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# Internal Audit of WFP Operations in Honduras

Office of the Inspector General  
Internal Audit Report AR/19/17



World Food  
Programme

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# Internal Audit of WFP's operations in Honduras

## I. Executive Summary

### WFP Honduras country office

1. As part of its annual work plan, the Office of Internal Audit conducted an audit of WFP operations in Honduras that focused on the period 1 May 2018 to 30 April 2019. The audit team conducted the fieldwork from 13 to 30 May 2019 at the country office premises in Tegucigalpa and through onsite visits to Marcala and South Francisco Morazan districts. The audit was conducted in conformance with the International Standards for the *Professional Practice of Internal Auditing*.
2. WFP's primary objective in Honduras is to reduce food insecurity and malnutrition and increase human development by improving the health, nutrition and education levels of children and other vulnerable groups. The country office implements the Government of Honduras' National School Feeding Programme through a multi-partite cooperation agreement with various government entities. Under the agreement, WFP procures food to be delivered at designated locations for collection of the rations by schools. The programme is funded by the Government of Honduras. WFP expenditures totalled USD 21 million in 2018.
3. WFP's Country Strategic Plan supports the Government of Honduras' goal to attain Zero Hunger by 2030. In 2018, the country office went through an organizational realignment aimed at establishing an efficient organizational structure to enable the achievement of WFP objectives and support the strategic shift envisioned in the Country Strategic Plan. The process entailed a reorganization of WFP's field presence in the country, including an assessment of the location of sub-offices and logistics hubs, and a restructuring and re-profiling of staff.

### Audit conclusions and key results

4. 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/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. The audit report contains two high priority and seven medium priority observations.
5. The audit noted strong coordination of the country office with other UN agencies. Beneficiaries recognized WFP as an impartial, transparent and trusted agency. Programmes were designed to encourage mothers of schoolchildren to take ownership and responsibility for school meals, setting the foundation for future handover of school meal activities back to communities. The audit noted, however, that the governance structure of the national school feeding programme had not been implemented as designed in the multi-partite cooperation agreement with the Government of Honduras, resulting in a lack of coordination among the various entities involved in the activity, and in operational bottlenecks that reduced the effectiveness of the programme. The current arrangement has also resulted in overreliance by Government partners on WFP for the implementation of the school feeding programme; a roadmap needs to be defined to transition and eventually hand activities back over to the Government.
6. The country office did not have a comprehensive monitoring strategy defining related objectives, processes, roles and responsibilities, raising the risk that critical information of the quality needed for decision making was not available. Recognizing these challenges, the country office had implemented changes to its organizational structure aimed at strengthening its monitoring capacity.
7. Despite these challenges, the country office had been successfully delivering on its commitments to the school feeding programme. The audit found the country office was generally compliant with WFP's rules and regulations; risks related to the support functions were found to be adequately monitored and managed.



## Actions agreed

8. Management has agreed to address the reported observations and work to implement the agreed actions by their respective due dates.
9. 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

### Honduras

10. Honduras has a population of 9 million, ranking 133 out of 189 countries in the 2018 human development index with a gross domestic product per capita of USD 4,542 in 2018. Honduras has one of the most unequal distributions of income and resources in the world. More than half of the population live below the poverty line, and the country is exposed to high rates of violence and crime. Inequitable access to land, insufficient food production, high unemployment and exposure to natural disasters add to the challenges that Honduras is facing.

11. Honduras is highly vulnerable to climate change, exacerbating food insecurity. Four years of continuous drought have eroded people's livelihoods and ability to secure sufficient nutritious food in the southern and western regions – corresponding to Honduras' dry corridor. To cope, people have resorted to migration or to the sale of productive assets.

### WFP operations in Honduras

12. WFP aims to reduce food insecurity and malnutrition and increase human development in Honduras by improving the health, nutrition and education levels of children and other vulnerable groups. WFP's Country Strategic Plan (CSP) proposes a shift in the way the organization supports the Government's efforts in attaining Zero Hunger by 2030.

13. The CSP pursues five strategic outcomes (SOs) and aims to implement seven activities:

- SO1 addresses school feeding and related capacity strengthening activities;
- SO2 focuses on nutrition activities;
- SO3 relates to resilience activities with rural smallholder farmers;
- SO4 provides emergency food assistance; and
- SO5 addresses capacity strengthening with national institutions and partnerships for development.

14. The main transfer modalities since the inception of the CSP have been food (USD 14 million, representing 48 percent of actual expenditure), and cash-based transfers (USD 9.7 million and 33 percent of actual expenditure).

15. In terms of focus areas, activities addressing root causes represented 67 percent of actual expenditure (USD 20 million), crisis response and resilience building were 11 percent and 15 percent, respectively (USD 3.4 million and 4.3 million). School feeding was the main activity of the country office (CO), with expenditure of USD 19 million (62 percent).

16. The CO implemented the National School Feeding Programme (NSFP) through a multi-partite cooperation agreement with four government entities: the Secretary of Development and Social Inclusion (SEDIS), the Secretary of Education, the Secretary of Finance, the Presidential Directorate of Strategic Planning, Budgeting and Public Investment, and the Technical Unit for Food Security and Nutrition (UTSAN). WFP's main role was to procure and transport food to locations accessible by 17,000 schools throughout the country, in many cases in remote and hard to reach places.

