization. And third, after these mitigating actions have been carried out, a good ERM programme evaluates the residual risks.
33. The AC recognizes that WFP's present ERM programme has identified 14 key risks and the appropriate risk owners in its corporate risk register. These cover:
  - i) Failure to demonstrate WFP's value proposition in development and peacebuilding.
  - ii) Misalignment between WFP's workforce and organizational needs.
  - iii) Failure to adapt to shifts in funding landscape.

- iv) Inability to adapt effectively to UN Reform.
  - v) Failure to adapt tools and approaches to changing operational contexts to provide value to beneficiaries and host governments.
  - vi) Weak corporate data governance and data protection.
  - vii) Insufficient/inadequate beneficiary safety, security and protection from sexual exploitation and abuse (PSEA).
  - viii) Weak food safety and quality.
  - ix) Lack of availability and capacity for effective partnerships.
  - x) Inability to deploy appropriate technology for WFP business core systems and processes.
  - xi) Loss of efficiency with new or complex business processes.
  - xii) Insufficient/inadequate employee health, safety, security and safeguarding against harassment, sexual harassment, abuse of authority, and discrimination (HSHAAD).
  - xiii) Failure to prevent, detect and respond to fraud exposure across the organization.
  - xiv) Breach of donor obligations.
34. The AC commends the ERM division for identifying these key risks and providing regular updates of how these have behaved over time. Equally, however, when one looks at the WFP risk register keeping in mind some internal audit issues highlighted regarding the beneficiary information and transfer management platform, SCOPE, as well as CBTs, especially in the backdrop of COVID-19, it is surprising to notice items x) and xi) of the corporate risk register showing no increase in the risk profile.
35. For most well performing organizations, the risk register is like 'the canary in a coal mine', in that it allows senior management to be aware of issues and determine timely mitigating actions. Until now, the AC has not seen that occurring in sufficient measure.
36. The AC, therefore, believes that the ERM programme needs some improvement on the first count; and significant progress on the second and third counts.
37. As of date, the AC has not seen clear, implementable recommendations by the ERM division to the senior management and the Executive Board on a specific set of actions that should be taken to mitigate the relatively high risks. In the absence of such explicit recommendations, the AC remains constrained to comment on the ERM's appraisals of residual risks.
38. Thus, while the ERM scores well in identifying corporate risks, there is sufficient scope for improvement in its ability to convince management about a bare minimum set of mitigation actions; and about the quality of information on residual risks. None of these is insurmountable. The AC, therefore, recommends that the ERM division focus on such actions so as to play a more proactive role in WFP's risk management exercise.
39. In the course of the year, the AC had enquired about the risks on account of COVID-19, and whether some of the processes of WFP had to be compromised to deal with the pandemic across the regional bureaux and country offices.
40. In response, the ERM conducted a project across eight key functions, 29 focus areas and 89 key controls —addressing 39 risks for the purpose of obtaining management assurance on control implementation in the field in 2020. The project identified 40 field offices including 34 country offices defined by risks plus all six regional bureaux, from which such control information was sought.

