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Internal Audit of WFP Operations in Sri Lanka

Office of the Inspector General
Internal Audit Report AR/23/20



World Food
Programme

December 2023



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I. Executive summary

WFP Sri Lanka Country Office

1. As part of its annual workplan, the Office of Internal Audit conducted an audit of WFP operations in Sri Lanka that focused on key controls under priority focus areas informed by a risk-based approach. These areas included programme management, non-governmental organization management, monitoring, cash-based transfers, and supply chain including logistics and procurement. The audit covered the period from 1 June 2022 to 31 August 2023.
2. Through four strategic outcomes, the Country Strategic Plan for 2023–2027 seeks to provide protective food assistance and other support as required in the short term and to restore and improve food security and nutrition by developing in-country capacity and reducing vulnerability through an integrated resilience and nutrition-sensitive approach that layers and sequences programming.
3. Over the audit period, WFP expenses amounted to USD 49 million. The country office reached 1.4 million beneficiaries in 2022.¹ The audit focused on strategic outcome 1: *Vulnerable communities in Sri Lanka meet their food, nutrition and other essential needs during and after crises*. This outcome area accounted for 86 percent of the country office's total expenses during the audit period.

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 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.
5. The country office leveraged national and local government structures to quickly scale-up emergency operations, reaching 1.4 million beneficiaries in 2022 of which 1.1 million were primary school students.
6. In June 2022, the country office entered an early action and emergency phase² and received significant support from the Regional Bureau for Asia and the Pacific and headquarters including additional staffing. The country office rapidly implemented fundamental elements such as the geographic and household targeting methodology, the on-boarding of non-governmental organizations, and corporate solutions for cash-based transfers through a remittance company and a digital payment solution. It also contracted a third-party monitoring company and established a hotline which received over 1,000 calls per month from general food distribution beneficiaries.
7. The Government of Sri Lanka retains the primary responsibility for the execution of development projects and emergency operations in the country. The role of WFP is to deliver commodities at the port of entry and to supervise and provide advisory assistance. Over the audit period, government's responsibility included a prominent role in applying household targeting criteria and enrolling programme beneficiaries, the supply chain management from central warehouses to food distribution points, and the implementation of and reporting on in-kind food distributions. This set-up and the absence of corporate guidance on the business model for delivering through government entities posed a challenge for the country office which

¹ Annual Country Report, 2022, [link](#).

² WFP emergency activation protocol defines three phases to guide the response to a sudden or slow onset emergency and/or rapidly deteriorating humanitarian situation: a corporate scale-up phase, a corporate attention phase, and an early action and emergency response phase.



could not fully meet corporate requirements for processes linked to accountability to affected populations, management of non-governmental organizations, and logistics activities.

8. There were limited consultations with beneficiaries of general food distributions to determine the targeting criteria and the choice of modality. Community feedback mechanisms were limited to WFP's hotline, and school meals and nutrition beneficiaries and stakeholders were unaware and did not use it.

9. Controls over in-kind and cash-based transfers were not sufficient to provide assurance and the country office had to rely on monitoring mechanisms to ensure that all assistance had reached beneficiaries. In-kind food distribution figures were unreliable due to poor visibility on transport activities and issues in distribution reporting from the government. Complex processes for distribution planning and immature detective controls limited the effectiveness of cash-based transfers reconciliations. Monitoring activities, the hotline, and presence of non-governmental organizations during distributions represented compensating mechanisms to ensure that the residual risk of food diversion and fraud remained low.

10. Non-governmental organizations supported WFP in assisting the beneficiary enrolment process, undertaking beneficiary eligibility verifications, being present during distributions, and reporting thereon. Yet, due to the high volume of activity they had to outsource significant work which increased operational and fiduciary risks. The capacity assessments conducted by the country office had not anticipated such risks, and there was an overall absence of ex-post controls on the USD 2 million claimed by partners.

11. The coverage of process monitoring activities was low, and the country office had delegated the preparation of the monitoring plan to a third-party company. This exposed the office to possible monitoring gaps.

12. The country office had not launched an expression of interest since 2013 and used an incremental approach to build its roster for goods and services, which limited its usefulness. Due diligence was not consistently performed as required by corporate standards.

Actions agreed

13. The audit report contains two high-priority observations and four 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

Sri Lanka

15. Sri Lanka is a lower-middle-income country ranked 73 out of 189 in the 2020 Human Development Index. Its 2021 Gender Development Index value was 0.949 indicating high development inequality between genders.³

16. In early 2022, Sri Lanka was confronted with an unprecedented multi-dimensional economic crisis, which led to worsened food security and nutrition in the country.⁴ Despite its improving human development indicators, an increased focus was needed to address food insecurity and malnutrition, increase women's labour force participation, and reduce inequality.⁵ The COVID-19 pandemic also had negatively impacted key sectors of the economy. Severe shortages of essential items such as food, medicines, fuel, cooking gas, and much more were attributed to the plummeting rupee and depleted foreign reserves.⁶

17. Following a call for international assistance from the Government of Sri Lanka, the United Nations Country Team launched a Humanitarian Needs and Priorities response plan in June 2022,⁷ with the aim of supporting 7 million people estimated to be in need of humanitarian assistance.