17. Because the programme was fully funded by the Government of Honduras, related accountability procedures implied that WFP would proceed with the regular settlement of advances, compiling and reconciling hard copies of all waybills for 17,000 schools against signed delivery notes, to then compute the number, tonnage and cost of rations distributed during the period per district and in total (later referred to as the "liquidation" process).

18. During 2018, the CO implemented an organizational realignment, including reorganization of its field presence, an assessment of the location of sub-offices and logistics hubs in the country, and a restructuring and re-profiling of staff. At the time of the audit the office was still implementing part of the changes, with the intention to finalize the related recruitments by the first half of the year.

### Objective and scope of the audit

19. The objective of the audit was to provide assurance on the effectiveness of internal controls, governance and risk management processes related to WFP operations in Honduras. 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.



20. 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.

21. The scope of the audit covered the period from 1 May 2018 to 30 April 2019. Where necessary, transactions and events pertaining to other periods were reviewed. The audit did not cover information and communications technology, as a recent thematic audit of the information and communications technology in the field<sup>1</sup> included Honduras as a sampled country and recommendations requiring management action were included in a separate communication. The CO was also part of a thematic audit on Targeting, the results of which will be compiled and presented in a separate audit report; the observations arising from that review were also discussed with the CO management.

22. The audit field work took place from 13 to 30 May 2019 at the CO premises in Tegucigalpa and through onsite visits to Marcala and South Francisco Morazan.

### III. Results of the Audit

#### Audit work and conclusions

23. The audit work was tailored to the country context and to the objectives set by the CO, taking into account the CO's risk register, findings of WFP's second line of defence functions, as well as the independent audit risk assessment.

24. Based on the results of the audit, the Office of Internal Audit has come to an overall conclusion of **partially satisfactory / some improvement needed**<sup>2</sup>. 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/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.

#### Gender Maturity

25. The Office of Internal Audit, in supporting WFP's management's efforts in the area of gender, separately reports its assessments or gaps identified in that area. One action has been raised under observation seven based on the observations found below.

26. The CO carried out various initiatives during the audit period aimed at improving the gender ratio of the office and promoting gender as a cross-cutting and cross-functional theme. The overall representation of women in the office was good (62 percent), but there was an unfavourable percentage of women staff at higher grades with only 25 percent of the available national officer positions held by women. The audit noted positive gender balance initiatives with 50 percent of committee leadership positions being occupied by women, and men attending gender equality and protection activities. The CO indicated significant contextual constraints in recruiting women for gender parity among national staff for the higher job grades. The gender focal point developed an action plan that was only partially implemented at the time of the audit due to limited allocation of resources, although the audit noted ongoing efforts by the CO to finalize and implement the action plan.

27. WFP worked with local governments, non-governmental organizations (NGOs) and the SEDIS to build and implement gender-responsive social protection systems. Overall the audit noted awareness on gender issues, yet still needed to allocate resources to ensure the successful implementation of the office's gender action plan. Cross-cutting outcome indicators related to gender were not yet integrated in programmes. Analysis focused on disaggregated gender data without consideration of age information. Gender equality specific activities were not funded for 2019.

#### Assurance Statement

28. WFP uses first-line management certifications whereby all directors, including country and regional directors, must confirm through annual assurance statements whether the system of internal controls for the entity they are responsible for is operating effectively. At a consolidated level the assurance statements are intended to provide a transparent and

<sup>1</sup> Internal audit of Information and Communications Technology Management in Country Offices, Office of the Inspector General, May 2019, report reference AR/19/10.

<sup>2</sup> See Annex B for definitions of audit terms.



accountable report on the effectiveness of WFP's internal controls. The audit reviewed the annual assurance statement for 2018 completed by the CO and compared the assertions in the statement with the findings of the audit.

29. The review indicated that management did not report any significant gaps in the design, implementation and operating effectiveness of internal controls. With the exception of findings under observation one and six, regarding the governance of the school feeding programme and monitoring activities respectively, the audit did not highlight any material deviations from management's assertions as found in the assurance statement. Management of the CO was aware of the governance and monitoring challenges and was actively working to address these at the time of the audit; these will be reflected in the assurance statement for 2019.

## Observations and actions agreed

30. Table 1 outlines the extent to which audit work resulted in observations and agreed actions. These are classified according to the areas in scope established for the audit and 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

<b>A: Governance and structure</b>	
1 Governance and structure of the school feeding activity	High
<b>B: Delivery</b>	
2 Implementation of fresh rations for the National School Feeding Programme	Medium
3 Implementation of resilience activities	Medium
4 Beneficiary management	Medium
5 Risk management of cash-based transfers	Medium
6 Monitoring framework and strategy	High
<b>C: Resource Management</b>	
7 Update and implementation of the learning needs assessment	Medium
<b>D: Support functions</b>	
No observations raised	N/A
<b>E: External relations, partnerships and advocacy</b>	
8 Management of partnerships for programme implementation	Medium
<b>F: Cross-cutting</b>	
9 Accountability to affected populations	Medium

31. The nine observations of this audit are presented in detail below.

32. Management has agreed to take measures to address the reported observations<sup>3</sup>. 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.

