Office of the Inspector General

Annual Report
2010

Highlights

During 2010, the Office of the Inspector General (AUD) began implementing an expanded risk-based audit plan, a key element of the Organization's reform under the Immediate Plan of Action (IPA). The 2010-2011 plan, endorsed by the Director-General following review by the Audit Committee, provides a more systematic basis for prioritizing internal audit work. Under the plan, AUD will review a number of high priority areas of the Organization's operations during the current biennium, and achieve a more complete coverage of key risks over two biennia.

Under the new plan, AUD undertook a number of assignments in 2010 to support the Organization's reform efforts; reviewed a number of emergency operations including the EU Food Facility Programme, and operations in Afghanistan, Haiti, Iraq, Pakistan, and Sudan; while also maintaining a cycle of coverage of decentralized offices and programmes, the Shared Services Centre (SSC) in Budapest, and FAO's activities in headquarters. AUD issued 65 internal audit reports, that included reviews of 54 decentralized offices, as well as numerous advisory analyses in less formal formats. These reports contained 824 recommendations, directed to various levels of management, to strengthen the Organization's risk management, internal controls, and governance processes, of which management accepted more than 98 per cent.

AUD also closed 77 cases following examination by its Investigations Unit and issued six reports, mostly relating to procurement matters. The number of complaints received by the Investigations Unit increased by 30 percent compared to the number of complaints received in 2009 and the case load in 2010 increased by 42 per cent compared to 2009. This steady rise is likely to be due to awareness raising efforts undertaken since a dedicated Investigation Unit was established. Notably, in 2010, the Director-General approved an Organizational whistleblower protection policy and guidelines for the conduct of AUD investigations, which have been published to all staff in early 2011. AUD is working with management to strengthen other elements of the Organization's integrity framework.

During 2010, AUD continued to actively support management in implementing the IPA. In addition to its substantial work in reviewing the adequacy of the controls in regional, subregional and country offices underpinning the Organization's decentralization and to providing advice as required through membership of the Reform Support Group, AUD:

- Undertook, at the request of management, a comprehensive risk assessment of the IPA reform programme. Conducted as a facilitated self-assessment, it concluded that major gaps existed in the governance structures at IPA programme and project level, and proposed measures to reduce the likelihood that the reforms do not on balance prove harmful to FAO, and that the benefits generated are commensurate with the investments made. As reported to the Conference Committee for the Follow-up to the Independent External Evaluation of FAO (CoC-IEE), management responded promptly to the issues

raised by the report. AUD will be advising management during 2011 on the progress in putting the remaining measures in place.

- Provided a Senior Officer during the second half of 2010 to act as the interim Project Manager for the introduction of Enterprise Risk Management (ERM – project 12 of the IPA), until the Office of Strategy, Planning and Resources Management (OSP) has recruited dedicated resources. AUD also identified expert consultancy assistance to OSP and demonstrated the potential benefits of ERM during the IPA risk assessment.

- Coordinated, at senior management's request, the first phase of an Organization Business Continuity Management (BCM) project. Launched in November 2010 in response to AUD's review of BCM earlier in the year, the first phase will result in the development of a Business Continuity Framework for the Organization. The project is engaging with the BCM focal point in New York to ensure that the framework developed draws on the experience of the United Nations system.

As the Organization enters a critical phase in the implementation of the IPA, AUD's work seeks to both ensure accountability and to support the learning processes within the Organization. The results of its work indicate that there remains significant work to do to bring risk exposure down to acceptable levels but also that management is responding to the findings. As at 31 December 2010, management had implemented 56 percent of the recommendations made in 2010, 68 percent from 2009 reports, 89 percent from 2008 reports, and over 96 percent of all recommendations issued prior to 2008 have been closed. Additional efforts in 2010, backed by direct support from the Director-General, resulted in an improved implementation rate for later recommendations. Progress was also achieved in closing some of the oldest high-priority recommendations.

In 2010, AUD continued to improve its capacity and quality. At the beginning of the year AUD had vacancies in nine Professional level and one General Service support level headquarters posts. All but one had been filled by December 2010, and recruitment efforts were also at an advanced stage for three additional vacancies arising due to internal promotions. AUD addressed the remaining outstanding recommendations from its 2007 external quality assessment review, in particular developing a Quality Assurance Improvement Programme (QAIP), revising its internal audit manual, and implementing a performance appraisal and staff development programme. It was also active during the year in collaborating with the internal oversight Units of the other Rome-based agencies; in the development of the network of internal audit services of the United Nations system as a forum for coordination, benchmarking and professional development; and in the secretariat of the Conference of International Investigators.

AUD would like to express its appreciation to all levels of FAO staff and management contacted in the course of its work, for their support and positive responses, cooperation and assistance throughout the year.

Office of the Inspector General
Annual Activity Report-2010

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I.   Introduction

General

1. The present report to the Director-General provides a summary of the 2010 oversight activities of the Office of the Inspector General (AUD). In accordance with the Organization's oversight arrangements, this report is also made available to the FAO Audit Committee and to the Finance Committee.

Mandate and Mission

2. AUD has responsibility for internal audit, which includes monitoring and evaluating the adequacy and effectiveness of the Organization's system of internal controls, risk management, financial management and use of assets. It is also responsible for investigating misconduct and fraud. AUD's Charter is incorporated as Appendix A to FAO Administrative Manual Section (MS) 146.

3. Together with the Office of Evaluation (OED), AUD provides comprehensive internal oversight coverage for the Organization. The External Auditor, with whom AUD cooperates, provides complementary external oversight.

4. AUD provides the Director-General and the Organization's functions and programmes with analyses, recommendations, counsel and information concerning the activities reviewed. In so doing, it seeks to identify opportunities for improving the efficiency and economy of operations while promoting control at reasonable cost. It also helps ensure that FAO activities are free of fraudulent or corrupt practices and promotes initiatives to strengthen the integrity of FAO's operations.

5. With respect to its internal audit work, AUD follows the International Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors (IIA), the relevant global professional body. With respect to its investigative work, AUD follows the Uniform Guidelines for Investigation promulgated by the Conference of International Investigators of the UN System and Multilateral Financial Institutions. AUD applies these through an Audit Manual and through the Guidelines for Internal Administrative Investigations respectively.

6. The Director-General and the Inspector General receive independent advice on the effectiveness, including the adequacy and quality, of the internal audit and investigative functions of AUD from an Audit Committee comprising senior audit and/or investigation professionals, who are fully external to the Organization.

The Terms of Reference of this Committee are incorporated as Appendix C to Manual Section (MS) 146.

II.   Independence

7. During 2010, AUD undertook its professional activities independently within the Organization. No limitations of scope were encountered during the course of its audits or investigations.

III.   Discretionary Reports to the Finance Committee

8. AUD's Charter provides that, at the discretion of the Inspector General, any audit report or any other issue may be submitted to the Finance Committee together with the Director-General's comments thereon and be made available to other interested member states. No such reports, additional to the annual report, were submitted in 2010.

IV.   Implementing the Risk-Based Audit Plan

Development and Implementation of a Comprehensive Risk-Based Audit Plan for 2010-2011

9. To meet the requirements under the IIA Standards as well as address FAO's Immediate Plan of Action (IPA) item 2.91, AUD began implementing a comprehensive Risk-Based Audit Plan (RBAP) for the 2010-2011 biennium. This was approved by the Audit Committee and endorsed by the Director-General in early 2010. AUD's RBAP process is designed to provide a more systematic basis for prioritizing internal audit work, so that all major Organizational risk areas are covered on a rolling basis over two or more biennia. Under a risk-based audit planning approach, AUD will be in a better position to provide assurance that the most significant Organizational risks are being managed to an acceptable level and to promote improvements where necessary. The biennial plan was prepared with inputs from management and took into account suggestions from the Audit Committee. Achievement of the plan is now being monitored in the Organization's new Results Based Management (RBM) Framework.

10. Ideally, a risk-based audit plan should be based on a management-driven Organization-wide risk assessment. During 2010, the Organization was still in the early phases of implementing an ERM initiative under the IPA. AUD therefore took a pragmatic approach in developing its 2010-2011 plan, to generate the first Organization-wide risk survey. Using the results of this work, together with inputs from management e.g. risk workshops led by Deloitte and risk data recorded in the Programme Planning, Implementation Reporting and Evaluation Support System (PIRES), AUD compiled a risk register from which it developed its RBAP.

11. When the Organization is further advanced in its ERM initiative, AUD will modify this approach, drawing on the results of risk self-assessments undertaken by management in addition to its own professional analysis.

12. AUD identified, assessed, prioritized and selected the risks to review under the 2010-2011 plan from the risk register it had compiled. In 2010, AUD addressed 21 high and 29 medium risks (Attachment A (i)) and the results were presented in 65 audit reports (Attachment A (ii)).

13. Despite some delays as filling of vacant positions took longer than planned, AUD completed a major part of the 2010-2011 plan and expects to fully complete the planned coverage for the biennium by the end of 2011. During 2010, AUD issued 65 audit reports to operating units throughout the Organization, including 54 reviews of the decentralized offices. These reports provided management with 824 recommendations at various levels to strengthen the Organization's risk management, internal controls, and governance processes, of which management accepted more than 98 per cent. It has accordingly reported positively in the Mid-Term Review under the RBM Framework.

14. Areas of focus in 2010 included the IPA Reform, EU Food Facility, business continuity, performance management and reporting, decentralized office operations (including reviews in Haiti, Sudan and Somalia) and the Shared Services Centre in Budapest. AUD also continued to advise and support senior management in implementing key reform initiatives and business processes, such as ERM, and following its 2010 audit of the subject, in developing an Organization-wide Business Continuity Framework. Individual summaries of the most significant reviews completed by the end of 2010 are detailed below.

Headquarters Audits

Business Continuity Management

15. In 2010, AUD conducted a review of Business Continuity Management (BCM) in the Organization to ensure that it is able to respond to accidents, disasters, emergencies and/or threats without any stoppage or hindrance to its key operations. The review included a follow-up to the 2002 review on IT Disaster Recovery, but with an expanded scope to cover all aspects of an organization-wide BCM (including non IT operational aspects).

16. The audit concluded that, with the exception of BCM plans developed for the pandemic influenza emergency, FAO has not yet developed and implemented a well defined Organization-wide BCM programme. Although not sufficient, AUD acknowledges that since 2002 there have been some improvements in the IT area. In addition, several headquarters units have put in place specific business continuity arrangements, however these are usually informal and not comprehensive and are not the product of a systematic risk assessment. These isolated initiatives would not be effective in ensuring key operations are maintained if a large disaster, emergency and/or threat were to occur at headquarters. Furthermore, the audit concluded that the situation in the field is

less defined, as there is little awareness of the importance of developing business continuity or contingency plans and insufficient support from headquarters, especially regarding IT Disaster Recovery aspects. For example, project offices do not have instructions for performing routine data backups.

17. Management responded promptly, following the report, to establish a working group with the initial objective of finalizing in early 2011 an Organization-wide Business Continuity Framework. Existing initiatives would then be aligned and upgraded, and additional measures prioritized, according to this Framework. AUD is providing staff resources for the coordination of the working group. The project is engaging with the BCM focal point in New York to ensure that the framework developed draws on the experience of the United Nations system.

Operational Review of the Shared Services Centre – Budapest

18. The SSC provides administrative services to the Organization in the following areas: finance-accounts payable, receivables and vendors, human resources, administrative system support (IT), travel, procurement and fixed assets. The objectives of the review were to: i) assess the effectiveness of the SSC in terms of customer service, mainly through the review of management and performance of Service Level Agreements (SLAs); ii) assess the adequacy of internal controls over operations; and iii) identify opportunities for streamlining procedures.

19. Considering its recent establishment and the fact that most staff are new to FAO or the UN System, AUD concludes positively on the performance of the SSC in terms of customer service. It welcomes the initiative of the SSC to introduce SLAs and carry out customer satisfaction surveys. However, AUD identified a number of areas where changes can be made to improve operations. For example, AUD found that the definition and implementation of SLAs have several weaknesses and the structure of the survey did not allow for a full assessment of customer needs. AUD also found numerous processing errors, which seem to be the result of lack of staff training and could be easily prevented. Furthermore, although internal controls over most administrative processes have generally been established and are functioning adequately, some, such as those relating to Non-Staff Human Resources (NSHR), require strengthening. AUD also identified several opportunities for streamlining processes by eliminating unnecessary steps in several work flows.