41. Based on this survey, the ERM division concluded that: i) full compliance with the 2020 key assurance controls was at 88.6 percent; ii) partial compliance at 10.6 percent; and iii) non-compliance at 0.8 percent. Moreover, it would seem that for 11.4 percent of situations where field offices did not fully implement controls, mitigating controls were in place in most cases to address the related risk.
42. Hence, this ERM management assurance project concluded that, despite strains imposed by COVID-19, field offices generally did not ease controls in 2020 in an ad hoc manner to any significant extent. Where necessary, they used alternative controls provided by WFP headquarters; that this was only done where standard controls could not be implemented; and that field offices reverted to standard controls when conditions so allowed.
43. Notwithstanding the inherent limitations of such a questionnaire-based survey, the AC has expressed its satisfaction with the basic outcome — namely, that controls were by and large adhered to despite the operational stresses brought about by COVID-19.
44. ERM also conducts a questionnaire-based annual self-assessment exercise covering the head office and its functions and divisions, the regional bureaux, country offices and advisory offices. The questions cover various elements, such as control knowledge, ethics, roles and responsibilities, beneficiary and non-governmental organization (NGO) management, IT controls, fraud risk management, safety and security, and the like.
45. The AC observed that in 2020, versus 2019, the top 20 country offices (as per budgets) perceived: i) a decline in ethics and reporting of wrongdoings; ii) some deterioration in the tone at the top; and iii) stresses in staff capacity, IT controls and asset risks.
46. Without giving undue importance to these annual self-assessment surveys, the AC suggests that areas which have perceived deteriorations versus the previous years may require more detailed investigation or analysis. This could be carried out by the ERM division as well as the Office of Internal Audit (OIGA) through its internal audits and advisory assurance exercises.
47. To conclude on ERM, the AC observes that:
  - a) Compared to five years earlier, the ERM exercise has become more mature.
  - b) Nevertheless, there is scope for significant improvements.
  - c) The high-risk items in the corporate risk register must be accompanied by specific and clearly monitorable mitigation suggestions for management.
  - d) The residual risks must be clearly specified as to how these have been arrived at, and what management needs to do to reduce these further.
  - e) Tasks undertaken by the ERM division should be focused on a macro level so they do not 'miss the wood for the trees'. ERM is a vital tool for management. It cannot, and must not, be cluttered with vast minutiae and non-implementable details.
  - f) In 2021, a review by an external independent advisor on the effectiveness of the ERM processes and maturity level will be completed. This will allow management to understand the current capabilities and provide recommendations on improving the existing process in headquarters and field operations.
  - g) The AC believes that the ERM division can be a 'change agent' for an effective and efficient control and risk management activity within WFP.

## Internal audit and investigations

48. Internal audits, advisory assurance and proactive integrity reviews carried out by the Office of the Inspector General (OIG) are key documents that provide assurance on governance, policy, risk, resources, operational and accountability issues through independent and objective oversight services, to which this AC report now turns.
49. According to its terms of reference, the AC is responsible for advising the Executive Board and the Executive Director on internal audit. That includes, inter alia, oversight on the performance, staffing, resources and appropriateness of both the internal audit and internal investigation functions, as well as on the independence of the OIG.
50. The OIG is an independent oversight entity regulated by a charter approved by the Executive Director. It consists of two units: the Office of Internal Audit (OIGA) and the Office of Inspections and Investigations (OIGI). The work and output of both these units played a role in the OIG's assurance opinion for 2020.
51. The AC recognizes the enormous difficulties that the OIGA had to face because of severe travel restrictions imposed by COVID-19. Field audits had to be curtailed; and, where conducted, these were far more difficult than otherwise. The original audit plan for 2020 approved by the AC consisted of 34 deliverables, comprising 15 country office (CO) audits, 12 thematic audits, three IT audits, two proactive integrity reviews (PIRs) and two advisories. COVID-19 forced changes to this audit plan.
52. The AC finds it commendable that, despite many COVID-19 induced constraints, the OIGA succeeded in maintaining 34 audits, PIRs and assurances for 2020, though comprising a different set. There were six CO audits, six thematic audits, three IT audits, two PIRs, four advisories and 13 COVID-19 related reports. An increase in the number of advisories versus rated audit assignments during 2020 was on account of disruptions caused by COVID-19.
53. The audits finally conducted in 2020 accounted for 28 percent of WFP's expenditure. The OIGA issued no unsatisfactory rating. The ratings were mostly 'partially satisfactory with some improvements needed'. However, for three audits — namely, of the COs in Myanmar and the Democratic Republic of the Congo, and of SCOPE — the OIGA ratings were 'partially satisfactory with major improvements needed'.
54. None of the OIGA audits unearthed any weakness that was material to the overall achievements of the WFP objectives. Equally, some critical risks were identified in individual audit assignments, which were forwarded to management for prompt action, before these significantly impacted the organization's mission delivery and effectiveness.
55. In last year's annual report, the AC had noted "the increase in the number of outstanding audit-agreed high-risk actions, i.e. actions that management had agreed to perform after the issuance of a high-risk audit observation but remained outstanding". In 2018, there were 44 of these outstanding at the year-end, of which 16 were overdue beyond the agreed implementation date. This worsened in 2019, with 79 high-risk actions outstanding at the year end, of which 38 were overdue beyond the implementation date.
56. The AC notes that these numbers have been subsequently modified in consultation with OIGA, the Office of the Chief of Staff and management.
57. The number of high-risk overdue actions that management had to address on a priority basis was first reduced from 79 to 25; and then brought down further to 15. Similarly, medium-risk overdue actions have been reduced from 37 to 20. A new exercise to review implementation of these reduced number of overdue actions has been launched with the Office of the Chief of Staff.