<sup>3</sup> Implementation will be verified through the Office of Internal Audit's standard system for monitoring agreed actions.



## A: Governance

33. The audit performed tests and reviews of the organizational structure of the CO including mechanisms for decision making and governance arrangements for the implementation of activities, delegations of authority, segregation of duties and management and supervision of field offices; and mechanisms for management oversight and risk management.

34. The audit noted that, despite the creation of the NSFP by law in 2016 and the establishment of a dedicated Government budget for the programme, actual transfers of funds to WFP for implementation of activities have not been steady and predictable, limiting the ability of the CO to achieve its objectives.

### Observation 1: Governance and structure of the school feeding activity

35. As part of the CSP, WFP implemented some school feeding activities of the NSFP under a multi-partite cooperation agreement signed with various government entities in approximately 17,000 schools across the country, serving 1.2 million children.

36. There was limited coordination in the field and lack of clarity regarding the operational roles and responsibilities of the different entities engaged in the NSFP; the Inter-institutional Technical Committee (COTECI), tasked with the governance, coordination and supervision of the programme, and its related terms of reference, had not been considered and reflected in the operational relationship and processes reviewed by the audit. Annual Plans of Operations and Standard Operating Procedures (SOPs) had not yet been agreed and implemented with stakeholders. As a result, WFP had assumed *de facto* responsibilities not initially foreseen in the cooperation agreement, resulting in an increase of the administrative and operational burden of the CO.

37. The current NSFP's liquidation process required the manual collection and processing of signed hardcopies of waybills and receipts from all the schools in the programme on a periodic basis to settle funding advances against the deliveries to schools. The details of this process, including defined review, acceptance and closure timelines, had not been agreed with stakeholders under the cooperation agreement. At the time of the audit (May 2019) SEDIS, one of WFP's Government counterparts, was still reviewing the 2018 liquidations submitted by WFP and, as a result, was withholding the release of funds for the implementation of 2019 NSFP activities. Similar funding delays in 2018 compromised dry ration distributions, resulting in only 79 feeding days achieved out of the 200 planned.

Underlying cause(s): Misaligned expectation, vision for handover, roles and responsibilities of the NSFP among stakeholders. Non-implementation of some clauses of the cooperation agreement. No defined and agreed roadmap for transition and eventual handover of activities to the Government. Manual nature of the processes for collection of documentation and lack of acceptance and implementation of software designed to partially automate and streamline the liquidation process.

#### Agreed Actions [High priority]

The CO will:

- i) Discuss and agree with the Government a common vision and roadmap for the transition and eventual handover of the NSFP;
- ii) Clarify and agree on the roles and responsibilities of all stakeholders in the negotiation of the next cooperation agreement with the Government; and,
- iii) Discuss and agree with the Government on a strategy for the gradual reallocation and handover of responsibilities for the liquidation process, to enhance the efficiency of the programme, ensure a predictable flow of funds for the NSFP, and adoption and use of existing IT solutions to simplify and streamline the processes.

#### Timeline for implementation

- i) 30 September 2020
- ii) 31 March 2020
- iii) 30 September 2020





## B: Delivery

38. The audit performed tests and reviews of the implementation of school feeding and resilience activities, visited schools and project sites in Marcala and South Francisco Morazan, and held meetings with beneficiaries, government counterparts, cooperating partners (CPs), financial service providers (FSPs), and other partners. The audit focused on the risks associated with the implementation of the NSFP, including the fresh rations, and assignment of accountabilities for these activities. It also assessed the CO's management of risks associated with resilience activities and cash-based transfers (CBT) through reviews of internal documentation and reports from partners, as well as the overall monitoring strategy. An assessment of the targeting of beneficiaries was conducted concurrently as part of the Office of Internal Audit's thematic audit of targeting, and the conclusions thereof were considered in preparing this report.

39. The audit noted strong coordination of the CO with other UN agencies. Beneficiaries recognized WFP as an impartial, transparent and trusted agency; programmes were designed to encourage mothers of schoolchildren to take ownership and responsibility for school meals, setting a valuable foundation for the success and eventual future handover of school feeding activities back to the community.

### Observation 2: Implementation of fresh rations for the National School Feeding Programme

40. The NSFP distributed fresh rations of fruits, vegetables and other products to students in approximately 5,000 schools in the dry corridor of the country. This was done by transferring funds from the central government through WFP to local *mancomunidades*<sup>4</sup>, who then purchase fresh food items for distribution to the schools within their jurisdiction, reporting back to WFP on the use of funds. Related cooperation agreements did not detail WFP's role and responsibilities for the implementation of this component of the programme, including the mechanisms to transfer funds to *mancomunidades*, their accountability for the purchases and quality of fresh food items delivered to schools, and the strategy to engage local producers. As seen through the audit, the responsibility for food quality and safety and for the use of funds remained with WFP, with no mechanism to hold *mancomunidades* accountable for their role in the programme.

41. Local mayors and communities contributed milk or other fresh products directly to schools for distribution to the students as a supplement to the NSFP; however, there was no defined framework for the management of these contributions, which may be perceived by beneficiaries as pertaining to the NSFP. There was not clear, commonly-agreed process to measure and strengthen the capacity of the *mancomunidades*, and for their gradual transition towards direct work with the central Government in the implementation of the fresh food component of the NSFP.

