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# Internal Audit of WFP Operations in Guatemala

Office of the Inspector General  
Internal Audit Report AR/22/18



World Food  
Programme

November 2022



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## I. Executive summary

### WFP Guatemala Country Office

1. As part of its annual workplan, the Office of Internal Audit conducted an audit of WFP operations in Guatemala that focused on cash-based transfers, supply chain, budget management, cooperating partner management, and monitoring. The audit covered the period from 1 January 2021 to 30 June 2022.
2. WFP's Country Strategic Plan 2021–2024 for Guatemala aims to achieve a sustainable improvement in food security and nutrition for the country's most vulnerable people. Through nine activities across five strategic outcomes, the country strategic plan supports the Government of Guatemala in achieving sustainable, inclusive and equitable development by investing in resilience building as well as nutrition-specific and sensitive programmes and policies.
3. The latest revised budget for the country strategic plan was USD 207 million. In 2021, WFP expenses amounted to USD 41.2 million, with 661,764 beneficiaries reached. The audit focused on three activities under strategic outcomes 1, 3, and 5 which accounted for 95 percent of the plan's total expenses in 2021.

### Audit conclusions and key results

4. Based on the results of the audit, the Office of Internal Audit reached an overall conclusion of '**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 would 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.
5. The operating context in Guatemala is marked by challenges in achieving Sustainable Development Goal 2 on zero hunger. Almost half the population cannot afford the cost of the basic food basket. The prevalence of stunting in children under five is one of the highest in the world, and the highest in Latin America and the Caribbean. The COVID-19 pandemic exposed persistent structural inequalities that threaten the country's social achievements in recent years in terms of poverty reduction and improvements in nutrition.
6. In 2021, WFP continued its emergency response to rising food insecurity in the country. WFP provided life-saving assistance to households affected by tropical storms Iota and Eta, the COVID-19 pandemic, and seasonal hunger in the extended dry corridor region. In the first half of 2021, WFP assisted 50,000 individuals focusing on tropical storm-affected regions. During the second half of 2021, WFP expanded its cash-based transfer operations to 16 of the 22 departments and by year-end, had reached 414,571 beneficiaries.

#### *Good practices*

7. WFP supported Guatemalan institutions in their efforts to reduce food insecurity and malnutrition, including through strengthening national social programmes. In this context, WFP implemented on-demand service provision activities, including food procurement and transportation services to the Government of Guatemala for national programmes responding to the lean season and the Grand National Crusade for Nutrition. WFP improved national systems by transferring capacity to the Government to implement a beneficiary data and transfer management platform. Despite the significant increase in the demand for services, the country office managed to respond to operational challenges and mitigate the related risks.



8. The country office built strong partnerships with relevant stakeholders in its programme delivery, including with donors and government entities. Management had begun to implement changes to the organizational structure of the office to ensure stronger support to its operations, including the recruitment of heads of units and the establishment of three sub-offices. Such actions resulted in greater opportunities and resources for planning activities and increased awareness of related risks. With support from the Regional Bureau for Latin America and the Caribbean, through various oversight and support missions, the country office made efforts to improve key processes in alignment with corporate guidelines.

#### *Improvement needs*

9. The audit identified three main common root causes of the issues highlighted across audit observations: (i) the absence of an adequate organizational structure to support implementation of activities during part of the audit period; (ii) the significant growth in the Government's demand for supply chain services; and (iii) the absence of comprehensive corporate guidelines for on-demand service provision. As a result, the country office prioritized the delivery and routine implementation of activities, with less priority given to strategic aspects, including human resources support and management oversight.

10. The country office improved its cash-based transfer processes and implemented corporate systems and solutions to support its activities. Aspects of current assurance mechanisms, related to the reconciliation and regular monitoring of cash distributions, require additional effort to mitigate the specific risks of the cash transfer mechanism implemented in the country, whereby beneficiaries collect cash from bank branches.

11. The country office had recently strengthened the structure of its Supply Chain unit. The planning and set-up of operations to support service provision activities required standard operating procedures and additional controls to ensure that logistics assessments, solicitation, due diligence and performance evaluation of suppliers, physical controls over stock and commodity quality checks were aligned with WFP's corporate standards to mitigate related risks. There was no adequate oversight of service provision activities. The country office followed a reactive approach with limited opportunity for adequate planning.

12. The country office did not have structured monitoring and evaluation processes prior to June 2021. With the creation of the Research, Assessment and Monitoring unit, the office had begun to organize the related functions, initially focusing on evidence generation for ongoing projects. Additional work was required to develop a monitoring strategy, define related roles and responsibilities as well as establish the tools and procedures to ensure adequate monitoring coverage of all country office activities.

### **Actions agreed**

13. The audit report contains five medium-priority observations. Management has agreed to address the reported observations and to work to implement the agreed actions by their respective due dates.

### **THANK YOU!**

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



## II. Country context and audit scope

### Guatemala

15. Guatemala's population is diverse, with one of the largest indigenous populations in Latin America. According to the 2021–2024 Country Strategic Plan (CSP), the country has achieved macroeconomic stability and growth, inflation is stable and annual growth in gross domestic product has averaged 3.4 percent since 2010. Nonetheless, Guatemala ranked 127 of 189 countries in the Human Development Index in 2020. Poverty rates and inequality are high and strongly correlate with food insecurity and malnutrition. Guatemala is one of the most unequal countries in Latin America, with a Gini<sup>1</sup> index of 48.3.

