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# FINANCE COMMITTEE

**Hundred and Seventy-sixth Session**

**Rome, 20 - 22 May 2019**

**WFP Management response to the recommendations in the report of the  
External Auditor on fraud prevention, detection and response**

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

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FC 176

### EXECUTIVE SUMMARY

- In its report on fraud prevention, detection and response, the External Auditor made 13 recommendations.
- Management welcomes the external audit of WFP's fraud prevention, detection and response and the External Auditor's recommendations.
- Specific responses to the External Auditor's recommendations are presented in the document.

### GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to note the response made by WFP management to the recommendations in the report of the External Auditor on fraud prevention, detection and response and to endorse it for the notification of the Executive Board.

#### Draft Advice

- **In accordance with Article XIV of the General Regulations of WFP, the Finance Committee advises the WFP Executive Board to take note of the management response to the recommendations in the report of the External Auditor on fraud prevention, detection and response.**



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

**Executive Board**  
Annual session  
Rome, 10–14 June 2019

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Distribution: General

Agenda Item 6

Date: 8 May 2019

WFP/EB.A/2019/6-F/1/Add.1

Original: English

Resource, financial and budgetary matters

For consideration

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

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## **WFP Management response to the recommendations in the report of the External Auditor on fraud prevention, detection and response**

### **Background**

1. Management welcomes the external audit on fraud prevention, detection and response and the External Auditor's recommendations deriving from the audit.<sup>1</sup>
2. Management has already started to take action to implement the agreed actions. This notwithstanding, to support full implementation of the agreed actions, management will closely monitor implementation before the target implementation dates and will undertake regular reviews of outstanding agreed actions.
3. Management would like to thank the External Auditor for its meaningful and constructive collaboration, and for sharing the draft report at an early stage which provided an opportunity for further internal review.
4. The management response matrix sets out the planned actions and implementation timelines.
5. Responses prepared by WFP's Enterprise Risk Management Division (RMR) in consultation with other concerned divisions and departments are presented in the attached matrix.

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<sup>1</sup> WFP/EB.A/2019/6-F/1.

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#### **Focal points:**

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<b>WFP MANAGEMENT RESPONSE TO THE RECOMMENDATIONS IN THE REPORT OF THE EXTERNAL AUDITOR ON FRAUD PREVENTION, DETECTION AND RESPONSE</b>			
<b>External audit recommendations</b>	<b>Action by</b>	<b>WFP management response</b>	<b>Timeframe</b>
<p><b>Recommendation 1:</b> The External Auditor recommends including due diligence specific to the fight against fraud in the standard operating procedures (SOPs) currently being revised for the recruitment of staff and consultants.</p>	Human Resources Division (HRM)	<p>Accepted. HRM is developing SOPs as recommended. WFP's approach to Anti-Fraud and Anti-Corruption (AFAC) in recruitment includes disclosures related to misconduct and performance issues; provision of copies of the AFAC Policy and Code of Conduct at the time of contracting; required certifications in order to proceed with applications to WFP vacancy announcements; reference checks; and verification of educational credentials. HRM notes that the veracity of the results of reference checks in some WFP operational environments cannot always be assured.</p>	December 2019

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<p><b>Recommendation 2:</b></p> <p>The External Auditor recommends setting a threshold or criteria beyond which WFP will carry out due diligence prior to adding a strategic supplier to the roster in order to assess the maturity of its anti-fraud system.</p>	<p>Supply Chain Division (OSC)</p>	<p>Partially accepted.</p> <p>Prior to inclusion in shortlists and/or contracting, OSC undertakes due diligence.</p> <p>For selected strategic suppliers, reputable independent counterparty risk assessment organizations are used to conduct due diligence including fraud risk. For example, WFP's external investment managers for its investment portfolios are appointed after competitive selection and operate under strict guidelines. During the process, WFP avails of the services of the World Bank to obtain technical advice and risk analysis to determine the suitability of potential suppliers to manage funds entrusted to them by WFP.</p> <p>Management will: 1) enhance the process by clarifying the definition of 'strategic supplier' for which independent due diligence including fraud risk assessment must be conducted; 2) undertake periodic due diligence on long-standing strategic suppliers to ensure that their systems remain robust; 3) increase awareness of the strategic suppliers by requiring them to sign a declaration affirming that they have systems in place similar to the process currently implemented for conflict of interest; and 4) conduct periodic fraud risk assessments in the supply chain area and adjust procedures and processes accordingly.</p> <p>OSC notes that since supply chain officers are not necessarily skilled in assessing anti-fraud systems, WFP will rely primarily on independent counterparties and signed declarations from the suppliers themselves to enhance the diligence process.</p> <p>It is also noted that WFP's anti-fraud and anti-corruption policy (AFAC policy) is available on the external website thus making it accessible to its representatives, providing a reference for other organizations, and evidencing WFP's commitment to transparency.</p>	<p>March 2020</p>