42. Should there be quality and safety incidents for those products, there is a reputational risk to WFP as the implementer of the NSFP on behalf of the government. The audit found the concept of food quality and safety of fresh food items not well understood at the school level. While some *mancomunidades* had developed food management guidelines, these had not been widely disseminated and there was not clear allocation of responsibilities to ensure the quality and safety of food items. WFP and government counterparts had not established monitoring capacities or effective complaints and feedback mechanisms (CFMs) to ascertain whether risks were present, and incidents were detected and effectively addressed.

Underlying cause(s): Unclear vision and roadmap for the implementation of the fresh food component of the NSFP and for its eventual handover to the Government. Actual implementation differs from what is agreed in the cooperation agreement.

#### Agreed Actions [Medium priority]

The CO will:

- i) Clarify with stakeholders the roles and responsibilities for the implementation of fresh rations, and agree on a vision and roadmap for the transition and eventual handover of this component of the NSFP; and,
- ii) Following WFP's "Food Safety and Quality Guidelines for Safer School Meals", and with the support of the Regional Bureau of Panama (RBP) and Headquarters, develop a food quality and safety strategy for fresh foods involving all stakeholders, including defined roles and responsibilities throughout the supply chain, working with the government and *mancomunidades* to define standard Food Safety and Quality guidelines and their dissemination.

#### Timeline for implementation

- i) 30 September 2020
- ii) 30 June 2020

<sup>4</sup> A *Mancomunidad* is a commonwealth of municipalities.



### Observation 3: Implementation of resilience activities

43. WFP assisted 6,793 beneficiaries in 197 communities throughout the country's dry corridor during the audit period, developing assets and capacities for resilience and food security. Participants in these activities received cash through accredited FSPs for the creation or rehabilitation of assets. The CO applied the three-pronged approach in the design of resilience activities and developed effective relationships and partnerships with various governmental entities and NGOs.

44. The following areas for improvement were noted for resilience building activities in the country:

- There was no commonly-agreed definition of assets among government entities, CPs and communities, resulting in gaps in the application of the community-based participatory planning approach (implemented by only 35 percent of the communities on average). The participatory planning was not defined in local SOPs, and the Field Level Agreements (FLAs) with CPs included a reference to the community-based participatory planning as an activity, but without a detailed description regarding the approach;
- Food assistance for assets (FFA) activities aimed to support community and private assets; however, for the assets built on private lands, the CO did not clarify how landless participants would benefit when works were conducted on the land owned by other participants;
- The CO's multi-year work programme for FFA activities was not supported by detailed work norms, resulting in the absence of a basis on which to budget these activities, measure progress, and define monitoring requirements in line with qualitative technical standards;
- Supervision of work and attendance controls were only partially developed and implemented, resulting in lack of assurance that beneficiaries met the conditions required to participate in the programme and receive assistance;
- Activity indicators defined for the CSP were only partially measured and communicated in the Annual Country Report, impacting the completeness and accuracy of reporting and limiting the CO's ability to measure the impact of resilience projects; and
- Roles and responsibilities for the maintenance of community assets after their completion were not defined, putting at risk the sustainability and use of these assets. The audit observed instances where older assets, especially community assets such as reforested areas, were not adequately maintained.

Underlying cause(s): Lack of detailed resilience strategy and local guidelines on asset creation based on context and lessons learned. Absence of defined roles and responsibilities on asset maintenance in the CO and with CPs. Short-term nature of funding available for FFA projects.

#### Agreed Actions [Medium priority]

The CO will:

- i) Finalize and implement a strategy and local SOPs for resilience activities to support the CSP;
- ii) Implement work norms and technical standards to ensure that operations are in line with corporate guidance and requirements;
- iii) Establish clear reporting requirements, considerations on the community-based participatory planning, and maintenance initiatives to promote participation of communities in the FLAs with CPs; and
- iv) In collaboration with RBP, develop a funding strategy to encourage potential donors to invest in livelihood programming in alignment with the longer-term objectives of the activity.

#### Timeline for

- i) 31 January 2020
- ii) 31 January 2020
- iii) 31 December 2019
- iv) 31 March 2020



#### Observation 4: Beneficiary management

45. *Beneficiary data management* - Beneficiary lists for FFA and emergency activities were maintained in spreadsheets, which limited data integrity, privacy and/or protection, and WFP's capability to perform complex analysis.

46. *Reconciliation of beneficiary lists* – The audit noted gaps in the reconciliations of beneficiary enrolment lists to beneficiary payment lists, which were not done in detail (only total amounts were reconciled). In addition, attendance sheets were not provided by CPs to WFP, increasing the risk of payment going to unauthorized individuals.

47. *Changes in beneficiary lists* – up to six percent of beneficiaries in the FFA project lists were replaced due to absenteeism at cash distributions without a robust system of control to ascertain the validity of these changes. The audit noted that the processes to verify new participants was not formalized and consistently applied across areas of intervention and there was limited oversight by WFP, increasing the risk of human error and fraud going undetected. Information regarding drop-outs and new entries were not systematically analyzed to understand the causes for absenteeism and make programmatic adjustments.