Commissary Inventory Count and Write-offs

20. AUD performed a review to: (i) report on the year-end Commissary inventory count observed by AUD as an agreed-upon procedure engagement performed in accordance with the International Standard on Related Services; and (ii) determine whether the proposed write-offs by the Commissary were accurate, performed in accordance with established procedures and whether management properly considered possible recoveries from suppliers or insurance companies.

21. The results were satisfactory. However, AUD recommended that the practice on reimbursement of expired or broken items established between the purchasing unit and some suppliers be documented and communicated to the salesroom to ensure that discrepancies are properly categorized between items to be written off and

items to be reimbursed. In addition, AUD noted that several prior audit recommendations to enhance inventory control, loss prevention and improvements to the accounting unit, have not been fully implemented.

Publishing Agreement Review

22. At the request of senior management, AUD reviewed the process that was followed to publish a technical publication. AUD concluded that FAO policies regarding publications are outdated and the requirements applicable to the various publication modalities are not clear. AUD recommended that OEKP conduct a comprehensive review of FAO's publishing policies and procedures with a view to addressing this.

Decentralized Office Reviews

23. AUD's coverage continued to include a strong component devoted to the Decentralized Office Network (DON), which accounts for more than 65 percent of the expenditures of the Organization. AUD targeted a number of high-risk areas to review at all three decentralized office levels (Regional, Subregional and Country). Areas of focus included the EU Food Facility, other emergency operations (including Haiti, Sudan, Somalia, and Afghanistan), financial and administrative operations of the offices and the impact of the decentralization reform on country operations. These were covered in either comprehensive reviews or more targeted reviews of the financial and administration operations of the offices. In addition, capping analyses were conducted of major themes reviewed in the individual office audits.

24. During 2010, AUD issued 60 audit reports relating to reviews in 54 countries, including one Regional Office (RO), five Subregional Offices (SROs) and forty-eight FAO country offices. These reports contained more than 790 recommendations directed locally, and in some cases to headquarters, to improve FAO's programme and project operations in the DON. Management accepted more than 98 percent of these recommendations, and had already fully implemented more than 55 percent of them by the end of 2010. Most recommendations concentrated on improving local controls and processes in the areas of budget, financial management, procurement, programme and project management, human resources and reporting to donors. The results of these reports are summarized below.

Capping Reports – Summary of Results from 2009 Decentralized Office Reviews

25. Six capping reports released in early 2010 summarized the results from a number of key organization-wide risks that AUD identified when completing its 2009 audits and contained 44 recommendations. The capping reports addressed: (i) the decentralized offices' efficiency and effectiveness in developing, promoting, overseeing and implementing agreed priorities and strategies at their respective levels; (ii) the effectiveness of project implementation and management of emergency, non-emergency and ISFP

TCP projects; (iii) Subregional Office operations; and (iv) a review of the processes headquarters has implemented to ensure priorities identified by Decentralized Offices are included in the Organization's Programme of Work and Budget.

Implementation of Non-Emergency Projects

26. Most of the non-emergency projects reviewed had encountered delays in implementation that affected their ability to fully achieve planned objectives. Often projects resolved the problems by adjusting objectives or seeking time extensions. AUD found the delays were often caused by problems that should or could have been addressed during the project formulation and planning phases. In this regard, the number and scope of delays and other exceptions to planned schedules and budgets could be reduced if the Organization were to track the reasons for these exceptions, and then use this information for developing future projects.

27. Overall, AUD also found project monitoring and reporting need to be strengthened. For example, although one objective of the logical framework is to enhance performance measurement, relevant performance indicators were not identified in the project documents. Furthermore, when indicators were available, projects did not collect the necessary data to assess their performance. Also, recommendations and proposed corrections stemming from project progress and backstopping reports were often not consolidated and the resulting actions not documented, hindering their systematic follow up and weakening accountability.

Implementation of Emergency Projects

28. This audit complemented OED's evaluation of FAO's operational capacity in emergencies, which was reported in February 2010. The audit focused on project implementation processes including project execution, planning, reporting, costing, accounting and staffing. Both reports call for FAO to improve planning for emergency activities and to provide newly-recruited personnel with FAO specific training. AUD and OED coordinated their work during the respective audit and evaluation.

29. Overall, the implementation, management and delivery of emergency projects, carried out by TCE and the Emergency and Rehabilitation Coordination Units (ERCUs) at country level was satisfactory in the areas of audit focus. However, AUD recommended measures to help the Organization reduce the number and scope of delays in project implementation, reduce the number of changes to the project implementation plans, and improve the timeliness and accuracy of information reported to donors on project implementation. These measures include:

- Greater emphasis in planning emergency activities at the country office level;

- developing a country-wide risk assessment;

- establishing a monitoring system for country office reporting on project implementation; and

- adequately budgeting for and apportioning common expenditures among ongoing projects.

Implementation of ISFP TCP Projects

30. Overall, AUD concluded that the management structure for the Initiative on Soaring Food Prices (ISFP) programme was sound. However, the offices implementing such projects lacked reasonable assurance that the recipients of inputs were eligible for assistance. Most did not have clear eligibility criteria to identify beneficiaries, nor did they monitor the distribution of inputs. Moreover, the fixed budget structure did not provide the necessary resources to address these issues.

31. AUD found that the urgent nature of the ISFP programme also tested the boundaries of FAO procurement regulations. In this regard, AUD noted several actions were taken that were contrary to the Organization's prescribed procurement practices. These included participation of Government counterparts in procurement decisions, procuring under less-than-competitive circumstances and using inappropriate technical specifications. AUD made a number of recommendations to management to correct these weaknesses under the EU Food Facility Programme.

*Adequacy of Processes at Headquarters to Incorporate Decentralized Offices'
Priorities into the PWB*

32. The overall objective of the review was to assess whether the processes followed at headquarters adequately recognize, prioritize and incorporate priorities identified by Decentralized Offices (DOs) into the Organization-wide Programme of Work and Budget (PWB). This review caps the work completed by AUD on this issue in the DOs in 2008 and 2009.

33. AUD noted that FAO has taken major steps to ensure input from the DOs is included into the PWB. However, based on the current state of the planning framework, AUD identified a number of areas where this process should be strengthened to ensure DO priorities are consistently and evenly incorporated into the PWB:
   - provide the DOs guidelines to support the priority identification and incorporation processes;
   - involve the DOs in the process of developing Organizational Results;
   - include the FAO Representations into the corporate planning process;
   - improve mechanisms to equitably ascribe achieved results to all contributing units; and
   - enhance the array of functionalities and tools provided by PIRES.

Efficiency and Effectiveness of Subregional Offices in Carrying Out Their Primary Functions

34. Noting that most Subregional Offices are relatively new, having commenced activities between 2006 and 2008, and in view of the reform process having important implications for the decentralized structure, AUD concluded that the Organization has taken reasonable initial steps to ensure Subregional Offices carry out their primary functions for which they were established. However, AUD identified a number of areas at the corporate level that should be strengthened to better enable the SROs to carry out their roles and responsibilities:

- planning processes should be enhanced to ensure that key stakeholders are involved in developing subregional priorities and strategies and that these are better integrated with those of the respective Region;

- monitoring and measuring the performance of Subregional Offices should be improved;

- Subregional Coordinators should not be overloaded with multiple functions unrelated to their role as head of a Subregional Office; and

- appropriate reporting standards for the Subregional Offices should be developed and implemented.

Identification and Management of Priority Actions in FAO Representations

35. AUD reviewed whether Representations are properly executing their responsibility in identifying and managing priorities at the country level and assessed the current arrangements for evaluating FAO Representatives' (FAOR) performance.

36. FAORs prepare an annual plan of action, but not all followed the requirements of the National Medium Term Priority Framework (NMTPF) concept. The main constraints in FAORs' prioritization process include limited strategic thinking and positioning, weak planning capacity and limited resources. There is a need for clear corporate guidance to FAORs on adopting a strategic focus at the country level to ensure closer links with Organizational strategies and objectives and stronger, systematic technical support to the country-level planning process.

37. The FAORs' weak capacity to mobilize resources, inadequate staffing structures for effective implementation, monitoring and follow-up of projects, limited Regular Programme financial resources to cover operating costs and difficulties in obtaining timely technical support from other FAO Units, collectively impaired the FAORs efficiency and effectiveness in fully carrying out all their responsibilities. Corporate mechanisms that support the FAORs' delegated responsibilities are needed to improve their operational efficiency.

38. As outlined under their terms of reference, FAORs are expected to cover multiple roles. However, there are no objective performance criteria available to assess how well they perform their tasks. As decentralization is still a work-in-progress, it is anticipated that the Office of Support to Decentralization (OSD) will develop

clear, measurable performance indicators that can be used to objectively assess FAORs and these will be reflected in an accountability framework.

Focused Financial and Administration Reviews of Decentralized Offices

39. A large number of AUD's decentralized office reviews focused on the financial and administrative operations. Specifically, these reviews assessed whether an office was adhering to prescribed controls that the Organization had established to manage key financial and administrative risks associated with budget, procurement, disbursements, financial recording and reporting, asset management, ethics, etc. These audits were structured to replace the reviews previously performed until 2009 under the former Local Audit Programme (LAP) function administered by the Finance Division (CSF). These audits are carried out in decentralized offices according to an enhanced scope and reporting format to add value and consistency to this oversight aspect.

40. In 2010, AUD issued 36 financial management and administration audit reports concerning decentralized offices that presented management with 538 recommendations to strengthen financial and administrative controls. All regions were represented in the 36 offices reviewed. As Figure 1 below illustrates, these audits identified significant control weaknesses in all seven audit areas.

Figure 1 - Control Weaknesses in Financial and Administrative Audit Reports
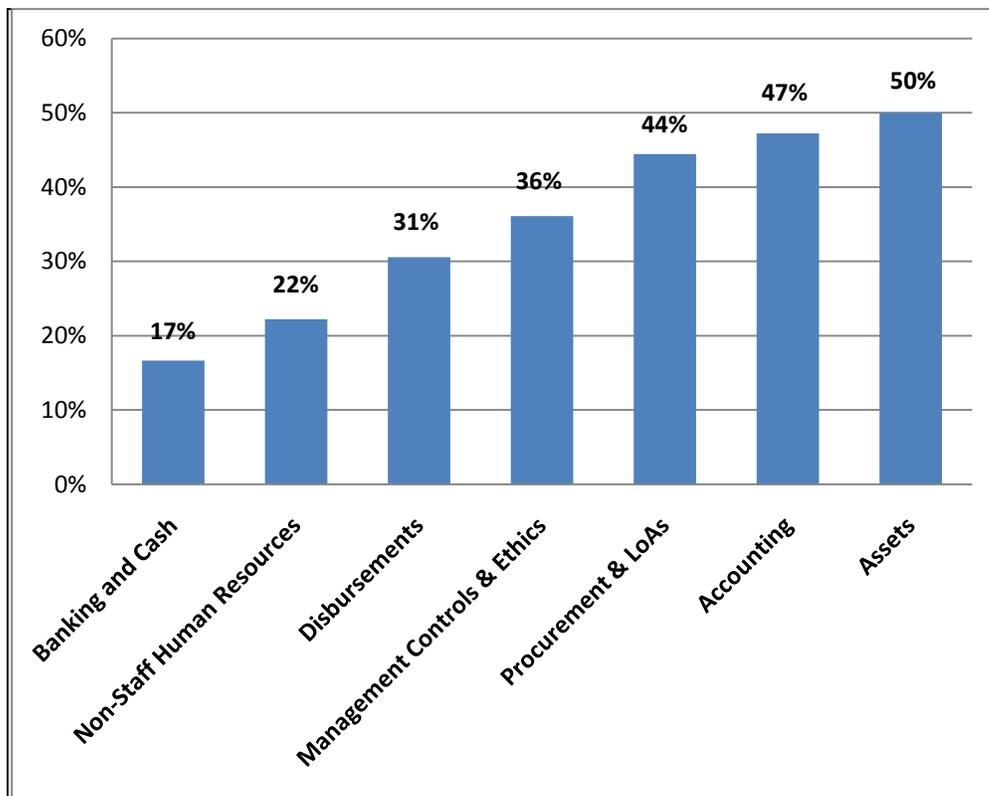
41. The main control weaknesses by audit area, spread unevenly among the offices reviewed, were:

Management Controls and Ethics
- Poor budget and financial monitoring, which often resulted in budget overspends and improper use of resources.
- Delegation of authority limits were misapplied, especially for procurement and Letters of Agreements (LOAs).
- Reporting lines and job descriptions were not consistently up-to-date.
- Analysis of local fraud risks and discussion of ethical values with staff.
- The use of official assets, especially with respect to vehicle costs, was not properly monitored.