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<p><b>Recommendation 3:</b></p> <p>The External Auditor recommends improving the effectiveness of the annual procedure for reporting conflicts of interest, particularly by ensuring better control of the target group, reducing reporting and processing timeframes, and penalizing excessive delays.</p>	<p>Ethics Office (ETO)/HRM</p>	<p>Accepted.</p> <p>ETO supports the concept of managing the Annual Conflicts of Interest and Financial Disclosure Programme (ADP) in-house using an enhanced system solution, subject to resource availability. ETO has prepared an updated draft Executive Director circular on the ADP. ETO notes that the ADP is not a fraud tool, and therefore does not include fraud disclosures.</p> <p>ETO will continue to escalate to HRM cases in which there are excess delays in completing the disclosures. HRM will consider whether sanctions are appropriate on a case-by-case basis.</p>	<p>To be determined</p>
<p><b>Recommendation 4:</b></p> <p>The External Auditor recommends informing managers, in a confidential and appropriate manner, of cases of suspected conflicts of interest and fraud relating to staff under their responsibility.</p>	<p>ETO/Inspector General and Oversight Office (OIG)</p>	<p>Accepted.</p> <p>ETO already brings to management attention cases of conflicts of interest that require mitigation measures, consultation or approval by management including heads of office and supervisors.</p> <p>The Office of Inspections and Investigations (OIGI) has communication procedures in place providing for notification of managers of an investigation on a “need-to-know” basis to facilitate lesson learning, minimize losses and protect WFP from fraud and corruption.</p> <p>However, premature notification to supervisors of an active investigation can create additional risks related to preserving evidence, damage to individual reputations, and can result in breach of confidentiality with participants in an investigation. OIGI considers that existing procedures are appropriate to address the concerns of the External Auditor.</p>	<p>Implemented</p>

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<p><b>Recommendation 5:</b> The External Auditor recommends standardizing the treatment of fraud in the risk registers of field offices and headquarters.</p>	RMR	<p>Accepted.</p> <p>For the 2019 cycle, RMR standardized treatment of fraud risk in risk reviews through revised guidance and a new template. The risk review guidance now includes a <a href="#">risk categorization</a> with “Fraud and Corruption” and four subcategories to assist management with risk identification and improve risk analysis. RMR will conduct quality assurance reviews of country office (CO) risk reviews with respect to fraud risk on a sampling basis in the next risk review cycle.</p>	March 2020
<p><b>Recommendation 6:</b> The External Auditor recommends expanding the network of staff members trained in the anti-fraud policy in the most at-risk field offices (regional bureaux and country offices) and extending it to headquarters divisions.</p>	RMR	<p>Accepted.</p> <p>Building awareness and capacity to prevent and detect fraud and manage fraud risk is one of the objectives of the AFAC Strategy and Action Plan, 2018-2020.</p> <p>RMR's approach to training in the action plan is as follows:</p> <ul style="list-style-type: none"> <li>• Continue training colleagues in country offices considered higher risk to build capacity while identifying CO needs (up to May 2019);</li> <li>• Develop scalable training solutions (up to February 2020) and roll them out globally (up to July 2020); and</li> <li>• Complete the recruitment of AFAC specialists posted in regional bureaux who will, among other things, provide training to COs. Funding is secured for specialists in the Cairo Regional Bureau (RBC) and the Nairobi Regional Bureau (RBN).</li> </ul> <p>In 2017-18, WFP hosted certified fraud examiner training courses, but is phasing out the training in favour of more cost-effective options that are tailored to WFP.</p>	July 2020

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<p><b>Recommendation 7:</b> The External Auditor recommends producing guidelines on conducting fraud risk assessments covering the most exposed processes (information technology, cash-based transfers, NGOs, etc.) and countries (Yemen, Turkey, etc.).</p>	RMR	<p>Accepted. RMR is developing fraud risk assessment guidance and templates as part of the implementation of the AFAC Strategy and Action Plan and will support fraud risk assessments for COs considered higher risk. Furthermore, OIG will continue to conduct CO and thematic proactive integrity reviews, which are selected using risk-based criteria.</p>	December 2019
<p><b>Recommendation 8:</b> The External Auditor recommends improving cooperating partners' awareness of their contractual obligation to report all cases of presumptive fraud by developing guidance documents to be used by country offices when training their partners. These documents should, in particular, emphasize the conditions of use of the confidential fraud reporting hotline.</p>	NGO Partnerships Unit (PGCN)/RMR	<p>Accepted. The NGO Partnerships Unit and RMR will prepare guidance materials for country offices to raise cooperating partners' awareness of the contractual obligation to report suspicions of fraud, including the possibility of confidential reporting via the hotline.</p>	December 2019