58. Presumably, some of this sharp reduction in the number of overdue corrective actions reflects difficulties of carrying out rectifying tasks under COVID-19, especially in country offices.
59. However, the AC considers this to be disquieting. Any overdue corrective action agreed upon by management consequent to an audit report must remain exactly as it is, namely, overdue. It must not be effectively taken off the roster because the task cannot be carried out at present. If institutionalized, this trend will effectively conceal these overdue corrective actions from view; and the outcome will be that these shall remain even longer overdue, and unaddressed. The AC asks for greater focus and commitment in this regard.
60. As in previous years, the AC notes that several recurrent issues from the past have continued to resurface in the assurance work performed by OIGA in 2020, especially risks that WFP's management must promptly address before these significantly impact the organization's delivery, effectiveness and even credibility.
61. The main reasons that the OIG listed as causes of less than efficient internal controls in 2020 were the same as in 2019, if not exacerbated by COVID-19. These were:
  - a) The organization's unclear direction and prioritization of efforts: in that the processes and tools for planning, resourcing, monitoring and reporting were limited in effectively assessing and reviewing progress.
  - b) Unclear accountability and ownership; delays in achieving some of the organization's priorities; risks of duplication due to a siloed approach; and inconsistent monitoring and control results from a generally weak project framework (such as key performance indicators (KPIs), milestones) in some of the areas audited.
  - c) Relative lack of agility of the human resources processes, appropriate workforce planning, selection and staffing of key operations and capacities.
  - d) Major issues relate to beneficiary management under SCOPE. At the end of 2020, SCOPE was partially or fully implemented in 66 countries, with 25 million identities actively managed in the application. In essence, there have been too many case-by-case changes within SCOPE over the years, apparently due to different needs of COs and the cooperating partners. Thus, instead of having a uniform software structure with a few approved deviations, SCOPE has become a veritable quilt of a vast number of patches that vary across countries, cooperating partners, intermediaries and beneficiary groups. These patches now create serious problems in efficiently navigating and using SCOPE; and have created inconsistencies in both collecting and subsequently analysing beneficiary data. The patches also affect data privacy and increase the risk of fraud. Moreover, the patches and their lack of uniformity militate against the quality of information that can seamlessly flow into a data lake. The OIGA has, in effect, asked for significant improvements and standardization in SCOPE.
  - e) At the country level, WFP's decentralized approach has often led to over-customization of core tasks; with systems and processes being freely adapted to what are perceived as unique contexts. This results in a risk where controls are being perceived as 'optional' versus required. It was an area of concern in 2019 and remains so in 2020.
  - f) Lack of focus on key functions that provide necessary levels of support and control to field operations.
  - g) Immature risk management that is often unable to guide and align controls and systems at the levels warranted by the size, scale and scope of the organization.

