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de las  
Naciones Unidas  
para la  
Alimentación y la  
Agricultura

## CONFERENCE

**Thirty-eighth Session**

**Rome, 15 - 22 June 2013**

**Audited Accounts - FAO 2010-2011  
Part B - Report of the External Auditor**

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**LONG FORM REPORT OF THE EXTERNAL AUDITOR  
ON THE FINANCIAL STATEMENTS OF  
THE FOOD AND AGRICULTURE ORGANIZATION  
OF THE UNITED NATIONS  
FOR THE FINANCIAL PERIOD 1 JANUARY 2010 TO 31 DECEMBER 2011**

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## Summary

1. The External Auditor audited the financial statements for the biennium ended 31 December 2011 of the Food and Agriculture Organization (FAO) of the United Nations (which will also be referred to as the Organization in this report). The audit was carried out through (a) field visits to FAO regional offices in Thailand, Ghana and Chile; sub-regional offices in Hungary and Ethiopia; and Representation offices in Pakistan, Somalia, Sudan, Myanmar, Sri Lanka and Ethiopia; and (b) review of the financial transactions and operations at headquarters in Rome and the Shared Service Centre in Budapest.

2. Included in the audit during the biennium under review are management areas such as: Results-based Management (RBM), Enterprise Risk Management (ERM), International Public Sector Accounting Standards (IPSAS)/Enterprise Resource Planning (ERP) Project (now Global Resource Management System or GRMS Programme), Human Resource Management, Special Fund for Emergency and Rehabilitation Activities (SFERA), Management of Emergency and Rehabilitation Activities, Technical Cooperation Programme (TCP) and Project Evaluation.

3. The External Auditor also reviewed the Status of Funds for projects funded by United Nations Population Fund (UNFPA), United Nations Development Programme (UNDP) and Global Environment Facility (GEF) Fund.

### *Audit Opinion*

4. The External Auditor issued an unqualified opinion on the financial statements for the period under review as reflected in Part A of the present report. The External Auditor previously issued an unqualified opinion on the financial statements for the biennium 2008-2009.

### *Summary of Recommendations*

5. The External Auditor has made several value-adding recommendations based on its audit. The main recommendations are that the Organization:

Audit of Headquarters		Priority	Timeline
<b>Assessed Contributions of Member Nations</b>			
1	<b>Encourage the Member Nations to promptly pay their current assessments and settle their contributions in arrears through the installment plan scheme for better liquidity, and to sustain the Organization's Programme of Work. (Paragraph 43)</b>	Fundamental	2012
<b>Budgetary Controls</b>			
2	<b>Improve budget governance by providing a layer of control to monitor the budget holder's action on expenditure commitments, and to treat risks of over-commitment at source. (Paragraph 50)</b>	Significant	2012

<b>Audit of Headquarters</b>		<b>Priority</b>	<b>Timeline</b>
<b>3</b>	<b>Ensure that expenditures are always within the limits of the authorized project budget and cash provided by the donors by: (a) constantly monitoring the cash balance and considering it as the limit of further incurring expenditure for the project; (b) promptly initiating the request for Call for Funds in accordance with Project Agreements when cash balance is low; (c) promptly preparing Budget Revision with the proper approval before committing expenditures that will exceed the latest approved budget; and (d) constantly ensuring that charges to the project are appropriate. (Paragraph 60)</b>	Fundamental	2012
<b>4</b>	<b>Expedite action in coordination with relevant divisions and/or donors to resolve the over-expenditures in operationally closed projects and allow their financial closures. (Paragraph 62)</b>	Significant	2012
<b>Implementation of IPSAS/ERP Project</b>			
<b>5</b>	<b>Strengthen project risk management by constantly addressing all existing and emerging risks, and closely monitoring all major activities of the project, to ensure the implementation of IPSAS in 2014. (Paragraph 69)</b>	Fundamental	2012
<b>6</b>	<b>Expedite the preparation and finalization of the User Requirement Document (URD), User Request Analysis Worksheets (URAWs) and Accounting Policy Statements to ensure that planned timelines are met, to provide a valid basis for the updating of financial rules and regulations, the preparation and finalization of Reporting and Control Deliverables, and to provide valid and necessary inputs for the IPSAS compliant R12 components. (Paragraph 71)</b>	Significant	2012
<b>7</b>	<b>Prepare and finalize a Policy Guidance Manual that establishes and provides policy, practice and guidance on the application of IPSAS, and complement the standards and other professional accounting pronouncements in the Organization as well as provide information on what IPSASs are directly or not directly related to its operations. (Paragraph 77)</b>	Significant	2012
<b>Results-based Management</b>			
<b>8</b>	<b>The Office of Strategy Planning and Resource Management (OSP) together with concerned Departments/Divisions and Strategy Teams: (a) review the formulation of Organizational Results (ORs), Unit Results (URs) or Organizational Outputs (OOs) by ensuring that these are stated in observable changes or outputs to ensure clear association of its contribution to the achievement of the related Strategic Objective (SO)/Functional Objective</b>	Significant	2012