WFP operations in Sri Lanka

18. The country office launched its 2023-2027 Country Strategic Plan in January 2023 with a budget of USD 74 million. A USD 30 million increase in budget took place in August 2023 to accommodate increased needs under strategic outcome 1 and integrate technical, budgetary adjustments under strategic outcome 2. At the time of audit fieldwork, the country strategic plan was 69 percent funded against the 2023 needs-based plan of USD 68 million.

19. In 2022, WFP took steps to mitigate the effects of the deteriorating economic crisis by scaling up strategic outcome 1, which aims to ensure crisis-affected people have access to food all year round. WFP revised its Country Strategic Plan and immediately scaled up its emergency response operations to support food-insecure people across the country.

20. WFP mobilized USD 46 million or 75 percent of resources against the needs-based plan of USD 61.6 million for strategic outcome 1. WFP reached 1.4 million food-insecure people across the country through its emergency response. This included 101,600 people with unconditional cash assistance, 252,700 with in-kind assistance, and over 1 million schoolchildren through school feeding.

21. The primary responsibility for executing development projects and emergency operations rests with the Government of Sri Lanka. The role of WFP is to deliver commodities as a grant at the port of entry and to supervise and provide advisory assistance in the execution of any emergency operation.⁸ Targeting was informed by results of food security, market, and other needs assessments wherein WFP provided assistance to the most vulnerable people in districts with a high prevalence of food insecurity.

22. As a result of the multi-dimensional economic crisis in early 2022, the country office transitioned from a development setting to an emergency operation requiring additional processes and internal controls. Accordingly, it increased its staffing levels in 2022/2023 from 60 to 99 staff. With the end of the emergency

³ Human Development Index, 2022, [link](#).

⁴ [Revision of Sri Lanka country strategic plan \(2023–2027\) and corresponding budget increase - September 2023](#)

⁵ [Sri Lanka - Country Strategic Plan 2023-2027](#)

⁶ [Sri Lanka - Annual Country Report 2022](#)

⁷ Humanitarian Needs and Priorities – Food Security Crisis, 2022, [link](#).

⁸ Basic Agreement between the Government of Ceylon and the World Food Programme, 1968.



response, the country office launched an organizational review to align its internal structure to the strategic orientation and operations planned for 2024.

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 Sri Lanka. 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 activity 1 within the Country Strategic Plan 2018-2022, under strategic outcome 1, *Crisis-affected people have access to food all year round*; representing 86 percent of the total expenditure during the audit period and 1.4 million beneficiaries reached in 2022: *Activity 1 – Provide food assistance to crisis-affected people*.

25. The audit builds on a tailored review of key controls under priority focus areas informed by a risk-based approach. To minimize duplication of efforts and leverage the second-line assurance work, the audit relied on three oversight and support missions carried out by the Regional Bureau for Asia and the Pacific (hereinafter referred to as “the Regional Bureau”).

26. As a result, the six areas in scope for the audit included: (i) programme delivery; (ii) non-governmental organizations management; (iii) monitoring; (iv) transport and logistics; (v) procurement; (vi) and cash-based transfers. Additional targeted procedures were carried out in the areas of strategic planning and performance, risk management and management oversight, and budgeting and programming.

27. The audit mission took place from 16 to 31 October 2023 at the country office in Colombo and in field locations.

28. 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

29. Six observations arose from the audit, relating to programme design, non-governmental organization management, cash-based and in-kind transfers, and monitoring.

30. A simplified standard process diagram is included for several audited functional areas. These diagrams indicate the main control areas reviewed. When the audit noted exceptions or weaknesses, the related observations are shown, along with their priority rating (red for high-priority and yellow for medium-priority observations). Any other audit issues assessed as low priority were discussed with the country office directly and are not reflected in the report.

Programme design

31. The basic agreement signed with the Government of Sri Lanka in 1968 establishes that the primary responsibility for execution of development projects and emergency operations shall rest with the Government. The role of WFP is to deliver commodities as a grant at the port of entry and to supervise and provide advisory assistance in the execution of any emergency operation. In 2023, the Presidential Secretariat of Sri Lanka became WFP's main government counterpart, a transition from the former Project Management Unit.

32. The audit reviewed that the country office had identified and mitigated possible risks of delivering assistance through national and local government structures.

Observation 1. Delivery through government entities

33. While this set-up was key to quickly scale up emergency assistance, the reliance on the capacity and field presence of the government limited the country office's ability to fully apply certain corporate requirements for accountability to affected populations, cooperating partners' management, and logistics activities.

Needs assessment and targeting

34. In the absence of established government mechanisms to monitor food insecurity, and at the request of the government, WFP and the UN Food and Agriculture Organization launched in June 2022 the Crop and Farming Security Assessment Mission⁹ to define the prioritization of assistance. Data was collected at the district level and not at the sub-district level. Data at the sub-district level would help detail baseline food insecurity, enhance data-driven decisions for humanitarian and development assistance, and support advocacy efforts.

