SAVING LIVES
CHANGING LIVES

Internal Audit of WFP Operations in Madagascar

Office of the Inspector General
Internal Audit Report AR/23/21

WFP
World Food Programme

December 2023

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I. Executive summary

WFP Madagascar Country Office

1. As part of its annual workplan, the Office of Internal Audit conducted an audit of WFP operations in Madagascar, focusing on supply chain, management of the emergency response, cooperating partner management, monitoring activities, cash-based transfers, payment processes, and budget management. The audit covered the period from 1 January to 31 December 2022 and looked at prior or subsequent events and transactions as required

2. The Country Strategic Plan[1] has five strategic outcomes: promote an integrated, shock-responsive social protection system; provide children in vulnerable communities with access to nutritious foods while at school; extend integrated approaches for the prevention of malnutrition among vulnerable women, adolescent girls, and children; build the resilience of vulnerable smallholder households and communities; and ensure that interventions for addressing needs are supported by enhanced capacities and resources for emergency preparedness and response.

3. The plan was approved for a period of five years (2019–2024) with an initial budget of USD 297 million. Through four budget revisions, the country office increased its total budget to USD 628 million with the emergency response budget under strategic outcome 1 increasing fourfold to USD 432 million.

4. Over the audit period, the country office assisted 2.8 million beneficiaries[2] through the distribution of 84,000 metric tons of food worth USD 54 million and USD 21 million of cash-based transfers, representing 72 percent and 28 percent respectively of total transfer value to beneficiaries.

5. The audit focused on activity 1 – "*Provide emergency food and nutrition assistance to vulnerable populations affected by crisis*" – under strategic outcome 1, representing 83 percent of the Country Strategic Plan's expenses during the audit period.

Audit conclusions and key results

6. Based on the results of the audit, the Office of Internal Audit reached an overall conclusion of **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 should be achieved. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity. Urgent management action is required to ensure that the identified risks are adequately mitigated.

7. Since 2020, the country office has scaled up its emergency operations while continuing to expand school-based programmes, nutrition, and resilience activities. Over the audit period, it provided emergency assistance to drought-affected populations in the Grand Sud and to cyclone-affected populations in several regions of the country. Assistance provided by WFP and partners averted famine-like conditions experienced in 2021.

8. WFP participated to the Integrated Food Security Phase Classification[3] to inform its programmatic interventions including determining priority areas and caseload of beneficiaries. The country office relied on 35 local non-government organizations to perform household targeting and distribute food assistance for relief, nutrition, and resilience activities. Local government institutions were contracted to manage school-based programmes. WFP monitored activities throughout the country with its own field monitors.

9. Concerns on the workplace environment and staff relations noted during the audit fieldwork were escalated to relevant headquarter units. Delays in key people decisions around the organizational alignment

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[1] WFP Madagascar Country Strategic Plan 2019-2024, link

[2] WFP Madagascar Annual Country Report, 2022, link

[3] Integrated Food Security Phase Classification, Madagascar, link

and number of short-term personnel and issues in the workplace environment may have contributed to the higher risk exposure to the country office operations and control weaknesses outlined in the report. During the audit reporting phase, a joint Regional Bureau and Workplace Culture mission was deployed to the country office in August 2023 and the Regional Bureau undertook a mission to review human resource and workplace culture issues in October 2023.

10. Country office governance and risk management practices showed weaknesses, leading to decisions, processes and controls not fully addressing risks identified. Some key committees, although established, were not functioning and assessments, corporately required to identify risks, inform operational design, and mitigate risks, were either missing or out of date. In some instances, the country office had not considered the results of risk assessments in decisions made, e.g., a cooperating partner's weak capacity or limitations in the functioning of markets. These gaps increased the country office's exposure to operational and fraud risks in programme implementation across several processes such as beneficiary and identity management, in-kind and cash distributions, and cooperating partners management.

11. Safeguards on beneficiary selection and assistance were sub-optimal considering inadequately segregated duties with community committees during targeting and beneficiary feedback gathering. This coupled with overall limited digitalization over the delivery chain, inefficient and poorly designed controls as well as deficiencies in monitoring imply that the country office is unable to provide sufficient assurance over its cash and food transfers.

12. As monitoring staff was not independent from programme staff, and monitoring coverage was low (an issue already identified by a previous regional bureau oversight mission), the country office did not have sufficient assurance on programme implementation.

13. Corporate standards to manage third-party risks were not fully applied, particularly for cooperating and government partners. Rosters were outdated and due diligence checks were not consistently performed, limiting competitiveness, and exposing the country office to risks associated with working with poor performing vendors and partners. Processes for partners' performance evaluations should be improved to address underperformance and limit opportunities of collusion with field staff.

14. The office should strengthen mechanisms for accountability to affected populations and, with the support of headquarters, adopt technology to mitigate inefficiencies and the inherent risks of fraud during distributions.

15. In finance and logistics, there were opportunities to streamline transport contracting and invoice processing.

Actions agreed

16. The audit report contains seven high-priority and three 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!

17. 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

Madagascar

18. Among the world's largest islands, Madagascar is a low-income country with an estimated population of 28 million. The country's low growth potential and exposure to frequent, deep, and persistent crises continue to hamper development prospects.

19. Three years of consecutive severe drought, intense storms, and tropical cyclones have contributed to high levels of food insecurity. According to the April 2022 Integrated Food Security Phase Classification analysis, 1.6 million people (or 37 percent of the population) in the Grand Sud and East of Madagascar were estimated to be highly food insecure. The number facing severe food insecurity increased to 2.2 million from November 2022 to March 2023.[4]

WFP operations in Madagascar

20. The second Country Strategic Plan[5] (CSP) was approved for the 2019–2024 period. The CSP has five strategic outcomes, as follows: (1): '*promote an integrated, shock-responsive social protection system*'; (2): '*provide children in vulnerable communities with access to nutritious foods while at school*'; (3): '*extend integrated approaches for the prevention of malnutrition among vulnerable women, adolescent girls, and children*'; (4): '*build the resilience of vulnerable smallholder households and communities*'; and (5): '*ensure that interventions for addressing needs are supported by enhanced capacities and resources for emergency preparedness and response*'.

21. The CSP had an initial budget of USD 297 million. Through four budget revisions, the country office increased its budget to USD 628 million. Budget for the emergency response under strategic outcome 1 has increased fourfold to USD 432 million since the inception of the strategic plan.