Accounting
- Financial records were often imprecise and inaccurate with expenditure frequently charged to inappropriate parent account codes, principally in relation to Contracts, Expendable Procurement and GOE. Generic child account codes were excessively used, especially the generic account 6152 (Miscellaneous GOE).
- Accounting adjustments were processed without prior review and approval, and in many cases were not documented.
- Guidance on Unliquidated Obligations (ULOs) was not adequately followed, such that not all ULOs at year-end were reported to headquarters.

Assets
- Year-end checks of fixed assets and reconciliation with headquarters records were not routinely performed and asset disposals were not monitored sufficiently nor notified to headquarters promptly.

Procurement and LOAs
- Staff had not consistently been trained on the revised procurement rules (MS 502 – Procurement of Works and Services) resulting in weak documentation of decisions taken and a lack of procurement planning.
- Duties were not adequately segregated in the procurement cycle.
- The rationale for choice of LOA recipient organizations was not always well documented.

Banking and Cash
- Bank and Operational Cash Accounts were not always approved by headquarters.

Disbursements
- Off-site delivery of goods or services was not consistently certified.
- Poor monitoring of advances often resulted in late or non-collection of staff advances.

- There was inadequate segregation of duties in the disbursement cycle.
- Documentation to support payments was often insufficient.

Non-Staff Human Resources

- Personnel records were often incomplete.
- Non-staff recruitment was not always transparent and competitive, and performance was not systematically assessed.
- Deductions from payments to non-staff for medical insurance were not properly and consistently applied.

42. The underlying causes for these weaknesses appear to be insufficient guidance or monitoring by headquarters, weak control environment in the respective offices, administrative functions not being adequately resourced in terms of number of staff, lack of appropriate structure (e.g. clear reporting lines) and authority within the offices, and insufficient training and supervision of staff. On a positive note, CSAP has revised MS 502, started an extensive programme for training field staff in the new MS, and has launched the on-line procurement course. These efforts should help address procurement issues identified in the audits.

43. To better assist management in addressing these weaknesses, AUD developed a system to assess and rate the overall performance of individual offices in a consistent manner. The 36 country offices reviewed were grouped and rated using the following criteria:

- Satisfactory (Green): the majority of the required controls are present and applied effectively. Controls that are absent or not effectively applied do not create a material weakness in the Representation's system of internal control.
- Deficient (Amber): the majority of the required controls are present, or are operating effectively. Controls that are absent or not effectively applied create a material weakness in the Representation's system of internal control.
- Seriously deficient (Red): less than half the key controls are present. Material weaknesses exist and represent a major threat to the Representation's system of internal control.

44. The results are shown in Figure 2 below.

Figure 2 - Financial Management and Administration Audit Results
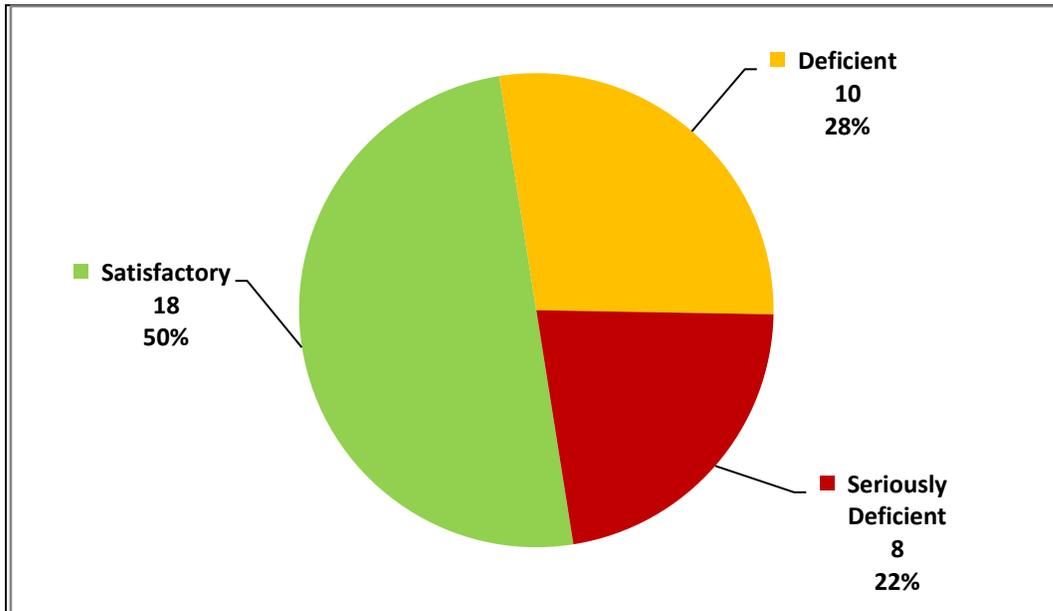
45. The outcome of these audits will be evaluated in further depth in a capping report in early 2011. This report will also identify issues that need to be addressed at the corporate level.

Comprehensive Reviews of Decentralized Offices

46. In addition to the 36 financial and administrative country reviews above, AUD conducted more comprehensive reviews at 13 country offices, four Subregional offices and one Regional office. Most comprehensive reviews at country office level included an administrative and financial component (though differently scoped to the focussed compliance audits mentioned above). In addition, at a selected number of offices, the review also included an assessment of the efficiency and effectiveness of the decentralized offices in implementing the EUFF, and an assessment of the impact the decentralization reform activities were having on operations during 2010. From these reviews AUD issued 18 audit reports that presented management with 212 recommendations to improve the programme and project operations in the decentralized office Network. An overall summary of the audit results from these reviews are summarized below, and summaries for each individual review are presented in Attachment A (iii).

FAO Representation Reviews

47. Generally, the Representations have taken action to ensure adequate administrative and financial management practices are followed. However, the effectiveness of controls and processes requires strengthening in a number of key areas: (i) segregation of duties in the administrative units; (ii) weak procurement procedures; (iii) incomplete inventory reporting; (iv) weak monitoring and

disbursement practices under LOAs; and (v) inaccurate recording of financial transactions.

48. In all offices reviewed which were implementing EUFF projects, the projects experienced significant delays in the early stage of project implementation. These delays were due to weaknesses in the initial project design, coordination difficulties with local authorities and other implementing partners, and late recruitment of key project staff, of which the local EU representatives were usually informed. However, at the time of the audit visits, most projects were advancing satisfactorily and were on schedule to be completed by the common June 2011 deadline. The main areas of concern identified from the reviews were: (i) problematic reporting of progress against key performance indicators, as baselines had not been defined and project objectives had changed in the course of project implementation; (ii) compressed timeframes for implementation and heightened pressure for input distribution due to adjusted work plans and scope of work to meet the June 2011 deadline; and (iii) lack of developed exit strategies to ensure that project activities and benefits can be sustained after the projects have ended.

49. The FAORs visited in 2010 generally understood the objectives and related roles and responsibilities they would assume under the Organization's proposed decentralization strategy. However, the audits indicated that the effectiveness of reform activities in enhancing the role and function of the Representations has often been negatively impacted by inadequate communication of reform issues from headquarters and the respective Regional Offices; and by limited human resources and inappropriate staffing. Nevertheless, despite these constraints, the Representations have been able to establish procedures to improve their capacity to implement most newly delegated authorities and address efficiency issues.

Subregional Office Reviews

50. The reviews of Subregional Offices (SAP, SFC, SFW and SFE) focused primarily on their effectiveness in addressing subregional priorities. Although these offices are relatively new, and their responsibilities have significantly changed in the context of the decentralization reform activities, the audits confirmed that they have begun the process to identify subregional priorities and put in place the subsidiary elements to manage their activities in accordance with these priorities. AUD identified several areas that should, at this early stage in the decentralization reforms, be strengthened: (i) preciseness and focus in defining subregional priorities; (ii) integration of subregional priorities with regional and national priorities of the subregion's countries; (iii) engagement of relevant stakeholders, such as subregion-wide institutions, in the process of identifying subregional priorities; and (iv) development of broadly supported subregional strategies and integrated and comprehensive workplans to address subregional priorities. AUD also noted that the assignment of multiple responsibilities to the Subregional Coordinators may reduce their overall effectiveness and should be evaluated.

Regional Office Review - REU

51. The review of the Regional Office for Europe (REU) concluded that this office has adequate staff and non-staff resources to assume the new roles and responsibilities resulting from the IPA projects related to decentralization. Responsibilities delegated from headquarters were properly communicated and smoothly incorporated into its workplan for actual implementation. Nevertheless, the audit concluded that the decentralization process for this region could be strengthened if REU: (i) developed annual work plans for the countries where FAO is represented by National Correspondents; (ii) established more clearly defined responsibilities of REU and the Subregional Offices (SROs) in connection with strategic development and partnership with regional organizations; and (iii) developed a staff training plan based on a training needs assessment. AUD further noted that key financial and administrative controls in REU were not functioning as prescribed. AUD found weaknesses in the management of imprest accounts, local procurement and charging of expenditures to account codes. Furthermore, LOAs issued by REU were often not in compliance with the requirements. The newly-appointed ADG/RR has begun taking action to correct these weaknesses.

AUD Advisory and Consulting Services

52. During the period, AUD continued to play a major role in supporting management in implementing key IPA reform initiatives. Specifically, in partnership with an expert risk consultant, AUD facilitated a comprehensive risk self-assessment of the IPA reform, is supporting OSP in implementing ERM (IPA Project 12), and is coordinating the development of a Business Continuity Framework for the Organization. In addition, AUD routinely provides management with comments or updates on IPA-related matters, such as the Organization-wide Strategy on Partnerships, CoC-IEE progress reports, and Results Based Management.

Support to Reform Initiatives

53. AUD continued in 2010 to devote a significant portion of its resources to provide support to management in implementing the reform initiatives related to the IPA. The most significant contributions included:

Risk Assessment of the Immediate Plan of Action

54. At the request of management, AUD facilitated a risk self-assessment, by programme and project managers and staff, of the IPA. The risk assessment, facilitated risk workshops to identify and rank the risks to the IPA programme, specifically as regards delivery risk (that agreed activities are not completed to time, budget and specifications), benefit risk (that completed activities do not generate the expected level of improvement to FAO's performance) and disruption risk (that reform activities produce side-effects that harm FAO).

55. Analysis of the risks identified through this process, together with the mitigating measures proposed by project managers, revealed major gaps in management control over the reform process, which, if not adequately addressed, could:
    - prevent FAO achieving the aspirations of the reform,
    - fundamentally damage FAO's normal operations, or
    - cause IPA projects to overrun in time-scale or budget, or fail to be completed according to their specifications.

56. Managers identified, in AUD's view, robust solutions to prevent these threats from materializing. The overriding priorities among these are to put in place more rigorous arrangements covering:
    - programme governance and management (including dependency management),
    - project governance and management, and
    - a focus on intended benefits.

57. Management has responded positively and quickly to the recommendations identified in this report, by establishing an IPA Programme Board, chaired by the DDG-Operations and comprising a select number of senior managers key to the success of the reform. The overall results of the risk assessment and actions initiated in response were presented at the September 2010 session of the CoC-IEE. A status report on this will be presented by management at the CoC-IEE's February 2011 session. Given the importance of the reform, and the range and severity of the potential threats identified during the risk assessment, during 2011 AUD will be monitoring the implementation of the measures still in progress or pending as at the end of 2010.

Promoting Enterprise Risk Management (ERM)

58. The IPA included (as item 3.49) a comprehensive Enterprise Risk Management study.

59. In early 2010, senior management assigned responsibility for managing and implementing the ERM project to OSP. To support this, AUD identified an expert consultant and loaned a senior auditor to work with OSP from the 3rd quarter 2010 to prepare the business case for ERM and a briefing paper on the proposed conceptual design of ERM. These were submitted to the Finance Committee at its 135th Session in October 2010. To ensure momentum is maintained on this significant initiative, AUD has agreed to continue the loan of the senior auditor to OSP to serve as the interim project manager for the ERM Project until it has completed the recruitment of a permanent Strategy and Planning Officer to assume this role. This is expected to continue through at least the 1st quarter of 2011.

60. The time spent by the senior auditor to support the ERM and other FAO Reform initiatives was planned and budgeted for in AUD's 2010-2011 workplan. Support to ERM will remain a priority area for AUD work during 2011.

