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Internal Audit of Smallholder Agricultural Market Support Activities in Colombia

Office of the Inspector General
Internal Audit Report AR/18/13



World Food
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Internal Audit of Smallholder Agricultural Support Activities in Colombia

I. Executive Summary

Introduction and context

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of Smallholder Agricultural Market Support activities in Colombia that focused on the period 1 August 2017 to 31 July 2018. These activities were being carried out as part of the implementation of the WFP Colombia Country Strategic Plan (2017-2021), which had total funding requirements of USD 84.5 million. The audit team conducted the fieldwork from 10 to 21 September 2018 at the country office premises in Bogota and through onsite visits to the Cali, Monteria and Pasto sub-offices.

2. The WFP Colombia country office was one of the first operations to establish a Country Strategic Plan, now in its second year of implementation. WFP's strategy in the country aims at supporting the Government of Colombia reach Sustainable Development Goals 2 and 16¹ by achieving an inclusive peace through addressing humanitarian, recovery, development and technical assistance needs.

3. Within the framework of its strategy, the country office has developed a series of activities aimed at supporting smallholder farmers that together are classified as Smallholder Agricultural and Market Support (SAMS) activities. These activities incorporate Purchase for Progress activities, which were piloted by WFP in 20 countries between 2008 and 2014².

4. These SAMS activities have been embedded into resilience and relief activities through capacity strengthening projects, direct purchases of commodities from farmer organizations by WFP, as well as facilitation and technical assistance to farmer organizations trying to connect with markets. Through these activities WFP has been able to reach 105 farmer organizations and more than 11,000 smallholder farmers in 35 municipalities across 8 departments in Colombia.

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

Audit conclusions and key results

6. The audit noted that SAMS activities were creating a positive impact for over 11,000 smallholder farmers targeted by WFP. There were opportunities to increase the likelihood of achieving sustainable results by defining a clearer strategy and reinforcing existing processes and controls during the assessments, implementation and monitoring of SAMS projects.

7. The activities were aligned to the humanitarian-development-peace nexus. However, whilst individual SAMS activities contributed to strengthening participating farmer organizations and assisted victims of violence, their duration and design were not conducive to achieving sustainable solutions as intended by

¹ Sustainable development goal 2 is zero hunger; goal 16 is peace, justice and strong institutions.

² Colombia was not part of the initial group of 20 pilot countries



some elements of the Country Strategic Plan. This in turn had an effect on the country office's ability to clearly articulate its strengths and competencies with strategic partners and donors, and on the design and implementation of robust coordination mechanisms, risk management practices and monitoring tools.

8. The audit observed that the implementation of projects could benefit from stronger controls designed to ensure the traceability of benefits down to smallholder farmers, and from purpose-built information systems to enable better coordination, monitoring and reporting.

9. The audit noted the country office's willingness to innovate and try different approaches to SAMS, creating a foundation for the selection of best practices and tools going forward. It also observed that SAMS projects incorporated gender and climate change in their design and implementation.

10. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **Partially satisfactory / Some improvement needed**. The assessed governance arrangements, risk management and controls were generally established and functioning well but needed improvement to provide reasonable assurance that the objective of the audited entity/area should be achieved. Issues identified by the audit were unlikely to significantly affect the achievement of the objectives of the audited entity/area. Management action is recommended to ensure that identified risks are adequately mitigated.

11. The audit report contains two high priority and five medium priority observations. The high priority observations are:

12. **Strategy and plan:** The country office strategy for SAMS, linked to short-term humanitarian assistance, had not translated into actionable plans to achieve sustainable solutions as outlined in the Country Strategic Plan. The objectives, design, and implementation of projects varied widely across sub-offices. Whilst SAMS interventions had a positive impact in strengthening farmer organizations, there was limited direct financial support to SAMS, with most ongoing work funded indirectly through Activity 3 (relief), potentially impacting the sustainability intended by these interventions.

13. **Traceability of project benefits and transfers:** Contracts for the purchase of commodities from farmer organizations did not include key clauses designed to ensure commodities could be traced down to the level of smallholder farmers targeted by WFP. Farmer organizations' membership lists were not requested or used for verification and monitoring purposes. Registers of assets transferred in relation to SAMS activities and verification controls were not robust enough to ensure these could be traced down to the intended recipients.

Actions agreed

14. Management has agreed to address the reported observations and work to implement the agreed actions by their respective due dates.

The Office of Internal Audit would like to thank managers and staff for their assistance and cooperation during the audit.

Kiko Harvey
Inspector General



II. Context and Scope

Colombia

15. After sixty years of conflict, the Government of Colombia and the Revolutionary Armed Forces of Colombia (FARC) reached an agreement on October 2016. This paved the way for the resolution of long-standing issues that had resulted in the violent displacement of 7.5 million people, illicit economies, land expropriation and widespread environmental damage. Despite reaching a peace agreement, groups continue to commit acts of violence in dispute over areas formerly under the control of FARC.