- h) Insufficient use of systems and IT to streamline, simplify and automate controls, especially performance monitoring, fraud prevention and detection.
  - i) Imperfect management and oversight of cooperating partners which, while recognized as a significant risk, is neither sufficiently addressed nor prioritized.
62. The AC has noted and agreed with these above observations and, as in its report for 2019, urges senior management to address these matters as soon as possible.
63. Regarding the organization's response to COVID-19, the OIGA reports observed that:
- a) WFP's responses were quick and timely in a large number of areas.
  - b) However, significant efforts were required where WFP's processes and systems were not fully fit for purpose for a global emergency response of this nature. These required workarounds, especially for budgeting, asset planning and acquisitions, cost accounting and financial reporting.
  - c) Business continuity and remote working arrangements were achieved thanks to the acquisition of cloud computing solutions prior to the pandemic.
  - d) There is a need for revised guidance on minimum standards and expected controls in an emergency setting, keeping in mind risk appetite and confidence levels.
  - e) There was seemingly an absence of organizational mechanisms to consolidate and review material control waivers and amendments to keep these in line with minimum control standards. The WFP's second line of defence is primarily covered by its regional bureaux through oversight missions to field operations. This may require a more coordinated approach to ensure that the second line activities are better understood and strengthened.
  - f) There is a need to refresh the business model of global service provision, in particular related to funding (cost recovery) and partner assessment.
64. In 2020, OIGA conducted three IT audits and an advisory on cyber security. The latter was i) to assess the adoption and integration of appropriate and relevant best practices and internationally recognized cyber security standards, and ii) to benchmark WFP's cyber security capabilities against comparable international organizations and best practices in the private and public sector. It benchmarked the organization's cyber security position in 2020 versus where it was in 2017 — as well as against where it had wanted to be when it unveiled its cyber security plan in 2017.
65. The assessment found significant improvement in a number of cyber security capabilities since 2017 thanks to investments in people, process and technology. Ongoing and planned projects and investments were expected to further improve WFP's cyber security posture going forward. Equally, however, for 23 out of the 27 factors that it measured, the outcome, though superior to 2017, fell short of scores that the cyber security plan of 2017 had set out.
66. The OIG's investigation work relates to allegations of misconduct, alleged fraud and corruption and reported violations of Staff Rules and Regulations, policies and procedures including sexual exploitation and abuse (SEA), harassment, sexual harassment, abuse of authority and discrimination (HSHAAD). Such investigations are conducted by the Office of Inspections and Investigations (OIGI).

67. A new Ethics Hotline was launched on 31 March 2020, replacing the previous internal email-based system with a web-based system. This facility is available 24 hours a day and accessible to people from both within and outside WFP in Arabic, English, French, Portuguese or Spanish. The system allows for truly anonymous user-friendly reporting to the OIG. Any issues concerning the protection of whistleblowers against retaliation would continue to be passed on to the Ethics Office to ensure that protection occurs quickly when justified.
68. There has been a sharp increase in the intake of matters received by OIGI through its dedicated hotlines, referrals, emails and the like.
69. The total caseload managed by OIGI at the end of 2020 was 984. Of these, 368 were from 2019; 154 from Q1 2020; 112 from Q2 2020; 166 from Q3 2020; and another 184 from Q4 2020. The fresh intake in Q4 2020 was 11.5 percent higher than the same quarter in 2019.
70. In 2020, the OIGI completed 92 investigation reports, 43 of which were substantiated. At the end of the year, it still had 208 investigations in process; 337 complaints remained in intake, of which 125 were in suspense; and another 347 matters were either closed or referred to others within WFP.
71. Slightly over 50 percent of the OIGI cases involved anti-fraud and anti-corruption (AFAC). Harassment, abuse of authority and discrimination (HAAD) accounted for another 17 percent. Sexual harassment constituted around 6 percent of the total; while sexual exploitation and abuse (SEA) accounted for another 10.8 percent.
72. Because the OIGI case volume in 2020 increased by 38 percent over 2019 to a record number of 984, it has been experiencing an increasing backlog. The average number of months taken to complete a case (across all cases) was 9.6 months in 2020, versus 7 in 2019 and 5.3 in 2018. Cases having the longest duration for completion are those related to HAAD. In 2020, such cases took up to 15.2 months to complete, compared to 8.1 months in 2019 and 7.2 months in 2018.
73. COVID-19 has forced the OIGI to conduct more remote investigations than before, which invariably increases the time factor. In addition, there has been a huge growth in the caseload. Both have come together to extend the investigation timeframes. The OIGI has also expanded its case intake function to five intake officers with each managing approximately 25 allegations at any given time.
74. Despite an increase in investigation time, the OIGI still remains below the United Nations standard investigation timeframe of 12 months in all categories except HAAD. However, the time taken to complete investigations is now well above OIGI's internal target of six months.
75. The AC is seriously concerned about the sharp increase in the timeframe. Given how important such investigations are to the reputation of the organization, it is essential that these be concluded at a faster pace.
76. To that end, the AC suggests to both the Executive Director and the Executive Board that additional human resources be made available to OIGI, be these in headquarters or in some key regional bureau; and that this be explicitly budgeted for. Not doing so risks extending the investigation timeframe which can potentially cause serious reputational damage to the organization.
77. The AC recognizes that there is a better staffing situation within the OIG. However, with an unprecedented number of emergencies, growth in CBTs, relative weaknesses in risk maturity, outstanding high-risk audit observations and surge in investigation cases, the committee expects that the OIG's audit and investigation efforts will only increase in the

near future. If management cannot mitigate the above-mentioned factors, the Executive Board and the Executive Director will necessarily need to increase the OIG's budget over the next two to three years.