16. According to WFP's food security analysis for Guatemala, the number of people facing acute food insecurity reached a maximum of 3.5 million during the seasonal hunger period in 2021. Food insecurity in Guatemala is compounded by increasing poverty and violence; indigenous people, women, children and people living with disabilities are particularly vulnerable to food insecurity. Economic growth goals for 2021 were not reached, with a 3.1 percent increase in food prices in local markets, further reducing households' ability to access food.

17. The COVID-19 pandemic aggravated an already precarious food security and nutrition situation in the country and had negative effects on the economy, with many people already living below the poverty line prior to this crisis. Loss of income resulting from measures to contain the pandemic severely compromised the ability of many households to buy food, leading to widespread food insecurity. Food availability in Guatemala is highly dependent on production from rainfed and marginal land, resulting in the country's high vulnerability to climate-related shocks and extreme weather events such as droughts, excessive rainfall and floods.

### WFP operations in Guatemala

18. Through the CSP, WFP aims to support Guatemala in addressing the underlying causes of food insecurity and malnutrition and help develop sustainable processes that increase national human capital. The CSP focuses on the provision of technical assistance to government programmes; the promotion of transformative approaches that contribute to gender equality and women's empowerment; behaviour change to improve diets; climate change adaptation; and a comprehensive approach to building resilience in the most vulnerable communities.

19. The CSP was initially approved for a period of four years (2021–2024) with a budget of USD 158 million. Through two budget revisions approved in July 2021 and May 2022, the country office increased the budget to USD 207 million and added a new activity under strategic outcome 5 for on-demand cash-based transfer service provision. Service delivery, comprising supply chain services (procurement of food and deliveries to designated locations) and cash-based transfers represent nearly 70 percent of the total transfer cost of the needs-based plan.

20. According to the latest Integrated Phase Classification analysis, between March and May 2022 more than 3.9 million people experienced high levels of acute food insecurity and required urgent assistance. This figure was expected to increase to 4.6 million people during the lean season (up to September 2022). Due to the crisis generated by the war in Ukraine, a sustained increase in the price of food, fuel and some other inputs was expected. Between June and September 2022, households faced greater difficulties in terms of food availability and access, and the food insecurity situation deteriorated during this period.

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<sup>1</sup> The Gini index measures the extent to which the distribution of income or consumption among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality. See <https://data.worldbank.org/>

21. The Guatemala Country Office recently implemented a series of changes to its organizational structure, including the recruitment of a head of the Supply Chain unit and the establishment of a Research, Assessment and Monitoring unit and three sub-offices. The management team and some key staff joined the country office during the audit period.

22. The Regional Bureau for Latin America and the Caribbean provided extensive management oversight and support during 2021 and 2022, covering cash-based transfers, beneficiary management, finance and administration, budget and programming, information technology, human resources, and supply chain.

### Objective and scope of the audit

23. The objective of the audit was to provide assurance on the effectiveness of governance, risk management and internal control processes relating to WFP operations in Guatemala. Such audits contribute to an annual and overall assurance statement to the Executive Director on governance, risk management and internal control.

24. The audit focused on activities 1, 4 and 7 under strategic outcomes 1, 3 and 5, respectively, representing 90 percent of the total interim country strategic plan's expenses.

- *Activity 1 – Provide direct nutrition and gender responsive assistance to crisis-affected populations.*
- *Activity 4 – Provide training, equipment, cash-based transfers and technical assistance to vulnerable smallholder farmers, communities, cooperatives and local institutions.*
- *Activity 7 – Provide food procurement services to national institutions and other partners.*

25. The Office of Internal Audit developed in 2021 a focus audit approach to adapt to COVID-19 constraints while maintaining its audit coverage of country operations and providing assurance on five key areas of the end-to-end country office delivery process, as detailed in Figure 1:

**Figure 1: Areas covered by the focussed audit approach**



26. The internal audit of the WFP Guatemala Country Office built on the focus approach, complementing it with a risk-based audit methodology to determine the priority focus areas for the audit. As a result, the five areas in scope for the audit included: (i) cash-based transfers; (ii) supply chain; (iii) budget management; (iv) cooperating partner management; and v) monitoring.



27. The audit team followed a hybrid approach to conduct the audit mission, combining two weeks of remote work with a one-week visit to the Country Office in Guatemala City, including a visit to a distribution site in Mataquescuintla. The audit relied on recent regional bureau oversight of logistics, cash-based transfers (which included aspects of beneficiary management) and finance, leading to some control testing in these areas being tailored to or scoped out of the audit.

28. Additionally, the country office contributed to two separate corporate audit engagements: (i) Audit of Information Technology Asset Management; and (ii) Audit of Information Technology Management and Support in Country Offices.

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



## III. Results of the audit

### Audit work and conclusions

30. Five observations arose from the audit. They are presented below, grouped into sections corresponding to the functional areas covered (see [paragraph 25](#)), with an initial section to capture cross-cutting issues.

31. Simplified standard process diagrams are included for four of the five functional areas audited. These diagrams indicate the key control areas reviewed and, when exceptions or weaknesses were noted, the observations to which they relate and their respective priority rating (red for high and yellow for medium-priority observations). Any other issues arising from the audit that were assessed as a low priority were discussed with the country office directly and are not reflected in the report nor included in the diagrams.

### Cross-cutting issue

#### Observation 1: Management of service provision activities

32. The country office operates the largest on-demand service provision activity in the Latin America and Caribbean region. Government partners highlighted the country office's capacity to deliver and the quality and timeliness of its reports.