Coordinating the Development of the Organization's Business Continuity Framework
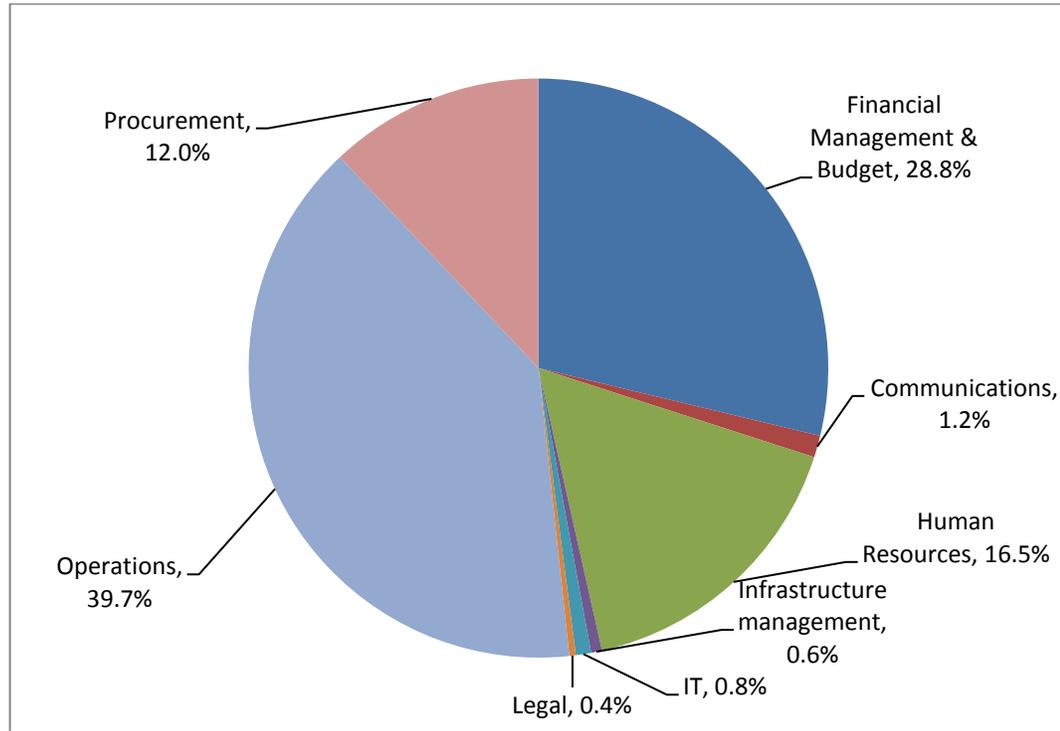
61. In response to AUD's 2010 review of the Organization's BCM, senior management launched a formal project to establish an appropriate BCM framework in November 2010. At the request of senior management, AUD agreed to serve as the coordinator for the first phase of this project which will result in the development of a Business Continuity Framework for the Organization.

Other Advisory Services

62. At the request of senior management, AUD completed, in collaboration with the Legal Office (LEG), a review of the relationship between FAO and the FAO Coop. The review concluded that the rationale for the current legal arrangements remains valid but that management should consider having ad hoc activities of common interest, such as the Inter Agency Games, undertaken directly by FAO rather than organized by the Coop. Where such activities are requested of the Coop, they should be governed by ad hoc agreements, clarifying among other things the Organization's clearance requirements.

63. AUD also responded to more than 30 other requests for short duration advisory and consulting services during 2010. These included comments and advice on the drafting of 12 high-value LOAs; audit clauses in various draft donor contracts; the revision to MS 507 (Letters of Agreement); the definition for "budget holder; input for the FAO Statement on Fiduciary Standards for a GEF Council meeting; providing responses to three JIU draft reports on a) Survey of the Audit Function in the United Nations System; b) Review of ERM in the United Nations System; and c) Review of IPSAS in the United Nations System; review of a proposed MoU between FAO and IFAD on Medical Insurance; and advice to OSD on benchmarking FAO Representations.

Audit Recommendations and Resolution

64. In 2010, AUD issued 65 reports that included 824 recommendations. The recommendations were made to all levels of management throughout the Organization to strengthen the Organization's risk management, internal controls, and governance processes, of which management accepted more than 98 per cent. Attachment A(ii) lists the 2010 reports by organizational group. The majority of the recommendations fell into four main areas: operations; financial management and budget; human resources; and procurement. The percentage of recommendations by major processes are presented in Figure 3 below:

Figure 3 - 2010 Audit Recommendations by Process

Financial Management & Budget, 28.8%

Procurement, 12.0%

Communications, 1.2%

Human Resources, 16.5%

Infrastructure management, 0.6%

IT, 0.8%

Legal, 0.4%

Operations, 39.7%

65. As Figure 4 illustrates, as at 31 December 2010 management had closed 56 percent of the 2010 recommendations and had initiated actions to address another 29 percent. Furthermore, management continued its efforts to implement all remaining recommendations issued prior to 2010, having closed nearly 90 percent of the recommendations made in 2008 and more than 99 percent of all recommendations made prior to 2008.

Figure 4 - Status of implementation of all recommendations for 2002-2010 (as at 31 December 2010)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Open	0	0	0	4	2	0	14	36	121
Ongoing	3	2	2	4	13	3	17	137	243
Closed	455	560	310	417	407	353	259	374	460
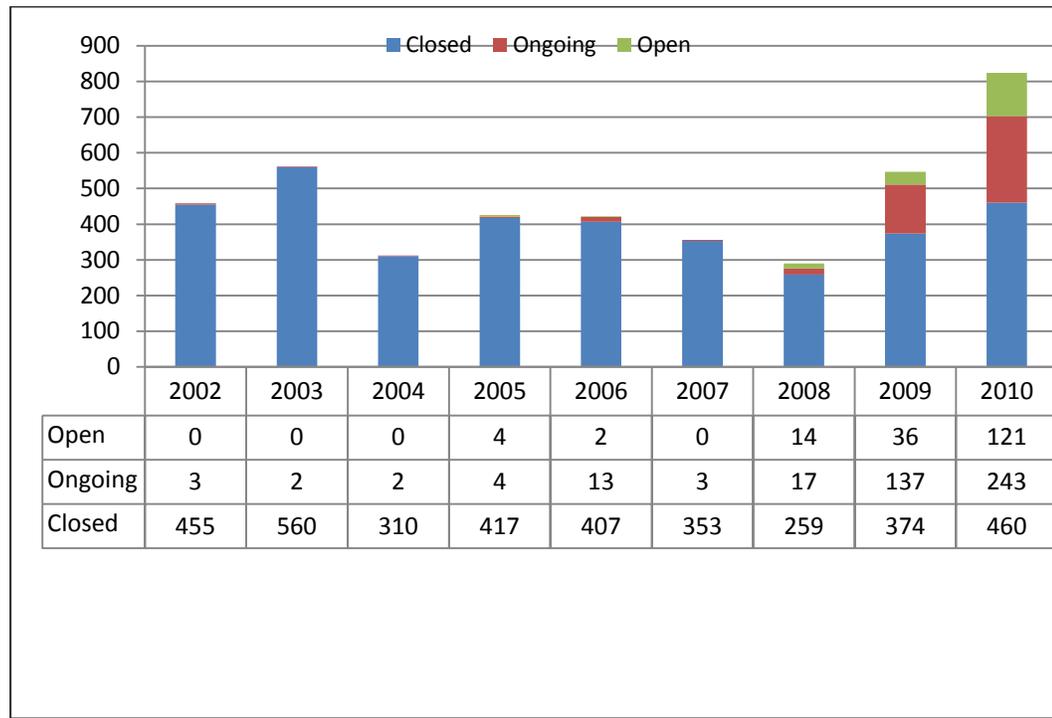
Note: Statistics are based on information reported by auditees as at 1 February 2011.

66. As Figure 5 below illustrates, the recommendation closure rates, which represent the actual implementation of the recommendations, for 2010 are comparable to previous years' rates from 2007-2009. AUD finds the long-term trend an encouraging indication of management's continued commitment towards improving the Organization's system of internal controls, risk management and governance processes.

Figure 5 - Recommendation Closure Rates

Year of Issue	As of 31/12/10	As of 31/12/09	As of 31/12/08	As of 31/12/07
2002	99%	99%	98%	97%
2003	99%	99%	99%	99%
2004	99%	99%	97%	95%
2005	98%	98%	96%	89%
2006	96%	94%	89%	77%
2007	99%	94%	84%	48%
2008	89%	70%	45%	
2009	68%	28%		
2010	56%			

67. In order to better assist management in developing a more effective recommendation implementation strategy, AUD classifies recommendations into three categories - High, Medium and Low, based on the impact and probability of occurrence. AUD developed the following definitions by risk category:

High	Failure to implement the recommendation will most likely lead to the occurrence or recurrence of an identified high-risk event that would have a **serious impact on the Organization's mandate, operations, or reputation.** The action is **critical** to the system of internal control and should be implemented immediately.
Medium	Failure to implement the recommendation will most likely lead to the occurrence or recurrence of an identified risk event that would have a **significant impact on the department/entity's mandate, operations, or reputation.** The action has a **significant** effect on the system of internal control.
Low	The recommendation is important to maintain a reasonable system of internal control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve business entity objectives effectively and efficiently.

68. As figure 6 below illustrates, of the 601 outstanding recommendations for 2002-2010, 43 are rated high risk, where failure to take action could result in critical or major consequences for the Organization. The 43 high risk recommendations comprise 16 risks made in 2010, 17 in 2009, and 10 prior to 2009. The primary issues addressed by the ten recommendations made prior to 2009 relate to:

- IT disaster recovery arrangements;
- Project accounting manual;
- Governance structure for FAO's information technology and knowledge management;
- Oracle security administration;
- Framework for UTF projects funded by financing institutions;
- TCE Iraq Trust Fund: Strategic and Operational Framework;
- Weak Internal Controls over Decentralized Activities;
- Managing after Service Medical Coverage Liability; and
- Defining negligence and fiduciary obligations of staff towards the Organization.

69. During 2010, management closed two high risk recommendations from 2003 and 2004, which related to issuing health and safety guidelines and defining budget holder responsibilities. AUD continues to follow up with management on the implementation of these recommendations on a six-monthly basis.

Figure 6 - Outstanding Recommendations 2002-2010

Process	High	Medium	Low	Total
Financial management and budgeting	2	33	83	118
Communications	1	8	4	13
Human resources	4	56	52	112
Infrastructure management	2	1	4	7
Information technology	7	19	10	36
Legal	-	3	2	5
Operations	26	131	94	251
Procurement	1	18	40	59
Total	**43**	**269**	**289**	**601**

V. Improving Integrity

70. AUD's Investigations Unit is responsible for promoting an environment of integrity throughout the Organization's operations through the detection, investigation and prevention of fraud and misconduct. The Unit ensures that investigations results are captured in order to develop lessons learned and recommends procedural and policy changes that enhance integrity within FAO.

71. 2010 was characterized by significant progress in enhancing the Unit's capacity. The arrival of a new P-4 Investigator in August considerably improved AUD's investigative capacity and, as a result, the Unit is now fully staffed at its current approved level. During 2010, it has improved the response time for complaints and queries, been able to close several low-priority cases due to its increased capacity and has strengthened its prevention efforts and expanded integrity outreach.

72. As part of the strategy for enhancing integrity within FAO, during 2010 AUD led the development of an Organization-wide Whistleblower Protection Policy in collaboration with LEG and the Division of Human Resources (CSH), which was approved by the Director-General in December 2010. The Policy confirms the protection of FAO personnel against retaliation when reporting in good faith cases of unsatisfactory conduct or cooperating with a duly authorized audit or investigation. The new Policy mandates the Office of the Inspector General to receive and investigate complaints of alleged retaliation. Following a consultation process with staff bodies, the Policy has been promulgated by an Administrative Circular in February 2011.

73. Also in collaboration with LEG and CSH, AUD finalized the Guidelines for Internal Administrative Investigations (Investigation Guidelines), which were endorsed by the Director-General in December 2010. The Guidelines provide a practical internal guide reflecting the general principles which AUD follows in its

investigative process, and which are consistent with the principles laid out in the Uniform Guidelines for Investigations endorsed by the investigative offices of international organizations and multilateral financial institutions. The Guidelines were developed to better ensure (i) proper and consistent implementation of FAO's staff rules and regulations when investigating allegations of wrongdoing involving FAO personnel, and (ii) that investigations are conducted in a thorough, extensive, objective and consistent manner, in accordance with high professional standards and good investigative practice.

74. A positive step in enhancing integrity within FAO activities has been the new MS 502 "Procurement of Works and Services", which has been significantly revised, including a new section on Procurement Ethics. Among the relevant improvements, the Manual Section incorporated definitions of corruption, fraud, collusion and coercion, which are the same definitions that have been already adopted by several other international organizations.