22. In February 2021, WFP declared a Level 2 emergency response for the Grand Sud region to address an unprecedented food crisis resulting from a persistent drought – the most severe in four years – and the combination of multiple other shocks. Since February 2022, the country office is classified in the Corporate Attention Phase.

23. Madagascar was hit by recurrent cyclones during the audit period – Batsirai and Emnati in 2022, and Cheneso and Freddy in 2023 – triggering emergency responses by the country office.

24. WFP participated to the Integrated Food Security Phase Classification[6] to inform its programmatic interventions including determining priority areas and caseload of beneficiaries. The country office relied on 35 local non-government organizations to perform household targeting and distribute food assistance for relief and nutrition activities. Local government institutions were contracted to manage school-based programmes. WFP monitored activities throughout the country with its own field monitors.

25. In 2022, the country office assisted 2.8 million beneficiaries with 1.9 million assisted through in-kind food (or 68 percent of the total caseload) and 900,000 (or 32 percent of the total caseload) receiving cash-based transfers. The country office distributed 84,000 metric tons of food worth USD 54 million, and USD 21 million of cash-based transfers to beneficiaries, respectively 72 percent and 28 percent of total transfer value to beneficiaries. The total workforce in the country office and its nine field offices was 277 staff.

[4] Integrated Food Security Phase Classification, January 2023.
[5] WFP Madagascar Country Strategic Plan 2019-2024, link
[6] Integrated Food Security Phase Classification, Madagascar, link

Objective and scope of the audit

26. 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 Madagascar. Such audits contribute to an annual and overall assurance statement to the Executive Director on governance, risk management, and control.

27. The audit focused on activity 1 – "*Provide emergency food and nutrition assistance to vulnerable populations affected by crisis*" – under strategic outcome 1, representing 83 percent of the CSP's expenses during the audit period.

28. As part of its scope for this audit, the Office of Internal Audit applied the audit approach developed in the COVID-19 context, focussing on five key areas of the end-to-end country office delivery process – beneficiary management, cash-based transfers, supply chain, monitoring and finance – complemented with a risk-based audit methodology to determine additional priority focus areas.

29. Further, the internal audit of WFP operations in Madagascar builds on a risk-based audit methodology and leverages, where possible, sufficiently robust second-line assurance work to determine the priority focus areas for this audit. To minimize duplication of efforts, reliance was placed on the regional bureau's recent oversight coverage over logistics, monitoring activities, human resources management, and finance and administration.

30. As a result, seven areas were in scope for this audit: (i) governance and risk management; (ii) beneficiary management including community feedback mechanism; (iii) non-governmental organization management; (iv) cash-based transfers; (v) supply chain; (vi) resource management including payment processes and budget management; and (vii) monitoring activities.

Figure 1: Areas covered by the audit

31. The audit team conducted the fieldwork in the Madagascar Country Office in Antananarivo and visited field locations in Ambovombe, Amboasary, Fort-Dauphin, and Toliara.

32. 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

33. Ten observations arose from the areas in scope (refer to paragraph 30), relating to governance and risk management, beneficiary management, non-governmental organization management, cash-based transfers, procurement and logistics, payment process and monitoring.

34. A simplified standard process diagram is included for several functional areas audited. These diagrams indicate the key control areas reviewed and, when exceptions or weaknesses were noted, the audit 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 low priority were discussed with the country office directly and are not reflected in the report.

Governance and risk management

35. The audit reviewed the country office risk register, third-party assessments, and the factoring of identified risks in management and programmatic decisions. In addition, the audit reviewed the set-up and functioning of country office committees as well as procedures in place.

36. Cross-cutting to several audit observations in this report were weaknesses in the country office governance arrangements. These included workplace environment issues, ineffective management of risks resulting in suboptimal decisions and key controls such as committees, procedures and third-party due diligence and assessments either not implemented or effective.

Observation 1: Workplace environment issues

37. Interviews conducted during audit fieldwork phase disclosed managerial and staff relation issues, which impacted the workplace environment. Following the field mission, the audit team consulted with various headquarters units, including the Ombudsman regarding its recent visit in May 2023, Staff Relations, the Ethics Office, Staff Wellness, and a previous employee from the country office. These consultations confirmed concerns of inappropriate behaviour from some levels of management, which have been relayed to the Office of Inspections and Investigations.

38. Similar issues had been already reported to the Human Resource Staff Relations unit, which resulted in a remote mission in June 2023. Staff Relations spoke to 11 colleagues including nationals and internationals, who reported concerns on inappropriate behaviour and communication style. The increasing number of cases relayed to OIGI in 2023 are also indicative of workplace issues that require assessment.

39. These issues may have impacted the morale and well-being of staff. These may have limited their confidence to speak up, undermined their ability to perform duties.

40. Delays in key people decisions around the organizational alignment and number and contract period of short-term personnel (see Observation 2: Ineffective risk management, committees and procedures) may have further contributed to the higher risk exposure to the country office operations and control weaknesses outlined in the report. Further efforts are required to understand the issues with middle management.

41. Necessary actions by the Workplace Culture Department to address this issue have already been executed in the audit reporting phase (refer to agree action 1 below). By the time of the audit report issuance, the Regional Bureau had undertaken a mission to review human resource and workplace culture issues in October 2023 and developed an improvement plan.

Underlying cause(s): Workplace culture and conduct risk not yet comprehensively assessed and addressed; top-down performance assessments not effective in capturing staff relation or conduct issues; and insufficient management accountability in monitoring and escalating conduct issues.

Agreed actions (high priority)

1. The Assistant Executive Director ad interim, Workplace Culture, will deploy a cross-functional follow-up mission with relevant team members to comprehensively review the situation in the country office and provide the necessary support to the country office team.

A joint headquarters and regional bureau mission led by the Human Resources Deputy Director ad interim with the Regional Director was deployed to country office in August 2023 to assess the situation and raise awareness on behavioural standards, prevention and reporting mechanisms for inappropriate or abusive conduct.

2. The Assistant Executive Director ad interim, Workplace Culture, will undertake a review of how past decisions to deploy staff in managerial positions were made. This review will also consider the mechanisms to enforce management accountability in monitoring and escalating inappropriate conduct.

