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Internal Audit of WFP Operations in Lesotho

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Internal Audit of WFP Operations in Lesotho

I. Executive Summary

Introduction and context

1. As part of its annual work plan, the Office of Internal Audit (OIGA) conducted an audit of WFP operations in Lesotho that focused on the period from 1 January to 31 December 2018. Expenditures in the Lesotho country office totalled USD 5.3 million in 2018, representing less than one percent of WFP's total direct expenses for that year. The audit team conducted the fieldwork from 24 January to 7 February 2019 at the country office in Maseru and through onsite visits to field offices in Mphahle's Hoek and Mokhotlong. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

2. Lesotho is a small land-locked country in Southern Africa with a population of 2 million people, classified as a lower-middle-income country, with a gross domestic product per capita of USD1,034.¹ Despite relatively strong economic growth in recent years, Lesotho continues to struggle with a range of development challenges, including chronic poverty and high levels of unemployment. Nearly 60 percent of the population live below the poverty line and 29 percent of the available labour force is unemployed. Other challenges include high HIV prevalence and stunting.

3. WFP Lesotho has been implementing an 18-month transitional interim country strategic plan² covering the period from January 2018 to June 2019, in alignment with the upcoming National Strategic Development Plan, the previous Lesotho United Nations development assistance framework 2012–2017, and the Lesotho United Nations development assistance framework 2019–2023. The country office and other United Nations agencies conducted a zero hunger strategic review³, which was released in March 2018, in support of country level implementation of the 2030 Agenda for Sustainable Development. The recommendations of the strategic review informed the formulation of a five-year WFP country strategic plan 2019–2024. The concept note⁴ for the country office's strategic plan 2019–2024, was presented and approved at the November 2018 Executive Board session and comprises four outcomes focusing on resilience, social protection, nutrition and disaster risk reduction.

4. The country office supported the Government of Lesotho in preparing the national school feeding policy, which was endorsed in 2015 and resulted in the Government taking full ownership of the delivery and financing of the school feeding activities.

Audit conclusions and key results

5. 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 objectives of the audited entity should be achieved. Issues identified by the audit were unlikely to significantly affect the achievement of the objectives of the audited entity. Management action is recommended to ensure that identified risks are adequately mitigated. In its

¹ <https://data.worldbank.org/country/lesotho>

² Lesotho transitional interim country strategic plan (Year 2018–2019). See <https://docs.wfp.org/ICSP/documents/>

³ Lesotho zero hunger strategic review. See: <https://www1.wfp.org/zero-hunger-strategic-reviews/>

⁴ Lesotho Country Strategic Plan 2019–2024 Concept Note. See <https://docs.wfp.org/api/CNCSP/documents/>

assessment, the audit noted and took into consideration some of the high priority observations that relate to the still pending implementation of corporate actions raised in prior audit reports on country capacity strengthening and of the integrated road map pilot phase. Further definition of the nature of WFP's role and intervention in-country is fundamental from OIGA's perspective to ensure reputational risks identified under the current framework of intervention are effectively considered and mitigated. Corporately guidance on WFP engagement in middle-income countries as a service provider is absent which resulted in the country office implementing activities which are a hybrid of service provision and direct implementation, with gaps in the approach either way.

6. The unstable political context in Lesotho results in frequent changes in the Government that affect the country office's plans and efforts of capacity strengthening activities, resulting in multiple extensions of planned transition and handover of the national school feeding activity. Together with the multiple extensions of transition of school feeding activities, this is indicative of the need to re-assess WFP's engagement in the country context. As a first step to align the operational model within the middle-income context, the country office has initiated in 2018 discussions with the Regional Bureau in Johannesburg on the role of WFP in middle-income countries and the need to align approaches. The discussions still need to be escalated to the corporate level; although OIGA's discussion with various services in the Policy and Programme Division confirmed their awareness of the need to further clarify WFP's position and approach.

7. The country office's service delivery model for the national school feeding programme involves assisting the Ministry of Education and Training in implementing and managing the programme, while at the same time undertaking capacity strengthening activities. The operational framework for implementing the school feeding activities, regulated by a memorandum of understanding, is one of service delivery with services invoiced to the Government. The country office has applied by default, and in the absence of a programmatic service delivery concept and related guideline available in WFP, direct implementation principles with revenue recognized as donor contribution, corporate treasury arrangements applying, school students recognized as first tier beneficiaries, commodities marked and accounted for as WFP, etc. At the same time, monitoring, fraud reporting, and food quality arrangements are insufficient under a direct implementation arrangement, and some activities were implemented beyond the existing agreements, raising reputational risks for WFP as responsibilities are not clearly defined or exercised. The audit noted weaknesses at the field level in the implementation of school feeding activities related to the management of student enrolment and numbers, warehouse management, food quality and safety, school reporting systems, and monitoring and evaluation.