<b>Audit of Headquarters</b>		<b>Priority</b>	<b>Timeline</b>
	(FO)/OR; and (b) identify and complete the baseline and target values that are consistent with the performance indicators for the ORs/URs/OOs to ensure that the evaluation/assessment of the progress and the achievement of expected results and future planning are facilitated for the next Medium Term Plan (MTP)/Programme of Work and Budget (PWB). (Paragraph 86)		
9	Emphasize in the RBM guidelines that all units should undergo the mid-year review and capture the results in Programme Planning Implementation Reporting and Evaluation Support System (PIRES) in conformity with the RBM Monitoring and Reporting Guidelines. (Paragraph 115)	Significant	2012
10	Promote and strengthen the use of the existing Quality Assurance facility in PIRES to (a) reinforce accountability and commitment by responsible officers; (b) ensure quality in the design, smooth implementation and monitoring of programmes or projects; and (c) effect the objective evaluation of ORs/URs for the achievement of intended results. (Paragraph 119)	Significant	2012
11	Focus on the measurement and reporting of results vis-à-vis resource inputs and utilization, and consider integrating the programme and financial performance into one report to provide policy makers inputs in the planning and budgeting process. (Paragraph 124)	Significant	2012
<b>Enterprise Risk Management</b>			
12	Intensify the implementation of the ERM project and monitor more effectively its progress to achieve intended results on time, enable Management to act on key corporate risks, and protect the reputation, relevance and future existence of the Organization. (Paragraph 136)	Fundamental	2012
13	Enhance the Project Staff Structure by: (a) anticipating the next steps vis-à-vis the personnel movement/ availability and increasing the number of staff to work on the Project as a means of ensuring that schedules are met and all required deliverables are transmitted; (b) creating the Corporate Risk Committee to ensure the smoother flow of affairs and activities leading up to the achievement of this particular Immediate Plan of Action (IPA) reform; and (c) coordinating with concerned communications division, involving people to communicate the essentials, and making technology work for the Project by creating a dedicated webpage link to the ERM Project. (Paragraph 141)	Significant	2012

<b>Audit of Headquarters</b>		<b>Priority</b>	<b>Timeline</b>
<b>Technical Cooperation Programme</b>			
<b>14</b>	<b>Improve the rate of approval and project delivery by: (a) providing a policy that defines a timeframe for every stage of the process taking into account past experiences or lessons learned in securing project approvals; (b) monitoring action of the budget holders on uncontrollable factors and providing optimal advice on the disposition of the project based on these factors; (c) examining projects in various pipeline stages and extracting exceptions caused by insufficient funding, low priorities, pending formal requests from governments/partners and project revisions, if any, and monitoring the disposal of these exceptions by the budget holders; and (d) the TCP Coordinator ensuring that projects in the active pipeline can be funded within 12 months. (Paragraph 155)</b>	Fundamental	2012
<b>15</b>	<b>Improve corporate monitoring and oversight over the programme. Take essential actions to address the root causes of projects which have remained unfinished despite the past Not to Exceed (NTE) dates and those needing operational and financial closure. This is to minimize, if not eliminate, similar occurrences in the future. (Paragraph 168)</b>	Significant	2012
<b>16</b>	<b>Strengthen monitoring structure by instituting periodic internal Quality Assurance (QA) Reviews on projects to detect and address promptly at source warning of delays and other impediments. (Paragraph 176)</b>	Significant	2012
<b>Management of Emergency and Rehabilitation Activities</b>			
<b>17</b>	<b>Make the operating information more reliable by obtaining necessary country-level data as basis for decision-making. (Paragraph 182)</b>	Significant	2012
<b>18</b>	<b>Pursue monitoring activities with the participation of non-Emergency Operations and Rehabilitation Division (TCE) personnel in the entire SO I activities.</b>  <b>Embed in the programmed actions the monitoring activities pertaining to coordination since majority of SO I teams are not directly under the supervision of the TCE. (Paragraph 185)</b>	Significant	2012
<b>19</b>	<b>Require submission of reports within the project time frames despite identified constraints.</b>  <b>Prioritize the enhancement of the competencies of those charged with report preparation particularly in the field offices. (Paragraph 197)</b>	Significant	2012

<b>Audit of Headquarters</b>		<b>Priority</b>	<b>Timeline</b>
<b>20</b>	<p><b>Make policy enhancements to the Field Programme Manual to define timelines for full settlement of commitment, filing of pending claims, and processing of Property Transfer Form (PTF).</b></p> <p><b>Include in the Project Agreements clauses pertaining to Disposal of Equipment, or use of equipment after the NTE date. (Paragraph 209)</b></p>	Significant	2012
<b>Human Resources Management</b>			
<b>21</b>	<p><b>Closely coordinate with the Human Resources Management Division (CSH) and Professional Staff Selection Committee (PSSC) Secretariat to ensure that submissions for possible appointment will not cause the countries they represent to reach the upper representation limit, to sustain the Organizations' gender balance and geographic representation targets. (Paragraph 224);</b></p>	Significant	2012
<b>22</b>	<p><b>Ensure timely recording of the changes in the geographical representation resulting from change of nationality, recruitments, mandatory retirements, resignation and other modes of separation and include in the Geographical Representation Report, the causes of the change in representation of member countries for an accurate and timely representation profile. (Paragraph 225)</b></p>	Significant	2012
<b>23</b>	<p><b>Establish measures to: (a) streamline the recruitment process of Junior Professionals; (b) use the system of iRecruitment in processing applications under the Junior Professional Programme (JPP); and (c) ensure compliance with the requirements of preparing a Project Implementation Document (PID) to establish a clear project outline and more realistic targets and timeframes. (Paragraph 229)</b></p>	Significant	2012
<b>24</b>	<p><b>Proceed with the issuance of an official Corporate Mobility Policy to provide a common understanding of the goals, benefits and specific expectations of the Organization from its staff with regard to their performance and conduct as well as to provide guidance on staff rotations and reassignments. (Paragraph 240)</b></p>	Significant	2012
<b>Project Evaluation</b>			
<b>25</b>	<p><b>Enhance the evaluation policy to comply with the United Nations Evaluation Group (UNEG) Standards by including in the Office of Evaluation (OED)</b></p>	Significant	2012