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<p><b>Recommendation 9:</b> The External Auditor recommends implementing in all field offices local mechanisms for reporting cases of fraud (complaints and feedback mechanisms, etc.) and ensuring that all allegations of fraud are effectively dealt with by the offices and reported to headquarters.</p>	<p>Emergencies and Transitions Unit (OSZPH)</p> <p>RMR</p>	<p>Accepted.</p> <p>Whilst complaints and feedback mechanisms (CFMs) in communities where WFP operates are primarily programme tools to ensure WFP accountability to affected people by fostering two-way communication and enabling WFP to make course corrections to the implementation of its programmes, it is recognized that the CFM is often the only or most convenient avenue available to beneficiaries to report fraud.</p> <p>WFP has established minimum standards for CFM that require that fraud-related complaints be treated as high-priority. Under the AFAC Policy, reporting suspicions of fraud and corruption identified through any mechanism, including CFMs, is mandatory.</p> <p>WFP will continue to promote effective reporting through these fundamental mechanisms as part of implementation of guidance on fraud reporting that is being developed as part of the AFAC Strategy and Action Plan (see the response to Recommendation 10).</p>	<p>Implemented – see also response to Rec. 10</p>
<p><b>Recommendation 10:</b> The External Auditor recommends producing a handbook for field managers to determine fraud reporting criteria.</p>	<p>RMR</p>	<p>Accepted</p> <p>RMR is preparing guidance on fraud reporting as part of the implementation of the AFAC Strategy and Action Plan.</p>	<p>December 2019</p>

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<p><b>Recommendation 11:</b></p> <p>The External Auditor recommends delegating the processing of simple fraud allegations involving an amount below a certain threshold to the responsible managers while maintaining the obligation to inform the Office of Inspections and Investigations.</p>	RMR	<p>Accepted</p> <p>The External Auditor's report notes that two ways to decentralize in order to reduce the OIGI workload include: 1) delegating small cases and 2) delegating preliminary investigations. In order to partially address the workload issue as well as clarify and streamline management's role, RMR will prepare guidance in collaboration with OIG to define the scope of initial reviews of fraud allegations conducted by responsible managers prior to establishment of a prima facie case of fraud. The guidance will include advice on the conduct of the review with a view to ensuring, inter alia, the integrity of a subsequent OIG investigation. Concurrently, RMR will prepare an implementation plan for roll-out of the guidance to managers. In a complementary workstream, OIGI is developing a proxy investigation programme to train non-OIGI field personnel on proper evidence gathering, confidentiality and communication procedures to enable them to assist OIGI in preliminary assessments of fraud and misconduct allegations.</p> <p>To preserve the integrity of the investigation, proxy investigations will be overseen and managed by OIGI to ensure conformance with investigation standards, quality standards, due process, and that the investigation remains unbiased and independent. OIGI will retain reporting and communication responsibilities for proxy investigations to ensure that perpetrators can be held accountable under United Nations system rules and guidelines and WFP policies and practices.</p>	December 2019
<p><b>Recommendation 12:</b></p> <p>To improve the internal management of fraud risk, the External Auditor recommends associating each fraud investigation with an estimate of its financial impact based on a methodology established with the Resource Management Department.</p>	RMR	<p>Accepted</p> <p>RMR, in consultation with OIG, will review potential methodologies for estimating total presumptive fraud losses for each investigation case.</p>	July 2020

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<p><b>Recommendation 13:</b> The External Auditor recommends setting, for the country directors in the countries most exposed to the risk of fraud and corruption, the goal of adopting common positions and strategies at the United Nations country team level.</p>	Deputy Executive Director (DED) with support from RMR and HRM	Accepted. WFP will address this recommendation through memoranda to country directors in countries most at risk of fraud and corruption encouraging them to engage on AFAC matters through the United Nations country team and updating the entrustment letters sent to country directors upon appointment to reinforce AFAC responsibilities.	December 2019

**Acronyms used in the document**

ADP	Annual Conflicts of Interest and Financial Disclosure Programme
AFAC	Anti-Fraud and Anti-Corruption
CFM	complaints and feedback mechanism
CO	country office
ETO	Ethics Office
HRM	Human Resources Division
OIG	Inspector General and Oversight Office
OIGI	Office of Inspections and Investigations
OSC	Supply Chain Division
RMR	Enterprise Risk Management Division