48. *SCOPE* - During the audit period, the CO planned a pilot roll-out of SCOPE in two phases; in the initial phase 1,350 households were registered and a distribution of USD 112,500 was programmed. A second phase of the rollout was not completed to scale-up due to issues related to the management of commissions charged by FSPs within SCOPE, and the incompatibility with some of the FSPs' systems; hence the CO continued to use a locally-developed system to avoid delaying the implementation of the activity. As a result, the risk to the integrity of beneficiary lists as identified above was not mitigated at the time of the audit.

Underlying cause(s): Lack of local SOPs for beneficiary management. Non-compliance with corporate procedures on beneficiary management and CBT reconciliation. Absence of formalized guidelines and lack of clarity on roles and responsibilities with FSPs, partners and sub-offices for the verification of beneficiaries. Benefits of SCOPE as a corporate solution were not well understood or accompanied by a clear implementation and change management process. Preference for local IT solution. Inadequate Information and Technology structure at the FSPs.

#### Agreed Actions [Medium priority]

The CO will:

- i) Develop SOPs for beneficiary management following corporate guidelines, including collection and analysis of information regarding drop-out rates to inform programme decisions;
- ii) In consultation with corporate CBT functions, negotiate with FSPs to obtain data at aggregated and individual levels sufficient to enable implementation of a thorough reconciliation process; and,
- iii) Develop a plan and timetable to finalize the deployment of SCOPE in Honduras, to mitigate identified risks in beneficiary data and programme management.

#### Timeline for implementation

- i) 30 September 2019
- ii) 31 August 2019
- iii) 30 November 2019



### Observation 5: Risk management of cash-based transfers

49. *Governance* - The terms of reference of the internal and external Cash Working Groups were not finalized and the groups did not meet regularly. By design the Cash Working Groups facilitate an integrated and cross-functional approach in the implementation of CBT activities countrywide and mitigate the risk of overlaps or inconsistencies in the implementation of activities.

50. *Financial and operational risk management* - The CO conducted a macro assessment of the financial sector in Honduras in June 2017 and micro financial assessments of the FSPs in December 2017. However, the CO's risk register did not include key risks and associated mitigations related to the management of CBT interventions, such as the lack of IT infrastructure and geographical coverage of FSPs, and the local regulatory requirements to guide the design and implementation of compensating controls as illustrated below for guarantees.

51. *Guarantees* - Measures designed by the CO to mitigate the financial and operational exposure of working with high risk FSPs, through guarantees, were not in place. Up to 81 percent of the FSPs did not accept to issue performance bond/guarantees for CBT activities, with the CO instead mitigating the operational risk by implementing two additional measures: i) opening CBT-dedicated accounts in three banks out of the six FSPs (the other three being cooperatives), and ii) releasing funds in tranches. However, a reconciliation of the funds disbursed against distribution reports was not performed in between tranches to identify recoverable amounts or irregularities to be resolved before releasing further tranches to the FSP, thus reducing the effectiveness of the mitigation measure. In 2018, over USD 2.7 million of cash in hand was delivered as part of FFA and emergency activities under this system.

52. *Determination of transfer value* - The nominal transfer values used under CSP Activity 4 (FFA) and Activity 5 (Emergency) have remained the same since they were established in 2014 under the Protracted Relief and Recovery Operation 200490, despite notable inflation in the country in the recent years. As established, the transfer value is equivalent to 30 percent of the minimum wage of the agriculture sector in Honduras, while FFA corporate guidelines indicate that transfer values should be adjusted to approximately 80 to 90 percent of the local daily average wage for unskilled workers to ensure fairness, avoid perception that work is not attractive or that it distorts the labour market. Transport costs incurred by beneficiaries to collect their benefits, estimated at 10 percent of the transfer value, were also not taken into account.

Underlying cause(s): Gaps in interpreting financial and operational risk assessments. Lack of expertise on CBT risk management to ensure effective design of mitigating actions. Non-compliance with corporate guidelines regarding the update of transfer value.

#### Agreed Actions [Medium priority]

The CO will:

- i) Integrate CBT-related risks into the CO's regular risk assessment process;
- ii) Continue to work with RBP to establish alternative options to reduce the counterpart risk (e.g. when guarantees cannot be obtained); and,
- iii) Implement a process to periodically review and update the CBT transfer value in line with corporate guidelines.

#### Timeline for implementation

- i) 31 August 2019
- ii) 31 December 2019
- iii) 31 March 2020



### Observation 6: Monitoring framework and strategy

53. The CO did not have monitoring framework and strategy defining objectives, processes, roles and responsibilities, raising the risk that quality and critical information needed for decision making is not available timely.

54. *School feeding activity* - there were less than 20 field monitors in the CO structure to cover over 17,000 schools under the NSFP. The CO lacked an updated strategy to address limited resources and coverage constraints, and to ensure prioritization of monitoring activities. As a result, monitoring activities were not systematically planned or tracked, and there was limited analysis of the monitoring reports generated. In addition, field monitors faced a conflict of interest as they played a role in the preparation of distribution plans, coordination of deliveries of food to schools, collection of information, and other activities over which they also had monitoring responsibilities. WFP had limited visibility on enrolment and attendance data and could not ensure that eventual overestimation or other errors in enrolment figures were identified and addressed in a timely manner.