78. The AC approved the audit and assurance plan for 2021. In addition to CO audits, it involved, among others: i) management of NGOs; ii) procurement of goods and services and shipping; iii) resource allocation and financing; iv) ERM; v) management of consultants; vi) digital assistance to governments; vii) blockchain; viii) network and communications, and ix) commodities management.
79. In concluding this section, it is necessary for the AC to reiterate some concerns raised by the OIG. While the OIG has opined that no material weaknesses were identified in governance, risk management or control processes which would seriously compromise the overall achievement of the organization's strategic objectives, it is important to place on record the various weaknesses and deficiencies that the OIG has observed across different geographies and activities. While progress has been made in addressing some of the long outstanding unimplemented control recommendations, the AC strongly urges the Executive Director and WFP's senior management to continue its focus on this area so that these deficiencies are rectified for the years ahead.

### **People policy/strategic workforce planning**

80. The organization continued the development of the People Policy and strategic workforce planning. Currently the People Policy is scheduled to be approved at the Executive Board annual session in June 2021 and a staffing strategy with a corresponding budget by November 2021.
81. The AC recognizes that this is an ambitious goal but the process has been in development for a considerable period of time. It is essential that the organization define, in a structured way, the training, retention, succession and mobility requirements of the workforce to enable the effective delivery of services. This will become more critical if the growth curve in revenue continues.

### **Ethics activities and ethics culture**

82. In 2020, workplace culture remained a high priority on the agenda of the WFP Executive Board and wider leadership group. A set of desirable values and behaviours was finalized and started to be shared throughout WFP by the Office of the Executive Director in collaboration with the Human Resources and Communications, Advocacy and Marketing divisions
83. The Executive Board and the WFP management joint working group (JWG) on HSHAAD continued its working mainly in sub-working groups in 2020. The sub-working group on safeguarding against sexual harassment and sexual exploitation and abuse (SWG-1) analysed the results of the survey on reporting incidences of sexual harassment in WFP, which is to be a base for an organizational strategy on protection from sexual exploitation and abuse.
84. The Ethics Office handles issues relating to the protection of whistleblowers who reported allegations of harassment investigated by OIGI. A specialist company in transformation of workplace culture provided advice on finalizing the action plan and launching a corporate-wide exercise on values aimed at ensuring the engagement of all staff.
85. AC reviewed the progress and impact of WFP's comprehensive action plan for addressing harassment, sexual harassment, abuse of power and discrimination, which was based on six core areas, each with targets and planned initiatives for reaching those targets. Progress towards the targets was measured using 16 indicators from WFP's global staff survey.



Findings from a “pulse check” gathered the perceptions and inputs of 1,000 employee participants. This showed that employees were engaged in the action plan and other initiatives related to workplace culture.

86. In 2020, AC received quarterly updates on ethics and culture in WFP. The Ethics Office was involved in advising and providing guidance to help prevent wrongdoing and increase the knowledge of employees to make ethical decisions and take ethical actions.
87. The Ethics Office advised on conflict-of-interest principles and financial disclosures.
88. The Ethics Office continued its important role of communication, education and outreach to enhance the understanding of ethical issues and the role of the Ethics Office.
89. The strategy of the Ethics Office was being reviewed by the “Tone-at-the-Top” audit conducted by OIG and should facilitate positioning the Ethics Office within the strategy and organizational structure of WFP.
90. The position and role of the Ethics Office within the WFP organizational structure requires further refining to eliminate ineffectiveness arising from overemphasizing its independence – the Ethics Office does not need to be independent from management. It should be integrated into management with the aim of supporting management in promoting and enhancing a positive workplace culture within WFP. The Inspector General conducted a maturity assessment of ethics and integrity in the organization in late 2020 and once issued those recommendations will be considered by the AC.