8. The current memorandum of understanding signed with the Ministry of Education and Training does not reflect the current vision of the ministry in terms of the expected horizon for transition to an outsourced national management agency model⁵ nor does it define the role of WFP in its service delivery and capacity strengthening engagement with the government's food management unit, the upstream and downstream capacity strengthening activities for the school feeding programme, and the strategic alignment of local purchase initiatives spearheaded through engagement of smallholder farmers.

9. The audit report contains 2 high priority and 5 medium priority observations. An overview of all observations and agreed actions is summarized in Table 1.

⁵ School feeding national management agent (NMA) model: This is a private sector led outsourced delivery model, contracted directly by the Ministry of Education and Training against a 3-year tender for a contract to feed primary schoolchildren and to manage the entire process of procuring, supplying and overseeing the preparation of school meals.

10. 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 the managers and staff for their assistance and cooperation during the audit.

Kiko Harvey
Inspector General

II. Context and Scope

Lesotho

11. Political instability has been a key determinant of economic performance in Lesotho. Strong growth before and after the 2008–2009 global financial crisis was cut short by the collapse of a three-party coalition government in 2014, which led to a fall in gross domestic product (GDP) growth from 7 percent in 2011 to 2 percent in 2013. The combination of falling remittances, rising HIV prevalence and vulnerability to shocks has had a strong downward effect on national poverty and the status of women and children.

12. The poor rainfall patterns since 2013 combined with the 2015–2016 El Niño event have resulted in the worst drought in decades, triggered a sharp decline in food production and 491,000 people requiring emergency food assistance. Despite a low contribution to GDP, agriculture remains an important source of livelihood for a significant part of the population. The agricultural population is engaged in rain-fed subsistence farming, largely based on a single crop: maize.

13. Lesotho's 2012–2017 National Strategic Development Plan (NSDP) and Vision 2020 recognize food and nutrition security as fundamental to social and economic development. These include a Food Security Policy (2005), the Food Security Action Plan (2007–2017), and the National Disaster Risk Reduction Policy (2011). With the support of the United Nations, the Government was in the process of formulating its 2018–2022 National Strategic Development Plan II (NSDP-II) which will be aligned with the Sustainable Development Goals (SDGs).

WFP operations in Lesotho

14. The country office (CO) has five field offices (FOs), which operate with staff posted at the Ministry of Education and Training (MOET) district offices, and implements three main activities: capacity strengthening and implementation support to MOET's school feeding programme (SFP), resilience activities (food assistance for assets), and nutrition support (prevention activities).

15. The CO implements SFP activities under a service delivery model, operating in 900 out of a total of 1,400 schools in the country. It uses cash advances from the Government to buy and deliver commodities to a central warehouse in Maseru, from where they are distributed to district warehouses. The Government contracts secondary transport and services of cooks and staff at schools. Capacity strengthening with government personnel follows a mentoring model, aimed at enhancing government capacity by working together with WFP on a routine basis.

16. The CO presented a concept note of its Country Strategic Plan 2019–2024 with an estimated total cost of USD 95.7 million at the November 2018 Executive Board session. The concept note comprises four integrated and mutually reinforcing outcomes focusing on resilience, social protection using the home-grown school meals programme as a platform, nutrition, and disaster risk reduction.

Objective and scope of the audit

17. 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 activities in Lesotho. 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.

18. 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.

19. The audit specifically reviewed the implementation of the government's SFP, to which WFP is a service provider, and the livelihoods activities associated with the Fato-Fato national public works programme. Capacity strengthening activities associated with these two programmes and cross-cutting areas such as governance, resource management and support functions were considered insofar as they supported and/or impacted the programme cycle of the sampled activities.

20. The audit covered the period from 1 January to 31 December 2018. Where necessary, transactions and events pertaining to other periods were reviewed. Fieldwork took place from 24 January to 7 February 2019 at the CO premises in Maseru and visits of FOs in Mohale's Hoek and Mokhotlong. In addition, work was carried out in liaison with relevant focal points from selected WFP headquarters units and the Regional Bureau in Johannesburg (RBJ).

III. Results of the Audit

Audit work and conclusions

21. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **Partially Satisfactory/Some Improvement needed**⁶. The assessed governance arrangements, risk management and controls were generally established and functioning well but needed improvement to provide reasonable assurance that the objectives of the audited entity should be achieved. Issues identified by the audit were unlikely to significantly affect the achievement of the objectives of the audited entity. Management action is recommended to ensure that identified risks are adequately mitigated. In its assessment, the audit noted and took into consideration some of the high priority observations that relate to the still pending implementation of corporate actions raised in the 2016 audit of WFP's country capacity strengthening⁷, the 2018 desk review⁸ of the implementation of agreed actions from the former audit and the 2018 audit of the Integrated Road Map pilot phase⁹.