16. With an estimated population of 49 million, Colombia has great inequalities between rural and urban areas, reflected in rural poverty rates of 19 percent compared to 3 percent in urban areas. Smallholder farmers (SHFs) in Colombia work in difficult agro-ecological conditions, with unpredictable weather and precarious access to markets. Only 3.9 percent of poor rural households own land, and few have access to technical assistance, inputs and credit. These factors increase gender inequality and enable illicit economies.

17. The Government of Colombia has prioritized interventions to those areas most afflicted by the conflict, through short and medium-term actions and strategic priorities that include rural transformation. These actions aim at developing rural areas by recognizing rural residents as agents of their own development, and by paying special attention to rural women. In addition, as of 2016 there were an estimated 7,598³ farmer organizations (FOs) in Colombia, providing opportunities to coordinate and focus development efforts.

18. However, challenges remain due to the institutional fragmentation and lack of coordination in food security and nutrition programmes, as well as the development space. Only 11 percent of actions are planned inter-sectorally and regional and local governments lack resources and capacities for programme implementation.

19. In this context, WFP's contribution to the nexus of humanitarian-development-peace in Colombia is particularly relevant in the design of actions that promote peacebuilding and lasting and sustainable solutions to structural problems affecting smallholder farmers.

WFP SAMS activities in Colombia

20. The country office (CO) is in the second year of implementation of the USD 84.5 million 2017-2020 Country Strategic Plan (CSP), which was approved in February 2017.

21. SAMS activity modalities have been embedded under several strategic objectives including:

Strategic Objective	CSP SAMS Modality Activities
<i>SO 1 - Capacity strengthening – local governments and civil-society organizations have strengthened capacities to implement accountable programmes that</i>	Activity 1: Strengthen the capacities of territorial actors for planning, implementing and evaluating food and nutrition policies and programmes.

³ Plan Nacional de Fomento a la Economía Solidaria y Cooperativa Rural – Planfes 2017-2032, pg. 31



<i>contribute to reducing food insecurity and malnutrition</i>	
<i>SO 2 - Access to food – victims of violence, marginalized communities and vulnerable ethnic populations have adequate access at all times to nutritious foods and diversified diets, and are supported in establishing or improving their livelihoods</i>	<p>Activity 3: Support victims of violence (SAMS implemented through direct purchase of commodities from SHF associations for redemption by victims of violence).</p> <p>Activity 4: Implement home-grown school feeding, focusing on protection and targeting vulnerable children not covered by public programmes.</p>
<i>SO 4 - Smallholder productivity and income – SHFs – women and men – increase their production and marketing capacities sustainably</i>	<p>Activity 7: Provide technical support for rural smallholders.</p> <p>Activity 8: Stimulate markets with WFP purchases.</p>
<i>SO 5 - Sustainable food systems – rural ethnic communities in vulnerable areas have increased capacity to recover from shocks and adapt to climate change</i>	Activity 9: Build resilience and enhance livelihoods.

22. SAMS activities encompassed a variety of projects which can be categorized into four main models:

- *Direct purchases from SHFs:* Under this model WFP buys commodities directly from FOs for subsequent distribution to its beneficiaries (for example, in-kind or cash-based transfers);
- *Institutional purchases:* Under this model the CO provides technical assistance and transfers of assets to FOs to strengthen their capacity to become suppliers of institutional programmes, such as local government school feeding programmes;
- *Private markets:* This model aims at strengthening FO capacities and linking them to private markets, such as regional wholesale markets or supermarket chains; it includes the incorporation of 'bio-stores' where WFP beneficiaries can redeem vouchers, and where SHFs can market their products.
- *Capacity strengthening:* In parallel to procurement activities FOs are trained to strengthen their business management skills and organizational capacities.

23. The CO has also been actively supporting the Government of Colombia with the development of institutional local purchase policies, as well as building livelihoods for rural women affected by violence.



Objective and scope of the audit

24. The objective of the audit was to evaluate and test the adequacy and effectiveness of the processes associated with the internal control components of WFP's SAMS activities in Colombia. Such audits are part of the process of providing an annual and overall assurance statement to the Executive Director on governance, risk-management and internal control processes.

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

26. The scope of the audit covered the period from 1 August 2017 to 31 July 2018. Where necessary, transactions and events pertaining to other periods were reviewed.

27. The audit did not cover cash-based transfer programmes, school feeding programmes or other relief and resilience activities that did not directly target SHFs.

28. The audit field work took place from 10 to 21 September 2018 at the CO premises in Bogota and through onsite visits to the Cali, Monteria and Pasto sub-offices (SOs).