33. Certain aspects of service provision require further corporate guidance, including the strategic links between service provision and country strategic plans; financial arrangements; and performance management, including monitoring and evaluation processes. Service provision will be subject to a separate corporate audit by the Office of Internal Audit. In the interim, this report includes the areas requiring immediate country office action to mitigate the related risks (refer also to [Observation 4: Procedures to support service provision activities](#)):

#### *Financial arrangements*

34. The country office provided services on a full cost recovery basis, charging the cost of the service and a management fee of 7 percent to cover the country office's direct and indirect costs. The country office has applied the same rate to all on-demand service provision agreements as determined in 2020 during the previous CSP. The budgetary reallocation of implementation costs to the 'direct support cost' category in April 2022 indicated the need to review the current position and evaluate whether the fee is appropriate to meet the full cost recovery principle.

35. Service provision activities were not incorporated in the country office's partnership action plan or in the donor matrix tool used to assess the partnership and funding landscape. As such, the country office did not assess the activities from a strategic perspective, considering their alignment with overall CSP objectives and the overall impact of service provision in the financial position of the office. Instead, the office focused on responding to needs as they arose.

#### *Monitoring and evaluation arrangements*

36. WFP provided services to the Government during crises while aiming to strengthen national capacity. The impact, outcomes and outputs associated with these services were reported in the country office's 2021 Annual Country Report, albeit without being aligned to the logical framework in the CSP and to corporate requirements (refer to [Observation 5: Monitoring processes, roles and responsibilities](#)).

#### *Liquidation and reporting*

37. Reporting requirements included in the service provision agreements did not specify in detail the form and content of monthly and final liquidation reports. One agreement was liquidated in May 2022, and final reports were issued accordingly. They indicated that all funds had been spent and services fully delivered, whereas – at





the time of audit fieldwork – stocks of commodities purchased under this agreement were found in a government warehouse. The logistics services related to these commodities had not yet been provided, with potential implications for the country office in terms of accountability for these services, including for the custody and security of the commodities, and potential fluctuation between the costs reported to the Government and actual costs incurred.

38. The country office did not maintain adequate supporting documentation on the methodology used to estimate the unit price of commodities included in financial reports.

Underlying cause(s): Absence of an adequate management oversight mechanism to support the significant increase in the demand for services, considering the size of the operation. Absence of detailed corporate guidance on the definition of roles and responsibilities, corporate systems, the application of the full cost recovery principle, and monitoring arrangements for on-demand services.

#### **Agreed Actions** [Medium priority]

The country office will:

- (i) Establish a country office management oversight mechanism for service provision activities, including the supervision of operations; review of reports to the Government and supporting documentation therein; and monitoring of activity performance through key performance indicators.
- (ii) Analyse its current full cost recovery position related to the fees applied to on-demand services, considering the specific costs incurred in the provision of these services.
- (iii) Consider service provision revenues and associated costs, and their impact on the financing of country office's running costs in the short and medium term, when preparing resource mobilization strategies.

#### **Timeline for implementation**

30 June 2023

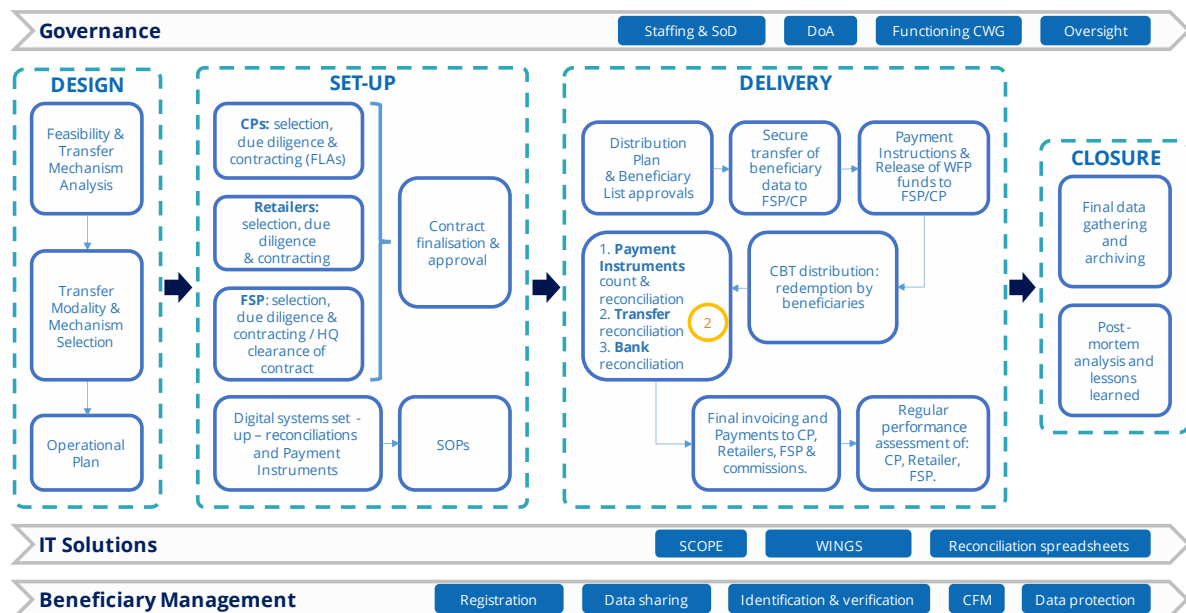


## Cash-based transfers

39. The audit assessed the key controls over cash-based transfer processes, focusing on the preparation of distribution plans, execution of cash transfers and assurance mechanisms.