Timeline for implementation

1. Implemented as of 15 September 2023.

2. 30 April 2024

Observation 2: Ineffective risk management, committees and procedures

42. There were several weaknesses in the country office governance with gaps in risk management and decision making. Key controls such as committees and assessments corporately required to identify risks, inform operational design, and mitigate risks where necessary presented systemic gaps.

Risks and decisions

43. Management delayed key decisions, which impacted the control environment. For example, the organizational realignment conducted in June 2022 was still under implementation as of May 2023. In the meantime, over 50 percent of positions were filled with short-term contracts. The country director reported the use of consultants and temporary duty assignments impacted turnover and continuity in key functions such as cash-based transfers, logistics and procurement during the audit period. Some functions were understaffed such as security, cooperating partners' management, food safety and quality, and community feedback mechanism. Another example is the roll-out of the corporate platform for beneficiary information and transfer management, which was slowed down despite weak controls over delivery processes (see Observation 6: Limited digitalization over programme implementation).

44. Mitigation actions defined in the country office risk register were not consistently implemented, and the fraud risk assessment dated from 2021. As a result, controls implemented were not always aligned to risk levels and did not systematically follow recommendations deriving from existing assessments, for instance in the management of in-kind and cash-based transfers distributions. The residual operational and fraud risk exposure to the country office operations were notable in beneficiary management (see Observation 3: Insufficient controls on beneficiary targeting and identity management) and end-to-end transfers (see Observation 6: Limited digitalization over programme implementation).

45. The country office had not performed mandatory assessments including a privacy impact assessment – despite collecting beneficiary biometric data – and several sectorial assessments for cash-based transfers were either missing or needed to be updated.[7] Exposure to fiduciary risks for beneficiaries and to third-party risks increased as noted in Observation 5: Gaps in the selection and performance management of cooperating partners) and Observation 7: Inefficiencies in the goods and services procurement.

[7] Missing or outdated assessments included security assessments; macro supply chain assessment; macro information and technology assessment; analysis of cost efficiency effectiveness and externalities; and digital and financial inclusion review.

Country office committees

46. Country offices are required to set up local committees to advise, recommend, or endorse decisions for the country director to consider. During the audit period, the resource management committee, the cash working group, and the cooperating partner committee were established, with terms of reference and composition approved. Yet these did not meet regularly to discuss risks and make proposals to the country director. This governance issue contributed to issues in the management of cash-based transfers and cooperating partners that remained unresolved.

Compliance and procedures

47. Instances of non-compliance with corporate rules prevented the reduction of inherent risk levels. The direct selection of cooperating partners was not documented as required. Purchases were not always correctly labelled, and 25 percent of goods and services purchases were recorded too late in corporate systems.

48. Finally, it was not always possible to ascertain the trail of supporting documents provided by the country office. Strategic plans and standard operating procedures were often in draft or outdated, which impacted knowledge retention and contributed to unclear roles and responsibilities in the processes of beneficiary targeting and registration, cash-based transfers, and supply chain.

Underlying cause(s): Workplace issues and staff suggestions and concerns not considered (refer to Observation 1: Workplace environment issues); different understanding of processes, controls and risk exposure, including fraud risks, between management and staff; limited skills and knowledge of corporate standards in the management of cash-based transfers and cooperating partners; and emergency response challenging implementation of controls.

Agreed actions (high priority)

1. The Regional Bureau for Southern Africa will conduct a comprehensive review of risk management practices and risk culture in the country office.
2. The country office, with the support of the Regional Bureau for Southern Africa and the Risk Management Division, will:
   (i) Prioritize and define a timeline to complete mandatory assessments to inform risk-mitigation actions.
   (ii) Review and update its fraud and third-party risk assessment and implement effective fraud controls.
3. The country office will:
   (i) Ensure the functioning of committees as per the applicable terms of reference.
   (ii) Update its inventory of standard operating procedures.
4. The country office will conduct a learning needs assessment.

Timeline for implementation

1. 31 December 2024
2. 31 March 2024
3. 31 January 2024
4. 30 June 2024

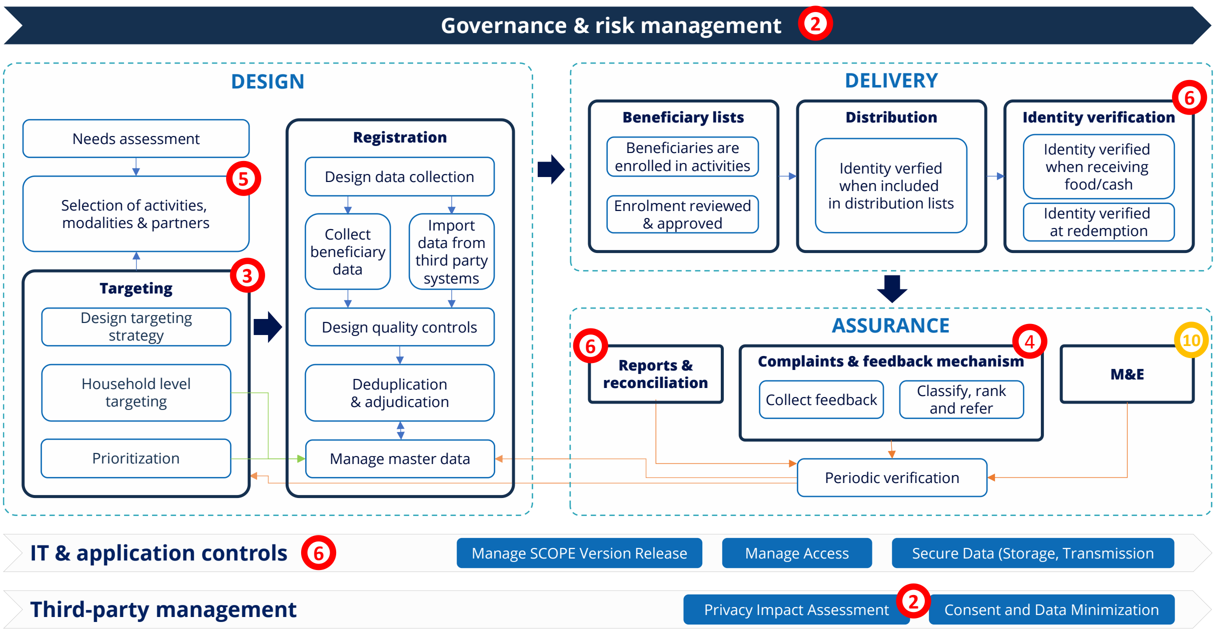
Beneficiary management

49. In 2022, the country office assisted 2.8 million beneficiaries with 1.9 million assisted through in-kind food (or 68 percent of the total caseload) and 900,000 (or 32 percent of the total caseload) receiving cash-based transfers. The main activity was the crisis response under strategic outcome 1, which accounted for 83 percent of expenses and 79 percent of the beneficiary caseload. In-kind assistance and cash-based transfers represented respectively 72 percent and 28 percent of the transfer value in 2022.