55. *Resilience activities* - there was limited monitoring coverage of resilience activities. One of the field offices sampled by the audit had one field monitor to cover 56 communities, highlighting the difficulties of achieving reasonable monitoring coverage. Distribution and post-distribution monitoring were not performed consistently both in terms of frequency and content, and the CO had limited capacity to triangulate information reported by CPs and Government partners.

56. There were no tools and procedures for aggregation, analysis and escalation of issues to inform programmatic decisions, and to identify risks, trends and eventual need to strengthen internal controls.

57. The office had explored options to enhance its monitoring capacity, including working with an NGO to provide enumerators, with a risk of conflict of interest as the NGO implemented activities with WFP in the same areas where the enumerators were to carry out monitoring activities. The arrangement had not been designed as a third-party monitoring service, but rather as a component of the FLA with the NGO.

Underlying cause(s): Limited access to Government's system for enrolment management (SACE). Resources and attention diverted away from monitoring towards the operational implementation of the NSFP and the liquidation process. Cooperation agreement did not specify clear roles for the Secretary of Education and other partners in monitoring the NSFP. Lack of monitoring indicators for the capacity strengthening components of the CSP.

#### Agreed Actions [High priority]

The CO will:

- i) Develop a comprehensive monitoring strategy for all activities, establishing objectives, guidelines on monitoring planning, procedures to gather and analyse the information, allocation of responsibilities, and reporting requirements;
- ii) Discuss with the stakeholders of the NSFP the monitoring strategy, aiming at the establishment of a roadmap and gradual reallocation of responsibilities for monitoring, shifting the CO's role from producing information to strengthening the capacity of stakeholders to collect and analyse relevant information according to their needs. The CO should also incorporate indicators and procedures to measure the achievement of its capacity strengthening objectives; and
- iii) Work with RBP to enhance the existing monitoring knowledge and capacity of the office.

#### Timeline for implementation

- i) 31 December 2019
- ii) 30 September 2020
- iii) 30 June 2020



## C: Resource management

58. The audit performed tests and reviews of finance, budgeting and accounting procedures, resource mobilization, and human resources management. The main funding source of the CSP is the Government of Honduras and issues related to delayed contributions from the Government are addressed in the Governance section of the audit report.

59. The CO has implemented actions aimed at diversifying its donor base, including an increased focus on the themes and geographical areas where donors have expressed interest. Donors appreciate the timeliness and good quality of reports, and highlighted a positive engagement with the CO. The finance and budgeting areas of the office were found to be functioning adequately, providing quality information and support to the operations.

### Observation 7: Update and implementation of the learning needs assessment

60. The CO began an organisational alignment process in July 2018 with the support from the Field Support Branch of the Human Resources Division and RBP. The CO's management undertook additional revisions to its structure after the mission, and the results were still being implemented at the time of the audit in May 2019.

61. A Learning Needs Assessment (LNA) was carried out in November 2018 to identify the learning and development priorities for the CO; the LNA report recommended that management undertake a capability mapping exercise to capture and document all the skills of staff currently employed by the CO and to review the *Curriculum Vitae*s of all staff to track, record and monitor all the relevant competencies in different areas of expertise. Such mapping exercise had not been done at the time of the audit, and given the additional structural changes implemented in the office after the LNA mission, the assessment needed to be revised and updated, especially as there were cases of staff taking up new roles which could potentially create additional development and learning needs for the office.

Underlying cause(s): Organizational alignment process was finalized after the LNA.

#### Agreed Actions [Medium priority]

Once the organizational alignment is finalized and all staff are on board, the CO will:

- i) Update the skills gaps analysis and the LNA and develop action plans accordingly; and
- ii) Implement the action plans.

#### Timeline for implementation

- i) 31 December 2019
- ii) 30 June 2020

## D: Support functions

62. The audit performed tests and reviews of the procedures implemented at the CO for local food procurement to support the implementation of the school feeding programme. The audit noted that the office complies with WFP guidelines and that risks related with the process were adequately monitored and managed.

63. No observations were raised in this area.



## E: External relations, partnership & advocacy

64. The audit performed tests and reviews of the processes to select and contract partners for the implementation of activities. This entailed a review of the existing committees and procedures to identify, vet and sign agreements with NGOs, *mancomunidades*, and other partners, and discussions with donors who have supported the CSP.

65. Feedback from donors was positive and they highlighted the good quality and timeliness of the reports submitted by the CO, as well as the alignment of the CSP with their priorities and areas of concern.

### Observation 8: Management of partnerships for programme implementation

66. Identification of potential CPs, capacity assessments, due diligence, selection and performance evaluations were not systematically and consistently done, resulting in cases of poor-quality reports from CPs and in inconsistent implementation of resilience activities. The CO engaged various partners for the implementation of activities as part of the CSP. The Cooperating Partner Committee, established in early 2019, was not operational during the audit period, reducing the CO's ability to timely address possible CP weaknesses.

67. The CO was not involved in the selection of the *mancomunidades* that delivered fresh rations for the NSFP; their appointment was done by the Government, without written notification to WFP. Criteria to select partners, to assess their technical capacity, implement capacity development plans, and graduate them from the intermediation of WFP have not been agreed upon in the cooperation agreement. This resulted in inconsistent implementation, which may increase WFP's reputational risk in relation to the NSFP.