<b>Audit of Headquarters</b>		<b>Priority</b>	<b>Timeline</b>
	<b>Charter: (a) Responsibilities of evaluators and their required competencies; (b) Expectations from senior management and programme managers; (c) Criteria for the selection of projects to be evaluated; (d) Timing of the conduct thereof; (e) Institutionalization of the monitoring of evaluation results; and (f) Maintenance of an up-to-date database containing findings, recommendations and lessons learned for use by the Organization and its stakeholders in making decisions. (Paragraph 246)</b>		
<b>26</b>	<b>Review the existing planning and collaboratively develop with OED staff the evaluation work plan to foster transparency in planning, monitoring and reporting on the status and results of each project evaluation. (Paragraph 250)</b>	Significant	2012
<b>27</b>	<b>Conduct an ex-post evaluation on projects to fully assess the impact and sustainability of completed projects. Allocate a budget for the conduct of ex-post evaluation. (Paragraph 258)</b>	Significant	2012
<b>28</b>	<b>Improve the QA tools by providing adequate descriptions/criteria or values to the questions/issues and the scoring scale, where applicable and to the extent practicable, to ensure the quality of the project evaluation processes and outputs. Utilize the QA tools during the execution of evaluation apart from ex-post to ensure improved quality of evaluation processes and reports. (Paragraph 260)</b>	Significant	2012
<b>29</b>	<b>Continue to closely monitor the submission by responsible officials of their responses to evaluation and follow-up reports. Call the attention of those concerned for noted delay or non-submission of the Management Response and Follow-up Reports. Indicate in the report or record the date of receipt of the said reports for monitoring and control purposes. (Paragraph 265)</b>	Significant	2012
<b>30</b>	<b>Establish a validation/closure procedure for implemented recommendations and a monitoring system that will keep track, either on a semestral or annual basis, the status of recommendations until closure. (Paragraph 266)</b>	Significant	2012

<b>Audit of Decentralized Offices</b>		<b>Priority</b>	<b>Timeline</b>
<b>Project Management</b>			
<b>31</b>	<b>Work within the approved project budget, and in the case of Trust Fund (TF) projects, work within the cash received from donors; ensure that funds are available for the project before incurring commitments and</b>	Significant	2012



<b>Audit of Decentralized Offices</b>		<b>Priority</b>	<b>Timeline</b>
	<b>expenditures; diligently monitor and check cash balances through Field Programme Management Information System (FPMIS), Oracle Data Warehouse and Field Accounting System (FAS); and alert Finance Division (CSF) of any prospective need to obtain additional cash from the donor. (Paragraph 273)</b>		
<b>32</b>	<b>Ensure the provision of evaluation budget for every project to enable the conduct of a terminal or ex-post evaluation. (Paragraph 277)</b>	Significant	2012
<b>Procurement and Letters of Agreement (LoA)</b>			
<b>33</b>	<b>Take an active role in developing the competencies of field procurement to ensure that procurements in the decentralized offices are done correctly and in the best interest of the Organization. (Paragraph 283)</b>	Significant	2012
<b>34</b>	<b>Monitor the progress of completed activities vis-a-vis the expenditures incurred by the Implementing Partners (IPs) with the view of avoiding incurrence of overpayment. (Paragraph 289)</b>	Significant	2012
<b>35</b>	<b>Ensure that the schedule of payment in the LoA adequately protect the Organization's interests and encourage timely delivery of services/products. (Paragraph 290)</b>	Significant	2012
<b>36</b>	<b>Ensure that the IPs selected possess good track record and financial capacity, and can perform the activities without requesting significant amounts as initial payment and ensure that the amount of advance payment falls within the limit set out in MS 507. (Paragraph 291)</b>	Significant	2012
<b>Asset Management</b>			
<b>37</b>	<b>Improve asset management by: (a) strict compliance with the Organization's manual, regulations and rules through regular submission of an updated Year-end Asset Report (YEAR) as basis for reconciliation with headquarters records; (b) regular monitoring of procurement of non-expendable properties; and (c) prompt reporting of acquisitions using the ADM 41, and losses, damages and non-serviceability using ADM 83. (Paragraph 294)</b>	Significant	2012
<b>Consultants</b>			
<b>38</b>	<b>Implement the prescribed controls and guidelines/regulations in hiring consultants. (Paragraph 300)</b>	Significant	2012
<b>39</b>	<b>Enforce the provisions of MS 319 particularly on the competitive selection process in the choice of consultants to afford the FAO Representation Office (FAOR) Ethiopia the opportunity of getting the best</b>	Significant	2012

<b>Audit of Decentralized Offices</b>		<b>Priority</b>	<b>Timeline</b>
	<b>expert at the most advantageous cost. Expand database of consultants and maximize the use of the Roster to reduce dependence on a limited number of experts in the hiring process. (Paragraph 303)</b>		
<b>40</b>	<b>Ensure strict compliance with financial regulations, rules and policies to improve the financial and cash management in the decentralized offices. (Paragraph 306)</b>	Significant	2012
<b>41</b>	<b>Improve monitoring control in decentralized offices by checking regularly their compliance with the Organization's financial regulations and policies to address the risk of inappropriate use of funds. Consider in the action plan of CSF the build-up of competencies of staff performing financial functions in decentralized offices (Paragraph 307)</b>	Significant	2012

Note:

Fundamental: Action is considered imperative to ensure that the Organization is not exposed to high risks. Failure to take action could result in serious financial consequences and major operational disruptions.

Significant: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in financial consequences and operational disruption.

Other significant recommendations of the External Auditor appear in paragraphs 48, 49, 61, 63, 74, 87, 96, 102, 107, 111, 146, 161, 164, 172, 177, 188, 190, 193, 202, 205, 215, 219, 232, 236, 247, 274, 279 and 297 of the present report.

### ***Previous audit recommendations***

6. The status of implementation by Management of previous audit recommendations of the External Auditor is embodied in a separate report presented to the Finance Committee. Of the 27 recommendations made for the biennium 2008-2009, 11 recommendations (41 per cent) were fully implemented and 16 recommendations (59 per cent) are under implementation. We reiterate the recommendations and request Management to implement the same.

#### **A. Mandate, Scope and Methodology**

7. The External Auditor audited the financial statements and reviewed the operations of the Organization for the biennium ended 31 December 2011 in accordance with Regulation XII of the FAO Financial Regulations.