50. The audit tested the targeting process, segregation of duties, and accountability mechanisms in place to ensure crisis response activities were monitored, assessed, and adjusted based on feedback loops.

51. The audit also reviewed that the operational risks of delivering cash-based transfers had been identified and mitigated, and that reconciliation processes ensured cash-based transfer entitlements were received by beneficiaries.

Figure 2: Control test results for beneficiary management



Observation 3: Insufficient controls on beneficiary targeting and identity management

Targeting processes

52. The country office prioritized geographic areas of assistance through the Integrated Food Security Phase Classification and relied on community-based targeting for the identification of the most vulnerable households.

53. The corporate targeting guidance[8] identifies the risk that community-based targeting reinforces existing power imbalances and marginalization of groups. The guidance recommends several safeguards and controls for the targeting process, including identifying the right cooperating partners, using a community feedback mechanism, and implementing field verification visits by independent parties. The design of key controls at country office level did not ensure effective implementation of these mitigations.

54. Each community elected its targeting committee in charge of selecting beneficiaries based on a set of vulnerability criteria. Following the selection, communities validated the beneficiary lists and documented the exercise in notes for the record. A review of a sample of notes highlighted that WFP and cooperating partner

[8] WFP 2021Targeting and prioritization operational guidance note.

staff did not consistently participate in the exercise and, hence, fully relied on community validation in determining final beneficiary lists.

55. Monitoring reports identified recurring misalignments between community-validated lists and lists used for distributions, resulting in households meeting vulnerability criteria being excluded from assistance. The country office did not track the implementation of corrective actions addressing these misalignments and did not analyse their impact to estimate inclusion and exclusion errors.

56. The 2022 country office risk register assessed the risk of manipulation of beneficiary identity data by local authorities or community leaders as high. The main risk mitigation measures identified were the strengthening of the community feedback mechanism and of the management of cooperating partners. Controls in both processes were found to be ineffective, such as the risk of manipulation of beneficiary lists which was not effectively mitigated (refer to Observation 4: Ineffective community feedback mechanism for the review of the community feedback mechanism and to Observation 5: Gaps in the selection and performance management of cooperating partners).

Underlying cause(s): Limited knowledge of corporate guidance on community-based targeting and insufficient understanding of related risks (refer to Observation 2: Ineffective risk management, committees and procedures); and unclear process (roles and responsibilities and activities) for the verification of results of community-based validation.

Agreed actions (high priority)

The country office will:

(i) Estimate exclusion errors to identify weak partners.

(ii) Develop, approve, and implement a standard operating procedure covering the verification of beneficiary lists resulting from community-based targeting.

Timeline for implementation

30 June 2024

Observation 4: Ineffective community feedback mechanism

57. The community feedback mechanism relied on internal and inter-agency telephone hotlines and community committees. The country office reported that the internal hotline was understaffed and did not capture and follow up all beneficiary requests; audit testing corroborated these issues.

58. In December 2022, the country office started using an inter-agency hotline and the corporate customer relationship management system.[9] As of May 2023, a sensitization campaign to inform about this channel was yet to be finalized. In addition, access to phone in programme areas was around 30 percent;[10] therefore, hotlines did not ensure equal access to all community members, as required by the corporate guidance.[11]

59. The community complaints committees did not meet corporate requirements for this mechanism. Interviews with staff and community highlighted that roles and responsibilities were unclear for committee members. Further, there was no systematic reporting of complaints as this channel relied mainly on informal communications between complainants and members of committees.

[9] Sugar CRM

[10] UNICEF. 2018. Multiple Indicator Cluster Survey

[11] WFP. 2017. Accountability to affected populations guidance manual

60. Monitoring reports and feedback from staff identified overlaps between the activities of targeting and complaints committees, indicating insufficient segregation of duties between the two processes and therefore increasing fraud risks. As a result, the complaints committees could not serve as an independent accountability tool for beneficiary selection.

Underlying cause(s): Limited knowledge of corporate guidance on community feedback mechanisms (refer to Observation 2: Ineffective risk management, committees and procedures); and absence of a central database consolidating different complaints and feedback channels.

Agreed actions (high priority)

1. The country office will train and sensitize all actors involved in the community feedback mechanism.
2. The country office will:

   (i) Validate the adequacy and effectiveness of existing complaints and feedback channels against minimum corporate requirements.

   (ii) Following the validation, ensure systematic reporting and follow-up of complaints from all channels through a central database.

Timeline for implementation

1. 31 March 2024
2. 30 June 2024

Non-governmental organization management

61. Over the audit period, the country office contracted about 47 local partners. The value of purchase orders for distribution agreements with cooperating partners was USD 3 million in the audit period.

62. The audit tested internal controls for the selection, due diligence, capacity building, monitoring and performance evaluation of cooperating partners.

Observation 5: Gaps in the selection and performance management of cooperating partners

Partner identification and due diligence

63. The last review of the lists of cooperating partners took place in 2020 and there were systemic gaps in the due diligence and capacity assessments process. The country office did not use the United Nations Partner Portal (UNPP)[12] and did not assess the capacity of partners against requirements identified in corporate guidance.[13]

Performance management

64. Field offices finalized partner evaluations independently without obtaining inputs from country office staff as required by the corporate guidance. This approach exposed the operations to conflicts of interest at field level and led to inconsistent assessment of risks. Out of an audit sample of six partners, only one had a spot-check undertaken. A review of the exercise performed for that partner showed that the country office spot-check report rated a partner as high risk while the field office performance evaluation rated the same partner as low risk.

65. In May 2022, the country office drafted the terms of reference for an external review of the existing partner pool and the identification of key capacity-strengthening initiatives. As of May 2023, the document was still in draft and the linkage between the results of partner performance evaluations and contract renewals could not be demonstrated. The country office had yet to develop improvement plans to address gaps identified in evaluations.