68. Although some training activities had taken place, a systematic assessment of CP capacity followed by capacity development plans agreed with NGOs, and resources for their implementation, had not been defined.

Underlying cause(s): Unclear allocation of responsibilities for partnership management processes in the CO; cooperation agreement did not outline the procedures to select and manage partnerships with *mancomunidades*. Focus of the CO on operational tasks related to the implementation of the NSFP, leaving other key aspects of implementation unattended.

#### Agreed Actions [Medium priority]

The CO will:

- i) Implement a process for the identification, due diligence, selection, capacity assessment and performance evaluation of CPs, including allocation of responsibilities for the various processes across the CO's functional units, and based on available corporate guidance; and,
- ii) Agree with the Government on a strategy and procedures for the selection, appointment, capacity strengthening and graduation of *mancomunidades*.

#### Timeline for implementation

- i) 31 December 2019
- ii) 29 February 2020



## F: Cross-cutting

69. The audit reviewed the processes that support WFP's accountability to affected populations including implementation of existing guidelines on gender and age equality, complaints and feedback mechanisms and protection of beneficiaries.

### Observation 9: Accountability to Affected Populations

70. Cash distribution sites were not selected with due consideration of the maximum radius recommended by corporate guidelines for beneficiaries to reach distribution sites, increasing the beneficiaries' security risks.

71. *Complaints and Feedback Mechanisms* – The CO introduced a beneficiary telephone hotline in 2019 as an integral part of its CFMs. The audit identified limited awareness and utilization of the CFM by beneficiaries, with only two calls received in a period of five months since its implementation. The CO did not define procedures for recording, referring, and responding to the complainants to ensure that issues were addressed in a consistent and timely basis.

72. *Protection from Sexual Exploitation and Abuse (PSEA)* – The CO made efforts to align its processes with PSEA corporate principles in 2018. Some actions were still pending implementation to ensure full compliance including a joint WFP-NGO action plan, the appointment of protection focal points with partners, and defined protocols to report and respond to allegations of SEA (internally, with partners or at the inter-agency level).

73. The CO developed a gender action plan that was only partially implemented at the time of the audit due to limited resources; gender equality specific activities were not funded for 2019.

Underlying cause(s): Limited dissemination and display of CFM information to beneficiaries and CPs. Lack of comprehensive SOPs and allocation of resources to manage CFM. Limited expertise to assess risks, establish expectations and raise awareness of service providers and partners regarding PSEA. Gender budgeting was not undertaken at the CSP activity level.

#### Agreed Actions [Medium priority]

The CO will:

- i) Establish a plan to increase beneficiary and partners awareness of WFP's hotline and prepare SOPs for monitoring and management of the CFM, including: (a) escalation and referral of critical issues; (b) mechanisms to secure confidentiality of complaints received; (c) reporting back to beneficiaries on the status or resolution of complaints;
- ii) Discuss with RBP the possibility to introduce the CFM corporate tool (Sugar CRM) in Honduras;
- iii) Assess protection risks for all of WFP targeted populations with the technical support of RBP and headquarters;
- iv) Establish protocols to report and respond to allegations of SEA, in coordination with partners and other agencies, and provide training to the appointed protection focal point on PSEA to CPs and partners; and,
- v) Allocate resources to implement the gender action plan and design indicators to report on its progress.

#### Timeline for implementation

- i) 30 September 2020
- ii) 31 December 2019
- iii) 30 November 2019
- iv) 30 June 2020
- v) 31 December 2019





## Annex A – Summary of observations

The following tables shows the categorisation, 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.

High priority observations	Categories for aggregation and analysis:				Implementation lead	Due date(s)
	WFP's Internal Audit Universe	WFP's Governance, Risk & Control logic: Risks (ERM)	WFP's Governance, Risk & Control logic: Processes (GRC)			
1	Governance and structure of the school feeding activity	School meals	Business model risks	Partner management	CO	i) 30 September 2020 ii) 31 March 2020 iii) 30 September 2020
6	Monitoring framework and strategy	Monitoring & evaluation	Programme risks	Performance management	CO	i) 31 December 2019 ii) 30 September 2020 iii) 30 June 2020
Medium priority observations	Categories for aggregation and analysis:				Implementation lead	Due date(s)
	WFP's Internal Audit Universe	WFP's Governance, Risk & Control logic: Risks (ERM)	WFP's Governance, Risk & Control logic: Processes (GRC)			
2	Implementation of fresh rations for the National School Feeding Programme	School meals	Programme risks	Intervention planning	CO	i) 30 September 2020 ii) 30 June 2020
3	Implementation of resilience activities	Asset creation & livelihood support	Programme risks	Intervention planning	CO	i) 31 January 2020 ii) 31 January 2020 iii) 31 December 2019 iv) 31 March 2020
4	Beneficiary management	Beneficiary management	Programme risks	Beneficiaries management	CO	i) 30 September 2019 ii) 31 August 2019 iii) 30 November 2019
5	Risk management of cash-based transfers	CBT	Programme risks	CBT service providers	CO	i) 31 August 2019 ii) 31 December 2019 iii) 31 March 2020
7	Update and implementation of the learning needs assessment	Human resources management	Governance & oversight risks	Human resources	CO	i) 31 December 2019 ii) 30 June 2020