8. The audit was conducted in conformity with Financial Regulations 12.1 to 12.10 of the Organization and the additional Terms of Reference relative to External Audit which are appended to said Financial Regulations and the International Standards on Auditing. Those standards require that the External Auditor comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

9. The audit was conducted primarily to enable the External Auditor to form an opinion as to whether the financial statements presented fairly the financial position of the Organization as at 31 December 2011, and the results of its operations and cash flows for the financial biennium then ended in accordance with the United Nations System Accounting Standards (UNSAS). This included an assessment as to whether the expenditures recorded in the financial statements have been incurred for the purposes approved by the governing bodies, and whether income and expenditures have been properly classified and recorded in accordance with the Financial Regulations and Rules. The audit included a general review of financial systems and internal controls, and a test examination of the accounting records and other supporting evidence to the extent that the External Auditor considered necessary to form an opinion on the financial statements.

10. The audit included examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also included the assessment of the accounting principles used and significant estimates made by the Organization, and the overall presentation of the financial statements.

11. Furthermore, the External Auditor reviewed the Status of Funds of the programmes implemented in cooperation with or on behalf of other agencies, namely:

- FAO/UNFPA Biennium Status of Funds and Schedule I – Biennial Expenditures Statement as at 31 December 2011;
- FAO/UNDP Status of Funds and Schedule I – Schedule of Expenditures on Projects executed by the Organization as at 31 December 2011; and
- FAO/GEF – Status of Funds for the biennium ended 31 December 2011.

12. The External Auditor also carried out a review of the Organization's operations under Financial Regulation 12.4 which required the External Auditor to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls, and in general, the administration and management of its operations. Those matters are addressed in the relevant sections of this report.

13. The External Auditor continuously reported audit results to Management in the form of management letters and short-form reports containing detailed observations and recommendations. The practice allows for ongoing dialogue with Management.

14. The External Auditor coordinated planned audit areas with the Office of the Inspector General to avoid duplication of efforts, and to determine the extent of reliance that can be placed on the latter's work. It also collaborated with the Organization's Audit Committee to further enhance its audit work.

15. The present report covers matters that, in the opinion of the External Auditor, should be brought to the attention of the FAO Conference.

## B. Findings and Recommendations

### Audit of Headquarters

#### 1. Financial overview

##### *Key financial ratios*

16. The Organization's financial statements cover regular programme and extra-budgetary resources. The key financial indicators based on the financial position as at 31 December 2011 are set out in Table I.1 below.

**Table I.1**  
**Ratios of key financial indicators**

Description of ratio	General & Related Funds (Regular Programme)			Trust & UNDP Funds (Extra-budgetary)			All Funds		
	Biennium ended 31 December								
	2007	2009	2011	2007	2009	2011	2007	2009	2011
Cash/Total Assets <sup>a</sup>	0.074	0.120	0.115	0.973	0.991	0.999	0.594	0.698	0.662
Cash/Current Liabilities <sup>b</sup>	0.243	0.365	0.308	1.008	1.029	1.051	0.865	0.931	0.907
Current Assets/Current Liabilities <sup>c</sup>	1.272	1.097	1.052	1.036	1.038	1.052	1.080	1.049	1.052
Total Assets/Total Liabilities <sup>d</sup>	0.563	0.494	0.486	1.036	1.038	1.052	0.765	0.757	0.729

<sup>a</sup> A high ratio depicts a healthy financial position.

<sup>b</sup> A high ratio reflects the extent of cash available to settle debts.

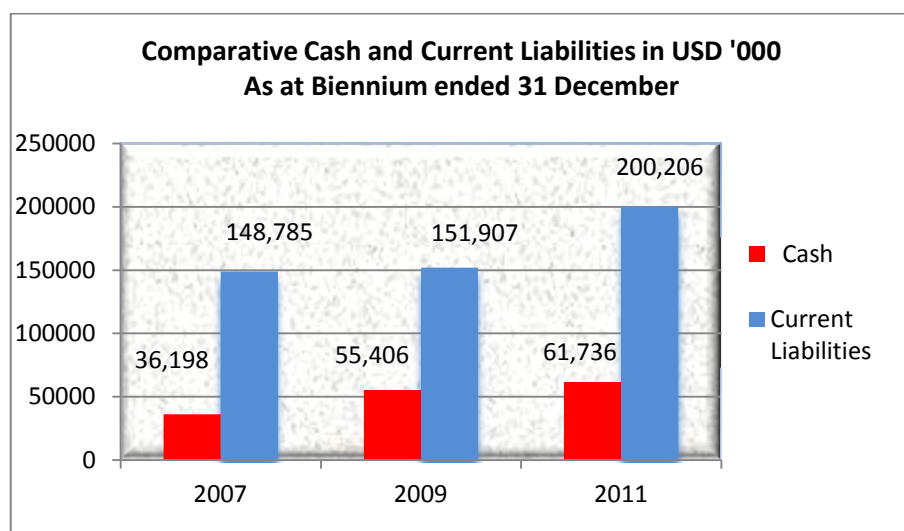
<sup>c</sup> A high ratio reflects the entity's ability to meet short-term debt obligations; the higher the ratio, the more liquid the entity is.

<sup>d</sup> A high ratio reflects a positive solvency position.

##### *General and Related Funds*

17. The cash-to-total assets ratio decreased from 0.120 in 2009 to 0.115 in 2011. The decrease is attributed to the increased balances of contributions receivable and accounts receivable (see Statement II). This condition is aggravated by the low cash-to-current liabilities ratio which indicates that only about one-third of the current liabilities are backed up by cash (see Figure 1). Moreover, the current assets-to-current liabilities ratio has been on a downward trend since 2007 but current assets still exceed current liabilities by 5 per cent as at 31 December 2011. Finally, the total assets-to-total liabilities ratio has been steadily decreasing since 2007. Assets can cover only about half of the liabilities in 2011 since fund balance deficit increased from USD 473.032 million in 2009 to USD 569.170 million in 2011 (see Statement II).