Community feedback mechanisms

35. The delivery of in-kind assistance relied on local government structures for school meals and nutrition activities.¹⁰ The country office could not systematically ensure the availability of community feedback mechanisms for these beneficiaries as described in [observation 2: Accountability to affected populations](#).

Distribution reports

36. Challenges with timeliness and quality of distribution reports prepared by the government led to poor assurance over in-kind food distributions as described in [observation 4: Assurance over in-kind and cash-based transfers](#) in spite of training and capacity-building efforts.

⁹ Crop and Food Security Assessment Mission to the Democratic Republic of Sri Lanka, September 2022, [link](#).

¹⁰ The country office provided raw materials to the Government's Thripasha (nutritious fortified blended food) factory for distribution in health centres.



37. The country office established mechanisms to compensate for the absence of standard WFP controls when delivering assistance through government systems. This included appointing non-governmental organizations to support and oversee the response through assisting the beneficiary enrolment processes, beneficiary lists' verification and a presence during food distributions. This uncertain role between implementation and monitoring diluted accountability of actors on the ground and partly explains [observation 3: Non-governmental organization management](#).

38. As of November 2023, the country office had not finalized the letter of understanding to describe the modalities of implementation of the new Country Strategic Plan with a different government counterpart. Also, there was no budget established for the reimbursement of logistics costs to the government.

39. As of November 2023, WFP was finalizing guidance on the business model for engaging and working with government entities, in response to observations raised in previous internal audits of country office operations.¹¹ The document was in the draft stage and expected to be finalized in 2023.

Underlying cause(s): Development context leading to WFP relying on government capacities; limited mechanisms at the national level to monitor food insecurity levels; the basic agreement establishes the role of the government as the primary responsible to implement emergency operations; and absence of a corporate framework for delivery through government institutions.

Agreed actions [Medium priority]

- 1) The country office will define with government counterparts the mechanisms to improve distribution planning and reporting, clarify the role and responsibilities of non-governmental organizations, and strengthen visibility on supply chain activities.
- 2) The country office, in coordination with the food security sector, will strengthen government's capacities to establish evidence-based indicators of food insecurity and threshold for emergency levels.

Timeline for implementation

- 1) 30 June 2024
- 2) 31 December 2024

Beneficiary management

40. The country office scaled up operations from no direct assistance in May 2022 to 1.4 million reached at the end of 2022 including 0.4 million with general food distribution and 1.1 million through school meals.

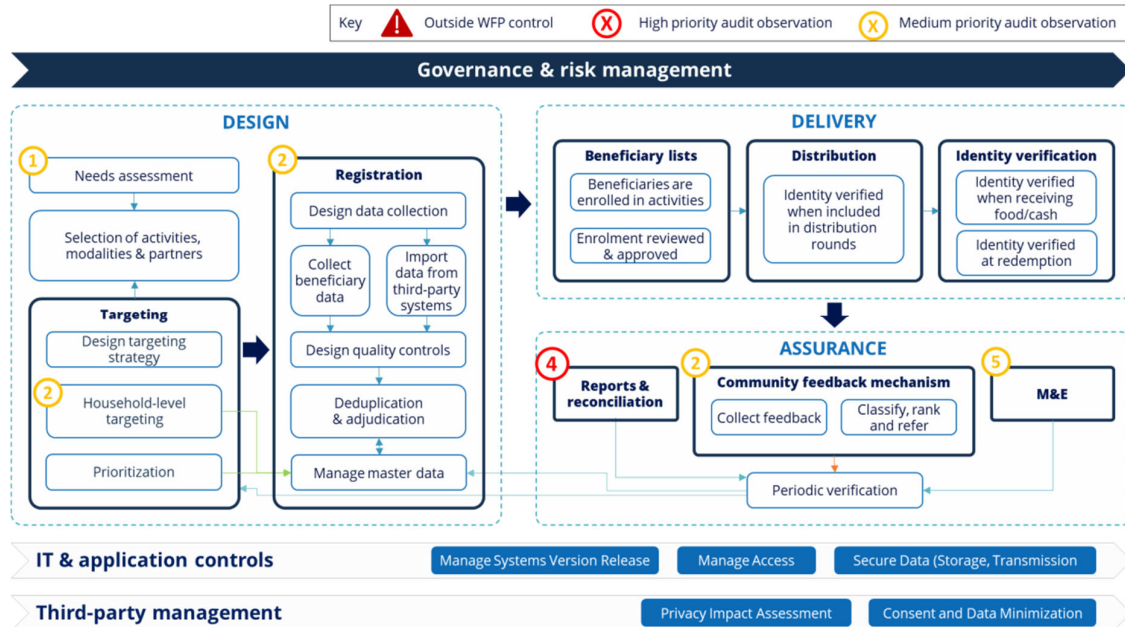
41. The country office developed and implemented standard operating procedures and adjusted its targeting methodology after each assistance phase. Beneficiary enrolment processes implemented throughout the audit period were well documented. Several pathways for communication were available including sensitization sessions before distributions, online communication groups, and presence on-site of the government and non-governmental organizations.