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

Risk management maturity

23. The audit reviewed the CO's 2018 risk register and the draft 2019 risk register to assess risk management maturity. The risk management process is coordinated by the risk management focal point in collaboration with other heads of unit and CO management. Some risks noted during the audit associated with the political context and the implications of the school feeding service delivery model were either not included in the 2018 risk register or assigned a lower priority. The audit noted that some of these risks have been reassessed and included in the draft 2019 risk register with a high-risk rating. The CO should leverage on this audit report and on the results from various oversight missions to inform further its risk management process and the risk register.

Data quality

24. The audit noted that, due to the ineffective monthly school reporting system, and absence of quality data on actual distributions, the CO has been using estimates of school enrolment for reporting beneficiary numbers in COMET (Country Office Tool for Managing Programme Operations Effectively). Analysis of planned vs actual monitoring is not done systematically across FOs and districts to identify issues and escalate to the MOET for programme changes. The absence of a framework agreement for capacity strengthening activities has resulted in WFP and the Government's Food Management Unit (FMU) operating parallel inventory tracking systems that are not reconciled. The audit noted that the CO's data reliability score in the Logistics Execution Support System (LESS) was very low due to an increased number of waybills emanating from changes in secondary transport arrangements agreed with the FMU.

⁶ See Annex B for definitions of audit terms.

⁷ Internal Audit of WFP's Country Capacity Strengthening. See:

<https://documents.wfp.org/stellent/groups/public/documents/reports/wfp289621.pdf>

⁸ WFP's Country Capacity Strengthening – Desk Review of the Implementation of Agreed Actions from the 2016 Internal Audit Report. See: <https://docs.wfp.org/api/documents/WFP-0000072398/download/>

⁹ Internal Audit of the Integrated Road Map Pilot Phase in WFP. See: <https://docs.wfp.org/api/documents/WFP-IRM/>

Observations and actions agreed

25. 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: Governance and structure	
<i>1 Strategic positioning and operational framework of WFP in the country</i>	<i>High</i>
B: Delivery	
<i>2 Service delivery model for the school feeding (SF) activity</i>	<i>High</i>
<i>3 Framework agreements for the SF activity</i>	<i>Medium</i>
<i>4 Planning and Implementation of SF activities</i>	<i>Medium</i>
<i>5 Implementation of food assistance for assets (FFA)</i>	<i>Medium</i>
C: Support functions	
<i>6 Food procurement and downstream food quality and safety</i>	<i>Medium</i>
D: Monitoring and Evaluation	
<i>7 Monitoring and evaluation frameworks for SF and FFA</i>	<i>Medium</i>

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

27. Management has agreed to take measures to address the reported observations¹⁰. 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.

¹⁰ Implementation will be verified through the Office of Internal Audit's standard system for monitoring agreed actions.

A: Governance

The audit performed tests on the CO's strategic planning and positioning of current activities which are focused on capacity strengthening within the middle-income country (MIC) context and carried out high-level reviews and checks of the delegation of authorities, segregation of duties, management and supervision of field operations, mechanisms for management oversight and risk management. The audit leveraged on oversight and support missions provided by RBJ across programme, supply chain management and finance, and followed up on the implementation of the recommendations and subsequent support in implementation of the agreed actions. The audit focused on assessing the current governance and operational framework with a forward-looking view on the upcoming CSP 2019–2024. The concept note for the CSP 2019–2024 prioritizes and focuses the CO's work with and through the Government and its national systems and programmes, aiming at adopting realistic and effective transition and handover strategies. The CSP identifies strategic, operational and fiduciary risks associated with the reduced donor attention and Government funding, limited government capacity to implement planned actions, and political instability. As part of the CSP readiness process the CO is planning to perform a workforce planning exercise with technical assistance from RBJ in April 2019.

Observation 1

Agreed actions [high priority]

Strategic positioning and operational framework of WFP in the country

The strategic positioning of the CO follows the WFP standard approach of engagement in capacity strengthening within a MIC context. Furthermore, the related activities which the CO engages in are based on multiple analysis of contextual variables, mapping and consultation of partners and consideration of resource availability. The design of the CSP 2019-2024 was informed by the ZHRS and consultations with multiple partners, past evaluations and subsequent approval process from RBJ and headquarters. However, the CO had multiple extensions of handover of the SF activities to the Government since 1990. Conditions to successfully engage in capacity strengthening, especially in view of the frequent changes of the Government, were not mature yet to establish a realistic horizon for handover in the past. The planned CSP 2019–2024 foresees a handover within 5 years. The challenges noted should be taken into consideration in the implementation of the forthcoming CSP.