**Figure 1**



18. The liquidity position of the Organization under the General Fund as represented by cash, cash equivalent and short-term deposits amounted to USD 61.37 million as at 31 December 2011, registering an increase of USD 5.96 million from the 31 December 2009 amount of USD 55.41 million. The short-term liquidity of the Organization is represented in the current ratio, i.e., current assets to current liabilities (see Table I.1) at 31 December 2011 of 1.052, which is above that of the 2008-2009 biennium of 1.049. The cash and short-term deposits significantly decreased from USD 878.94 million as at 31 December 2009 to USD 568.49 million as at 31 December 2011.

19. There is a noticeable increase in total contributions receivable. Comparison of the biennium end figures shows that from the 2008-2009 balance of USD 97.10 million, the balance went up to USD 117.67 million. The increase is attributed primarily to the increase in the outstanding assessment on Member Nations by USD 28.41 million.

20. As in the previous years, staff salaries continued to form a major part of the Organization's expenses. For 2010-2011, staff salaries charged to General and Related Funds amounted to USD 653.46 million, or 59.17 per cent of the total expenditures of USD 1,104.39 million.

### ***Trust and UNDP Funds***

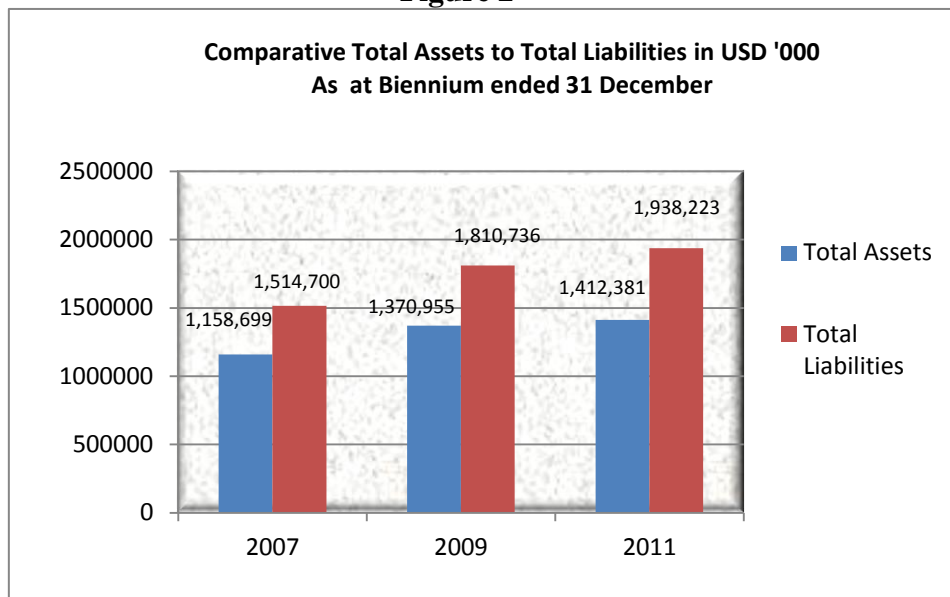
21. The ratio analysis shows that the Trust and UNDP Funds are in a healthy financial position and are highly liquid. The cash-to-total assets ratio at 0.999 in 2011 indicates that cash is not tied up to any activity. The ratios of cash to current liabilities, current assets to current liabilities, and total assets to total liabilities signify that available cash or assets can adequately cover liabilities. The healthy balance sheet ratios for Trust and UNDP Funds strongly indicate that the ongoing requirements of operations can be adequately supported.

22. Purchases of expendable and non-expendable equipment of USD 522.08 million comprised the biggest chunk of expenditures for Trust and UNDP Funds at 31.99 per cent of the total expenditures of USD 1,632.18 million.

**All Funds**

23. On the whole, the financial position of the Organization is adversely affected by the poor financial position of the General and Related Funds. The ratios of cash to total assets, cash to current liabilities, and total assets to total liabilities decreased slightly from 2009 to 2011 primarily due to increases in the balance of receivables and total liabilities. The total assets cover approximately only 73 per cent of total liabilities (see Figure 2). However, the total current assets-to-current liabilities ratio of 1.052 in 2011 shows that current assets can more than cover the current liabilities. It should be noted that the main reason for the shortfall between total assets and total liabilities is the unfunded staff-related liabilities.

**Figure 2**



**Financial Position of the Organization**

24. The financial position of the Organization is still in a shortfall position as of the end of biennium 2010-2011.

**General Fund**

25. The assets of the Organization under the General and Related Funds totalled USD 537.10 million as at 31 December 2011 against USD 461.32 million as at 31 December 2009. Cash and term deposits increased from USD 55.41 million to USD 61.38 million (10.77 per cent) while Contributions Receivable increased from USD 82.39 million to USD 110.38 million (33.97 per cent).

26. On the other hand, liabilities under the General and Related Funds increased from USD 934.35 million as at 31 December 2009 to USD 1,106.26 million as at 31 December 2011, representing an increment of USD 171.91 million. The increment is mainly due to increases in Contributions received in advance (USD 17.16 million), Unliquidated Obligations (USD 5.50 million), and Staff-Related Liabilities (USD 123.62 million).

27. The total deficit in Total Reserves and Fund Balances continued to increase from USD 439.78 million as at 31 December 2009 to USD 525.84 million as at 31 December 2011, representing an increase in deficit of USD 86.06 million or 19.57 per cent.

28. The restated net shortfall of income over expenditures in the General and Related Funds in the previous biennium of USD 92.29 million decreased to USD 78.90 million for this biennium, or by USD 13.39 million (see Statement I). This is due to the increase in the Excess of Income Over Expenditure from USD 27.18 in biennium 2008-2009 to USD 100.46 million in 2010-2011, and the increase in the Return on Long-term Investments by USD 54.35 million.