III. Results of the Audit

Audit work and conclusions

29. Taking into account the CO's risk register (RR), findings of WFP's second line of defence functions, as well as an independent audit risk assessment, the audit work was tailored to examine 16 lines of inquiry. These were based upon the implementation phases of SAMS activities: needs and feasibility assessment; project design; project implementation; monitoring evaluation and closure; and cross cutting themes including gender and protection.

30. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **Partially satisfactory / Some improvement needed**⁴. The assessed governance arrangements, risk management and controls were generally established and functioning well but needed improvement to provide reasonable assurance that the objective of the audited entity/area should be achieved. Issue(s) identified by the audit were unlikely to significantly affect the achievement of the objectives of the audited entity/area. Management action is recommended to ensure that identified risks are adequately mitigated.

31. The Office of Internal Audit, in supporting WFP's management's efforts in the areas of risk management and data quality, separately reports its assessments or gaps identified in both areas.

Risk management maturity

32. The CO's 2018 RR was finalized at the time of the audit fieldwork and was used with the 2017 RR and respective mitigation actions, as well as other risk management inputs, as a basis to assess risk maturity. Risks related to SAMS activities in Colombia were only partially and indirectly mentioned under risks 3 (changes on government priorities and funding), 6 (fraud and corruption risks), and 10 (WFP operational

⁴ See Annex B for definitions of audit terms.

capacity and constrains and cost effectiveness). The audit noted as a positive development the CO's staffing of a programme implementation and control position to assist and coordinate compliance and oversight activities over all programmatic activities, including SAMS.

Data quality

33. Challenges relating to data quality and information systems were identified during the audit and are reported in observations 3, 5 and 7, in relation to coordination and partnerships, traceability of project benefits and transfers, and to project data management and information systems.

Observations and actions agreed

34. Table 1 outlines the extent to which audit work resulted in observations and agreed actions. These are rated as medium or high priority; observations that resulted in low priority actions are not included in this report.

Table 1: Overview of areas in scope, observations and priority of agreed actions **Priority of issues/agreed actions**

A: Needs assessment and feasibility	
The audit examined how SAMS activities fitted within the strategy of the CO; how policies, guidelines and governance mechanisms were designed to support achievement of objectives; how risk management practices were embedded throughout the lifecycle of SAMS projects; whether activities, interventions and partnerships were coordinated to avoid duplication of assistance; and whether projects were robustly evaluated for feasibility.	
The short-term duration and design of SAMS activities were not conducive to achieving sustainable solutions as articulated in the CSP. The CO has an opportunity to build on its existing guidelines, coordination mechanisms, partnerships and risk management practices to mitigate risks that are currently hindering the realization of sustainable solutions for SHFs.	
<i>1 Strategy and plan for SAMS activities</i>	<i>High</i>
<i>2 Policies, guidelines and governance</i>	<i>Medium</i>
<i>3 Coordination and partnerships</i>	<i>Medium</i>
<i>4 Project feasibility and risk management</i>	<i>Medium</i>
B: Project design	
The audit examined how SAMS activities were designed and agreed with strategic partners; how locally raised funding in relation to SAMS activities was assessed and recorded; and whether the appropriate contract and agreement modalities were applied in relation to SAMS activities.	
The CO has opportunities to consolidate and bring coherence to the design of SAMS across all SOs and with key partners (see observations 2 and 3). The CO was noted to be using appropriate contract modalities during the implementation of SAMS activities. In addition, internal controls were also found to be in place and functioning in the management of locally raised funds.	



C: Project implementation	
<p>The audit examined the presence and operating effectiveness of internal controls, designed to ensure the benefits of SAMS activities could be traced down to individual SHFs; to ensure assets were procured and transferred in a controlled manner and used for their intended purpose; and to ensure the sustainability of projects and achievement of outcome and impact objectives.</p> <p>Processes and internal control improvements were needed to establish the traceability of the benefits down to SHFs for SAMS activities, whereas some controls were present but needed strengthening over the procurement, handover and monitoring of assets being provided to FOs. Issues regarding the sustainability of SAMS projects have been raised under observation 1.</p>	
<i>5 Traceability of project benefits and transfers</i>	<i>High</i>
<i>6 Procurement strategy and plan</i>	<i>Medium</i>
D: Monitoring evaluation and closure	
<p>The audit examined indicators, monitoring processes and tools; the risk of contractual default by FOs; and whether SAMS activities were designed and implemented to be sustained over the long-term.</p> <p>The audit observed that while there are currently no suitable indicators in the corporate results framework to capture the outcomes and impact of SAMS interventions, the CO has opportunities to strengthen monitoring of these activities by adopting best practices, and to develop information systems to enable more effective planning, coordination, monitoring and reporting of results.</p>	
<i>7 Monitoring and project data and information systems</i>	<i>Medium</i>
E: Cross cutting	
<p>SAMS activities were designed and implemented with special consideration of gender and protection issues, from the targeting of areas of intervention, to the selection of organizations and the implementation of capacity building and gender-specific training activities tailored to rural communities and SHFs.</p>	

35. The seven observations of this audit are presented in detail below.

36. Management has agreed to take measures to address the reported observations⁵. An overview of the actions to be tracked by internal audit for implementation, their due dates and their categorization by WFP's risk and control frameworks can be found in Annex A.

