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# FINANCE COMMITTEE

**Hundred and Fifty-fourth Session**

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**Progress Report on an Accountability and Internal Control Framework**

Queries on the substantive content of this document may be addressed to:

**Mr Boyd Haight**  
**Director, Office of Strategy, Planning and Resources Management**  
**Tel: +3906 5705 5324**

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### EXECUTIVE SUMMARY

- At its 151st Session in November 2013, the Finance Committee requested a progress report on accountability, enterprise risk management and internal control.
- Since then there have been several developments. An external review by the Global Environment Fund reached a positive assessment of FAO's systems for accountability and Internal Control. A similar exercise undertaken by the UK Department for International Development, while recognising that work remained to be done, noted significant improvements, particularly in the areas of results focus, transparency and value for money. The result of a third review in the same area, by the European Union, is expected shortly.
- A major achievement has been the completion of the development phase of the Enterprise Risk Management project. As a result, risk management is being applied within each of the five areas of FAO's work identified as requiring risk management capacity.
- Improving accountability, risk management and internal control is a continual process, as demonstrated by papers prepared for this session of the Finance Committee, including on Human Resources and the Global Resource Management System. Improvements during 2014 will include revising procedures for work planning in the country offices, reviewing and improving the application of risk management within project management, developing simple guidance on control design and improving corporate performance monitoring and reporting.

### GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to review and provide any views or guidance on the current status of Accountability, Internal Control and Risk Management in FAO.

#### Draft Advice

- **The Finance Committee took note of the progress achieved in putting in place policies and procedures for accountability and internal control including risk management.**

## Background

1. At its 151st Session in November 2013, the Committee received a report<sup>1</sup> on the status of the Organization's considerations on accountability and internal control. The Committee appreciated the report provided, and requested a further progress report covering accountability, risk management and internal control<sup>2</sup>.
2. The Secretariat's report to the Finance Committee contained the conceptual approach to accountability and internal control. In summary, risk management is the link between accountability and internal control. Accountability creates a common sense of purpose between different layers of FAO's management and staff and between FAO's management and its stakeholders. Taking a risk perspective to what is necessary to deliver this purpose increases the likelihood of meeting those expectations, and, by clarifying what might go wrong and needs to go right, provides the context for a cost-effective system of internal control. The report also explained that the main driver was the Director-General's transformational change programme<sup>3</sup>, which incorporated improvements to internal control and accountability, as part of an integrated package of measures for institutional strengthening to enhance the delivery and impact of the Organization's programmes.
3. This report updates the Committee on the latest assessments of the adequacy of FAO's internal management arrangements and presents developments in FAO in the areas of accountability, risk management and internal control since the last report in November 2013.

### Latest Assessments of FAO's Management Control Capability

4. Since November 2013, the Council of the Global Environment Fund has concluded that FAO met its standards for funding, the Department for International Development of the United Kingdom (DFID) undertook an update of its Multilateral Aid Review for FAO, and the European Union has undertaken a verification mission.
5. The April 2014 report of the Global Environment Facility "Agency Progress on Meeting the GEF Fiduciary Standards"<sup>4</sup> provided a positive assessment of FAO's approach to accountability and internal control. It found that the introduction of Enterprise Resource Planning and IPSAS compliant systems in 2013 had strengthened internal control and fiduciary accountability; risk assessment, monitoring and reporting processes had been established.
6. The DFID Multilateral Aid Review is a systematic assessment of the performance of multilateral agencies, individually and comparatively. Its December 2013 report<sup>5</sup> provided an update on the progress achieved since the first report in 2011. The latest report placed FAO among the top few agencies in terms of progress made, noting that "change can happen". It drew attention to the increased focus on results, because of new results frameworks at country and corporate levels; to the change in leadership that had introduced a greater focus on value for money and achieved significant savings; to improved recruitment processes; and in particular to a stronger commitment to transparency and accountability. Nevertheless, echoing concerns by FAO's Senior Management and Members, the report also noted that FAO's financial management processes require continued attention, to further embed cost and value consciousness across the Organization and improve efficiency.
7. The objective of the European Union verification mission was to report on the adequacy of FAO's systems of accountability. The review focused on six "pillars": internal control; budgets, financial control and reporting; external audit; procurement, grants and financial instruments;

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<sup>1</sup> FC 151/20, Accountability and Internal Control Framework

<sup>2</sup> CL 146/8, paragraph 43

<sup>3</sup> CL 145/3, paragraphs 25-26

<sup>4</sup> <http://www.thegef.org/gef/node/10453>

<sup>5</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/297523/MAR-review-dec13.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/297523/MAR-review-dec13.pdf)

publication of information; and data protection. The report of the EU verification mission had not been finalized at the time of preparation of this document.

### **Developments in accountability, risk management and internal control**

8. In the six months since the last report on accountability, risk management and internal control, the main priority for the Secretariat has been to complete the detailed planning for and begin implementation of the new Strategic Framework through the Medium Term Plan and Programme of Work and Budget (MTP/PWB).

9. A major development has been the completion of the development phase of the Enterprise Risk Management project. As a result, risk management is being applied within each of the five areas of work identified in the October 2010 Progress Report on Enterprise Risk Management<sup>6</sup> as requiring risk management capacity:

- a) "Organizational Outcome formulation". Teams formulating the high level work plans for the new MTP/PWB identified risks, which were then consolidated and used as the first risk report to management through the Corporate Programmes Monitoring Board;
- b) "Work planning". Risk assessment and reporting was applied during detailed work-planning by all Business Units;
- c) "Managing field project/programme risk". Risk assessment is a routine part of the formulation of extra-budgetary projects. Risk management is also a part of the quality assurance process for preparing Country Programming Frameworks;
- d) "Managing Business Improvement projects." Risk management has been included within guidance for development of Capital Expenditure projects; and
- e) "Fast Problem Response". Capacity to assess quickly problem areas and identify remedial measures has been put in place under the direct supervision of the Director, Office of Strategy, Planning and Resources Management.

10. FAO has an approved risk policy, whereby the Corporate Programmes Monitoring Board is charged with monitoring the application of the policy and FAO's overall risk profile. With the elements in place, the focus is on fully embedding risk management in FAO's ways of working.

11. In addition to risk management, the Progress Reports on Implementation of the Human Resources Strategic Framework and Action Plan<sup>7</sup> and on the Global Resource Management Programme<sup>8</sup> contain additional examples of recent improvements in internal control and accountability.

12. In FAO, as in all organizations, improving the maturity of accountability, risk management and internal control is an on-going exercise. Work to improve accountability, internal control and risk management during 2014 include revising procedures for work planning in the country offices, reviewing and improving the application of risk management within project management, developing simple guidance on control design and improving corporate performance monitoring and reporting.

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<sup>6</sup> FC 135/13

<sup>7</sup> FC 154/11

<sup>8</sup> FC 154/12