40. There was extensive oversight and support from the regional bureau during 2021 and 2022, which covered beneficiary management processes; functioning of the cash working group; cash-based transfer governance and operational set-up; selection of transfer modality and mechanism; determination of the transfer value; end-to-end assurance; and the complaints and feedback mechanism. By August 2022, the country office had implemented 17 of the 18 actions raised in the 2021 remote oversight report issued by the regional bureau. The country office uses the SCOPE system for the management of cash transfers to beneficiaries. Overall, key controls related to governance, beneficiary registration, identification and verification were established and operating effectively.

Figure 2: Control test results for cash-based transfers



### Observation 2: Cash-based transfer assurance

#### Cash-based transfer reconciliation

41. In June 2022, the country office implemented an automated process to reconcile reports from its financial service provider at the end of each cycle against payment instructions using the MODA<sup>2</sup> system. The process entailed sub-office staff verifying the actual transfers reported by the bank. No independent source of information, such as reports from cooperating partners, where applicable and available, were used. Under this arrangement, partners reported to sub-offices; there was no centralized receipt of cooperating partner reports at country office level. At the time of audit fieldwork, the country office’s plan to implement NEST<sup>3</sup> had not yet been finalized and agreed with the bank. The country office indicated that this was due to technical difficulties on the part of the bank.

<sup>2</sup> Mobile operational data acquisition platform.

<sup>3</sup> NEST is a file management and secure file transfer solution.



### *Evidence of delivery*

42. Cash was delivered to beneficiaries as “cash at disposal” at the bank: beneficiaries signed a receipt issued by the bank, keeping a copy. These receipts were not delivered to WFP and, therefore, the country office relied on the regular bank reports as the sole evidence of distribution. Beneficiaries interviewed by the audit, who belonged to the most vulnerable category of beneficiaries, were unaware of the amount they were entitled to, despite having participated in the introductory awareness-raising sessions.

Underlying cause(s): Recent introduction of cash-based transfer assurance processes by the country office after the oversight and support missions from the regional bureau; and no finalized assessment of alternative transfer modalities by the country office.

#### **Agreed Actions** [Medium priority]

When oversight actions related to the assessment of transfer modalities are implemented, the country office will (a) document the results of spot-checks and regular monitoring during distributions planned to be carried out to mitigate risks related to beneficiaries’ receipt of cash at the bank, and (b) use an independent source of information, such as cooperating partner distribution reports, where available, to supplement the regular cash distribution reconciliation.

#### **Timeline for implementation**

31 March 2023



## Cooperating partner management

43. According to its 2021 Annual Country Report, the country office partnered with local and international non-governmental organizations (NGOs) and private sector partners to implement activities. The office signed 20 field-level agreements during the year to enhance the impact and coverage of its operations. Approximately 78 percent of the total value of the field-level agreements signed during the audit period related to implementation of resilience activities. Nearly 40 percent of the total value of field-level agreements related to an agreement signed with a private non-profit institution, with the remaining balance related to other international and local NGOs.

44. In response to the risks identified in the country office's 2021 risk register, the country office implemented mitigation measures, including: (a) strengthening the NGO selection process with adequate background assessments; (b) creating opportunities to develop complementary partnerships between the Government and NGOs; (c) strengthening existing partners' capacity; (d) diversifying partners; and (e) training and developing activity managers and staff on field-level agreement management.

45. The audit focused on the governance mechanisms to oversee the partnership management process, partner selection and capacity assessment, and performance evaluation. A tailored review of field-level agreement management focused on advances and payments to and reporting from partners. The audit interviewed staff from one NGO partner at the country and field office level to that effect.

### Observation 3: Direct allocation to a private partner

46. The country office signed a contribution agreement with one of its donors to fund implementation of the CSP's resilience activities. The agreement entailed a direct allocation of EUR 2 million (of a total contribution of EUR 15 million) to a local private non-profit institution, for the purpose of (a) generating family income and, (b) through educational campaigns, improving the proper consumption of food either produced as part of the intervention or acquired with the anticipated newly generated income.

47. Pursuant to the agreement, in August 2021, the country office made advance payments to the private non-profit institution of approximately USD 620,000, of which the partner had liquidated only USD 73,000 (12 percent of advances made) at the time of audit fieldwork 12 months later.

48. Despite the country office's efforts, the partner was unable to implement the required activities within the expected timelines. The donor expressed concerns to the country office and the audit team about the partner's performance. At the time of audit fieldwork, no detailed plans on the way forward had been agreed between the country office and the donor to continue working with the entity and, on a more general note, to ensure the private non-profit institution's contribution to the achievement of the activity's objectives.

Underlying cause(s): Donor request to allocate part of the funds to a specific entity, with limited opportunity for the country office to apply its partner selection process.

#### Agreed Actions [Medium priority]

The country office, with support from the relevant WFP Liaison Office, and through the joint WFP-donor committee foreseen in the contribution agreement, will agree on a plan for the liquidation of outstanding advances and implementation of activities by the private non-profit entity, including how it will utilize the remaining allocated portion of funds.

#### Timeline for implementation

31 March 2023



## Supply chain

49. Supply chain activities focused on the provision of food procurement, storage and transportation services to the Government of Guatemala through agreements with various entities. Between January 2021 and August 2022, the country office signed nine new agreements (or extensions of existing agreements) for the provision of services amounting to USD 54.3 million. Service provision represented 49 percent of total direct operational costs for 2021.