⁵ Implementation will be verified through the Office of Internal Audit's standard system for monitoring agreed actions.



A: Needs assessment and feasibility

The humanitarian and development sectors have a large footprint in Colombia with many national and international non-governmental organizations (NGOs), United Nations (UN) agencies, and multiple entities and levels of government working in a variety of projects aimed at assisting SHFs. As of 2016⁶, there were also an estimated 7,598 FOs in Colombia. With so many actors it is inherently complex to coordinate activities; however in this context WFP had designed and implemented activities with SHFs without a clearly defined set of competencies and objectives to differentiate and position itself with donors and key partners. This led to a lack of coherence in approach between field offices, and a focus on short-term SAMS interventions that were complementary to relief work. It is noted that the lack of coherence may also have been driven by the need for flexibility and application of short-term interventions when assisting victims of violence.

The success and sustainability of SAMS projects depends in large part upon effective assessment of the enabling environment and identification of key risks early in the project lifecycle. An absence of corporate guidelines during the inception of SAMS projects led to risks and regulatory compliance requirements going undetected, significantly impacting the successful production and commercialization of products by FOs, and diminishing the impact of investments made in capacity strengthening and asset transfers.

Despite the challenges observed in the coordination of activities and establishment of partnerships, the CO was able to open the door to current and potentially future collaboration and funding with national, regional and municipal levels of government, and had established an effective collaboration framework in Nariño minimizing overlaps in assistance. Collaborations with a number of partners were complementary in nature and provided a model to increase the efficiency and effectiveness of assistance to SHFs. Moreover, the CO had made significant contributions to the formulation of local procurement policies by the Government of Colombia which are expected to link SHFs and FOs with institutional buyers and have a major impact on rural communities.

Observation 1	Proposed agreed actions [High priority]
<p>Strategy and plan for SAMS activities</p> <p>The CO strategy for SAMS activities had not translated into actionable plans with defined objectives, roles and responsibilities aimed at achieving sustainable solutions. SAMS activities were implemented to complement humanitarian programmes, rather than as stand-alone activities. There was a mismatch between the short-term lifecycle of humanitarian assistance and the longer-term objective of sustainability of SAMS activities as outlined in the CSP. As a result, the objectives, design and implementation modalities of SAMS projects varied widely across SOs, affecting the CO's ability to achieve consistent, measurable outcomes and impact.</p> <p>There was limited direct financial support to SAMS activities (activities 7 and 8 in the CSP), with most ongoing work with FOs funded indirectly through activity 3 (to support victims of violence), adversely affecting the continuity and visibility of these projects and related achievements.</p> <p><u>Underlying causes:</u> SAMS projects created in reaction to sources of funding and only seen as complementary activities to humanitarian assistance. No long-term strategy for SAMS activities, and consequent uncertainty regarding the appropriate types of activities, periods, phases and types of implementation and resourcing. Need for flexibility in the design of short-term interventions primarily aimed at victims of violence.</p>	<p>The CO will review its current SAMS strategy to define and clarify objectives and ensure that the revised strategy is understood and implemented as intended at the SO level.</p>

⁶ Plan Nacional de Fomento a la Economía Solidaria y Cooperativa Rural – Planfes 2017-2032, pg. 31

**Observation 2****Policies, guidelines and governance**

The development and application of SAMS assessment and reference tools varied between SOs. The CO was carrying out a mapping of the operating models within the country and had developed draft country guidelines for SAMS, but these had not been reviewed against SAMS corporate guidelines, nor had a rollout and implementation plan been developed. This had resulted in each SO developing and following its own models and procedures, duplicating efforts across the country.

Initial stages of SAMS projects were carried out by consultants hired at CO level, with limited involvement of SOs in the design, implementation and reporting of SAMS activities, limiting effective coordination, handover and follow-up. The role of the Supply Chain function had not been defined and articulated within the strategy, resulting in limited coordination, duplication of efforts and potential inefficiencies and gaps.

Underlying causes: Absence of comprehensive country-wide actionable plans with clear objectives for SAMS activities. SOs and business units not working in a coordinated manner.

Proposed agreed actions [Medium priority]

The CO will:

- (i) Gather lessons learned and leverage tools and guidance already developed by SOs (and under development by the CO) to avoid duplication of efforts; and
- (ii) Ensure a coherent approach for the implementation of SAMS activities, guided from the CO and coordinated with SOs and the various CO units, including a clear definition of roles and responsibilities across functional units and SOs.