29. The Interest Cost of staff-related liabilities remains a major contributor to the net shortfall. This increased to USD 114.95 million in biennium 2010-2011 from USD 94.75 million in biennium 2008-2009. Actuarial losses also increased to USD 40.39 million from USD 22.05 in biennium 2008-2009 as a result of the increase in actuarial losses recognized for After-Service Medical Coverage and Terminal Payment Funds.

30. Overall, the General and Related Funds deficit increased from USD 558.56 million as at 31 December 2009 to USD 640.89 million as at 31 December 2011 (see Statement I). The increase in the deficit was driven by the unfunded cost associated with After-Service Staff Related Liability funds.

31. The funding of staff-related liabilities continues to be a cause of structural deficit in the General Fund. The total liability for the four plans as at 31 December 2011 was USD 1,152.08 million of which USD 817.69 million was unfunded (see Note 23 of the Notes to the Financial Statements).

### ***Trust and UNDP Funds***

32. Assets decreased by USD 34.57 million, that is, from USD 909.86 million to USD 875.29 million. The liabilities also decreased by USD 44.43 million, that is, from USD 876.39 million to USD 831.96 million. Total fund reserves and fund balances amounted to USD 43.33 million as at 31 December 2011, exceeding the 31 December 2009 balance of USD 33.48 million.

33. The Organization had an excess of income over expenditures of USD 2.34 million which was also transferred to donor accounts, thus leaving the Fund balance unchanged as of the end of the period (see Statement I).

## **2. Audit of Financial Statements**

34. We audited the financial statements, comprising of Statements I to IV, Schedule I, Annexes I and II and the supporting Notes 1 to 31 as presented in Part A of this report in accordance with International Standards on Auditing. The findings and observations noted during the audit of the financial statements and accounts that required adjustments were immediately addressed by Management.

35. We issued an unqualified opinion on the fairness of presentation of the financial statements.

### ***Accounting Policy on Investments***

36. During the 2010-2011 biennium, the Organization adopted accounting standards that are compliant with IPSAS in relation to the accounting treatment and disclosure requirements of its investment portfolios, cash and cash equivalents. The transition to IPSAS from UNSAS resulted in accounting policy changes in recognizing, measuring and presenting investments, cash and cash equivalents.

37. The External Auditor took note of Management's adoption as it is consistent with the Organization's move towards full IPSAS compliance by 2014 and is permissible under the UNSAS. The adoption of this new policy provided a more informative disclosure of the investment, and cash and cash equivalent accounts of the Organization.

## **3. Audit of Assessed Contributions of Member Nations**

### ***Payments of Assessment by Member Nations***

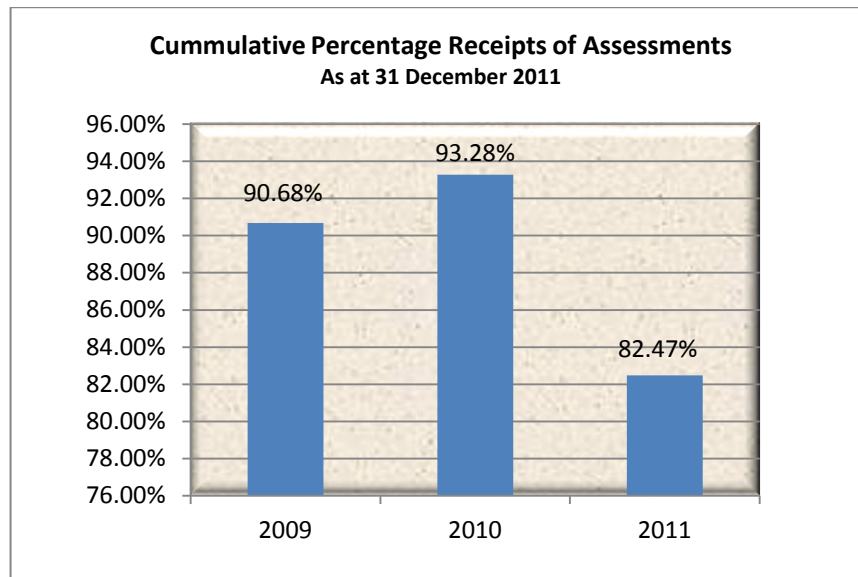
38. Note 16 to the Financial Statements on Contributions Receivable stated that the total balance of assessed contributions as at 31 December 2011 increased from USD 75.58 million in 2009 to USD 103.99 million in 2011, or an increment of USD 28.41 million equivalent to 37.59 per cent. This can be attributed to the increase of the outstanding balance of assessed contributions in EURO assessment by EURO 28.84 million, or 128.87 per cent of the EURO 22.38 million balance in 2009 compared to EURO 51.22 million in 2011. The decrease in outstanding balance of assessed contributions in USD negated the increase in the EURO component of the total balance of the outstanding assessed contributions. From USD 43.29 million in 2009, it became USD 37.81 million in 2011, or a decrease of USD 5.48 million or 12.66 per cent.

39. We noted an improvement in the payment of assessed contributions by Member Nations but this was not sustained in 2011. We also noted that installment schemes were consistently observed during the biennium 2010-2011. In addition, USD 4.0 million and EUR 0.4 million due in 2012 and onwards were paid in advance.

40. The cumulative percentage receipts (aggregate of USD and EURO receipts) as at 31 December 2011 for the Regular Programme Assessments in 2009, 2010 and 2011 are shown in the following graph (Figure 3).



**Figure 3**



41. Likewise, Government Cash Contributions (GCC) of USD 3.92 have remained outstanding for two to 20 years as at audit date. Hence, a 100 per cent provision was provided for these receivables for financial reporting purposes.

42. The delayed payment by Member Nations of their assessed contributions due to their financial constraints undermined the Organization's cash position and operating cash requirements for the Programme of Work. Moreover, the funds tied up in overdue receivables weighed heavily on the Organization's liquidity levels, and may preclude an efficient and timely implementation of the Regular Programme.