42. The audit reviewed geographic and household targeting processes, as well as mechanisms to ensure accountability to affected populations.

¹¹ Internal Audit of WFP Operations in Ethiopia (AR/20/05), February 2020, [link](#). The need of developing the business model and guidance for working with government entities has been reiterated in subsequent internal audits of WFP country office audits.



Figure 1: Control test results for beneficiary management



Observation 2. Accountability to affected populations

43. There were limited consultations with beneficiaries to determine priorities and influence decisions throughout the programme cycle. Beneficiary targeting was not community-based and the selection criteria, though progressively amended, were decided based on one study at the beginning of the response (refer to [observation 1: Delivery through government entities](#)). Post-distribution monitoring results showed that 59 percent of beneficiaries did not know why they were selected, and that a high number of complaints received through WFP's hotline was linked to the eligibility and selection process.

44. The country office had not documented the rationale for the choice of transfer modality or the effect of these choices on affected populations. In-kind and cash-based transfers through varied mechanisms were alternatively used, sometimes in the same location. In a few instances, risks linked to cash transfers, such as unavailability of food in markets, were not considered.

45. The main community feedback mechanism was the hotline – not yet toll-free – as other possible mechanisms, particularly on-site, were not systematically available. As noted during audit field visits, there was limited visibility of available feedback mechanisms on distribution sites, and beneficiaries' awareness thereof was 50 percent.

46. WFP community feedback mechanisms were not known nor used by beneficiaries and stakeholders of the school meals programme and nutrition activities, limiting the country office's ability to identify and address fiduciary risks.

Underlying cause(s): Rapid scale-up of the emergency response; nature of crisis affecting equally the whole country and impacting exclusion errors; decision to move from a service provision activity to a direct assistance



model for the production and distribution of nutritious products;¹² and school meals and nutrition activities implemented through government systems.

Agreed actions [Medium priority]

- 1) The country office will take stock of outcome indicators on accountability to affected populations and conduct a lessons-learned exercise to identify remedial actions.
- 2) The country office will re-assess the need to have an activity for service provision in its Country Strategic Plan.

Timeline for implementation

- 1) 30 September 2024
- 2) 31 December 2024

Non-governmental organization management

47. In August 2022, the country office contracted two non-governmental organizations (one local and one international) to support and oversee the implementation of programmatic activities by the government under strategic outcome 1 such as assisting the beneficiary enrolment process, undertaking beneficiary eligibility verifications, being present during distributions, and reporting on distribution outputs. During the audit period, about USD 1 million were paid to each non-governmental organization.

48. In July 2022, the country office, with the support of the Regional Bureau for Asia and the Pacific, created a cooperating partner task force to manage the selection and contracting process of non-governmental organizations.

49. The audit reviewed the key controls related to the governance and oversight of non-governmental organization management partner selection, including due diligence, capacity assessment and performance evaluation, a tailored review of field-level agreement management covered budget preparation, expense recognition and partners' reporting.

Observation 3. Non-governmental organization management

Outsourcing

50. In line with corporate guidance, the country office waived the implementation of specific controls for contracting non-governmental organizations such as detailed technical reviews and cooperating partner committee validation. However, the non-governmental organizations were selected without passing through the mandatory due diligence process and were not registered on the UN Partner Portal.¹³

51. Despite carrying out limited assessments with satisfactory results, the country office did not fully identify and mitigate fiduciary and operational risks as both non-governmental organizations had to outsource significant parts of their activity due to insufficient capacity. Sub-contracting arrangements had not been formally approved as required contractually.

¹² The country office provided raw materials to the Government's Thripasha (nutritious fortified blended food) factory for distribution in health centres.

¹³ Established in WFP's Executive Director's Circular OED2018/004, Directive PD2023/001, the Emergency Field Operations Pocketbook and programme guidance manual on NGO.



Management oversight of costs

52. Expenses related to the technical services and specialists outsourced, amounting between 47 and 91 percent of the total invoices, were justified by the non-governmental organizations with bills of outsourced staff services. The country office had not implemented a plan to verify the implementation progress of agreed activities and results reported to WFP.

53. Oversight activities and assurance covering both programmatic and financial and administrative spot-checks are necessary for effective programme implementation and efficient use of WFP resources by the partner. Whereas corporate guidance requires invoices to be received directly from vendors at a central point in the finance unit, invoices were received by the finance unit after being reviewed by country office programme staff.

54. Non-governmental organizations' performance evaluations were not conducted upon field-level agreement completion and before entering into new agreements.

Underlying cause(s): Need to obtain authorization for the government to contract non-governmental organizations; limited experience of the country office in working with non-governmental organizations in Sri Lanka; the specific roles of the non-governmental organizations in Sri Lanka not fully provided for in the field-level agreement corporate template; absence of standard operating procedure on non-governmental organization management including for risk assessments and spot checks; non-governmental organizations' limited capacity to absorb increased resources.