Observation 3**Coordination and partnerships**

Coordination – Whilst some coordination mechanisms existed at the United Nations Country Team (UNCT) level and in the field, efforts aimed at assisting SHFs were not supported by a robust identification of all actors evaluating needs and providing assistance, including their respective mandates, objectives and activities. This led to a perceived lack of coordination and ‘capacity strengthening fatigue’ amongst providers and recipients of assistance.

Partnerships - The MOU with one partner organization was not translated into actions due to lack of resources to kick-start activities. These included the identification of organizations, completion of market studies and formulation of actions with government, civil society and private industry. Moreover, partnership and coordination agreements had not been agreed with several strategic partners to increase the coordination, strategic orientation and non-duplication of efforts aimed at SHFs.

Underlying cause: The CO had not identified the roles and responsibilities of partners or agreed on common sources of information on FOs, lessening the effectiveness of planning and coordination activities. Multiple channels of coordination with partners existed but there was a lack of coordination and information sharing between the CO and SOs. Strategic partners lacked resources to effectively play a coordinating role.

Proposed agreed actions [Medium priority]

The CO will:

- (i) Identify, select and strengthen coordination mechanisms at the CO and SO levels, integrating information on the organizations reached and activities being carried out by external partners;
- (ii) Complete a mapping exercise of strategic partners, competencies, coverage and activities and use this information to inform its strategy and plan; and
- (iii) Review and assess existing partnership agreements and prepare a report on the progress towards achieving stated objectives in order to inform and strengthen these; identify opportunities to formalize the commitments, roles and responsibilities made with/by strategic partners wherever possible.

**Observation 4****Project feasibility and risk assessment**

Project feasibility - While the criteria for the selection of areas of intervention were clear, processes to assess the feasibility of SAMS projects were not robust enough to allow for sustainable results:

- 'Investment plans' had gaps in the identification of key factors which constrained the success of SAMS projects and the ultimate linkage of FOs to markets (for example, lack of permits, licenses and supply chain constraints);
- Several projects were being implemented without continuing guarantees of access to land/premises, or with organizations which were not formally established, putting at risk their sustainability and success.

Risk management - Risks identified by SOs in relation to SAMS activities were, in most instances, limited to security. While there was an awareness of risks at the SO level (for example, strategic, contextual, operational, fraud and corruption risks), these were not reflected in risk registers, or systematically captured and managed.

Underlying causes: Assessments of the enabling environment and project risks did not follow a systematic and consistent process, creating gaps in project design and barriers to the successful achievement of objectives. Stages of development of FOs did not inform the assessment and design of projects. Staff knowledge of risk management was not robust enough to identify, assess and mitigate risks to SAMS projects.

Proposed agreed actions [Medium priority]

The CO will:

- (i) Ensure FOs are classified according to their stage of development and type, and projects are evaluated for feasibility, using consistent and systematic processes and criteria; and
- (ii) Review risk management principles and practices with SOs to ensure identification of risks to SAMS projects to inform every stage of projects' lifecycles.



C: Project implementation

One of the key objectives of SAMS activities is to have a positive impact on the lives of SHFs by increasing their productive capacity and income. In instances where WFP procures commodities directly from FOs, or where WFP has provided resources and assistance to FOs, the CO must be able to demonstrate that these transfers and benefits can be traced down to individually identifiable SHFs. SAMS activities in Colombia involve the provision of technical assistance to larger FOs (aggregators) to enable them to participate in institutional markets, private markets, or to be eligible as WFP suppliers.

During site visits, the audit saw evidence that SHFs have benefited from the provision of supplies, assets or technical assistance through their associations; however a lack of adequate records, both at the FOs and at WFP, made it difficult to ascertain to what extent these benefits were directly or indirectly attributable to the SAMS activities of the CO, especially as some of the participating FOs had also benefited from similar initiatives led by other organizations or local governments. The audit found that programmes had not been designed, and processes and internal controls had not been put in place, to enable the traceability of projects' benefits and transfers, including assets, to SHFs.

Observation 5

Proposed agreed actions [High priority]

Traceability of project benefits and transfers

Gaps and shortcomings in the traceability and transfers of assets and commodities were identified; as a consequence, the CO may not be able to demonstrate that assistance via SAMS activities is reaching SHFs as intended.

Contract clauses - Purchase order contracts with FOs were missing clauses guaranteeing that commodities could be traced down to the level of SHFs; due to the lack of detailed procurement records FOs could not report (except in one instance) what percentage of their products came from SHFs. FOs confirmed that they sourced commodities from SHFs as well as large and medium scale producers, other FOs and commercial suppliers.

Membership records - Whilst FO membership records were maintained by the organizations visited, these were not requested by WFP or used for verification or monitoring purposes. Some SHFs belonged to multiple FOs, however this information was not gathered to ensure coordination, monitoring and non-duplication of assistance and reporting.