66. Insufficient review of the roster, paired with weak controls on performance evaluations, exposed the country office to increased risks of partner underperformance and of collusion between partners and field staff.

Underlying cause(s): Limited knowledge of partnership corporate guidance (refer to Observation 2: Ineffective risk management, committees and procedures); process and standard operating procedure for partnership management not aligned with corporate requirements.

Agreed actions (high priority)

1. The country office will align the process and standard operating procedure for partnership management with corporate guidance.

2. The country office will:

(i) Follow up on partner capacity improvement plans to ensure critical capacity gaps are addressed.

(ii) Launch expressions of interest to identify new partners.

(iii) Plan and perform due diligence exercises of key partners.

(iv) Update rosters of partners.

[12] The introduction of the UNPP will allow the country office to gauge whether there are cooperating partners common to other UN entities in the country and whether reliance can be placed on common assessments, due diligence checks, assurance plans as well as performance plans.

[13] WFP. 2021. Corporate Guidance on WFP Management of NGO Partnerships

3. The country office will review processes for performance evaluation of cooperating partners to inform decisions on future contracting and/or capacity-building activities.

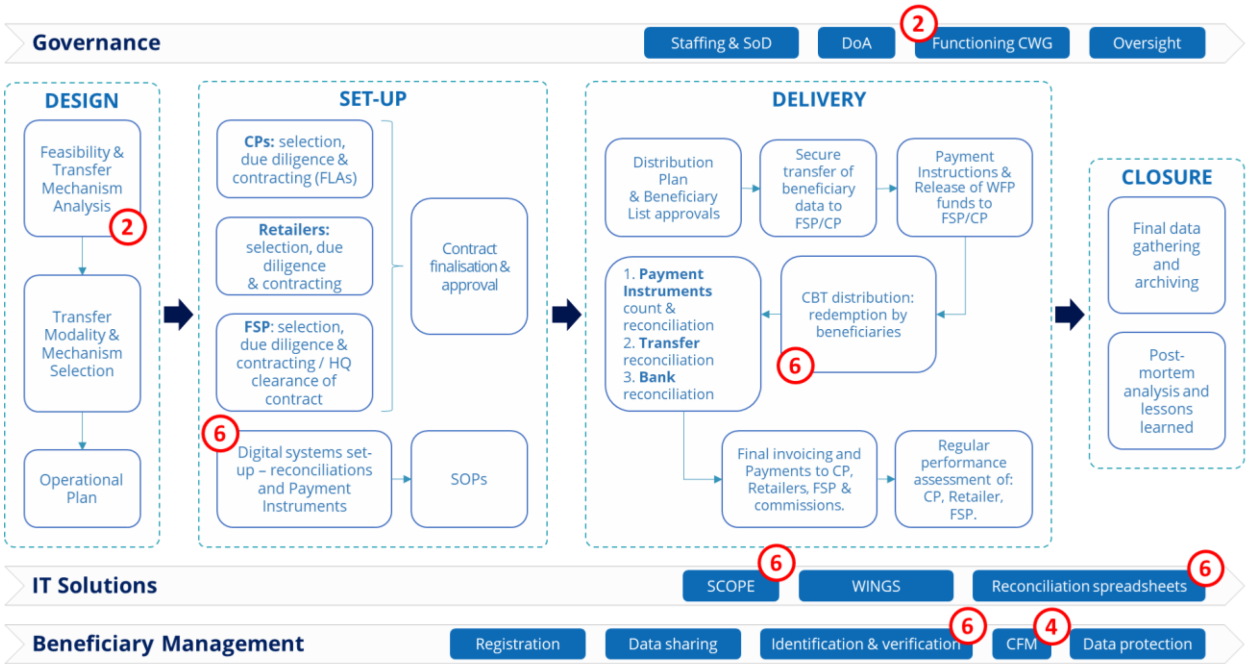
Timeline for implementation

1. 31 March 2024
2. 31 March 2024
3. 30 June 2024

Cash-based and in-kind food transfers

67. In 2022, the country office assisted 2.8 million beneficiaries with 1.9 million assisted through in-kind food (or 68 percent of the total caseload) and 900,000 (or 32 percent of the total caseload) receiving cash-based transfers.

Figure 3: Control test results for cash-based transfers



Observation 6: Limited digitalization over programme implementation

68. In 2022, the country office distributed 84,000 metric tons of food worth USD 54 million and USD 21 million of cash-based transfers to beneficiaries, respectively 72 percent and 28 percent of the total transfer value to beneficiaries.

Beneficiary identification during distributions

69. The challenge of verifying the identity of targeted beneficiaries during food and cash distributions was recurrently reported by country office field monitoring staff and the financial service provider. The national identity card served as the principal means of identification, yet there was evidence that some beneficiaries had false and multiple identity cards and could circumvent this control. Beneficiary identification and tracking of entitlement redemption were performed manually with significant inherent risks of error or fraud.

Assurance over transfers

70. Overall, the country office did not meet standards set by WFP's cash assurance framework,[14] to know to whom WFP is transferring the cash, mainly because of the limited and inefficient use of digital solutions to support delivery processes and controls. WFP field monitors, the financial service provider, and the cooperating partners performed reconciliation on site, between cash transferred to beneficiaries and transfer instructions. This manual reconciliation was paper-based, prone to errors, and exposed to issues regarding segregation of duties. While the cooperating partner and the financial service provider each had listings signed by beneficiaries, the country office did not obtain copies nor reports to confirm the accuracy of reconciliations performed on site and that benefits reached the intended people.

71. WFP corporate guidance on assurance for general food distribution was under development as of August 2023. The limited digitalization of the country office's delivery processes hinders its ability to meet expected corporate standards on assuring the right beneficiary receives the right entitlement.

Digital strategy

72. The country office has invested USD 740,000 since 2020 (excluding staff costs) in WFP's corporate platform for beneficiary information and transfer management; it had registered 200,000 beneficiaries in the audit period, including with biometric data in some instances. Yet, the country office had not improved controls over beneficiary identity information and transfer management through these investments as it was not using key functionalities of the platform such as deduplication features, generation of transfer instructions, and authentication of beneficiaries.