Agreed actions [High priority]

- 1) The country office will undertake a business process review for effective governance of cooperating partners' management process including a process to adequately conduct capacity assessments and due diligence.
- 2) The country office will:
 - (i) Conduct spot checks on the final invoices received from non-governmental organizations.
 - (ii) Finalize the performance evaluations.

Timeline for implementation

- 1) 31 December 2024
- 2) 30 June 2024

Programme delivery

Cash-based transfers

55. During the audit period, the country office distributed USD 20 million in cash-based transfers through five financial service providers including: Western Union via the corporate long-term agreement, the government's system for social protection, a local bank, a retail chain, and the corporate solution PlugPay.¹⁴ These covered four transfer mechanisms including cash over the counter, paper and electronic vouchers, and bank account transfer.

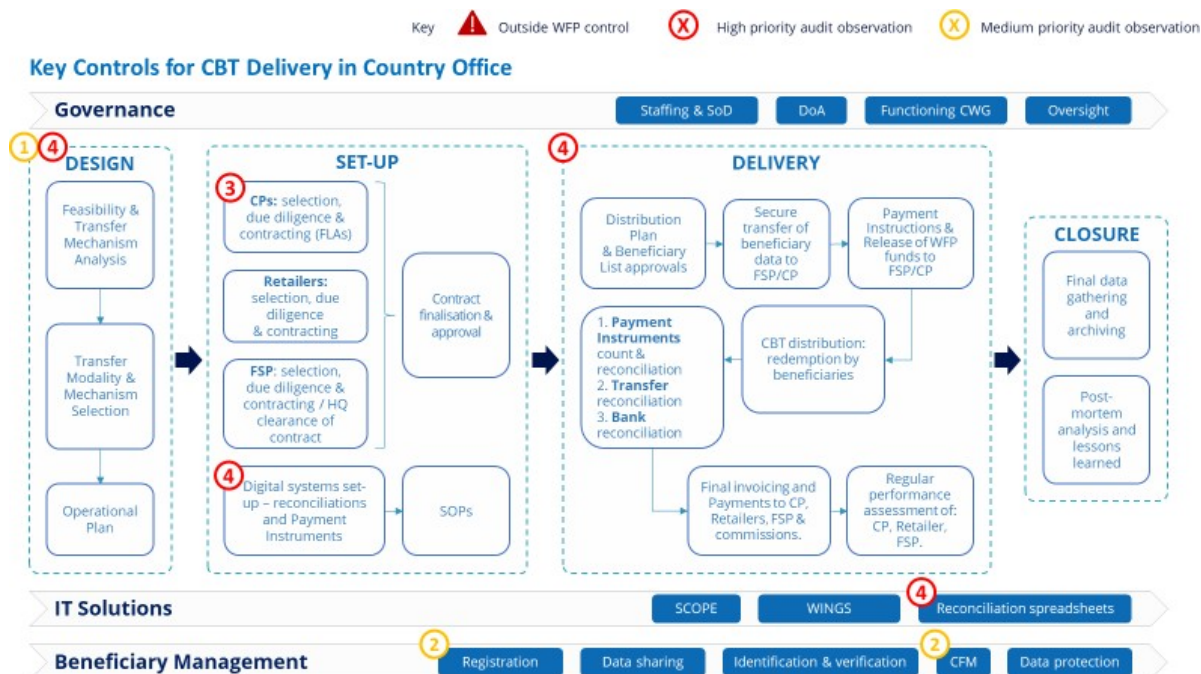
¹⁴ Corporate digital payment solution for beneficiaries to rapidly receive cash assistance through their payment instrument of choice.



56. At the time of audit, the country office started the distribution with a local bank for cash over-the-counter, giving more flexibility regarding beneficiary identification documents and saving half transaction fees compared to other financial service providers.

57. The audit performed tests of key controls in the cash-based transfer process and systems, focusing on set-up and delivery.