50. The country office implemented a series of changes to its organizational structure, including the recruitment of a supply chain officer (Head of Logistics and Procurement) to manage and integrate all supply chain workstreams.

51. The Regional Bureau for Latin America and the Caribbean performed a remote oversight mission in 2021 that raised 19 observations related to the supply chain. At the time of the audit visit, work was in progress to implement the seven remaining recommendations, which mainly related to logistics assessments and staff and partner capacity strengthening, including two that were finalized and were waiting for final approval from the regional bureau.

## Procurement

52. Food purchases made during the audit period amounted to USD 25.8 million, 98 percent of which related to CSP service provision activities. USD 20.4 million (79 percent) of food procurement was competitive, with USD 2.4 million (9 percent) related to purchases through the global commodity management facility (GCMF).<sup>4</sup>

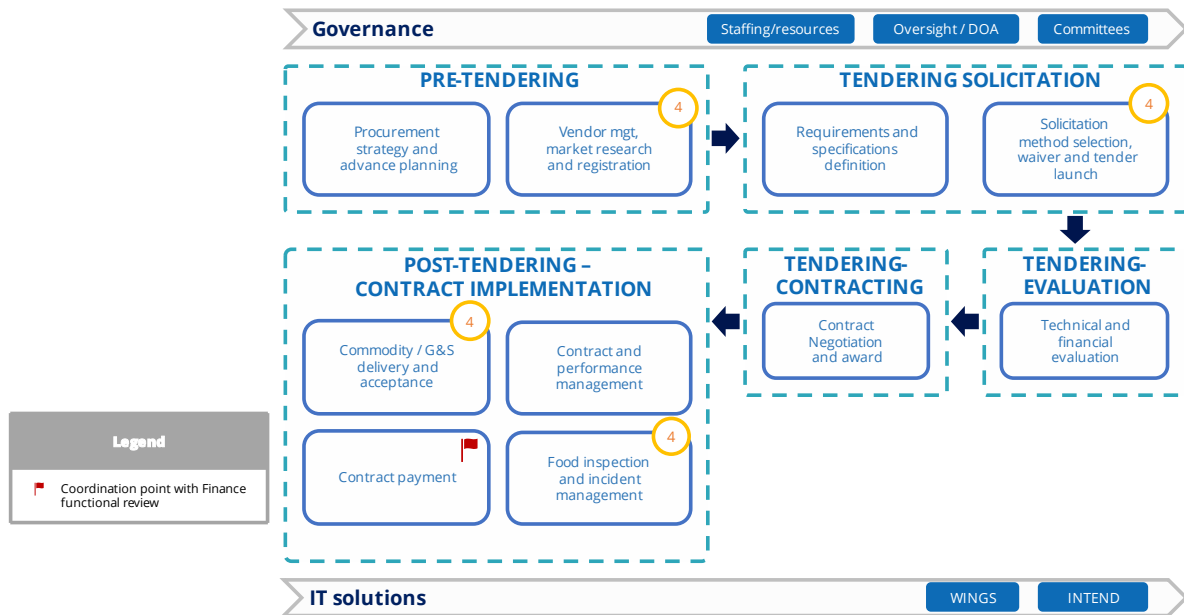
53. At the time of audit fieldwork, the country office was in the process of addressing oversight observations related to procurement governance and pre-tendering that resulted from the feedback provided to country office. As a result, the purchase and contracts committee was operational, and its membership had recently been reviewed and updated; the country office had established a supplier roster and issued calls to expand the food vendor roster; and a private sector engagement mission was in progress to strengthen relations with suppliers – this had been deemed key to the successful implementation of programmatic activities, especially in response to emergencies.

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<sup>4</sup> The Global Commodity Management Facility is a strategic financing mechanism under which WFP purchases food commodities in advance of contribution confirmation.



Figure 3: Control test results for procurement



### Logistics

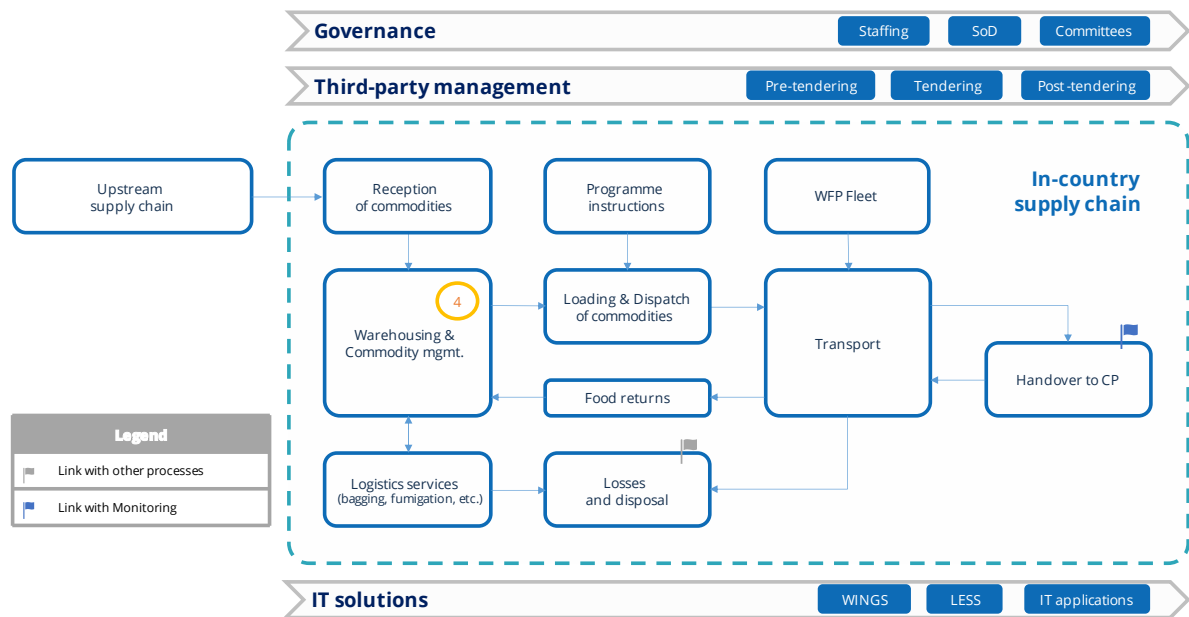
54. The Logistics unit manages the reception, storage, handover and transportation of commodities purchased as per the agreements with government entities. During the audit period, transportation services related to the service provision activity amounted to USD 4.4 million, including USD 3.7 million in transportation and logistics services and USD 0.7 million in internal transportation.