Underlying cause(s): Insufficient clarity at corporate level on minimum standards for digital tools to use for beneficiary identity and transfer management platform; complex digital strategy requiring alignment with government priorities; and absence of standard operating procedure in the country office for cash-based transfers (refer to Observation 2: Ineffective risk management, committees and procedures).

Agreed actions (high priority)

1. The Cash-Based Transfers Division, in consultation with the Technology Division, will support the country office to digitalize delivery processes.
2. Following the financial service provider contracting process, the country office will review and document delivery processes in standard operating procedures to ensure alignment with WFP's cash assurance framework.

Timeline for implementation

1. 30 June 2024

2. 30 September 2024

Supply chain

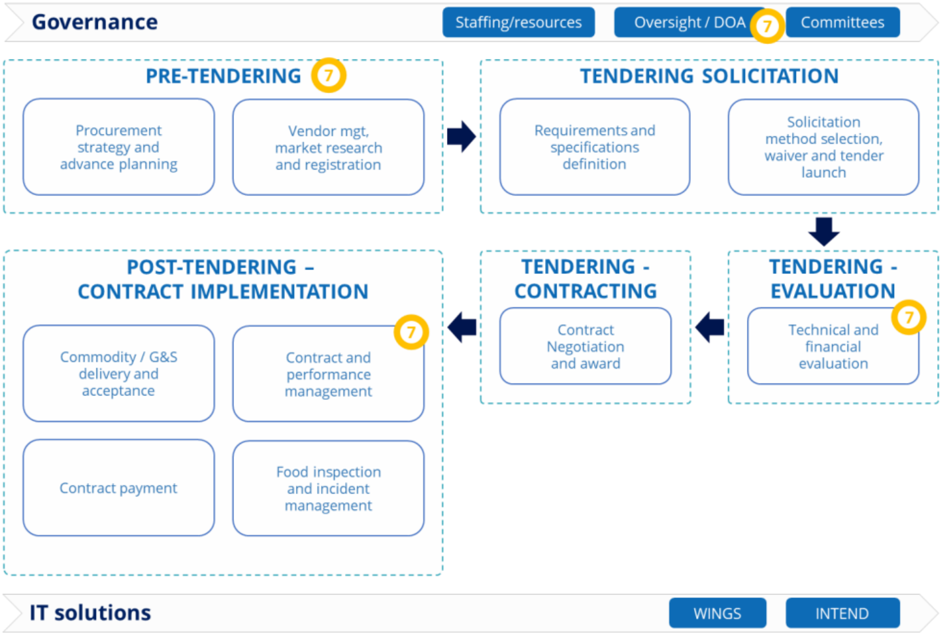
Procurement

73. Over the audit period, the value of purchase orders amounted to USD 14 million for local food procurement and USD 7 million for goods and services, with 300 suppliers. A food procurement strategy had been established for the period 2022-2023 and food vendor rosters were updated in 2022.

74. The audit reviewed how suppliers' rosters were established and performance evaluations conducted. Internal controls to mitigate fraud risks were covered during testing.

[14] WFP cash assurance framework, October 2021.

Figure 4: Control test results for procurement



Observation 7: Inefficiencies in goods and services procurement

75. The country office did not complete a procurement plan in 2022 and issued 25 percent of post-factum purchase orders for goods and services. Most of these post-factum purchases related to utilities and recurrent services. Nonetheless, these highlighted issues in procurement planning and accountability of requesting units to timely initiate their procurement requests.

76. Similarly, several long-term agreements were yet to be renewed leading the country office to overuse micro-purchase orders over the audit period. These purchases can be approved at a lower level of authority than other purchases. This trend of using micro-purchase orders started decreasing in the first quarter of 2023.

77. The country office had not updated rosters for suppliers of goods and services since 2020. This limited the opportunity to identify new qualified vendors. While expressions of interest were launched for individual purchase requests, the absence of vendor rosters slowed down procurement lead times.

78. There were systematic gaps in due diligence and capacity assessments before contracting vendors. Due diligence had overall not been conducted to ensure suppliers met WFP requirements.

79. The performance evaluation of two out of six suppliers sampled were not available. The long-term agreement for security services had been extended despite documented poor performance including in relation to the loss of food in one of the WFP warehouses in the Grand Sud.

80. Insufficient procurement planning and due diligence over vendors exposed the country office to increased third-party fraud risk and the risk of vendors' underperformance.

Underlying cause(s): Limited adherence to corporate procurement standards; onboarding of many suppliers without prioritizing controls and risk mitigation measures during the emergency response; and challenges in document retention and archiving.

Agreed actions (medium priority)

The country office will:

(i) Launch expressions of interest to identify new suppliers.

(ii) Plan and perform due diligence exercises of new suppliers and key existing suppliers.

(iii) Following (i) and (ii), update rosters of goods and services suppliers.

Timeline for implementation

31 March 2024

Logistics

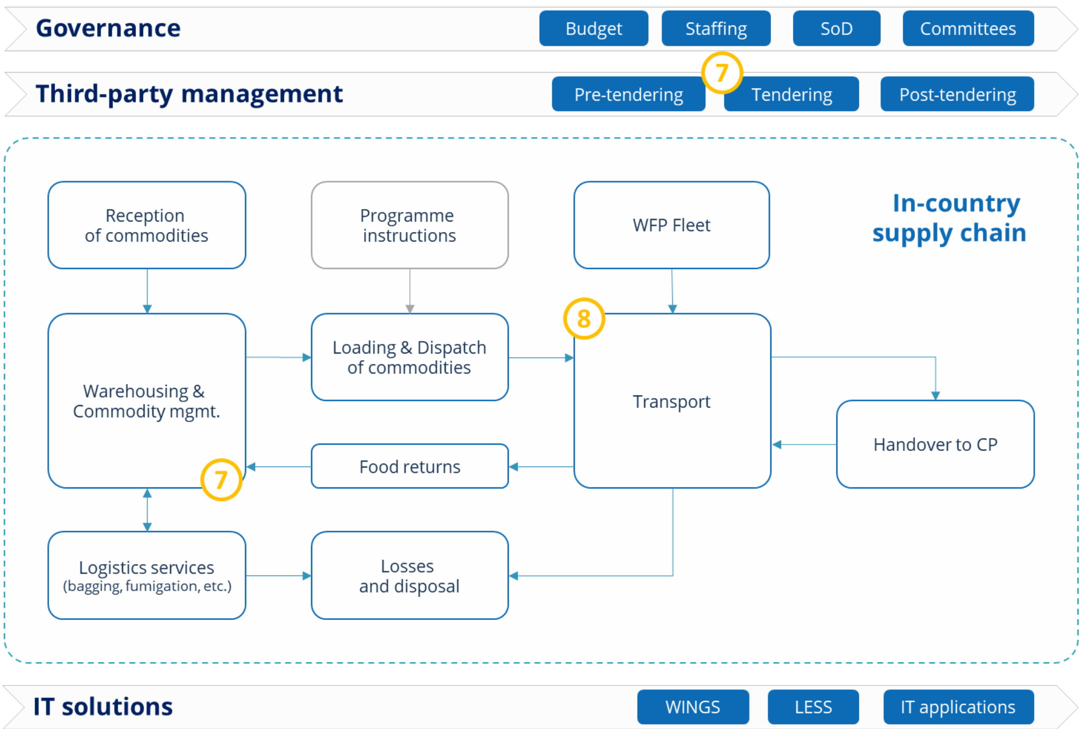
81. In-kind assistance represented 72 percent of assistance to beneficiaries in 2022 with 84,000 metric tons of food distributed.