#### **Future planning within WFP**

91. COVID-19 created unique challenges to the organization. In addition to securing additional personal protection equipment, management was stretched in the areas of resourcing, information technology, risk management and internal controls.
92. In certain countries the pandemic had brought a halt to biometric-based systems as controls such as fingerprint and retina scans were unviable given the risk of infection. Registration and distribution processes were rapidly adjusted, new control mechanisms for beneficiary data management were tested and rolled out and remote monitoring was scaled up dramatically.
93. Other focus areas included strengthening WFP capacity to manage digital registries, clarifying WFP's risk appetite regarding biometrics and other forms of beneficiary management and deepening understanding of where and how biometrics should be used, with due consideration to the risks it posed to beneficiaries, including those related to privacy.
94. Some changes included scanning beneficiaries' registration cards issued by the Office of the United Nations High Commissioner for Refugees to confirm their identity. Compensating controls including random checks were performed to ensure that the system was operating appropriately. Although not yet done routinely, transaction patterns were analysed to identify potential anomalies; unusual results such as large disparities in household size between similar areas, for example, were flagged and investigated on the ground.
95. This data analysis was overlaid with information from complaints and feedback mechanisms to provide a broader picture.
96. The pandemic forced change upon the organization and this will continue for the foreseeable future. For example, some recipient countries have implemented direct transfer facilities similar to cash-based transfers to provide aid to registered individuals. These changes may impact the planned roll-out of business systems like SCOPE, as it does not

make sense to implement the WFP cash-based management system if the host country already has a similar system.

97. The Audit Committee believes this is an appropriate time for management to consider the future state of the organization. COVID-19 caused changes and based on the lessons learned some may be useful to incorporate into the operating framework. Funding could also increase or decrease, which would put additional stress on the organization. In addition the current Executive Director is near the end of his term so there is a potential change in leadership. All these factors should be considered to determine how WFP should operate in the next three to five years.

**AC involvement in Selection Panels**

98. Over the ensuing few months members and/or the Chair of the AC will be supporting the selection panels appointed by the Board for the recruitment of the new OIG, the External Auditor whose term expires on 30 June 2022 and the appointment of new members of the AC to replace the current members of the AC whose terms expire in November 2021.

## ANNEX I

### Composition of the Audit Committee

- Mr Suresh Kana: a South African national. His term is from 15 November 2015 to 14 November 2018 and has been extended to 14 November 2021. As approved by the Board at its 2021 first regular session, his term has been exceptionally extended for an additional year to 14 November 2022.
- Ms Elaine June Cheung (ZHANG Qiling): a Chinese national. Her term is from 15 November 2015 to 14 November 2018 and has been extended to 14 November 2021.
- Mr Omkar Goswami: an Indian national. His term is from 15 November 2015 to 14 November 2018 and has been extended to 14 November 2021.
- Ms Agnieszka Slomka-Golebiowska: a Polish national. Her term is from 30 July 2017 to 29 July 2020 and has been extended to 29 July 2023.
- Mr Robert Samels: a Canadian national. His term is from 01 March 2019 to 28 February 2022.

**ANNEX II**

<b>AUDIT COMMITTEE ACTIVITIES APRIL 2020 – MARCH 2021</b>			
	<b>SEPTEMBER 2020</b>	<b>DECEMBER 2020</b>	<b>MARCH 2021</b>
Executive Session with Executive Board Bureau	√	√	√
Executive Session with Executive Director	√	√	√
Executive Session with Deputy Executive Director	√	√	√
Executive Session with Inspector General	√	√	√
Operations	√	√	√
Evaluation matters		√	
Oversight matters:			
– External audit	√	√	√
– Internal audit	√	√	√
Financial statements	√	√	√
Accounting	√	√	√
Performance and risk management	√	√	√
Human resource matters	√	√	√
Internal control	√	√	√
Ethics matters	√	√	√
Legal matters			√
Allegations of inappropriate activity	√	√	√
Financial and budgetary matters	√	√	√

## Acronyms

AC	Audit Committee
AFAC	anti-fraud and anti-corruption
CBT	cash-based transfer
CO	country office
ERM	enterprise risk management
ETO	Ethics Office
HAAD	harassment, abuse of authority and discrimination
HSHAAD	harassment, sexual harassment, abuse of authority and discrimination
IT	information technology
OIG	Office of the Inspector General
OIGA	Office of Internal Audit
OIGI	Office of Inspections and Investigations
PIR	proactive integrity review
PSEA	protection from sexual exploitation and abuse