55. Commodities are mainly purchased locally under delivery-at-place terms and delivered to government-managed warehouses. A smaller proportion of commodities is purchased through the GCMF, and once received at the port, WFP arranges transportation to warehouses. After a handover process at the warehouses and upon instructions from the Government, WFP contracts transportation services to deliver commodities to their final destinations. The contractual agreements also establish that WFP handles quality and quantity inspections.

56. Audit testing concluded that the logistics contract committee was in place, and membership was reviewed and updated. As a result of the regional bureau oversight mission, the country office also updated the transporter roster in February 2022 and issued a call for expressions of interest for transportation services in June 2022 to expand the vendor roster.



Figure 4: Control test results for logistics



**Observation 4: Procedures to support service provision activities**

57. Three aspects of supply chain operations require additional management attention to strengthen an efficient implementation of CSP service provision activities and to mitigate related risks.

*Logistics assessments and performance evaluations*

58. The country office did not have a process to monitor and ensure the completion of regular logistics assessments, including the logistics services market assessment, logistics capacity assessment and security assessment missions to its warehouses. The country office only recently initiated the logistics capacity assessment. Performance evaluations for logistics contractors, including transporters and superintendents, were not systematically carried out.



### *Commodity management*

59. The country office's standard operating procedures have not been adapted to the specific context of the services provided to the Government, incorporating detailed guidance on the receipt, custody, regular inventory counts, handover and dispatch of commodities.

60. Under the existing setup, the accountabilities for the custody and security of commodities at different stages were not clearly defined and agreed with the Government. The country office did not have a regular process for supervising the superintendent's<sup>5</sup> activities. Even though laboratory test results are used as supporting documentation to authorize payments, there was no evidence that the test results were technically reviewed by WFP staff. Further, the format of laboratory test results was not aligned with government specifications, which made it difficult to identify any discrepancies therefrom.

61. In the inventory counts at country office-managed warehouses, there was no participation of staff independent from the supply chain unit. The documentation for stock counts was not standardized and the country office did not always maintain evidence of reconciliation with LESS and of supervisors' review. Regarding stock counts at government warehouses, the country office had not agreed with the Government whether WFP staff should participate or not in these.

### *Procurement*

62. Several competitive bidding processes obtained low response rates. The country office had not captured and analyzed the reasons therefor, to improve response rates in the future. Further, justifications for non-competitive procurement, proving the need to purchase from one specific supplier, were not systematically explained and documented.

63. Due diligence reviews of vendors prior to their inclusion in the roster did not sufficiently incorporate business continuity and capacity aspects. This resulted in, at least, one supplier that, due to operational challenges, did not fulfil contractual obligations and agreed delivery timelines.

Underlying cause(s): An increase in the demand for services due to the COVID-19 pandemic; pressure to meet delivery timelines agreed with the Government, which required the rapid execution of supply chain operations; the country office initially not having the required structure, resources and processes in place to meet the demand.

#### **Agreed Actions** [Medium priority]

The country office will:

- (i) Develop and implement a workplan to carry out all the required logistics assessments and establish a process to monitor and ensure these are regularly completed and updated.
- (ii) Develop and agree with the Government the implementation of standard operating procedures covering the various logistics processes that support service provision activities, addressing the control gaps identified by the audit, including aspects of custody and security of commodities, and ensuring compliance with WFP guidelines.
- (iii) Strengthen due diligence processes by evaluating suppliers' supply chain resilience and existing capacity to comply with WFP contracts.

#### **Timeline for implementation**

30 June 2023

<sup>5</sup> Superintendents are independent cargo surveyors, employed by the country office to inspect consignments, and ascertain their quantity and condition on delivery.