82. The country office had warehouses in 10 locations in Madagascar and worked with over 80 transport services providers. The country office faced challenges with transport activities due to poor infrastructure and access constraints to remote locations. The audit focused on the assessment, contracting, and payment of transporters.

83. Over the audit period, there were significant discrepancies in commodity stocks identified by the country office and reported to the Office of Inspections and Investigations in the Office of the Inspector General. Mitigation actions were defined in 2022 to improve physical controls over commodities and warehouses, including the improvement of security and enforcement of standard operating procedures.

84. The audit tested internal controls over commodity stocks in the country office's main warehouses based on materiality of inventory stocks. The audit work conducted did not reveal significant issues. While some physical security upgrades were still ongoing, the physical inventory procedures and commodity management practices were found to be adequate.

Figure 5: Control test results for logistics



Observation 8: Limited controls over transport cargo allocation

85. The country office used the tariff system to meet its transport requirements, a modality allowing for the contracting of several transporters at the same tariff.

86. Tonnage allocation between transporters was done monthly by route. The WFP Transport Manual indicates that the frequency of allocation should be appropriate to the operational context, yet this cumbersome process provided little flexibility, increased the transactional work of logistics staff, and created delays in executing the monthly transport plan.

87. While the country office had identified several criteria – such as satisfactory performance – to allocate cargo between transporters in a transparent manner, these were neither consistently applied and documented, nor communicated to transporters, thus reducing the potential to improve market competitiveness. This also increased potential fraud risks with transporters.

88. Finally, the country office did not monitor overall cargo allocation as required by the Transport Manual to identify trends and risks. Management oversight was exercised at the transport order level without appropriate process monitoring mechanisms.

Underlying cause(s): Inefficient and ineffective controls from country office over field offices; and limited management oversight over cargo allocation to transporters.

Agreed actions (medium priority)

1. The country office will:

(i) Revise the frequency and level of detail of the cargo allocation plan.

(ii) Embed cargo allocation criteria in relevant templates.

2. The country office will define oversight mechanisms over cargo allocation to identify and follow up on variances against the plan.

Timeline for implementation

1. 30 June 2024

2. 30 June 2024

Budget management

89. Insufficient funding was a recurring risk for WFP operations in Madagascar highlighted in the 2022 country office risk register. Two budget revisions in 2022 increased WFP's needs-based plan for the year to USD 238 million.

90. The country office's needs-based budget was funded at 82 percent between 2019 and 2022. Fifteen percent or USD 54 million was received through WFP's Immediate Response Account (IRA).[15] The audit reviewed how the country office used IRA funding during the emergency and its efforts and capacity to reimburse these allocations based on the funding forecast.

91. In several instances, the country office used the IRA allocation for activities or over a period different than described in the decision memorandum endorsed by headquarters.

[15] The Immediate Response Account is WFP's emergency reserve for the immediate allocation of flexible multilateral contributions to critical life-saving activities across the emergency response cycle. The purpose of the IRA is to ensure financial resources are immediately available to jump-start a life-saving emergency response or to act as a last resort, while additional funding is sought. The IRA operates as a revolving fund and is replenished primarily through donor contributions and transfers from funds over which WFP management has discretion.

92. The country office had reimbursed USD 4 million, mostly under the impulsion of headquarters and the regional bureau, using multilateral grants and had yet to define a strategy to revolve the pending balance of USD 49 million as of July 2023.

93. While receiving entities are expected to fully repay advances, WFP's Strategic Financing Branch confirmed that allocations are converted to grants at the end of the Country Strategic Plan if a country office cannot repay them in full.

Payment process

94. The country office could not use the WINGS module for automated payment settlement due to an absence of qualified financial institutions in the country and thus processed payments manually. The audit team performed a review of the payment process, which covered all types of vendors - goods and services, logistics, cooperating partners, and financial service provider.

Observation 9: Complex and inefficient invoice and payment processing

95. The country office did not consistently pay its suppliers and partners on time. While WFP's default payment terms are 30 days, actual invoice and payment processing regularly exceeded three months, and in some instances, up to 10 months for partners. This limited operational efficiency and could increase the risk of fraud by third parties due to financial pressure and rationalization of fraud.

96. Some practices delayed the processing of invoices and payments:

a. Partners' invoices were reviewed in a level of detail not required by corporate standards.

b. Purchase orders for cash-based transfers to beneficiaries were itemized to compensate for the absence of systems to support reconciliation processes (refer to Observation 6: Limited digitalization over programme implementation).

97. The country office could not use the corporate bank communication module for straight-through processing of payments and thus had to submit manual payment instructions to its bank. The update of supplier banking details[16] in corporate systems had not been completed and added complexity to the review of payment orders by finance staff.

Underlying cause(s): Different levels of understanding of risk exposure between management and staff (refer to Observation 1: Workplace environment issues); and absence of local financial institutions for straight-through processing of payments with WINGS.

Agreed actions (high priority)

1. The country office will:

   (i) Develop a tool to monitor delays in invoice processing and identify bottlenecks.

   (ii) Review and simplify control procedures for invoice and payment processing to improve payment terms.

2. The country office will finalize the update of suppliers' banking details in corporate systems.

Timeline for implementation

1. 30 June 2024

2. 30 September 2024

[16] Supplier banking details were not all in the International Bank Account Number format.