Asset registers - There was no asset register at the CO level and only one SO had a comprehensive register of the non-food items (NFIs) purchased and handed over to cooperating partners (CPs)/FOs during SAMS activities. FOs did not keep records of assets and supplies provided by WFP, hampering the traceability of these down to SHFs, as well as later impact assessment and follow up. Internal control processes were not present or consistently applied to ensure that transferred assets were reaching FOs and SHFs.

Underlying causes: Traceability of assistance down to SHFs not considered as an internal control objective during the design and implementation of SAMS activities. SAMS activities viewed as complementary to short-term humanitarian interventions.

The CO will:

- (i) In consultation with the Legal Office, review and include clauses in contracts and agreements with FOs and CPs requiring the traceability of commodities being purchased down to individually identifiable SHFs;
- (ii) Establish procedures and monitor the execution of processes to ensure the traceability of commodity purchases to SHFs; and
- (iii) Implement and maintain a register at CO and SO levels of all the assets, supplies and consumables purchased and handed over to FOs and SHFs in relation to SAMS activities.

Observation 6

Proposed agreed actions [Medium priority]

Procurement strategy

The Colombia CSP states the intention to buy commodities from small producers but there was no measurable procurement objective in relation to SAMS activities, such as defined targets for direct purchases from FOs within

The CO will incorporate a procurement strategy into its overall SAMS strategy, once the objectives of SAMS activities have been clearly established (see observation 1), and will clarify the processes, roles and responsibilities



the CO's annual procurement plan, or the number of agreements to be facilitated by WFP between FOs and institutional and commercial buyers.

The CO had not clearly defined the processes, roles and responsibilities of different functional units in relation to the procurement of NFIs for SAMS projects. This had led to different practices across SOs, impacting the timeliness and cost-efficiency of procurement actions.

Underlying causes: Absence of comprehensive country-wide actionable plans with clear objectives for SAMS activities to guide the roles and responsibilities of various units and identify and measure the effectiveness of SAMS activities.

of functional units in the CO regarding procurement of food and NFIs in relation to these activities. Likewise, the CO will incorporate purchases from FOs and of NFIs required into the Annual Procurement Plan.



D: Monitoring, evaluation and closure

The audit received consistent positive feedback from farmers regarding their participation in SAMS activities, indicating that as a result of participation they had been able to increase their productivity, and to reach markets and commercial opportunities that would have otherwise been difficult to achieve. However, the indicators available to monitor SAMS activities were not fit to capture the short-term, intermediate and strategic outcomes of these projects, leading to potential under-reporting of results. In October 2017, WFP released new corporate guidelines and proposed techniques for monitoring and evaluating SAMS activities that aim to strengthen the reporting of outcomes and impact of SAMS projects. During the development of SAMS activities the CO identified and assessed hundreds of FOs without establishing robust information systems to manage data. These conditions had several adverse effects including diminishing the assurance that FOs have been completely identified, consistently evaluated and selected, and decreasing the ability of the CO to monitor, evaluate and report on the outcomes and impacts of SAMS interventions. It was noted that there are no corporate purpose-built systems for SAMS activities and each CO is expected to develop its own tools.

Observation 7

Proposed agreed actions [Medium priority]

Monitoring and project data and information systems

Outcome monitoring - Indicators, monitoring plans and activities were not fit to capture the data required to measure the outcomes and impacts of SAMS interventions beyond the end of activities. There were no outcome indicators (or baseline data) present in the CO's monitoring framework for SAMS, and monitoring processes were limited to output measurements.

Impact monitoring - Whilst sustainability is a primary objective of SAMS interventions, the CO had not yet developed project impact assessment tools. This had prevented the systematic gathering of positive results noted in the field by the audit, and effective articulation with donors for continuing support to SAMS activities.

Project data and information systems - The CO had carried out significant efforts to identify, assess and select FOs for assistance; however this information, as well as data on investments made through SAMS projects, had not been consolidated at the SO or CO levels. The CO had recorded only 10 out of 105 FOs assisted through SAMS interventions in its monitoring tool.

Some SOs maintained contact with selected FOs but there was no systematic follow-up, monitoring or reporting to capture the outcomes and impact of SAMS activities beyond the end of direct interventions.

Maintaining a detailed record of the organizations identified, assessed and targeted, and of the activities carried out, is crucial to enabling subsequent monitoring and evaluation of such activities, as well as to coordinating future activities and assistance.

Underlying causes: SAMS activities implemented in support of humanitarian efforts; outcome and impact measurements not prioritized. Data requirements, information systems and roles and responsibilities regarding SAMS data not considered during the design of these activities or present during their implementation. Limited capacity to support SOs from the CO resulting in a lack of coordination and communication. Long-term data gathering, monitoring and follow-up not budgeted for or factored into monitoring plans.