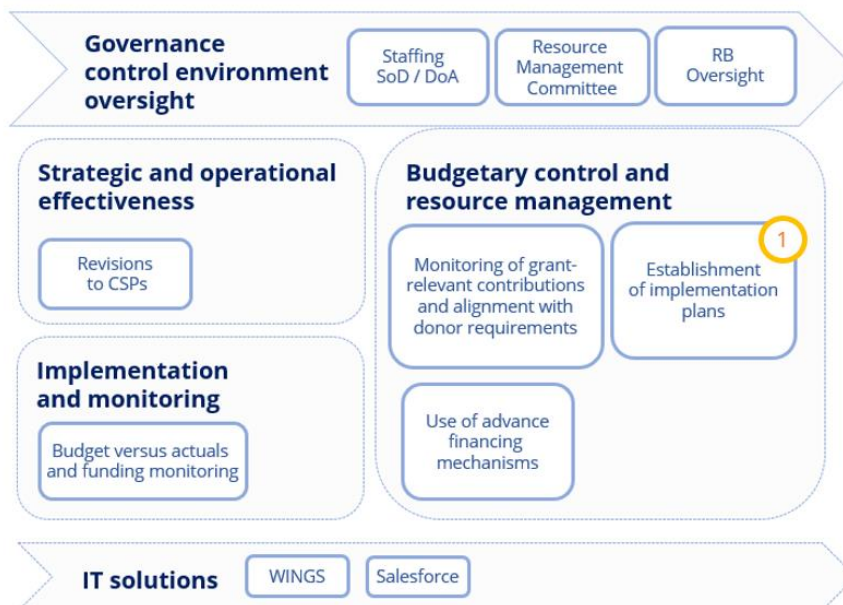
## Budget management

60. After reviewing the alignment of the implementation plan to resource levels, budget revisions, advance financing coordination mechanisms, monitoring of grants, and monitoring of budget versus actual expenses, audit test results showed that overall budget management controls were functioning effectively, as illustrated in Figure 5 below. No further reportable medium or high-priority findings were identified in this area, other than those reported in [Observation 1: Management of service provision activities](#) regarding budget management for service provision activities.

61. The country office's budgeting and programming unit is under the supervision of the head of finance who also serves as the budgeting and programming officer and reports to the country director. The country office benefitted from an oversight mission by the regional bureau's finance unit and had implemented all recommended actions. This resulted in internal controls that were generally working and a proactive risk management approach.

62. The country office faced a shortfall in expected resourcing, with pipeline breaks foreseen from August 2022. The country office used an advance financing option to mitigate the risks of insufficient funding for the flood emergency response and pipeline breaks in the last quarter of 2020. The management team indicated that, when sufficient cash contributions will be available, the country office will agree on a repayment plan for the outstanding Immediate Response Account<sup>6</sup> balance of USD 1.5 million in consultation with the Emergencies Operations Division and Strategic Financing Branch unit.

**Figure 5: Control test results for budget management**



<sup>6</sup> The WFP emergency reserve for the immediate allocation of flexible, replenishable, revolving multilateral funding to critical life-saving activities across the emergency response cycle – when there is no immediate viable funding source.

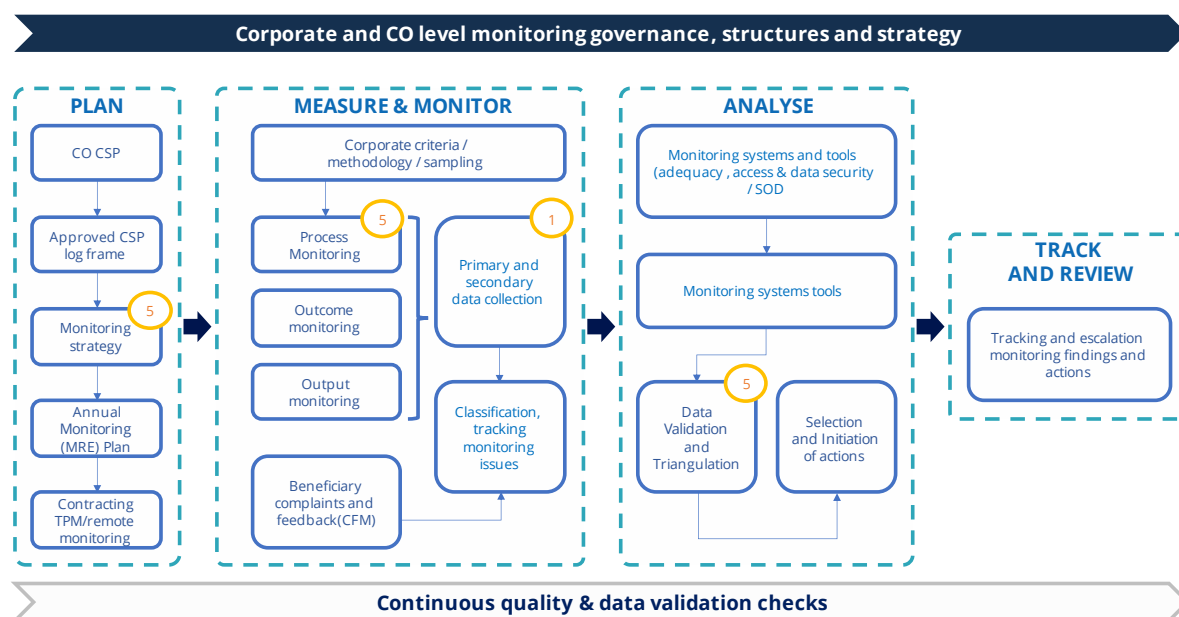
## Monitoring

63. The audit results indicated that overall monitoring controls were functioning, as illustrated in Figure 6 below, albeit with a need to strengthen the monitoring strategy; roles and responsibilities of sub-offices; completeness of process monitoring; and consolidation of monitoring data and findings. The country office conducted its monthly activity monitoring through its three sub-offices.