Categories for aggregation and analysis:						
Medium priority observations	WFP's Internal Audit Universe	WFP's Governance, Risk & Control logic:		Implementation lead	Due date(s)	
		Risks (ERM)	Processes (GRC)			
8	Management of partnerships for programme implementation	NGO partnerships	Partner and vendor risks	Partner management	CO	i) 31 December 2019 ii) 29 February 2020
9	Accountability to affected populations	Beneficiary management	Governance & oversight risks	Beneficiaries management	CO	i) 30 September 2020 ii) 31 December 2019 iii) 30 November 2019 iv) 30 June 2020 iv) 31 December 2019

## Annex B – Definitions of audit terms: ratings & priority

### 1 Rating system

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 Priority of agreed actions

Audit observations are categorized according to the priority of agreed actions, which serve 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.

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.

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.<sup>5</sup>

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

### 3 Categorization by WFP’s audit universe

WFP’s audit universe<sup>6</sup> covers organizational entities and processes. Mapping audit observations to themes and process areas of WFP’s audit universe helps prioritize thematic audits.

<sup>5</sup> 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.

<sup>6</sup> A separately existing universe for information technology with 60 entities, processes and applications is currently under review, its content is summarised for categorisation purposes in section F of table B.3.



**Table B.3: WFP’s 2019 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; 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.
E	External Relations, Partnerships and Advocacy	Board and external relations management; Cluster management; Communications and advocacy; Host government relations; Inter-agency coordination; 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.
G	Cross-cutting	Activity/project management; Knowledge and information management; M&E framework; Gender, Protection, Environmental management.

#### 4 Categorization by WFP’s governance, risk & compliance (GRC) logic

As part of WFP’s efforts to strengthen risk management and internal control, several corporate initiatives and investments are underway. In 2018, WFP updated it’s Enterprise Risk Management Policy<sup>7</sup>, and began preparations for the launch of a risk management system (Governance, Risk & Compliance – GRC – system solution).

As a means to facilitate the testing and roll-out of the GRC system, audit observations are mapped to the new risk and process categorisations as introduced in 2019 to define and launch risk matrices, identify thresholds and parameters, and establish escalation/de-escalation protocols across business processes.

**Table B.4: WFP’s new ERM Policy recognizes 4 risk categories and 15 risk types**

1	Strategic	1.1 Programme risks, 1.2 External Relationship risks, 1.3 Contextual risks, 1.4 Business model risks
2	Operational	2.1 Beneficiary health, safety & security risks, 2.3 Partner & vendor risks, 2.3 Asset risks, 2.4 ICT failure/disruption/attack, 2.5 Business process risks, 2.6 Governance & oversight breakdown
3	Fiduciary	3.1 Employee health, safety & security risks, 3.2 Breach of obligations, 3.3 Fraud & corruption
4	Financial	4.1 Price volatility, 4.2 Adverse asset or investment outcomes

<sup>7</sup> WFP/EB.2/2018/5-C

**Table B.5: The GRC roll-out uses the following process categories to map risk and controls**

1	Planning	Preparedness, Assessments, Interventions planning, Resource mobilisation and partnerships
2	Sourcing	Food, Non-food, Services
3	Logistics	Transportation, Warehousing
4	Delivery	Beneficiaries management, Partner management, Service provider management, Capacity strengthening, Service delivery, Engineering
5	Support	Finance, Technology, Administration, Human resources
6	Oversight	Risk management, Performance management, Evaluation, Audit and investigations

## 5 Monitoring the implementation of agreed actions

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.

OIGA monitors agreed action from the date of the issuance of the report with regular reporting to senior management, the Audit Committee and the Executive Board. Should action not be initiated within a reasonable timeframe, and in line with the due date as indicated by Management, OIGA will issue a memorandum to Management informing them of the unmitigated risk due to the absence of management action after review. The overdue management action will then be closed in the audit database and such closure confirmed to the entity in charge of the oversight.

When using this option, OIGA continues to ensure that the office in charge of the supervision of the Unit who owns the actions is informed. Transparency on accepting the risk is essential and the Risk Management Division is copied on such communication, with the right to comment and escalate should they consider the risk accepted is outside acceptable corporate levels. OIGA informs senior management, the Audit Committee and the Executive Board of actions closed without mitigating the risk on a regular basis.



## Annex C – Acronyms

CBT	Cash-based transfers
CFM	Complaints and feedback mechanism
CO	Country Office
CSP	Country Strategic Plan
ERM	Enterprise Risk Management
FFA	Food assistance for assets
FLA	Field Level Agreement
FSP	Financial Service Provider
GRC	Governance, Risk and Control
LNA	Learning needs assessment
NGO	Non-governmental organization
NSFP	National School Feeding Programme
PSEA	Protection from Sexual Exploitation and Abuse
RBP	Regional Bureau of Panama
SEA	Sexual exploitation and abuse
SEDIS	Honduras' Secretary of Development and Social Inclusion
SO	Strategic Outcome
SOP	Standard operating procedure
UN	United Nations
USD	United States Dollars
WFP	World Food Programme