Figure 2: Control test results for cash-based transfers



In-kind food distributions

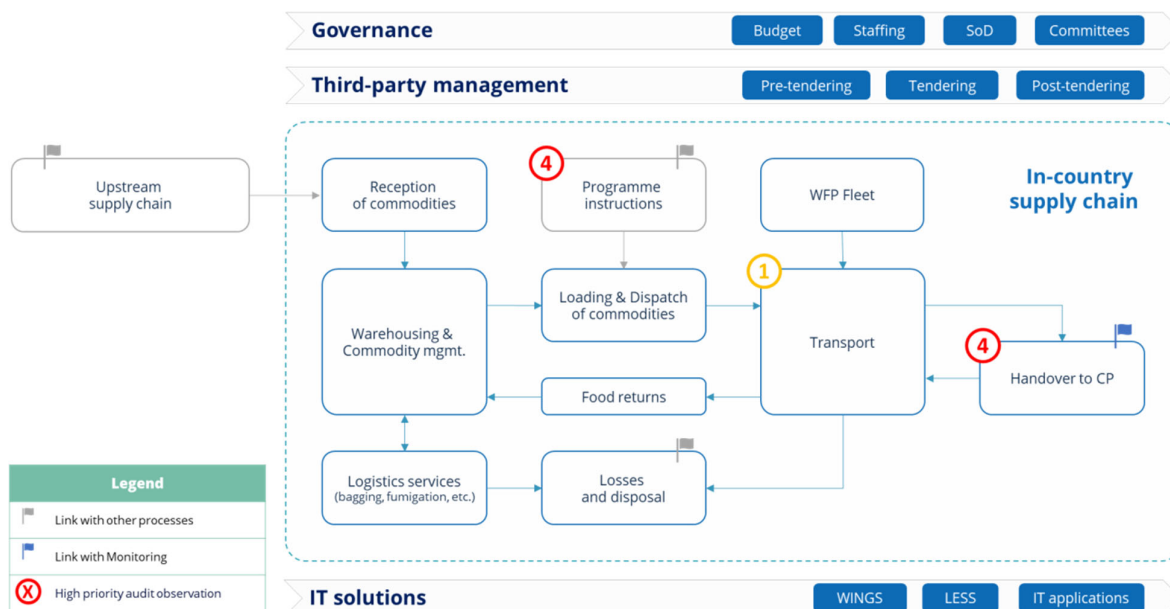
58. During the emergency, the country office supported the government-led response to deliver in-kind food assistance through the procurement of rice and lentils for the school meals programme as well as the procurement of rice, yellow split peas, and oil for general food distribution. The total commodities handed over during the audit period amounted to 29,884 metric tons. In addition, while the government was responsible for the logistics from the port of Colombo onwards (including clearance and storage), the country office covered the transportation costs due to the government's financial constraints. This included transport from the two central government warehouses to extended warehouses and to the final distribution points.

59. The audit acknowledges efforts of the country office to collect the waybills of dispatches from the central government warehouses to extended warehouses, as well as the regular physical counts, which were undertaken in addition to corporate requirements.

60. For in-kind distributions, the audit focused on controls to ensure that the food commodities handed over to the government were distributed to beneficiaries.



Figure 3: Control test results for logistics



Observation 4. Assurance over in-kind and cash-based transfers

Distribution planning

61. The validation of beneficiary lists required up to fifteen steps in coordination with local and central authorities, leading to incomplete information and unreconciled differences between the final beneficiary list, distribution plans, and distribution reports. The country office did not retain an adequate audit trail of the changes made to monthly distribution plans and explanations for errors in the accuracy of calculations for beneficiary numbers.

62. Issues with data quality of beneficiary lists provided by the authorities impacted the identification of some beneficiaries during the distributions. To ensure assistance reached all targeted beneficiaries, the country office implemented mop-up distributions¹⁵ requiring a new round of targeting, registration, and distribution processes. These mop-up distributions required significant time investment and complexified reconciliation processes.

Cash-based transfers

63. The country office rolled out four transfer mechanisms during the audit period to adapt to contextual challenges. The implementation of multiple mechanisms within the same districts and divisions and changes in distribution mechanisms between distribution cycles complexified the cash-based transfers' processes. Processes such as preparing the distribution plans including for mop-up distributions, identifying potential duplicate beneficiaries, and performing the reconciliation processes for each mechanism were all impacted.

64. The country office performed the cash distribution reconciliations by matching payment instructions against distribution totals and not against individual beneficiary distribution lists. The overall process was manual, relying on spreadsheets and a reconciliation package was not prepared for management review. The

¹⁵ Mop up distributions refer to the practice of reprogramming the assistance for beneficiaries who did not redeem their entitlement during the regular distribution cycle.



objective of reconciliations was to identify which beneficiaries had not redeemed as opposed to ensuring that intended beneficiaries had received the planned assistance.

In-kind food distributions

65. Despite efforts to monitor logistics activities managed by the government, the country office did not have sufficient information on food movements, including potential losses, up to the final distribution points. It did not collect data on stocks at the field level, and there was limited evidence of monitoring performed at extended warehouses. The limited visibility on the downstream supply chain led WFP to rely on monitoring mechanisms rather than detective controls to ensure that food had reached distribution points as planned.

66. For 2022, the country office could not properly perform the reconciliation exercise and ensure that the food handed over to the government was distributed as planned, as unexplained differences with distribution reports amounted to 695 metric tons. Distribution figures for 2022 were thus calculated as an estimate based on the difference between the opening stock of commodities handed over to the government, and the closing stock counted at central warehouses.

67. In addition, the reconciliation of in-kind transfers was not continuously conducted in 2023. The country office had analysed weaknesses encountered in the 2022 reconciliation process and identified several remedial actions such as developing a standard operating procedure to ensure that distribution reports are submitted timely by the government, and that cross-functional reconciliations are timely performed. As of November 2023, these actions had not been implemented. Sample testing showed differences in key documents of 2023 such as distribution plans, call forwards, waybills, and distribution reports.