64. From June 2021, the country office strengthened its monitoring function by investing in monitoring capacity and establishing a new Research, Assessment and Monitoring unit dedicated to monitoring activities, including coordination with sub-offices in planning and performing such activities. The team comprised four staff members headed by an international consultant who reports to the deputy country director, plus 24 field technicians who support monitoring activities across the sub-offices.

65. The unit carried out baseline and post-distribution monitoring exercises through remote or physical monitoring modalities across all areas of WFP's programme interventions (13 departments). The team leveraged the WFP mobile operational data acquisition platform (MODA) for outcome monitoring data collection, and used the following tools to support the monitoring activities: (a) a Gantt chart for planning purposes; (b) dashboards for beneficiary counting; and (c) a 'monitoring findings' tracker. The country office enforced preventive controls for data triangulation when third parties collected monitoring information at the household level to identify anomalies in primary data collection.

**Figure 6: Control test results for monitoring**



### Observation 5: Monitoring processes, roles and responsibilities

66. The field technicians' role in monitoring tasks was unclear, considering that they had overlapping roles in both implementing and monitoring programme activities indistinctively. There was no functional reporting line to the country office's Research, Assessment and Monitoring unit, resulting in limited coordination and visibility of monitoring activities at the sub-office level. Communication with field technicians was limited as coordination occurred mainly through the heads of the sub-offices.



67. From July 2021, the country office conducted monitoring activities for baseline and post-distribution monitoring. At the same time, process monitoring and data collection at distribution sites were not carried out consistently across interventions.

68. The Research, Assessment and Monitoring unit collected output data through the dashboards produced by the CO Programme unit. This approach to data collection was not aligned with the actions identified in the country office's 2022 risk register to (a) mitigate the risk of inclusion errors for those beneficiaries that did not meet the targeting criteria, and (b) ensure that deliveries were appropriately provided in a timely manner. As a result, the triangulation of output indicators did not provide for an adequate segregation of responsibilities, as it relied on information provided by the Programme unit.

69. Further, the review of measurement of indicators in 2021 revealed three gaps: (i) the country office did not consistently measure indicators for nutrition and service provision; (ii) documentation and audit trail of monitoring activities from January to June 2021 were missing; and (iii) in one instance, cooperating partners collected indicators in their geographical areas on WFP's behalf, affecting the independence of the data collection process. The country office's Research, Assessment and Monitoring unit had already identified indicator measurement as an area for improvement and was working with the regional bureau to review the CSP's logical framework and existing monitoring tools (such as checklists, questionnaires and forms).

Underlying cause: Setting up of sub-offices still ongoing; absence of a structured monitoring function and processes prior to June 2021; and prioritization by the Research, Assessment and Monitoring unit of its operational needs and the generation of evidence related to ongoing projects for donor reporting purposes.

#### **Agreed Actions** [Medium priority]

The country office will:

- (i) Define a monitoring strategy to guide roles and responsibilities across geographic levels, based on a structure review and risk-based considerations to prioritize resource allocations for monitoring activities, systems, processes and tools.
- (ii) Clarify the organizational structure of the monitoring function and framework for coordinating monitoring-related activities carried out by the sub-offices while ensuring proper segregation of duties.
- (iii) Enhance the consistency of monitoring processes across interventions and locations, including distribution monitoring and activity implementation monitoring at final distribution points, use of tools and tracking of related monitoring issues.

#### **Timeline for implementation**

31 December 2023



## Annex A – Agreed action plan

The following table shows the categorization, ownership and due date agreed with the audit client 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.

The agreed action plan is primarily at the country office level.

#	Observation (number / title)	Area	Owner	Priority	Timeline for implementation
1	Management of service provision activities	Cross-cutting	Country office	Medium	30 June 2023
2	Cash-based transfer assurance	Cash-based transfers	Country office	Medium	31 March 2023
3	Direct allocation to a private partner	Cooperating partner management	Country office	Medium	31 March 2023
4	Procedures to support service provision activities	Supply chain	Country office	Medium	30 June 2023
5	Monitoring processes, roles and responsibilities	Monitoring	Country office	Medium	31 December 2023



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

### 1 Rating system

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

**Table B.1: Rating system**

Rating	Definition
<b>Effective / satisfactory</b>	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.
<b>Some improvement needed</b>	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.
<b>Major improvement needed</b>	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.
<b>Ineffective / unsatisfactory</b>	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**

<b>High</b>	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.
<b>Medium</b>	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.
<b>Low</b>	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>7</sup>

<sup>7</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.



### 3 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.

The Office of Internal Audit monitors agreed actions from the date of the issuance of the report with regular reporting to senior management, the Independent Oversight Advisory 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, the Office of Internal Audit 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, the Office of Internal Audit 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 Enterprise 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. The Office of Internal Audit informs senior management, the Independent Oversight Advisory Committee and the Executive Board of actions closed without mitigating the risk on a regular basis.



## Annex C – Acronyms

<b>CSP</b>	Country Strategic Plan
<b>EUR</b>	Euro, the official currency of the European Union
<b>GCMF</b>	Global Commodity Management Facility
<b>MODA</b>	Mobile operational data acquisition platform
<b>NEST</b>	File management and secure file transfer solution
<b>NGO</b>	Non-governmental organization
<b>SCOPE</b>	WFP beneficiary information and transfer management platform
<b>USD</b>	United States dollars
<b>WFP</b>	World Food Programme

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