In consideration of these challenges the audit noted the following issues with regard to the implementation of SF activities:

- a) There is no commonly agreed Capacity Gaps and Needs Assessment (CGNA) that could be used as a baseline and road map for capacity strengthening (CS) regarding SF activities. Current activities focus on direct implementation, which may be misaligned to MOET's vision towards an outsourced national management agency (NMA) model.
- b) For CS with the Food Management Unit (FMU), a proposal for CGNA was done in 2010 but no implementation actions were developed. WFP has mainly worked on capacity enhancement through repairs and maintenance of FMU warehouses.
- c) In line with local food procurement, spearheaded through a local purchase initiative with smallholder farmers (SHFs) the audit noted that the strategic vision of MOET to gradually transition from the WFP SF model to the outsourced NMA model is not clearly articulated and coordinated with the Ministry of Agriculture and Food Security (MoAFS). For example, issues related to SHF traceability and conditional contract modalities are

The CO, in liaison with RBJ and the Technical Assistance and Country Capacity Strengthening Service (OSZI), will:

- (i) Refine the CO's country capacity strengthening approach and define clear performance milestones for the upcoming CSP, using the country capacity strengthening (CCS) framework and tools, including CGNAs as appropriate;
- (ii) Develop mitigation actions for risks identified in the CSP related to the operational context.

The CO will:

- (iii) Ensure that CGNAs are undertaken to identify the baseline and define the road map for CS activities with MOET and the FMU, with support from RBJ and headquarters, and in collaboration with the Government.
- (iv) Develop a tripartite agreement with MOET and MoAFS and align the NMA model with the SF local purchase strategy, taking into consideration conditional contract modalities and traceability mechanisms.

currently not aligned to the MOET's vision and therefore may affect the sustainability of capacity strengthening initiatives implemented with SHFs.

Underlying causes: Consideration of the enabling environment to engage in capacity strengthening not sufficiently thought through at corporate level. Limited corporate guidance on engagement in MICs. Limited corporate guidance and resources available to provide support for capacity strengthening. Frequent changes in the Government and related priorities.

B: Programme Design and Delivery

The audit reviewed the following areas of school feeding and livelihood activities: (i) operational framework of the school feeding activity, including the agreements with MOET, implications of the service delivery model, and management of risks thereon; (ii) school feeding service delivery, including the various downstream roles of WFP and collaboration with MOET at field level; (iii) implementation of FFA projects, and (iv) monitoring, reporting and knowledge management relating to the activities, including capacity strengthening. The audit visited activities in the Mohale's Hoek, Mokhotlong, and Maseru districts, including various schools, livelihood projects, and warehouses. The audit team interviewed other United Nations agencies and government partners (MOET, FMU, the Ministry of Forestry, Range and Soil Conservation (MFRSC)), all of whom highlighted WFP's leadership role in food security and its contributions to the development of critical instruments such as the ZHSR and the National School Feeding Policy. The memorandum of understanding (MOU) with MOET was initially signed in 2014 and is currently operated on a second amendment that is valid until December 2019.

Observation 2

Agreed actions [High priority]

Service delivery model for SF activity

The Integrated Road Map interim guidance note provides COs with normative guidelines on potential areas of intervention on SDG 17 in CSPs and distinguishes between provision of mandated and on-demand services to external and internal parties. The guidance note¹¹ differentiates donor contributions for service provision activities which are subject to indirect support cost (ISC) and third-party payments for service provision activities that are not subject to ISC but could be subject to management cost recovery (MCR).

In the context of Lesotho, the CO operates a service delivery model by assisting the MOET in implementing and managing the national school feeding activities, while at the same time undertaking some capacity development activities. In terms of coverage WFP provides services in 900 out of 1,400 primary schools. The following implications were noted with the operation and implementation of the service delivery model:

- (a) The extent to which WFP corporate guidelines, tools and procedures apply to beneficiary counting and reporting through COMET (tier one or tier two beneficiaries), the applicability of the WFP Anti-Fraud and Anti-Corruption (AFAC) policy (see observation 4) and corporate monitoring requirements in the service delivery context are not fully clear.
- (b) The advance payment for the service delivery by the MOET is treated as a contribution to a WFP activity and reported in the Standard Project Report (SPR) accordingly. However, in substance this represents payments for services and the way the payments are reported may be misleading to SPR users, having potential impact on resource mobilization efforts.
- (c) The current payment arrangement for the SF activity entails transfers by the MOET in local currency to a WFP headquarters bank account in USD. Funds are subsequently transferred back to the CO local bank account in local currency. The arrangement generates transfer charges and currency exchange losses (or gains) which could be avoided should the transfer be recognized as a payment for services.