Underlying cause(s): Rapid scale-up of the emergency response; beneficiaries without identification documents or bank accounts could not receive their assistance with some mechanisms; data quality issues in beneficiary lists leading to the creation of the mop-up lists; inadequate management oversight; distribution reports from the government are late and unreliable; limited corporate guidance on the business model for engaging and working with government entities see [observation 1: Delivery through government entities](#).

Agreed actions [High priority]

- 1) The country office will review the distribution planning process including the practice of mop-ups and approval and finalization process.
- 2) The country office will:
 - (i) Prepare a final reconciliation package for each cash-based transfers' modality to be endorsed by management.
 - (ii) Implement the action points identified in February 2023 to improve in-kind reconciliations.
- 3) The country office will perform a lessons-learned exercise and a financial sector intelligence assessment of cash-based transfers during the emergency response to streamline existing transfer mechanisms and develop standard operating procedures accordingly.

Timeline for implementation

- 1) 31 December 2024
- 2) 31 March 2024
- 3) 30 September 2024

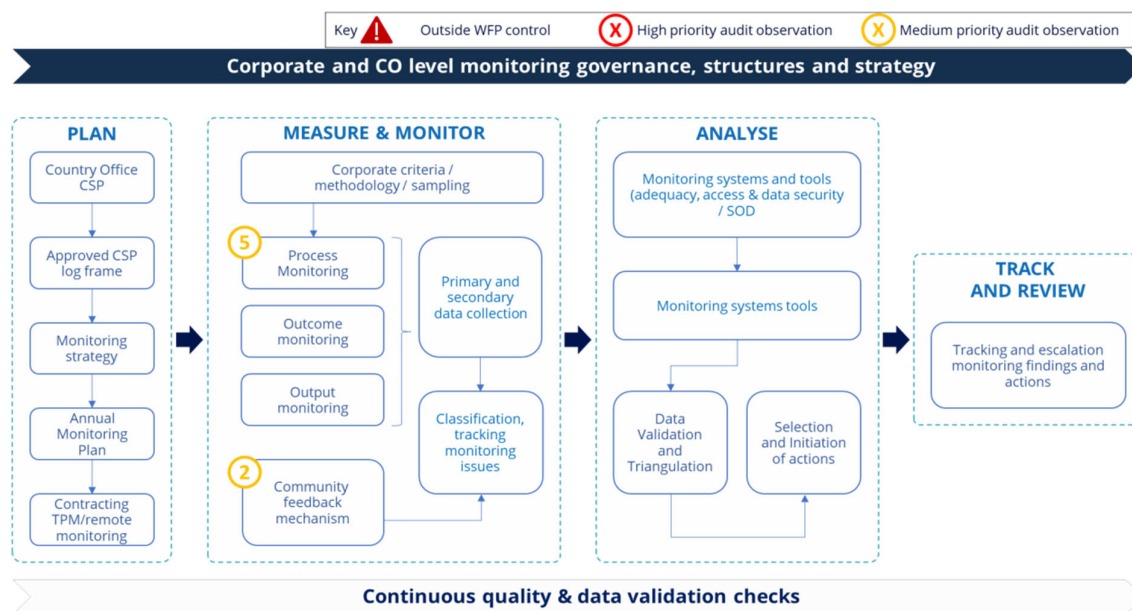


Monitoring

68. In view of increased monitoring needs during the emergency scale-up, the country office contracted a third-party company to conduct process, post-distribution, and other specific monitoring activities. The research and monitoring unit reported directly to the office's management, had an established strategy and annual budget.

69. The audit reviewed that monitoring activities were commensurate to the scale-up of activities over the audit period, and the process for planning and reporting on monitoring visits to inform programme design.

Figure 4: Control test results for monitoring



Observation 5. Process monitoring coverage

70. The country office depended on a third-party company for its monitoring activities. Because of regular changes to distribution schedules, the country office progressively delegated the preparation of the monitoring plan to the third-party yet, without ensuring risk-based monitoring visits were planned as required by corporate standards.

71. During the audit period, the monitoring coverage reached 30 percent for general food distribution and school meal sites. In 3 of 14 districts, the coverage of general food distribution sites stood at 10 percent. The monthly plan for visits to schools was usually achieved only by half.¹⁶

72. Similarly, and given the large number of health facilities, the monitoring coverage for the distribution of Thripasha nutritious products was planned to reach only 10 percent of sites.

73. The presence of non-governmental organizations during distributions, although not in a formal monitoring capacity (see [observation 3: Non-governmental organizations' management](#)) mitigated risks of monitoring gaps described above.

¹⁶ In 2023, headquarters amended corporate guidelines requiring country offices to visit every distribution site once per year.



Underlying cause(s): Scale-up of activities with extensive number of sites with 800 general food distribution points, 8,000 schools and 4,000 nutrition sites; the transition of the support to Thripasha from a service provision model to a direct assistance activity increased the monitoring requirements; and challenges to adjust monitoring activities to changes to distribution plans and dates.

Agreed actions [Medium priority]

- 1) The country office will:
 - (i) Review its monitoring coverage targets in view of the corporate guidelines issued in 2023.
 - (ii) Improve its risk-based approach to monitoring activities for prioritizing sites and resource allocations for monitoring visits.