The CO will:

- (i) Design and implement outcome and impact monitoring tools to support its SAMS activities; this will be done considering the priority given to SAMS activities by the CO after the review of its strategy (see observation 1).
- (ii) Based on the implementation of agreed action (i) under observation 3, systematically consolidate FO data and establish processes and agreements needed to collect and share information regarding FOs targeted and assistance provided through SAMS, both internally and with key strategic partners.



Annex A – Summary of observations

The following tables shows the categorization, ownership and due date agreed with the auditee for all the audit observations raised during the audit. This data is used for macro analysis of audit findings and monitoring the implementation of agreed actions.

Categories for aggregation and analysis					
High priority observations	WFP's Internal Control Framework	WFP's Enterprise Risk Management Framework	WFP's Internal Audit Universe	Implementation Lead	Due date
1 Strategy and plan for SAMS activities	Control Environment	Governance and oversight	Strategic management & objective setting	CO	31 January 2019
5 Traceability of project benefits and transfers	Control Activities	Programme	Activity/project management	CO	31 March 2019
Categories for aggregation and analysis					
Medium priority observations	WFP's Internal Control Framework	WFP's Enterprise Risk Management Framework	WFP's Internal Audit Universe	Implementation Lead	Due date
2 Policies, guidelines and governance	Control Environment	Governance and oversight	Governance	CO	30 April 2019
3 Coordination and partnerships	Control Activities	Partners and vendors	Governance	CO	31 March 2019
4 Project feasibility and risk management	Risk Assessment	Programme	Activity/project management	CO	30 April 2019
6 Procurement strategy and plan	Control Activities	Business process	Procurement - goods & services	CO	31 January 2019
7 Monitoring and project data and information systems	Monitoring Activities	Programme	Monitoring & evaluation	CO	28 February 2019

Annex B – Definitions of audit terms: ratings & priority

1 Rating system

37. The internal audit services of UNDP, UNFPA, UNICEF, UNOPS and WFP adopted harmonized audit rating definitions, as described below:

Table B.1: Rating system

Rating	Definition
Effective / Satisfactory	The assessed governance arrangements, risk management and controls were adequately established and functioning well to provide reasonable assurance that issues identified by the audit were unlikely to affect the achievement of the objectives of the audited entity/area.
Partially satisfactory / Some improvement needed	The assessed governance arrangements, risk management and controls were generally established and functioning well, but needed improvement to provide reasonable assurance that the objective of the audited entity/area should be achieved. Issue(s) identified by the audit were unlikely to significantly affect the achievement of the objectives of the audited entity/area. Management action is recommended to ensure that identified risks are adequately mitigated.
Partially satisfactory / Major improvement needed	The assessed governance arrangements, risk management and controls were generally established and functioning, but need major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues identified by the audit could negatively affect the achievement of the objectives of the audited entity/area. Prompt management action is required to ensure that identified risks are adequately mitigated.
Ineffective / Unsatisfactory	The assessed governance arrangements, risk management and controls were not adequately established and not functioning well to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area. Urgent management action is required to ensure that the identified risks are adequately mitigated.

2 Categorization of audit observations and priority of agreed actions

2.1 Priority

38. Audit observations are categorized according to the priority of the agreed actions, which serves as a guide to management in addressing the issues in a timely manner. The following categories of priorities are used:

Table B.2: Priority of agreed actions

High	Prompt action is required to ensure that WFP is not exposed to high/pervasive risks; failure to take action could result in critical or major consequences for the organization or for the audited entity/area.
Medium	Action is required to ensure that WFP is not exposed to significant risks; failure to take action could result in adverse consequences for the audited entity.
Low	Action is recommended and should result in more effective governance arrangements, risk management or controls, including better value for money.

39. Low priority recommendations, if any, are dealt with by the audit team directly with management. Therefore, low priority actions are not included in this report.

40. Typically audit observations can be viewed on two levels: (1) observations that are specific to an office, unit or division; and (2) observations that may relate to a broader policy, process or corporate decision and may have broad impact.⁷

41. To facilitate analysis and aggregation, observations are mapped to different categories:

2.2 Categorization by WFP’s Internal Control Framework (ICF)

42. WFP’s Internal Control Framework follows principles from the Committee of Sponsoring Organizations of the Treadway Commission’s (COSO) Integrated Internal Control Framework, adapted to meet WFP’s operational environment and structure. WFP defines internal control as: ‘a process, effected by WFP’s Executive Board, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, compliance.’⁸ WFP recognises five interrelated components (ICF components) of internal control, all of which need to be in place and integrated for them to be effective across the above three areas of internal control objectives.