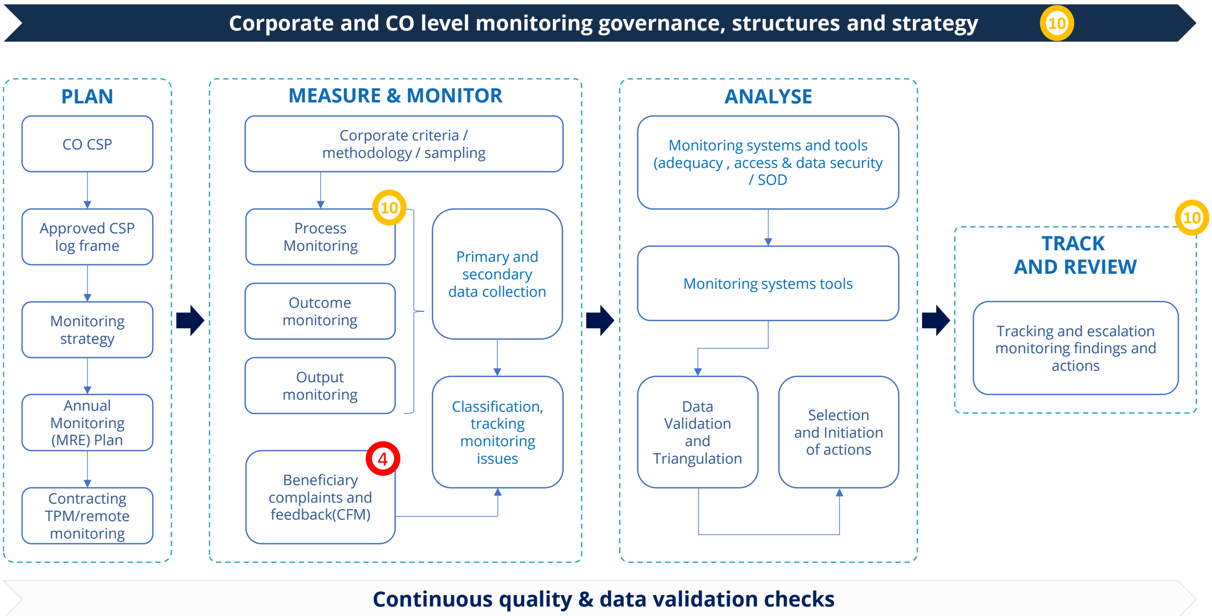
Monitoring

98. The Regional Bureau for Southern Africa carried out in-country support and oversight missions in July 2021 and in May 2022. These missions ensured a full scope review of the programme monitoring process and identified seven high risk and three medium risk recommendations.

99. The monitoring unit included four positions at country office level, one monitoring associate in each sub-office and a total of 22 field monitors. Monitoring associates in the sub-offices acted as liaison between the country office and the field. To ensure coordination the monitoring unit held weekly meetings and created dashboards for analysing monitoring data. At the time of the audit fieldwork, the unit was working on ensuring consistent use of these tools.

100. The audit reviewed the status of implementation of the recommendations and the impact on monitoring of the emergency response operations that followed the missions.

Figure 6: Control test results for monitoring



Observation 10: Limited independence of monitoring function and follow-up of monitoring issues

101. The segregation of duties between programme implementation and monitoring at field level was unclear. This prevented the use of monitoring as an independent source of verification of programme activities and resulted in limited coverage of sites as staff prioritized other programme activities. For example, in the last quarter of 2022, monitoring coverage reached 15 percent of the plan. The number of active sites to monitor varied during the year and in the November 2022 to April 2023 period during the crisis response, the country office had around 2000 active sites. The country office did not regularly track the number and location of sites visited at field office level.

102. The regional bureau had identified these challenges and recommended updating the monitoring standard operating procedure and task allocation of field monitoring staff; implementation of this action was pending at the time of audit reporting.

103. The country office did not track the implementation of corrective actions identified through process monitoring and did not systematically analyse its monitoring results. As a result, there was limited feedback loops for monitoring results and findings into the country office programme design and implementation.

Underlying cause(s): Monitoring deprioritized during emergency response; and absence of a process for tracking, analysing and following-up on monitoring issues identified.

Agreed actions (medium priority)

The country office will, following implementation of regional bureau recommendations, develop a process for systematic tracking, analysis and follow-up of issues identified through process monitoring.

Timeline for implementation

30 June 2024

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 with two actions at corporate level.

#	Observation (number/title)	Area	Owner	Priority	Timeline for implementation
1	Workplace environment issues	Governance and risk management	Workplace Culture Division	High	1. Implemented as of 15 September 2023 2. 30 April 2024
2	Ineffective risk management, committees and procedures	Governance and risk management	Regional Bureau Country office	High	1. 31 December 2024 2. 31 March 2024 3. 31 January 2024 4. 30 June 2024
3	Insufficient controls on beneficiary targeting and identity management	Programme management	Country office	High	1. 30 June 2024
4	Ineffective community feedback mechanism	Programme management	Country office	High	1. 31 March 2024 2. 30 June 2024
5	Gaps in the selection and performance management of cooperating partners	Programme management	Country office	High	1. 31 March 2024 2. 31 March 2024 3. 30 June 2024
6	Limited digitalization over programme implementation	Programme management	CBT Division Country office	High	1. 30 June 2024 2. 30 September 2024
7	Inefficiencies in goods and services procurement	Supply chain	Country office	Medium	1. 31 March 2024
8	Limited controls over transport cargo allocation	Supply chain	Country office	Medium	1. 30 June 2024 2. 30 June 2024
9	Complex and inefficient invoice and payment processing	Payment process	Country office	High	1. 30 June 2024 2. 30 September 2024
10	Limited independence of monitoring function and insufficient follow-up of monitoring issues	Monitoring	Country office	Medium	1. 30 June 2024

Annex B – Definitions of audit terms: ratings and 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
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.
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.
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.[17]

[17] 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 corporate system for the monitoring of the implementation of oversight recommendations. 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 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 Risk Management Division is copied on such communication, with the right to comment and escalate should they consider the risk being 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

CSP	Country strategic plan
IRA	Immediate Response Account
UN	United Nations
USD	United States dollars
WFP	World Food Programme

Annex D – List of figures