Timeline for implementation

30 June 2024

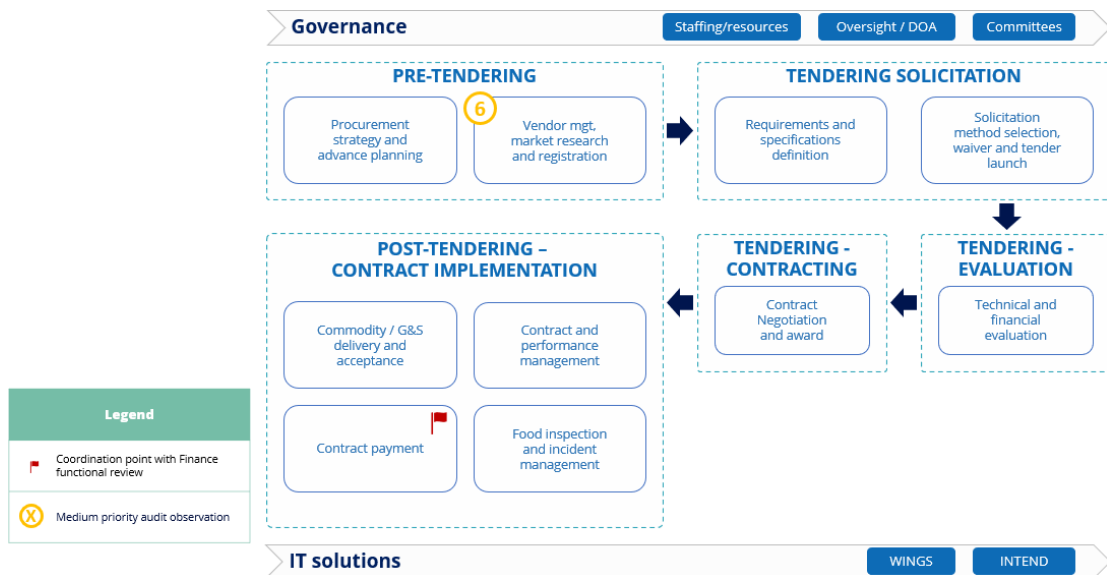


Procurement

74. During the audit period, total food procurement amounted to USD 22.7 million, of which USD 9.3 million was locally procured, and the total procurement of goods and services amounted to USD 2.6 million. The supply chain strategy of the country office during the emergency response and early recovery period included assisting the Government of Sri Lanka in procuring food commodities for the school meals programme and general food distribution as described above in section [Strategic outcome 1 delivery](#).

75. The audit focused on the process to identify and include potential vendors to the roster, including due diligence and financial capacity.

Figure 5: Control test results for procurement



Observation 6: Management of vendors' roster

76. An expression of interest for all types of vendors, except for travel vendors, had not been done since 2013. Instead, the country office indicated that suppliers are sourced using a variety of methods, including Internet research, recommendations from the requesting unit, and research on the United Nations Global Marketplace.

77. Conducting a formal expression of interest, rather than solely relying on these methods, would provide stakeholders assurance that the vendor selection process is competitive, fair, and transparent, and could increase the possibilities for the country office to identify the best possible vendors with the necessary technical and financial capacity.

78. In addition, the country office used an incremental approach to build its roster of suppliers for goods and services which, as of the time of the audit fieldwork, had reached over 1,000 vendors added over the years, limiting the usefulness of the roster.

79. For 1 out of 7 vendors reviewed, the capacity assessment documents were incomplete. There was no financial information on file and the vendor had been in business for less than 3 years at the time of contracting. Due diligence visits were not consistently performed for food suppliers, and never undertaken for goods and services vendors.



Underlying cause(s): Lack of adherence to corporate guidelines.

Agreed actions [Medium priority]

- 1) The country office will update the vendors' roster, based on factors such as participation in calls for proposals; and
- 2) The country office will conduct an expression of interest for future significant procurement processes to identify suppliers with the necessary technical and financial capacity.

Timeline for implementation

- 1) 30 September 2024
- 2) 30 September 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.

#	Observation (number / title)	Area	Owner	Priority	Timeline for implementation
1	Delivery through government entities	Governance	Country Office	Medium	1) 30 June 2024 2) 31 December 2024
2	Accountability to affected populations	Programme	Country Office	Medium	1) 30 September 2024 2) 31 December 2024
3	Non-governmental organization management	CP management	Country Office	High	1) 31 December 2024 2) 30 June 2024
4	Assurance over in-kind and cash-based transfers	Programme	Country Office	High	1) 31 December 2024 2) 31 March 2024 3) 30 September 2024
5	Process monitoring coverage	Monitoring	Country Office	Medium	30 June 2024
6	Management of vendors' roster	Procurement	Country Office	Medium	1) 30 September 2024 2) 30 September 2024



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
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 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 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

UN	United Nations
USD	United States dollars
WFP	World Food Programme

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