43. **We recommended and Management agreed to encourage the Member Nations to promptly pay their current assessments and settle their contributions in arrears through the installment plan scheme for better liquidity, and to sustain the Organization's Programme of Work.**

44. Management noted that the increase in the outstanding contributions as at 31 December 2011 was primarily due to the delayed payment by the largest contributor that settled its 2011 arrears in full during the first quarter of 2012. The amount of arrears in contributions decreased by over USD 81 million during the first quarter of 2012 with the balance of USD 21.3 million as at 30 April 2012.

#### **4. Budgetary Controls**

##### ***Regular Programme Over-expenditure contrary to Budget Fungibility Rules***

45. We reviewed the 2011 Regular Programme Financial Statements from the Oracle Data Warehouse and the year-end Periodic Budget Reports (PBRs) in the PIREs of 34 technical divisions at Headquarters. We noted that five divisions have over-expenditures in one Organizational Result, each exceeding the limit of USD 100,000 as

at 31 December 2011, without the required approval from the Director, OSP. The amount of over-expenditure of the concerned divisions are shown in the following table:

Division	OR	Over-expenditure (USD)
AGP	AO2	194,526
ESW	KO4	239,427
FOM	EO6	306,988
NRL	FO1	161,095
TCS	LO3	198,515

46. The over-expenditure beyond approved limits under the budget fungibility rules occurred due to the following:

- a. Absence of embedded control in the Oracle financial system to prevent the occurrence of over-expenditure;
- b. No requirement from the allottee in the PBR submission to indicate the evaluation of expenditures and allotment balances with respect to the limits (i.e., OR level) set forth in the budget fungibility rules;
- c. No immediate feedback/review from OSP on PBR available at PIREs to advise allottees;
- d. Significant deviations (unplanned activities) from forecasts not communicated to OSP for clearance and approval of shift of resources; and
- e. Error in coding expenditures.

47. The presence of over-expenditure contrary to budget fungibility rules indicated that OSP might not be aware of the shifts in resources that can affect the implementation of programmes, and the attainment of objectives and desired results envisioned under the Programme of Work and Budget.

48. **We recommended that concerned divisions obtained the prior approval from OSP for proposals resulting in aggregate year-to-date transfers of allotments in excess of USD 100,000 between organizational results within a Strategic or Functional Objective, or USD 20,000 at chapter level. We also recommended that the concerned divisions evaluate the utilization and balances of allotments at the levels where prior approval from the Director, OSP is required before any shift in resources is implemented.**

49. **We further recommended that OSP provide feedback to the allottee on actions to be taken based on the review of PBRs available at PIREs and submitted reports, and that the budget holders ensure the proper coding of expenditures.**

50. **Finally, we recommended that Management improve budget governance by providing a layer of control to monitor budget holder's action on expenditure commitments, and to treat risks of over-commitment at source.**

51. In our previous audit report (C 2011/5B), we encouraged Management to consider the standard Oracle budgetary functionality for effective and efficient fund sufficiency checking in accordance with the budget fungibility rules.

52. Management explained that it has not been possible to implement an automatic budgetary control since many transactions of the Organization are currently processed in the field where no commitment is recorded in the Field Accounting System (FAS). With the implementation of GRMS and the rollout of more complete financial systems to field offices, information on the commitments of the Organization will be available in one system. At that stage, it will be possible to consider the use of the automatic budgetary control functionality in Oracle.

53. We recognize that with the full implementation of GRMS, our recommendation will be addressed.

### ***Cash and/or Budget Deficits in Trust Fund Projects***

54. In accordance with Field Programme Circular No. 2003/04, budget holders maintain operational control over the project, monitor the performance of reporting requirements and the need for budget or project revisions, and whenever appropriate, consider the need for possible extension of duration. It is the responsibility of the budget holder to ensure that expenditures for Trust Fund projects do not exceed the budget per project agreement, and the amount of cash received for the project.

55. Queries from six technical departments at Headquarters on 155 projects with indications of cash and/or budget deficits disclosed that the causes and reasons for the incurrence of cash and/or budget deficits are as follows:

- a. Delay in call for funds/receipt of funds in six projects;
- b. Financial problems with the donors in three projects;
- c. Wrong/erroneous charges in seven projects;
- d. Delay in the preparation of budget revision (BR) in 11 projects; and
- e. Charging of project with expenditures preparatory to succeeding phase of the project without formal funding commitments from donors.

56. The Technical Cooperation Department (TC) noted that it is promoting training on the use of the Pending Housekeeping Actions and the Field Programme Support Network (FPSN) on-line tools in FPMIS to further strengthen the monitoring capacity of Budget Holders and their assistants.

57. We recognize the remedial actions by the concerned budget holders to address the noted cash/budget deficits. It should be noted, however, that the cash deficits could have been avoided had the budget holders limited the incurrence of commitments and expenditure up to the cash received for the projects, and a timely call for funds was done after considering the project cash flows. Regarding budget deficits, a timely preparation of budget revision should have been done by the budget holders and its approval should have been obtained first before committing any expenditure to ensure that project expenditure is always within the budget. Furthermore, the on-line tools in

FPMIS could have reminded the budget holders of the impending cash and/or budget deficits.

58. With regard to comments by departments that cash deficits in a number of projects could be wiped out by the interest income earned by the project funds, we noted that donor's approval on the use of interest income for the project was not readily verifiable from the project documents in FPMIS. Management recognized the need to systematically identify those projects for which interest income can be used to support the project.

59. The presence of project cash deficit also hinders the financial closure of the project. Thus, a number of projects with cash deficits from the sample projects have remained operationally closed from 12 to 103 months (or from 1 year to 8 years and 7 months) but could not be financially closed.