The School Feeding Service (OSF), in liaison with other corporate services, including the Government Partnerships Division (PGG), the Enterprise Risk Management Division (RMR), the Contribution Accounting and Donor Reporting Branch (RMFC) and the Finance and Treasury Division (RMP), will:

- (i) Provide guidance on the applicable control frameworks and procedures for the service delivery model applied in Lesotho.

The CO, in liaison with the School Feeding Service (OSF), will:

- (ii) Formally confirm the service delivery model as a basis for revision of the MOU with MOET accordingly, pending the development of corporate guidance referred to in (i) above.

The CO will:

- (iii) Present the service delivery model to the Global Commodity Management Facility (GCMF) to assess feasibility for procurement of food for the SF activity activities through the corporate facility.
- (iv) Perform a reconciliation of planned vs actual deliveries and determine any outstanding balances (potential liability with MOET) considering the payments received from MOET.

¹¹ Guidance note on how to include SDG 17 activities in terms of service provision and capacity strengthening in country strategic plans (CSPs).

- (d) There are no clear guidelines at WFP corporate level and in the MOU with the MOET on the treatment of outstanding balances from the government advance payments.
- (e) The nature and form of the service delivery framework agreement with the MOET, with advance payment every three months, limits the CO's ability to access advance financing facilities like the GCMF for procurement of commodities. The CO has not explored the feasibility of accessing the GCMF facility taking into cognizance the delays in disbursements from MOET resulting in some pipeline breaks in 2018.
- (f) The inventory of commodities procured by WFP on behalf of the Government for the SF activities are recorded as WFP assets, yet they are stocks held on behalf of the MOET in execution of the SF service delivery MOU. WFP International Public Sector Accounting Standards (IPSAS) guidelines do not provide clear guidance for inventories held in custody on behalf of a third party.

Underlying causes: Absence of SF corporate guidelines adapted to service delivery models. The CO, RB and headquarters have not comprehensively reviewed service delivery model implications, including potential risks and opportunities.

Observation 3

Agreed actions [medium priority]

Framework agreements for the SF activity

MOU with the Ministry of Education and Training

The current MOU with the MOET and the underlying service delivery model do not fully articulate the current vision of MOET for the school feeding programme (SFP) in terms of the expected horizon for handover and transition to a national management agency (NMA)¹²- managed model, the role of WFP and the FMU in such a model, if any, and the CS activities to be implemented.

Upon request from the Government, the CO has implemented certain ad hoc activities on behalf of the FMU and MOET that are outside and beyond the existing agreements, for example request for payments of secondary transporters by the FMU.

There is no commonly-agreed CGNA that could be used as a baseline and road map for the CS engagements. Current activities focus on direct implementation, which may be misaligned to MOET's vision towards an NMA model.

MOU with the Food Management Unit

There is currently no bilateral agreement between WFP and the FMU that articulate roles and responsibilities at central and district level and provide a framework for capacity strengthening, transition strategy and horizon of handover.

The CO will:

- (i) Formally clarify with the MOET the role of the FMU in school feeding given the vision of implementing the NMA model and use the strategic position accordingly.
- (ii) Incorporate in the revised MOUs with the MOET and FMU the vision and expectations of the Government for the future of the SFP, including the expected timelines for transition and handover, definition of roles and responsibilities of the various actors in the implementation and monitoring of the SFP, and allocation of resources.

¹² NMA model: This is a private sector led outsourced delivery model, contracted directly by the MOET against a 3-year tender for a contract to feed primary schoolchildren and to manage the entire process of procuring, supplying and overseeing the preparation of school meals.

Furthermore, the role of the FMU in the NMA model is not clear and therefore the current strategy for capacity strengthening may be misaligned to the vision of the MOET.

Underlying causes: Frequently changing political context, resulting in unclear expectations and in WFP working out of the confines of the signed framework agreements. Unclear corporate risk appetite for engagements in constantly changing political contexts. Absence of comprehensive corporate guidance and model for capacity strengthening in school feeding activities. Limited resources dedicated by MOET for SF at all levels, including the creation of a SF secretariat.

Observation 4

Planning and implementation of SF activities

There is no structured planning and implementation of the mentoring system used for CS with the MOET and FMU. Field staff's terms of reference (TORs) are generic and do not reflect the expected outcomes associated with CS. This may limit WFP's ability to build capacities where they are most required and has resulted, in the case of CS with the FMU, in operating two parallel systems (LESS vs manual system) for inventory management which are not reconciled.