Table B.3: Interrelated Components of Internal Control recognized by WFP

1	Control Environment	The control environment sets the tone of the organization and shapes personnel's understanding of internal control
2	Risk Assessment	Identifies and analyses risks to the achievement of WFP's objectives through a dynamic and iterative process.
3	Control Activities	Ensure that necessary actions are taken to address risks to the achievement of WFP's objectives.
4	Information and Communication	Allows pertinent information on WFP's activities to be identified, captured and communicated in a form and timeframe that enables people to carry out their internal control responsibilities.
5	Monitoring Activities	Enable internal control systems to be monitored to assess the systems' performance over time and to ensure that internal control continues to operate effectively.

2.3 Categorization by WFP’s Enterprise Risk Management Framework (ERM)

43. WFP is further developing its ERM tools and is in the process of introducing a new risk taxonomy to facilitate aggregation and analysis of risk information. The new taxonomy is being piloted in a selection of COs during 2018 to test for the roll-out of a database/system foreseen in 2019. As a means to facilitate the testing and roll-out, audit observations are mapped to the new risk taxonomy.

Table B.4: WFP’s new Risk Taxonomy recognizes 4 risk categories and 15 types of risk

1	Strategic	1.1 Programme risks, 1.2 External relationship risks, 1.3 Contextual risks, 1.4 Failure to innovate/adjust business model
2	Operational	2.1 Beneficiary health, safety & security risks, 2.2 Staff health, safety & security risks, 2.3 Partner & vendor risks, 2.4 Asset risks, 2.5 ICT failure/disruption/attack, 2.6 Business process risks, 2.7 Governance & oversight breakdown

⁷ An audit observation of high risk to the audited entity may be of low risk to WFP as a whole; conversely, an observation of critical importance to WFP may have a low impact on a specific entity, but have a high impact globally.

⁸ OED 2015/016 para.7

3	Fiduciary	3.1 Breach of obligations, 3.2 Fraud & corruption
4	Financial	4.1 Adverse price/cost change, 4.2 Adverse asset outcome

2.4 Categorization by WFP's Audit Universe

44. WFP's audit universe⁹ covers organizational entities and processes. Mapping audit observations to themes and process areas of WFP's audit universe helps prioritize thematic audits.

Table B.5: WFP's 2018 Audit Universe (themes and process areas)

1	Governance	Change, reform and innovation; Governance; Integrity and ethics; Legal support and advice; Management oversight; Performance management; Risk management; Strategic management and objective setting.
2	Programme	(Agricultural) Market support; Analysis, assessment and monitoring activities; Asset creation & livelihood support; Climate and disaster risk reduction; Emergencies and transitions; Emergency preparedness and support response; Malnutrition prevention; Nutrition treatment; School meals; Service provision and platform activities; Social protection and safety nets; South-south and triangular cooperation; Technical assistance & country capacity strengthening services.
3	Resource Management	Asset management; Budget management; Contributions and donor funding management; Facilities management and services; Financial management; Fundraising strategy; Human resources management; Payroll management; Protocol management; Resources allocation and financing; Staff wellness; Travel management; Treasury management.
4	Operations	Beneficiary management; CBT; Commodity management; Common services; Constructions; Food quality and standards management; Insurance; Operational risk; Overseas and landside transport; Procurement – Food; Procurement - Goods and services; Security and continuation of operations; Shipping - sea transport; Warehouse management.
5	External Relations, Partnerships & Advocacy	Board and external relations management, Cluster management, Communications & advocacy, Host government relations, Inter-agency coordination, NGO partnerships, Private sector (donor) relations, Public sector (donor) relations.
6	ICT	Information technology governance and strategic planning; IT Enterprise Architecture; Selection/development and implementation of IT projects; Cybersecurity; Security administration/controls over core application systems; Network and communication infrastructures; Non-expendable ICT assets; IT support services; IT disaster recovery; Support for Business Continuity Management.
7	Cross-cutting	Activity/project management, Knowledge and information management, Monitoring & Evaluation (M&E) framework, Gender, Protection, Environmental management.

5. Monitoring the implementation of agreed actions

45. The Office of Internal Audit tracks all medium and high-risk observations. Implementation of agreed actions is verified through the Office of Internal Audit's system for the monitoring of the implementation of agreed actions. The purpose of this monitoring system is to ensure management actions are effectively implemented within the agreed timeframe to manage and mitigate the associated risks identified, thereby contributing to the improvement of WFP's operations.

⁹ A separate universe exists for information technology with 60 entities, processes and applications.



Annex C – Acronyms

CD	Country Director
CSP	Country Strategic Plan
CO	Country Office
CP	Cooperating Partner
FARC	Revolutionary Armed Forces of Colombia
FLA	Field Level Agreement
FO	Farmer Organizations
M&E	Monitoring and evaluation
NFI	Non-Food Items
NGO	Non-Governmental Organizations
RBP	Regional Bureau Panama
RR	Country Office Risk Register
SAMS	Smallholder Agricultural and Market Support activities
SHF	Smallholder Farmer
SO	Sub-Office
UN	United Nations
UNCT	United Nations Country Team
USD	United States Dollar
WFP	World Food Programme