75. AUD and CSAP began working together to coordinate (i) measures to prevent fraudulent and collusive practices; ii) identify means to detect collusive practices; iii) propose steps to handle suspected fraudulent and collusive practices in the procurement process in a consistent and collaborative manner; and iv) delineate CSAP's and AUD's respective roles and responsibilities in dealing with suspicions of fraudulent/collusive practices. AUD and CSAP have developed specific guidance to staff on how to address matters of fraud in the procurement process. The guidance is expected to be finalized and be available to staff in early 2011.

*Investigation Case Load Management*

76. The number of complaints and queries received by AUD in 2010 (74 new complaints of which 13 were queries) was more than double the number for 2008 and increased by around 30 percent compared to 2009 (57, of which 12 were queries). In order to manage the caseload with the resources available, the Unit developed a case prioritization system, which categorizes allegations as high, medium or low priority. The prioritization of cases is based on a system that weighs the (i) impact on FAO organizational objectives, (ii) impact on FAO's finances, (iii) impact on FAO's reputation. Following a recommendation from the Audit Committee, the Unit reviewed and streamlined the system to prioritize cases during 2010; in particular it reviewed the triage system for processing complaints/allegations to ensure it does not unintentionally exclude medium level cases from review. AUD believes that the steady number of queries over the last two years indicates that since its establishment in 2005 as a dedicated Unit within AUD, the Investigation Unit is increasingly recognized by staff as well as management as a resource for investigation as well as providing advice on preventing fraud and corruption. Figure 7 below provides an overall view of the disposition of complaints during the year:

Figure 7 - Case Load – Disposition of complaints in 2010 (and 2008/2009 for comparison)

Case Load	2008	2009	2010
Cases Carried over from previous years	18	21	37
New Cases Opened	32	57	74
Total Complaints	**50**	**78**	**111**
Cases Closed	29	41	77
Ending Case Load	**21**	**37**	**34**

77. The Unit issued four investigation reports and a lessons learned report as a result of one investigation. Moreover, several cases were closed by issuing investigation memoranda. Some complaints were resolved without the need for a formal investigation, while others were found to fall outside AUD's mandate and were consequently referred to other Divisions in FAO. Other matters were forwarded to the Audit Unit because they either referred to audit matters, or were classified as low priority in terms of AUD's classification criteria.

78. As indicated in Figure 8 below, in 2010 most complaints came from staff members.

Figure 8 - Source of complaints in 2010
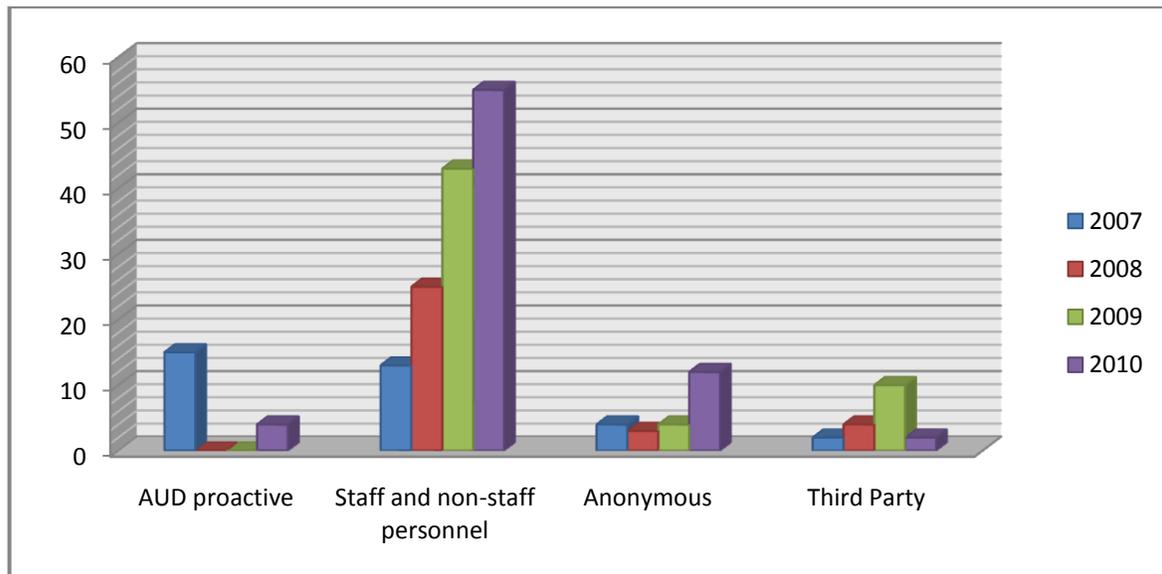
79. An AUD investigation will conclude on whether the allegations are:
   - substantiated, the evidence gathered is sufficient to establish that the allegation is true, and fraudulent activity or misconduct occurred;
   - unsubstantiated, the evidence gathered is insufficient to establish that the allegation is true, and fraudulent activity or misconduct occurred; or
   - unfounded, the evidence is reasonably sufficient to conclude that the allegation is not true and no fraudulent activity or misconduct occurred.

Figure 9 below shows the results according to these conclusions for cases closed in 2010, based on the number of allegations:

Figure 9: Outcome of allegations received in 2010
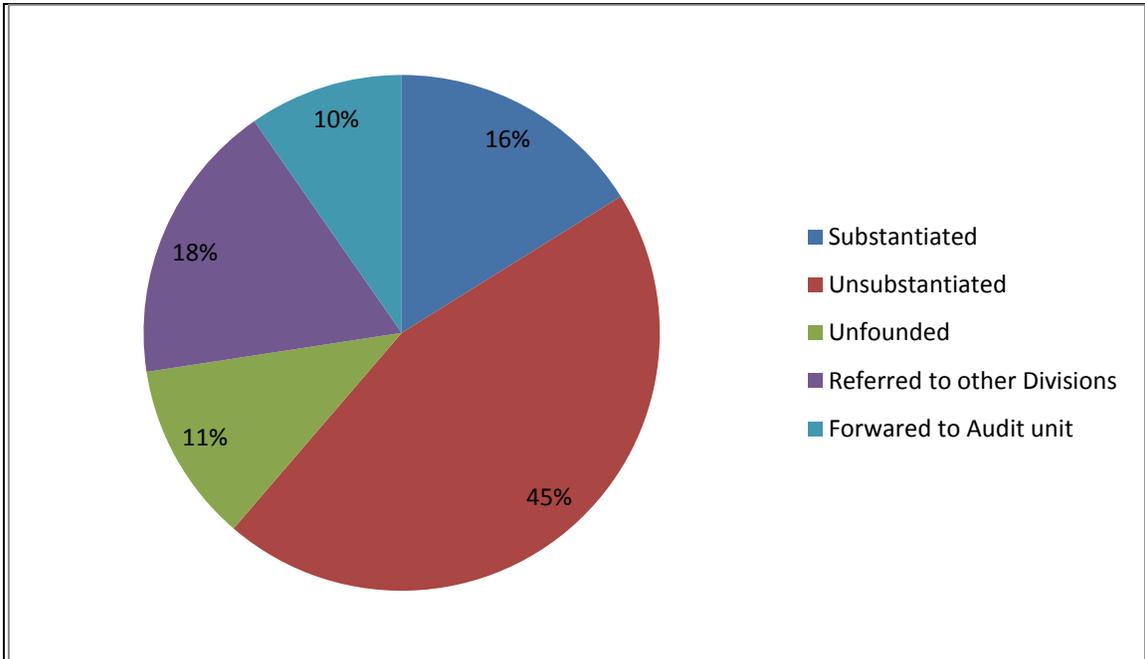
80.   The chart in Figure 10 shows the types of allegations received during 2010. It is important to note that an individual complaint received by AUD may include multiple allegations. The initial classification of allegations is based on the preliminary information AUD receives. Over the course of an investigation AUD may modify the classification as more information becomes available.

Figure 10: Type of Allegations
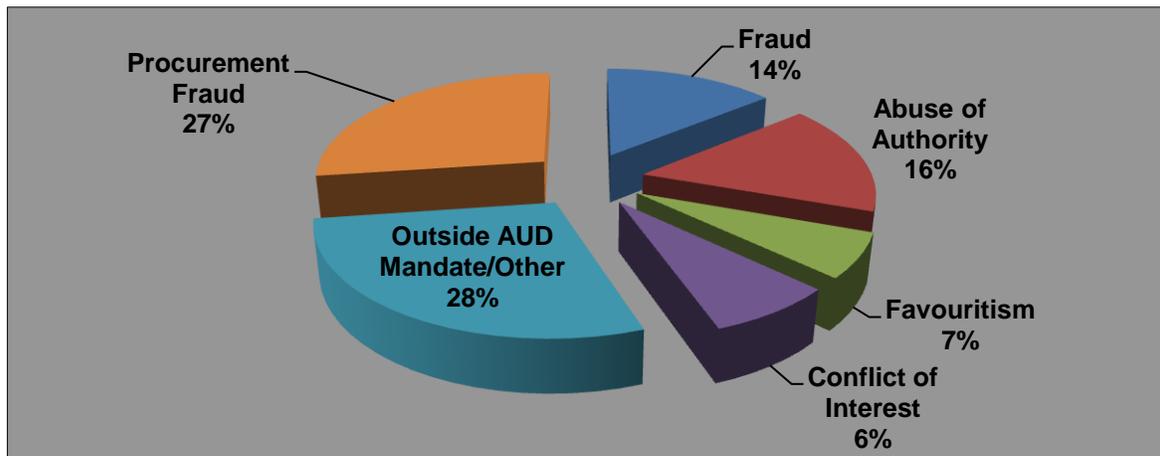
81. The following summary presents examples of cases completed in 2010, the findings of which led, or are likely to lead, to disciplinary measures and/or lessons learned, as appropriate:

Case 1: AUD conducted an investigation into a supplier that provided low-quality equipment to FAO, passing them off as authentic brand-name items. This fraud went unnoticed despite the involvement of various staff members and consultants entailing substantial financial and qualitative consequences for the Organization and project beneficiaries.

AUD's investigation also revealed that an FAO staff member played a role in facilitating the award of several contracts to this supplier and concealed concerns regarding the equipment from others at FAO

In addition to the investigative report, AUD issued a lesson learned report analyzing the internal control weaknesses that are more general in nature than those discussed in its investigative report, but which nevertheless contributed to the perpetration of fraud carried out at the expense of the Organization. The report contained recommendations for strengthening controls to avoid a repeat of the fraud.

Case 2: AUD conducted an investigation into several allegations against a staff member claiming that the staff member was abusing their authority, harassing other staff, requiring them to share their DSA, inflating vendor prices, as well as favouring and taking kickbacks from suppliers in the context of FAO procurements. The investigation substantiated most of the allegations and concluded adverse findings against the staff member.

Case 3: An investigation initiated as a result of allegations received during, and findings arising from, an audit mission, concerning conflict of interest and favouritism involving a staff member. The review concluded that the staff member had an undisclosed conflict of interest, which resulted in recipients of LOAs, which had not been issued in accordance with Manual Section 507, being favoured.

VI. AUD Management

Strengthening AUD's Internal Capacity and Operations

Following up on Audit Committee Membership and Reporting

82. The Audit Committee, under fully external membership established in 2008, met three times in 2010, and AUD provided secretariat functions to the Committee

throughout the year. AUD has welcomed the advice and counsel provided by the Committee. The Committee has prepared its separate 2010 Annual Report.

83. As at 31 December 2010, AUD had undertaken follow up actions to the Audit Committee's 2009 Annual Report to the Director-General and to the Finance Committee, as follows:

Figure 11 - Action on Audit Committee Recommendations

Audit Committee Recommendation	Status
Review all low and medium long outstanding recommendations to determine if any can be closed.	Completed. The results are summarized in this report under Audit Recommendations and Resolution.
Work with management to proactively develop a policy as to how FAO will handle 3rd party suppliers who are found to have engaged in improper procurement actions.	In progress.
Develop a more comprehensive risk based audit plan (RBAP) for the 2010/2011 biennium.	Completed. The RBAP was presented to and approved by the Audit Committee in February 2010. The status at the end of 2010 is presented in this report.
Complete and implement internal investigation guidelines.	Completed. This is discussed in this report.
Complete an analysis of the Integrity Framework to determine what elements have already been implemented by management, are in progress, and those that require further follow-up action.	Completed. This was shared with management. AUD will use this to monitor implementation of recommended items which are not yet fully implemented.
Improvements to the quarterly and Annual Activity Reports of AUD	Ongoing. The format of the quarterly reports to the Director General, shared with the Audit Committee, were revised to more clearly show AUD's progress in implementing its 2010-2011 biennial RBAP. These reports and the annual report now place additional focus on what progress or actions management has or is taking to address the long outstanding high risk recommendations; provide more details in presenting investigative data, such as type of allegations, percentage/trend of allegations; aging of complaints/allegations; and trends analysis that focus more on broad issues.