The audit identified a number of weaknesses in the implementation of SF activities, including: inadequate enrolment and attendance management resulting in limited information for decision making; ineffective monthly reporting (with regard to attendance, distributions, and food stocks), with unclear allocation of responsibilities and enforcement mechanisms; lack of inventory records; inadequate segregation of duties and absence of controls over physical stocks for management of food at schools; and inadequate storage and cooking facilities at schools.

As a result, the CO has no visibility of updated attendance data or stocks at schools to adjust subsequent deliveries and make informed programme decisions, and consequently uses estimates based on static enrolment figures for monthly reporting of beneficiaries and distributions in COMET (see also observation 2 above).

These weaknesses and the CO's and MOET's limited capacity for effective monitoring (as noted in observation 7 below) provide opportunities for fraud occurrences, which are exacerbated by the lack of clarity on the applicability of WFP's AFAC standards in the service delivery model and the unclear allocation of responsibilities for reporting and investigation of fraud.

In addition, the audit noted lack of awareness of existing mechanisms for reporting and escalation of fraud cases at district and school level, including the complaints and feedback mechanism (CFM).

Underlying causes: Absence of corporate guidance and model for capacity strengthening in SF activities. School reporting and monitoring tools not fit for purpose and lack of enforcement by the MOET. Absence of a formal SF management handbook with detailed guidelines on inventory and food management. Limited resource allocation to schools to complement SF and invest in appropriate kitchen and storage infrastructure. Lack of clarity on the applicability of AFAC standards in the service delivery model.

Agreed actions [Medium priority]

The CO will:

- (i) Update staff TORs to reflect the relevant roles and responsibilities in the CS context.
- (ii) Clearly define the roles and responsibilities for reporting and mechanisms to ensure completeness, timeliness and quality of reporting.
- (iii) Incorporate issues related to enrolment management, as relevant, in SF guidelines taking into consideration the vision of MOET for transition to an NMA model.
- (iv) Provide guidance and develop capacity strengthening actions with schools on best practices on reporting and warehouse management as part of a CS strategy, engaging the CO's supply chain and programme units.
- (v) In consultation with RMR, ensure that WFP's roles and responsibilities concerning AFAC standards and CFM are fully defined and that exposures are captured and mitigated as applicable.

Observation 5**Agreed actions** [Medium priority]**Implementation of FFA activities**

The CO as part of its resilience activities has implemented FFA activities. It did not carry out post programme implementation assessments due to the short-term nature of the funding. Field visits to previous FFA community assets that were completed in 2015 revealed that the CO may be losing an opportunity to attribute and demonstrate impact of its resilience programmes. Furthermore, the CO does not have a comprehensive overview, e.g. through digitalized geo-mapping, of all FFA assets constructed under previous FFA programmes as part of the resilience knowledge management system.

The Lesotho CSP July 2019–June 2024 has a planned decentralized evaluation of resilience and country capacity strengthening in 2022.

Underlying causes: No system and resources available to collect data on past FFA activities (currently using emergency funding, which is short term in nature). Absence of a knowledge management strategy.

The CO will:

- (i) Maintain a comprehensive register (e.g. through geo-mapping) of all FFA assets constructed in previous FFA projects.
- (ii) Allocate resources to conduct post-implementation impact assessments on selected food assistance for assets projects.

C. Support Services – Supply Chain Management

The audit performed tests and reviews of procurement, including planning, contracting and contract management for local food procurement taking into account the drive towards local procurement. Furthermore, audit tests were performed on the CS activities within the FMU. Limited checks on internal control design and operational effectiveness were performed on warehouse and transport management. The audit noted that the CO had made efforts to implement the recommendations of the oversight mission by RBJ carried out in 2018 for non-food procurement and received support for the implementation of the actions through staff seconded from RBJ. In terms of food quality and safety, the audit leveraged on oversight missions from RBJ food technologists and followed up on the status of implementation of recommendations and mechanisms for follow up.

Observation 6

Agreed actions [Medium priority]

Food procurement and downstream food quality and safety

The CO procures food locally and through SHFs in the context of the SF framework agreement with the MOET. In 2018, volumes of maize meal and pulses purchased increased by 76 percent and 28 percent respectively. There is currently no formal food procurement sourcing strategy in place that is aligned to the local purchase component as a programme activity for SF. The CO is exposed to an increased risk of pipeline breaks for the local supply of maize meal as it depends on only one vendor.

The audit noted some outstanding recommendations from a factory audit carried out on one of the contracted local vendors and issues related to the capacity of inspection services. The CO highly depends on the RBJ food technologist to provide technical oversight and support services that include follow up on outstanding recommendations.

There is no clarity on the extent to which the CO within the service delivery model has direct responsibility for downstream food quality and safety, which poses a significant reputational risk to WFP since the commodities distributed are bagged in WFP branded materials.

The audit noted several food quality and safety issues at field level that are indicative of the need to further strengthen systems, processes, tools and local staff capacity: (i) locally procured commodities with no best before dates in FMU warehouses and schools; (ii) expired maize meal in a school that was used for preparation of meals; (iii) no periodic quality control samples drawn from school warehouses to check product stability across the value chain; and (iv) absence of formal food quality and safety (FQS) guidelines in schools and no incident management protocols.

The weaknesses highlight the need for capacity strengthening by the CO to ensure food quality and safety practices and mechanisms are developed, implemented and monitored.

Underlying causes: Limited capacity in food procurement in the CO. Constantly changing political context that results in periodic changes in Government and changes in priorities. WFP guidelines on food quality and safety not disseminated at field level. Competing regional demands for the RBJ food technologist for technical support and follow up on FQS issues.

The CO will:

- (i) Develop a local food procurement sourcing strategy that specifies linkages to the SF local purchase initiatives.
- (ii) Follow up and ensure timely implementation of outstanding factory audit and inspection companies' recommendations.

The CO in liaison with RBJ will:

- (iii) Reassess and adapt prioritization of the CO needs for food quality and safety technical support and oversight.
- (iv) Clarify the role of WFP in food quality and safety in the updated MOU with the MOET and implement the WFP food quality and safety guidelines and ensure awareness and training of WFP, MOET, FMU and school staff. If no role of WFP is expected, ensure that potential risks and exposures are managed.
- (v) Develop a periodic food quality and safety sample testing system of commodities at school warehouses.

D. Monitoring and Evaluation

The audit reviewed the existing draft monitoring framework, tools and procedures for school feeding and food assistance for assets, including the monitoring of the related capacity strengthening activities. The monitoring and evaluation (M&E) framework and procedures for the SF activity were also discussed with the MOET including coordination at field level.

Observation 7

Agreed actions [medium priority]

Monitoring and evaluation framework

School feeding activities

The draft M&E framework prepared by the CO in May 2018 has not yet been approved by the MOET. This has also been noted in the recent (July 2018) evaluation of the national school feeding programme. Frequent changes in Government and the foreseen transition of the SFP to the NMA model may further delay the approval or even render the draft framework void.

In the absence of a commonly-agreed M&E framework and unclear roles, responsibilities and expectations linked to the service delivery model (see also observation 2), a range of questions remain unanswered with regard to WFP's monitoring obligations, including whether the CO should monitor beneficiaries and tonnage or capacity strengthening indicators; WFP's role in the monitoring of schools under the NMA or caterer models; how issues identified in schools are to be escalated and resolved, and whether information is to be aggregated for the SFP as a whole or only for the schools served by WFP.

Currently monitoring is undertaken without set guidelines and criteria for the selection of schools. An analysis of planned vs actual monitoring is not done systematically across FOs and districts. Monitoring tracking tools do not allow aggregation and escalation of issues to inform programme changes. WFP FO staff play a dual role of implementation and monitoring, while having outdated TORs.

No indicators are defined related to capacity strengthening activities aimed at the MOET and FMU, and as such no information thereon is available and reported.

FFA activities

FFA activities are implemented following the strategic shift from direct implementation towards capacity strengthening of the Government public works programme (Fato-Fato). The methodology implemented for the development and hand-over of an M&E framework for public works has the following shortcomings: (i) absence of defined targeted profiles of counterpart staff from the Ministry of Forestry, Range and Soil Conservation (MFRSC) identified for M&E capacity strengthening activities; (ii) roles and responsibility between WFP and the MFRSC not clearly defined in design and gradual transition of the M&E framework; and (iii) mechanisms for knowledge transfer and ownership of the M&E framework not developed.

The CO will:

- (i) In line with the Office of Evaluation (OEV) recommendation, and further based on agreed roles, responsibilities and expectations for the SFP with the MOET, develop an M&E framework that addresses the vision for transition and handover that is fit for purpose, including transition to the NMA model and monitoring of capacity strengthening activities.
- (ii) Define expected counterpart profiles of staff targeted for development of an M&E framework; establish and agree with MFRSC mechanisms of knowledge transfer and handover of the M&E framework.

Underlying causes: Constantly changing context and periodic changes in Government. Limited resources in the CO and the counterpart. Lack of an updated framework agreement with the MOET with clear allocation of responsibilities, including for monitoring.