Status of Recommendations of the Internal Audit External Quality Assurance Review

84. Following a quality assurance review of the audit function of AUD by the IIA in 2007, AUD prepared a corrective action plan which the Audit Committee closely monitors. In 2010, AUD implemented the remaining IIA outstanding recommendations, e.g. developing a quality assurance improvement programme, revising its internal audit manual, and implementing a performance appraisal and staff development programme. Furthermore, in the 1st quarter of 2011, AUD will conduct an internal quality assessment to update the benchmarking since changes to the internal audit standards, to identify any further gaps that need to be addressed prior to the next external quality assurance review due in early 2012.

AUD Staffing and Budget

85. At 31 December 2010, AUD had 27 approved posts under the 2010-2011 Programme of Work and Budget. This includes the Inspector General, 20 Professionals staff members, of whom four are outstationed at each of the Regional Offices in Cairo, Bangkok, Accra and Santiago de Chile; and six General Service posts. Attachment B to this report depicts AUD's staffing situation, with some demographic and gender information, as at 31 December 2010.

86. The post of the Inspector General, which became vacant on 31 December 2009 upon the retirement of the former Inspector General, was filled on 6 February 2010.

87. AUD made significant progress in filling 14 posts that were vacant as at the end of 2009, or which became vacant during 2010. Specifically, nine Professional and one General Service posts were filled in 2010. AUD strove in its recruitment efforts for the vacant auditor posts to achieve well balanced shortlists in terms of gender, language, nationality and other diversity factors. As at 31 December 2010, only four professional vacancies remained unfilled, three at headquarters and one in RLC, candidates for two of the headquarters vacancies were approved in late December 2010 and AUD is working with HR services to secure commitments from them.

88. As in previous years, AUD reduced the impact of these vacancies on its ability to fully complete its 2010 audit plan, and to respond quickly to growing investigation needs, through internal redeployments within AUD, short-term consultancies and the Organization's temporary assistance pool.

89. AUD's time reporting and control system continues to represent a useful internal management tool through which staff record their time in half-hour units of activity. The results are reported to the Inspector General and used by AUD to identify areas for efficiency improvements and for planning purposes. The information is also used to provide analyses on staff usage as requested by the

Audit Committee. Of the total 2010 Professional Staff time, including consultants, Audit absorbed 83% of the time while Investigations 17%.

90. The final 2010 budget allotment amounted to USD4.462 million, compared with USD 4.792 million for 2009. For 2010, AUD had sufficient funds to carry-out its work programme.

Staff Meetings/Training

91. During 2010, AUD held seven staff meetings, two each in quarters 1-3 and one in quarter 4, during which the Inspector General and other AUD staff gave briefings on the status of AUD's work and budget, recruitment efforts and interactions with external professional networks.

92. Training and development continue to be important aspects of the overall management of AUD. Staff development is primarily composed of three elements: professional audit/investigation, language training, and in the use of technology. Individual training needs are identified under the Individual Development Plan component of the employee appraisal system of PEMS at the beginning of each year. In addition, broader staff needs are addressed in group training sessions during the year.

93. In late November/early December, AUD sponsored a week long all-staff training session at headquarters. The objectives were to strengthen or provide staff with additional skills to more effectively carry out their work programme, strengthen cohesion and teamwork, and deepen familiarity with colleagues' work in order to explore opportunities for greater integration and collaboration.

Implementation of Performance Evaluation and Management System

94. In 2010, FAO launched its Performance Evaluation and Management System (PEMS), in which AUD fully participated. PEMS is the new system for performance appraisal that is an integral part of FAO's Human Resources Strategy and is linked to other key components including career performance management.

95. For 2010, all non-probationary AUD staff completed the PEMS process and cycle and probationary staff followed an equivalent process. PEMS annual work plans (probationary work plans in the case of all new staff at that time), linked to AUD's Unit Results, were completed for all staff, including the Inspector General, for the first time. The performance planning, evaluation and development elements of the process will support greater internal communications within the Unit on performance and will be a core component of AUD's quality assurance and improvement programmes for both audit and investigation groups.

<u>Maximizing Oversight Coverage and Harmonization through Coordination and Collaboration with other Oversight Bodies</u>

Coordination with the Office of Evaluation (OED) and the External Auditor

96.   During the year AUD held several discussions with OED and the External Auditor to ensure the workplans from each group were complementary and did not unnecessarily duplicate review activities, as well as to assist both with the planning of their respective assignments. For example, an AUD auditor will participate as part of the OED evaluation mission in Zimbabwe in February 2011. Furthermore, at the end of November 2010 AUD received the External Auditor's management letter for the 2008-2009 biennium financial audit. AUD will take into account the recommendations and management responses in its own audit planning.

Collaboration with other UN Agencies

Rome-based Agencies Joint Session

97.   On the initiative of the heads of the audit and investigation services of the three Rome-based UN Agencies, 48 managers and staff in the internal oversight functions of FAO, WFP and IFAD met at IFAD headquarters on 29 April 2010 for their first one-day "Joint Session of Internal Oversight Functions of Rome-based Agencies". This is expected to become an annual event, with possibly some additional focussed professional development events during the year. They establish a forum for the three groups to regularly share insights and methodologies and discuss opportunities for collaboration in audit and investigation, with the aim of improving performance.

Conference of International Investigators

98.   In June 2010, the Inspector General and the Senior Investigator participated in the 11th Conference of International Investigators, which was hosted by the UN OIOS in Nairobi, Kenya.   This annual conference brings together the investigations functions of UN agencies, Multilateral Development Banks and other intergovernmental organizations, such as the European Anti-Fraud Office. AUD, represented by the Senior Investigator, has been actively involved as a member of the Secretariat that organized the Conference and has been confirmed as member of the Secretariat for another year. The Conference was attended by more than 100 professionals from member agencies.

99.   The agenda covered several relevant topics including conflicts of interest for investigators, red flags of procurement fraud and legal aspects of investigations. Workshops were very useful to exchange opinions and views with colleagues from other organizations facing similar challenges to those faced by AUD.

Emerging Issues for AUD from the 2010 International Conference

- Cross-debarment process implemented by the multilateral development banks in respect of suppliers found to have breached anti-fraud and corruption regulations: does this presage a future emulation by UN agencies?
- Increasing emphasis by ILOAT on compliance with established investigation guidelines in determining merits of appeals by dismissed or disciplined staff .
- Enhanced technical measures to support the collection of evidence and ensure its integrity.

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100. AUD's Investigation Unit also assumed leadership of an initiative to deliver Europe-based training for all UN Investigations Sections as a follow-up to the June 2010 Conference of International Investigators. The first training session for UN investigators is currently being organized and is planned to take place in March 2011 at the new International Anti-Corruption Academy in Vienna, Austria.

   UN-RIAS Network

101. The network of Representatives of Internal Audit Services of the United Nations, Multilateral Development Banks and Associated Organizations (RIAS) is the forum for information sharing, benchmarking and collaboration among the internal audit services of intergovernmental organizations. The whole group meets annually and a UN subgroup (UN-RIAS) has begun meeting by teleconference several times per year in between annual sessions. The Inspector General was elected Vice-Chair of the UN-RIAS sub-group for 2010-2011, and in this role chairs UN-RIAS teleconferences and coordinates other business in between the annual face-to-face meetings.

102. During 2010, nine teleconferences were held, and a number of email-based consultations carried out. The main activities of UN-RIAS in 2010 were:

Issues of interest on the UN-RIAS agenda
(work in progress)

- Discussions on the coordinated audits being carried out on projects funded from the Sudan Common Humanitarian Fund; the EC Verification Mission programme, and the JIU 2010 review of internal audit in the UN system.
- Benchmarking survey of internal audit services in the UN system and preparation for a JIU study of this topic in 2010.
- Implementation of the framework for coordinated audits of Multi-Donor Trust Funds, piloted for the Sudan CHF and envisaged for the Haiti Reconstruction Fund.
- Sharing experience with EC-commissioned verification missions under the UN-EC Financial and Administrative Framework Agreement.
- Harmonizing best practice regarding treatment of management comments in audit reports and follow up of past recommendations.
- Developing joint comments on draft JIU reports on "The Audit Function in the UN System" and "Trust Fund Administration". These were timed so they could be reviewed and endorsed by FAO and other agencies in their own organizational responses;
- Finalizing a good practice note on agency arrangements for EC Verification Missions and internal audit roles and responsibilities, based on agency experiences
- Reaching a System-wide agreement with the UN Deputy Controller on the wording of the audit clause in the proposed revised Central Emergency Response Fund (CERF) Letter of Understanding (LOU) between OCHA and participating organizations.
- Monitoring discussions at inter-agency level and with donors on multi-donor trust fund agreements to ensure that proposals relating to audit and evaluation remain in line with the "single audit principle".
- Revising the operating mode for the UN-RIAS group to enhance its effectiveness as a community of practice in between annual face-to-face meetings.

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103. In addition to the UN-RIAS teleconferences during the year, the Inspector General and Principal Auditor also participated in the 4th UN-RIAS meeting and the 41st Plenary RIAS meeting in Geneva Switzerland from 14–17 September 2010.

Categorization of Risks Covered in 2010

Category	Sub-category	Risk Area (Function/Process/Entity)	Number of risks	
			High	Medium
Governance	Corporate Governance	FAO Reform process	1	2
	Corporate Governance	Senior Management responsibilities	-	1
	Corporate Governance	Internal Control System	2	-
Strategy	Corporate Strategy	Stakeholders' priorities	1	-
	Corporate Strategy	FAO's Structure	1	1
	External Factors	Natural hazards and terrorism	-	1
	Local Strategies	Decentralized Offices	4	6
	Planning	Business Continuity Management (BCM)	1	-
	Planning	Workforce Planning	-	1
Operations/ Programme	Programme management	Special projects/ programmes	1	1
	Programme management	Programme implementation and management	1	1
	Programme management	Programme monitoring and reporting	5	-
Operations/Admin	Finance	Accounting	1	3
	Finance	Management of Advances	-	1
	Finance	Treasury	-	1
	Procurement	Procurement	1	3
	Assets	Management of facilities and equipment	1	-
	Human Resources	Organizational structure	1	-
	Human Resources	Corporate culture	-	1
	Supporting services	SSC/Administrative services	-	2
	Other Services	Commissary	-	1
	Other Services	Credit Union	-	1
Compliance	Financial and admin controls	Financial and administrative policies and procedures	-	1
	Obligations to third parties	Legal and contractual obligations	-	1
		TOTAL RISKS COVERED IN 2010	**21**	**29**

**Office of the Inspector General
Reports issued in 2010**

Headquarters Activities

Subject Matter	Reports Issued
Shared Services Centre – Budapest	AUD 1710
Commissary Inventory and Write Offs	AUD 3210
Business Continuity Management	AUD 3410
Publishing Agreement	AUD 4410
Risk Assessment of the Immediate Plan of Action (IPA)	AUD 5110

Decentralized Activities

Subject Matter	Reports Issued
Regional, Subregional and Liaison Offices:	
Effectiveness of Addressing Subregional Priorities: Subregional Office for the Pacific (SAP) – Samoa	AUD 410
Effectiveness of Addressing Subregional Priorities: Subregional Office for Eastern Africa (SFE)	AUD 1510
Efficiency and Effectiveness of the Subregional Office for West Africa (SFW) in Addressing Subregional Priorities	AUD 2510
Processes followed at Headquarters to Incorporate Priorities Identified by Decentralized Offices	AUD 2610
Efficiency and Effectiveness of Subregional Offices in carrying out their Primary Functions	AUD 2810
Identification and Management of Priority Actions in FAO Representations	AUD 2910
Review of the Subregional Office in Central Africa (SFC) – Gabon	AUD 3310
Review of FAO Regional Office - Europe and Central Asia (REU) Budapest	AUD 4610
FAO Representations and related programmes and projects:	
FAO Burundi	AUD 110
FAO Afghanistan	AUD 710
FAO Representation Sudan	AUD 910
Implementation of Non-Emergency Projects	AUD 1210
FAO Ethiopia	AUD 1310
FAO Representation in Iraq	AUD 1410
Capping Report on Implementation of Emergency Projects	AUD 1810
Capping Report on Implementation of ISFP TCP Projects	AUD 1910
Review of FAO Operations in Pakistan	AUD 3110
Comprehensive Review of FAO Representation in Burkina Faso	AUD 3510
Comprehensive Review of FAO Representation in Guatemala	AUD 3810
Comprehensive Review of FAO Representation in Cambodia	AUD 4710
Review of FAO Representation in Kenya	AUD 4810
Limited Scope Review of the FAO Representation in Myanmar	AUD 5010
Comprehensive Review of the FAO Representation in Eritrea	AUD 5510
Sudan Country Review (North and South)	AUD 7310
Field Verification Audits	
Finance and Administration: Zambia	AUD 210
Finance and Administration: Eritrea	AUD 310
Finance and Administration: Tanzania	AUD 510
Finance and Administration: DPR Korea	AUD 610

Subject Matter	Reports Issued
Finance and Administration: Malawi	AUD 810
Finance and Administration: Laos	AUD 1010
Finance and Administration: Tajikistan	AUD 1110
Finance and Administration: South Africa	AUD 1610
Finance and Administration: Liaison Office Japan	AUD 2010
Finance and Administration: FAO Philippines	AUD 2110
Finance and Administration: Emergency and Rehabilitation Coordination Unit-Timor-Leste	AUD 2210
Finance and Administration: FAO Lesotho	AUD 2310
Finance and Administration: FAOR Bangladesh	AUD 2410
Finance and Administration: FAOR Nigeria	AUD2710
Finance and Administration: FAOR Liberia	AUD 3010
Finance and Administration: FAOR Cameroon	AUD 3910
Finance and Administration: FAOR Central African Republic	AUD 4010
Financial Management and Administrative Audit: FAOR Senegal	AUD 4310
Financial Management and Administrative Audit: FAOR Gambia	AUD 4510
Financial Management and Administrative Audit: FAOR China	AUD 4910
Financial Management and Administrative Audit: FAOR Vietnam	AUD 5210
Financial Management and Administrative Audit: FAOR Burundi	AUD 5310
Financial Management and Administrative Audit: FAOR Rwanda	AUD5410
Financial Management and Administrative Audit: FAOR Sierra Leone	AUD 5610
Financial Management and Administrative Audit: FAOR Guinea Bissau	AUD 5710
Financial Management and Administrative Audit: FAOR Mali	AUD 5810
Financial Management and Administration Audit: FAOR Mongolia	AUD 5910
Financial Management and Administrative Audit: FAOR Nicaragua	AUD 6010
Financial Management and Administrative Audit: FAOR Morocco	AUD 6110
Financial Management and Administration Audit: FAOR Tunisia/SRO-SNE	AUD 6210
Financial Management and Administrative Audit: FAOR Lebanon	AUD 6410
Financial Management and Administrative Audit: India	AUD 6610
Financial Management and Administrative Audit: Niger	AUD 6710
Financial Management and Administrative Audit: FAOR Cape Verde	AUD 6910
Financial Management and Administrative Audit: FAOR Paraguay	AUD 7210
Financial Management and Administrative Audit: FAOR Guinea	AUD 7410

Investigations Unit

Subject Matter	Reports Issued
Lessons Learned from AUD's Investigation in Ghana	AUD 4110
Review of the Relationship between FAO and the FAO Staff Coop	AUD 6310
Investigation into submission of forged academic credentials	INV 110
Investigation – Ghana	INV 210
Investigation – Liberia	INV 410
Investigation at REU	INV 510

Summary of Results for Major Audit Reports Issued in 2010

FAO Afghanistan

Advocacy, liaison and dissemination of information carried out by the Representation to stakeholders, i.e. Afghani authorities, donors, UN agencies and Non-Governmental Organizations, has helped the Government in meeting their agriculture and food security strategic goals. However, opportunities for improvement exist in planning of the FAOR's functions and responsibilities in coordination with OSD, and there is a need to base interventions on a country-wide risk assessment.

Also, FAO needs to ensure it better communicates changes to the scope of project implementation to donors, and its Implementing Partners and Recipient Organizations provide more timely and accurate information concerning project implementation. Several on-going emergency projects were implemented according to the established plan and timeframe; some with cost savings because of decreases in prices of seed and animal feed resulting in increases in the number of beneficiaries. Furthermore, financial and administration controls were generally adequate and acceptable; but budgeting and allocating of common costs to emergency projects need to be improved.

FAO Burkina Faso

Generally, the Representation has made efforts to improve administrative and financial management. However, the effectiveness of established controls and revised processes requires further improvement. The main concern is the limited progress in addressing weaknesses, such as inadequate segregation of financial responsibilities and weak supervision of the Administrative Unit.

The FAOR understands the objectives for Organizational decentralization. However, the effectiveness of reform activities in enhancing the role and function of the Representation has been negatively impacted by: (i) inadequate communication of reform issues from headquarters and the Regional Office for Africa (RAF); (ii) inadequate interim arrangements to guide the FAOR during the transition period; and (iii) limited human resources and inappropriate staffing. Nevertheless, despite these constraints, the Representation has been able to establish procedures to improve its capacity to implement delegated authorities and address efficiency issues.

Regarding the EUFF, AUD found that the project's targets were overly ambitious and operations have been hindered by a number of factors, such as (i) Government delays in signing the project document; (ii) late recruitment of project personnel; (iii) the governance structure not yet being fully functional; and (iv) difficulties in collaboration with the Directorate Générale de Produits Végétales (DGPV) of the Ministry of Agriculture. Furthermore, although the Emergency Recovery and Coordination Unit (ERCU) has established appropriate administrative processes, it is slow in adjusting its implementation strategy. Consequently it has missed opportunities to improve the rate of project delivery. The result is that key activities are not synchronized and there is a risk that they may not be completed within the project's timeframe.

FAO Burundi

Generally, the Representation has established adequate internal controls over most of the key functions of procurement and accounting. However, AUD also found a number of financial and administrative weaknesses which management, in collaboration with TCEO, have already initiated action to address. These include lacking segregation of duties in the administrative unit, weak tendering and inventory procedures, and untimely recording of financial transactions.

In addition, all stakeholders were generally appreciative of FAO's emergency activities. Although project implementation was achieving its objectives within planned costs, delivery was slow due to the difficult operating environment, limited market available for inputs e.g. seeds and tools, delays in the procurement process and security concerns during implementation. Furthermore, project reporting to donors was generally timely for national projects, but delayed for regional emergency projects with activities in Burundi.

For the most part, the ERCU has focused on recovery and rehabilitation activities, which have received strong donor support, particularly from the European Union. This has partially bridged the gap between emergency and development activities. Nevertheless, the FAOR needs to take steps to capitalize on this by encouraging joint planning of the field programme, thereby creating synergy between the Organization's activities and placing it in a more strategic position to manage the transition.

FAO Cambodia

AUD concluded that the Representation's internal control framework is significantly stronger and more effective than it was during AUD's last review in 2007. In general, adequate controls are in place to manage risks effectively and in compliance with Organization requirements. However, the design of payment schedules for LOAs deserves more attention to avoid excessive payments in advance of services provided.

The decentralization reform activities developed under the IPA Reform have not yet reached the country office in coherent manner. The Representation has not received consistent and sufficient information on new responsibilities and additional resources to proceed with a coordinated implementation plan.

The EUFF project in Cambodia (GCP/CMB/033/EC) encountered a seven-month delay in implementation from signing due to an ambitious work plan and the need to coordinate with at least 40 government agencies at the national and provincial level. The Project Manager adjusted the work plan and scope of work to meet the June 2011 closure date. These revisions received stakeholder approval but were not added to the list of project records in FPMIS; as a result, the project reports progress against key results that do not appear in the official logframe. The compressed timeframe for implementation heightens pressure for input distribution. Furthermore, an EU Results-Oriented Monitoring mission recommended an exit strategy be developed to ensure that project activities and benefits can be sustained after the project ends.

FAO Ethiopia

The Administrative Unit is well set up and has qualified and motivated staff. AUD found a number of financial and administrative weaknesses, which have been addressed by the SRC and the FAOR. Furthermore, the implementation of emergency projects and non-emergency

technical cooperation projects show good results. There are, however, shortcomings in the areas of (i) documentation of emergency projects; and (ii) completeness of FPMIS, which are receiving the attention of management.

FAO Eritrea

The FAOR and senior Representation staff understand the reform measures under the Organizational decentralization and their roles and responsibilities in this context. However, OSD and the FAOR need to address two areas that impact the operational efficiency of the Representation: (i) a strategic review of FAO's engagement in Eritrea should be completed; and (ii) a detailed analysis should be prepared to determine the level of resources (human and financial) needed to assume the additional responsibilities transferred to the Representation by OSD.

As at August 2010, implementation of the EUFF project was well behind schedule mainly due to a variety of constraints that are outside the Representation's control. Furthermore, AUD found implementation monitoring is limited, and the conditions of the Financial and Administrative Framework Agreement (FAFA) of the EU, as well as FAO's rules and regulations, are not fully complied with in the areas of implementation, monitoring and reporting. FAO has notified the donor that there is a risk the project's objectives may not be achieved or the project will not be fully implemented by the project end date of 30 June 2011.

Generally, financial and administrative controls in the Office are functioning as prescribed, with the exception of the need for stronger procedures related to local procurement. AUD also noted (i) non-compliance with requirements for making cash payment for overtime worked by staff; (ii) failure to communicate purchase of non-expendable equipment and furniture items to headquarters; and (iii) charging expenditures to incorrect account codes.

FAO Guatemala

Although the FAO field programme in Guatemala is one of the largest in the Latin America and the Caribbean Region, the Representation is not fully fledged and its set-up is not commensurate with its operational and administrative demands. This became evident in the weaknesses noted in the three areas of review. Regarding the impact of the decentralization reform activities on operations, AUD noted an insufficient staffing of the Representation and the lack of a National Medium Priority Framework (NMTPF) or equivalent planning framework.

With regards to the EUFF, AUD identified weaknesses in (i) the initial design of the EUFF project (GCP/GUA/020/EC), (ii) the determination of baselines for project indicators, and (iii) the reflection of EUR:USD exchange rate effects in project forecasts.

The shortcomings identified under the financial and administrative component concern (i) the certification of disbursement vouchers, (ii) the quality of record keeping, (iii) banking arrangements, (iv) clearance of technical reports under LOAs, (v) availability and completeness of personnel files, (vi) the preparation of Back-to-Office-Reports and (vii) the storage of IT back-up tapes.

FAO Iraq

Overall, the FAO Representation in Iraq has satisfactorily performed its functions and responsibilities in assisting the Government to meet strategic goals in the areas of agriculture and food security through its leadership of the Agriculture and Food Security Sector Outcome Team (AFSSOT). The Representation consistently met operational and financial requirements of the United Nations Development Group Iraq Trust Fund (UNDG ITF) and maintained reasonable controls over its financial and administrative operations. However, AUD identified a number of areas that require management attention:

- A structured corporate mechanism for monitoring activities carried out by project-funded Representations needs to be developed.

- The Representation is currently in the process of developing a new strategy for FAO's intervention in Iraq, responding to changes in funding requirements by donors. Development of this strategy should be closely monitored by TCES and OSD.

- Although project implementation management is acceptable, undertaking a country-wide risk assessment and developing an annual work plan is necessary.

In general, controls over finance and administration are adequate and function properly. However, the following areas merit management attention: (i) common costs budgeting; (ii) local procurement planning; and (iii) vendor and implementing partner payments.

FAO Kenya

The FAOR understands the reform measures under the Organizational decentralization and the new roles and responsibilities delegated to the Representation. However, the Representation should take the following measures to better meet its expanded workload under the reform: (i) prepare a detailed analysis of available and required human resources to justify its request for additional General Service posts; (ii) collect the Government Counterpart Cash Contribution (GCCC) in arrears and take measures to manage exchange rate risk; and (iii) develop a business continuity framework to avoid disruption of operations during crises.

As at August 2010, the implementation of the EUFF project in Kenya was advancing satisfactorily and is on track to be completed by the June 2011 deadline under the agreement. However, the audit report recommended a number of measures that should be taken to enhance the Project Management Unit's (PMU) control over project funds, inputs and detailed activities. In particular the PMU should (i) develop a timetable for technical backstopping missions to the project; (ii) closely monitor the application of eligibility criteria for selection of beneficiaries by the Implementing Partners (IPs); (iii) obtain financial information from the IPs on the use of funds disbursed to them; and (iv) develop structured procedures for Monitoring and Evaluation of activities carried out by the IPs.

Financial and administrative controls in a number of areas are weak and need to be strengthened. Specifically, AUD found: (i) there is no procurement planning; (ii) expenditures are charged to incorrect account codes; (iii) frequent delays in updating the inventory lists of equipment and furniture and in communicating new acquisitions to headquarters; (iv) handling of cash payment for overtime is not compliant with the

Administrative Manual; and (v) there is no regular follow-up on advances paid to non-staff personnel.