Annex A – Summary of observations

The following table 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 observation	WFP's Internal Control Framework	WFP's Enterprise Risk Management Framework	WFP's Internal Audit Universe	Implementation Lead	Due date
1 Strategic positioning and operational framework of WFP in the country	Control Environment	Governance and oversight	Strategic management & objective setting	OSZI Lesotho CO	30 June 2020
2 Service delivery model for SF activity	Control Activities	Programme	Activity/project management	Lesotho CO OSF	30 June 2020
Medium priority observations					
3 Framework agreements for SF activity	Control Activities	Programme	Host government relations	Lesotho CO	30 June 2020
4 Planning and implementation of SF activities	Control Activities	Programme	Activity/project management	Lesotho CO	30 June 2020
5 Implementation of FFA activities	Control Activities	Programme	Activity/project management	Lesotho CO	30 April 2020

Medium priority observations

6	Food procurement and downstream food quality and safety	Control activities	Business process	Procurement-food	Lesotho CO	30 June 2020
7	SF monitoring and evaluation framework	Monitoring Activities	Programme	Monitoring & evaluation	Lesotho CO	30 June 2020

Annex B – Definitions of audit terms: ratings and priority

1 Rating system

1. The internal audit services of the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA), the United Nations Children's Fund (UNICEF), the United Nations Office for Project Services (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

2. 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.
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.
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3. 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.
4. 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.¹³
5. To facilitate analysis and aggregation, observations are mapped to different categories:

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

6. WFP's ICF follows principles from the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) integrated ICF, 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."¹⁴ WFP recognizes 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 (ERM) framework

7. WFP has developed a risk categorization framework to assist management at all levels as well as to improve risk analysis. The framework enables offices and operations to identify risks using a common language across WFP. Risks are classified into four primary categories: strategic, operational, fiduciary and financial. Reputational risk is defined as a consequential risk whereby risks occurring in any category could have a negative impact on WFP's reputation. Within these four categories, 15 risk areas covering the scope of WFP's enterprise risk management have been defined.

¹³ 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.

¹⁴ OED 2015/016 para.7

Table B.4: WFP's new Risk Categorization 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 and security risks, 2.2 Employee health, safety and security risks, 2.3 Partner and vendor risks, 2.4 Asset risks, 2.5 ICT failure/disruption/attack, 2.6 Business process risks, 2.7 Governance and oversight breakdown
3	Fiduciary	3.1 Breach of obligations, 3.2 Fraud and corruption
4	Financial	4.1 Adverse price/cost change, 4.2 Adverse asset outcome

2.4 Categorization by WFP's Audit Universe

8. WFP's audit universe¹⁵ 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)

A	Governance	Change, reform and innovation; Governance; Integrity and ethics; Legal support and advice; Management oversight; Performance management; Risk management; Strategic management and objective setting.
B	Delivery	(Agricultural) market support; Analysis, assessment and monitoring activities; Asset creation and 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 and country capacity strengthening services.
C	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.
D	Support functions	Beneficiary management; CBTs; 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.
E	External relations, partnerships and advocacy	Board and external relations management; Cluster management; Communications and advocacy; Host government relations; Inter-agency coordination; non-governmental organization (NGO) partnerships; Private sector (donor) relations; Public sector (donor) relations.
F	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.

¹⁵ A separate universe exists for information technology with 60 entities, processes and applications.

G	Cross-cutting	Activity/project management; Knowledge and information management; Monitoring and evaluation (M&E) framework; Gender; Protection; Environmental management.
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3. Monitoring the implementation of agreed actions

9. 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.

Annex C – Acronyms

AFAC	Anti-fraud and Anti-corruption
CBT	cash-based transfer
CFM	complaints and feedback mechanism
CGNA	Capacity Gaps and Needs Assessment
CO	country office
COMET	Country Office Tool for Managing Programme Operations Effectively
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CS	capacity strengthening
CSP	country strategic plan
ERM	enterprise risk management
FFA	food assistance for assets
FMU	Food Management Unit
FO	field office
FQS	food quality and safety
GCMF	Global Commodity Management Facility
GDP	gross domestic product
HIV	human immunodeficiency virus
ICF	Internal Control Framework
ISC	indirect support costs
LESS	Logistics Execution Support System
M&E	monitoring and evaluation
MIC	middle-income country
MoAFS	Ministry of Agriculture and Food Security
MOET	Ministry of Education and Training
MFRSC	Ministry of Forestry, Range and Soil Conservation
MOU	memorandum of understanding
NMA	national management agency
NSDP	National Strategic Development Plan
OEV	Office of Evaluation
OIGA	Office of Internal Audit
OSZI	Technical Assistance and Country Capacity Strengthening Service
RBJ	Johannesburg Regional Bureau
RMR	Enterprise Risk Management Division

SDG	Sustainable Development Goal
SF	school feeding
SFP	School feeding programme
SHF	smallholder farmer
SPR	Standard Project Report
T-ICSP	transitional interim country strategic plan
TOR	terms of reference
ZHSR	zero hunger strategic review