FAO Myanmar

Overall, the internal controls over finance and administration have strengthened since AUD's previous review in 2009, but several areas require additional attention. Foremost, the Organization should either upgrade Internet connectivity, which will require a major investment, or develop a contingency plan that permits the Representation to operate independent of electronic exchange of information. Despite past incremental improvements in IT connectivity, continuing weaknesses impede the Representation's ability to operate efficiently and effectively.

Additionally there are continuing weaknesses in the segregation of duties for payment processes, which need to be strengthened. The recruitment of a new Assistant FAOR (Administration) is expected to improve controls and operations, but this new staff member, as well as the recently recruited Assistant FAOR (Programme), will require training in Organizational policies and procedures to be effective. Furthermore, the procurement function needs to be improved by better structuring the procurement committee, using a single currency for quotations and complying with delegated authority to sign LOAs. Finally, at the time of the review, the FAOR had not yet assessed the impact of decentralization reform activities under the IPA on the Representation's operations.

FAO Pakistan

The audit concluded that the absence of a full-time FAOR since May 2007 diminished the value and influence of FAO's presence and operations in Pakistan. This was recently addressed by the appointment of a new FAOR. AUD found the Representation generally has a sound framework of internal controls for its internal administration and demonstrated a strong awareness of controls and accurate reporting. However, AUD identified several areas that need to be strengthened, such as reducing error rates in documents prepared by project offices, improving workflow efficiency and monitoring payment schedules for LOAs. Moreover, the FAOR must ensure the security of all FAO personnel, including contract staff such as NPPs and PSAs, as required by FAO's Field Security Policy. The decentralization reform activities have had limited impact on the Representation thus far, focussing on increased authority for procurement and local staff recruitment.

The EUFF project in Pakistan appears to be on schedule without major budget changes. The main project office, which manages implementation from Islamabad, has a good internal control framework, given the pressure to complete the project in 14 months. However, security restrictions on travel to project sites prevented AUD from drawing a stronger conclusion as to the overall project performance and the adequacy of the EU Facility internal control structure. Furthermore, at the time of the audit, evidence on project performance and data collection was not available in the main project office. To address this issue the project hired an independent organization in August 2010 to visit project areas and collect monitoring information. Lastly, although the selection process for implementing partners was adequate, there are opportunities to improve the transparency of amendments and budget negotiations. The EU focal point in Pakistan monitors the project closely and expressed overall satisfaction with project implementation.

FAO Sudan

The FAOR and senior Representation staff understand the reform measures under the Organizational decentralization and their roles and responsibilities. However, there are three measures that should be taken by the FAOR to better prepare the Representation for assuming the new responsibilities: (i) collection of the Government Counterpart Cash Contribution (GCCC) in arrears and measures to manage exchange rate risk; (ii) preparation of a detailed analysis of available and required human and financial resources; and (iii) preparation of a business continuity plan.

Generally, the Representation's financial and administrative controls are reasonable and operate as prescribed. However, AUD identified weaknesses in the following areas that need to be addressed by the FAOR: (i) periodically testing the competitiveness of the travel agency contract, (ii) availing FAO of tax exemption privileges, (iii) control over non-expendable equipment/furniture, (iv) accounting for office and project expenditures, and (v) remuneration of National Project Personnel (NPP) and Personal Service Agreement (PSA) subscribers.

FAO Regional Office for Europe & Central Asia (REU)

Overall REU understood their roles and responsibilities under the decentralization process. Generally, REU has adequate staff and non-staff resources to assume the new roles and responsibilities resulting from the Immediate Plan of Action (IPA) projects related to decentralization. Headquarters responsibilities delegated to Regional Offices (ROs) were properly communicated to REU and were smoothly incorporated into its work plan for actual implementation. Nevertheless, the decentralization process could be strengthened if REU: (i) developed annual work plans for the countries where FAO is represented by National Correspondents; (ii) more clearly defined the responsibilities of REU and the Subregional Offices (SROs) in connection with strategic development and partnership with regional organizations; and (iii) developed a staff training plan based on a training needs assessment.

AUD noted the financial and administrative controls in REU are not functioning as prescribed. AUD found weaknesses in the management of imprest accounts, local procurement and charging of expenditures to account codes. Furthermore, many of the LOAs issued by REU for services and products were not in compliance with the requirements of Manual Section 507. This mainly occurred because internal staffing conflicts among several former staff had disrupted supervision over the financial and administrative processes as well as the work atmosphere generally. The newly appointed ADG/RR has begun taking action to correct these weaknesses.

FAO Subregional Office for Central Africa (SFC)

The audit concluded that SFC does not have the necessary complement of staff and skill sets it needs to effectively assume the new roles and responsibilities under the IPA Reform. A corporate review of the skills mix in Regional Offices (ROs) and Subregional Offices (SROs), coordinated by OSD in 2009, identified additional posts and skills that were needed by SFC. Nevertheless, these additional posts could not be created under the 2010-2011 Programme of Work and Budget (PWB) due to a corporate suspension of increase in budget allotments.

To help fill the gap and better balance the skills and human resources requirements, SFC, together with RAF, TCS, OSD and CSH, should develop alternative actions or build on existing measures to improve its capacity. For example, an exchange of technical officers among SROs could enhance the skills pool and guidelines developed to clearly define the new responsibilities delegated to SROs related to strategic planning and partnerships with regional organizations.

AUD also noted that the operational effectiveness of the financial and administrative internal controls in SFC is largely dependent upon the direct involvement of the International Administrative Officer in every transaction. During his absence, controls are not applied as prescribed due to the low capacity of national financial and administrative staff. These staff will require intensive on-the-job training and coaching on the processes of recording transactions in the Field Accounting System (FAS), disbursements, procurement and travel. In addition, the Subregional Coordinator (SRC) will need to: (i) ensure there is proper segregation of duties within the finance and administrative section; (ii) establish a system for monitoring the implementation of LOAs; (iii) ensure staff comply with locally developed procurement procedures; and (iv) develop a fraud control plan.

FAO Subregional Office for Eastern Africa (SFE)

The review of SFE primarily focused on the effectiveness of addressing subregional priorities. SFE is a relatively new office and has begun the process of identifying subregional priorities and putting in place the subsidiary elements to manage its activities in accordance with these priorities. AUD identified several areas that the Subregional Coordinator (SRC) needs to address to help ensure the process they put in place is effective: (i) preciseness and focus in defining subregional priorities; (ii) integration of subregional priorities with national priorities of the subregion's countries; (iii) engaging relevant stakeholders, such as subregion-wide institutions, in the process of identifying subregional priorities; and (iv) development of a broadly supported subregional strategy and an integrated and comprehensive workplan to address subregional priorities.

AUD also noted that the assignment of multiple responsibilities of the SRC may reduce his overall effectiveness and should be evaluated. Furthermore, creative solutions to SFE´s current understaffing should be explored.

Subregional Office for the Pacific (SAP)

The SAP review also focused primarily on the effectiveness of addressing subregional priorities. Overall, AUD found that SAP has achieved its responsibilities by identifying national priorities of the member countries and consolidating the results into a single document with subregional priority themes, which the South West Pacific Ministers of Agriculture endorsed in May 2009. In addition, SAP used a clear mapping process to link planned 2009 activities to the priorities and the programme allotments. However, although the priority themes emerged from extensive consultation with stakeholders in the subregion, the document does not demonstrate consultation at the regional or global levels or the linkages of the subregional priorities at these levels. SAP recognizes the office must devise a strategy for using the priorities to guide field programme development.

In addition, the funding and programme allotments issued to SAP are not clearly linked to the subregional priorities and the SAP officials believe the office has limited influence on how

allotments are determined. However, SAP's work plan is not properly costed and does not have information to show its actual resource needs. The Subregional Representative's (SRR) multiple responsibilities, particularly the travel requirements associated with his role as FAOR to the 13 member countries as well as Samoa where SAP is located, reduce his overall effectiveness.

Office of the Inspector General
Organization Chart
December 2010

Inspector General
J. Fitzsimon - D2

Support Staff:
K. Travers, Secretary, G6
G. Byrd, Clerk-Typist, G4
K. Singh, Records Clerk, G4
A. Petraia, Clerk-Typist, G3
B. Zak, Clerk-Typist, G3

Audit
D. Temme, Principal Auditor, D1
A. Barrow, Senior Auditor, P5
F. Lincke, Senior Auditor, P5
M. Mukhitdinova, Internal Auditor, P4
D. Ramirez-Léon, Internal Auditor, P4
D. Richards, Internal Auditor RAP, P4
A. Shalaby, Internal Auditor RNE, P4
M. Smith-John, Internal Auditor RAF, P4
Vacant, Internal Auditor RLC, P4
R. Abarquero-Grossi, Internal Auditor, P3
U. Kremers, Internal Auditor, P3
C. Nurshingdass, Internal Auditor, P3
Vacant, Internal Auditor, P3
Vacant, Internal Auditor, P3
Vacant, Internal Auditor, P3
S. Beck, Internal Auditor, P2
D. Chiodi, Audit Clerk, G5

Investigation
P. Fonte, Senior Investigator, P5
E. Bolkart, Investigator, P4
M. Carbone, Investigator, P3
J. Ritter, Investigator, P2

Office of the Inspector General
Staffing table as at December 2010

	Grade	Male	Female	Vacant	Total
Inspector General	D2	1			1
Auditors					16
Principal auditor	D1	1			
Senior Auditor	P5	2			
Regional Auditor	P4	2	1	1	
Auditor	P4	1	1		
Auditor	P3	2	1	3	
Auditor	P2		1		
Investigators					4
Senior Investigator	P5	1			
Auditor/Investigator	P4		1		
Investigator	P3		1		
Investigator	P2		1		
Audit Clerk	G5		1		1
Secretarial and Administrative Support					5
Secretary	G6		1		
Clerk/Typist	G4		1		
Records Clerk	G4	1			
Clerk/Typist	G3	1	1		
		12	**11**	**4**	**27**

The following countries are represented in the above:

Country	Headquarters	Region	General Service	Total
Argentina	1			1
Australia	1			1
Austria	1			1
Canada			1	1
Egypt		1		1
Germany	2			2
India			1	1
Italy	1		2	3
Jamaica		1		1
Latvia	1			1
Mauritius	1			1
Spain	2			2
UK	1		1	2
USA	2	1	1	4
Uzbekistan	1			1
Vacant	3	1(RLC)		4
	17	**4**	**6**	**27**

LIST OF ACRONYMS USED

ADG/RR – Assistant Director-General, Regional Representative

BCM – Business Continuity Management

CS – Corporate Services, Human Resources and Finance Department

CSA – Administrative Services Division

CSAP – Procurement service

CSF – Finance Division

CSH – Human Resources Division

DDG–K – Deputy Director–General, Knowledge

DDG –O – Deputy Director–General, Operations

DO – Decentralized Office

DON – Decentralized Office Network

ERCU – Emergency Recovery and Coordination Unit

ERM – Enterprise Risk Management

EUFF – EU Food Facility

FAOR – FAO Representative

FPMIS – Field Programme Management Information System

GOE – General operating expenses

IIA – Institute of Internal Auditors

IP – Implementing Partner

IPA – Immediate Plan of Action

ISFP – Initiative on Soaring Food Prices

JIU – Joint Inspection Unit of the UN

LAP – Local Audit Programme

LEG – Legal Office

LOA – Letter of Agreement

NGO – Non–Governmental Organization

NMTPF – National Medium Term Priority Framework

NSHR – non-staff human resources

OED – Office of Evaluation

OSD – Office of Support to Decentralization

OSP – Office of Strategy, Planning and Resources Management

PEMS – Performance Evaluation Management System

PIRES - Programme Planning, Implementation Reporting and Evaluation Support System

PSSC – Professional Staff Selection Committee

PWB – Programme of Work and Budget

QAIP – Quality Assessment & Improvement Programme

RBAP – Results-based audit plan

RBM – Results-based management

REU – Regional Office for Europe and Central Asia

RO – Recipient Organization

SAP – Subregional Office for the Pacific

SFC - Subregional Office for Central Africa

SFE – Subregional Office for Eastern Africa

SFW - Subregional Office for West Africa

SLA – Service level agreements

SRC – Subregional Coordinator

SRO – Subregional Officer

SSC – Shared Services Centre (Budapest)

TCEO – Emergency Operations and Rehabilitation Division

ULO – Unliquidated obligations

UN–RIAS – UN Representatives of Internal Audit Services

UNDG – United Nations Development Group