**60. We recommended and Management agreed that the Budget Holder ensure that expenditures are always within the limits of the authorized project budget, and the cash provided by the donors by:**

- a. constantly monitoring the cash balance and considering it as the limit of further incurring expenditure for the project;**
- b. promptly initiating the request for Call for Funds in accordance with Project Agreements when cash balance is low;**
- c. promptly preparing Budget Revision and obtaining prior approval before committing expenditures that will exceed the latest approved budget; and**
- d. constantly ensuring that charges to the project are appropriate.**

**61. We recommended and Management agreed to include in the existing corporate Budget Holder Training Course the FPMIS operational monitoring tools for projects. We also recommended that TC provide additional information in FPMIS on projects where interest income from project funds is utilized for the project.**

**62. Further, we recommended and Management agreed that Budget Holders expedite action in coordination with relevant divisions and/or donors to resolve the over-expenditures in operationally closed projects to allow their financial closures.**

**63. Finally, Management concurred with our recommendation that (a) Budget Holders/Lead Technical Units inform the official Funding Liaison Officer and the donor liaison group to ensure that formal agreement and funding are obtained from donors before incurring commitment and expenditure for the next phase of the project; and (b) clear operational guidance is provided on the communication flow.**

## 5. Implementation of IPSAS/ERP Project

64. We reviewed the progress of the implementation of IPSAS and ERP Project of the Organization. Our review focused on the analysis of selected IPSAS-adopted accounting policies, ERP-Programme/Project Management Framework, ERP-Significant Accomplishments and Milestones (High-Level Deliverables) and the ERP Governance.

65. We noted that the IPSAS/Oracle12 Project is now integrated into a much larger project called Global Resource Management System (GRMS) Programme. As reported in CL 144/10, the first IPSAS-compliant financial statements will now be effective for the financial year commencing 1 January 2014.

66. IPSAS was originally envisioned to be implemented in 2010. However, its implementation was postponed to 2013 and then now to 2014. It is dependent on the GRMS which includes in its scope financial management, human resources, procurement, travel and oracle system and new automated processes.

67. We noted that the Programme Management reviewed the GRMS risks using the Enterprise Risk Management framework. Major risks were identified only once, and proposed actions were reviewed by the Programme Executive Board. A project of this magnitude and importance deserves the best project-risk management and the highest organization-wide leadership. Identifying and scoring the risks at one time is not sufficient. It is important that there is a continuous scoring of existing risks and early detection and scoring of emerging risks.

68. While we recognize that the Organization has made significant progress in implementing certain components of IPSAS, especially in systems development, more significant work remains in delivering non-system requirements such as change in financial reporting, accounting, controls and business processes including accounting transactions.

**69. We recommended that the Programme Executive Board strengthen its project risk management by constantly addressing all existing and emerging risks and closely monitoring all major activities of the project to ensure the implementation of IPSAS in 2014.**

### *IPSAS Project Deliverables*

70. The High-Level Deliverables for Accounting Policy and Procedures which provide the basis for the preparation of the succeeding deliverables such as the updated Financial Rules and Regulations, Reporting and Control Deliverables and IPSAS-compliant R12 components were not finalized at the time of our review.

**71. We recommended that Management expedite the preparation and finalization of the URD, URAWs and Accounting Policy Statements to (a) ensure that planned timelines are met; (b) provide a valid basis for the updating of financial rules and regulations, and the preparation and finalization of Reporting**

**and Control Deliverables; and (c) provide valid, and necessary inputs for the IPSAS compliant R12 components.**

72. Management confirmed that the finalization of the accounting policy documents was being carried out in line with the planned timeline and that all accounting policies were being delivered as required for input to the design and configuration phases. The plan was for all policies to be finalized by 31<sup>st</sup> March 2012, and we noted that the Office of the Inspector General had carried out an extensive review of FAO's draft accounting policies.

73. We noted that the IPSAS versions used/adopted were not indicated in the Accounting Policy Statements. We also noted inconsistencies in the Version indicated in the URDs, URAWs, and the Accounting Policies.

**74. We recommended that Management (a) indicate the specific version of the IPSAS adopted in the URDs, URAWs and accounting policy statements to keep track of the various revisions/amendments and improvements introduced by the International Federation of Accountants (IFAC)/International Public Sector Accounting Standards Board (IPSASB); (b) synchronize the version of all finalized documents; and (c) include a section for drafting and revising history that will provide a monitoring and tracking tool for the preparation of documents.**

75. Management confirmed that updated IPSAS standards are reviewed for any significant changes. The finalized version of the accounting policy will be based on the latest versions of the IPSAS standards. Also all documents will be synchronized and dated. A separate IPSAS deliverable "Documentation Publication and Maintenance" will specify the process for ongoing updating and processing of accounting policies.

76. We also noted that the Project has yet to prepare and finalize a Policy Guidance Manual for IPSAS. This Manual will establish and provide guidance on the application of IPSAS across the Organization. As a main guidance for IPSAS adoption in the Organization, this will provide a tool to complement the standards and other professional accounting pronouncements. It will also provide information on what IPSASs are directly or not directly related to the Organization's operations.

**77. We recommended that Management prepare and finalize a Policy Guidance Manual that establishes and provides policy, practice and guidance on the application of IPSAS, and complement the standards and other professional accounting pronouncements in the Organization as well as provide information on what IPSASs are directly or not directly related to the Organization's operations.**

78. Management confirmed that an Accounting Policy Manual will contain all the accounting policies. Decision on the scope and issue of a Policy Guidance Manual will be taken in conjunction with the Business Change Team of the GRMS Programme.

## **6. Results-based Management**

79. In the context of the IPA, the Organization began to implement RBM under the new Strategic Framework in January 2010.

80. FAO's new results-based model is managed by the OSP and implemented in collaboration with departments throughout the Organization. The implementation of RBM in terms of results framework and resource allocations is captured in the PIREs while other elements such as individual project and human resource performance management are handled in other corporate systems.

81. Applying the benchmarks for critical success factors set out by the Joint Inspection Unit (JIU) of the United Nations through the document JIU/REP/2004/5, we reviewed the RBM implementation through validation of its implementation in three Departments, two Headquarters Divisions, two Regional Offices, one Sub-Regional Office, and six FAO Representation Offices. We noted that these benchmarks were applied in the independent assessment of the Organization's implementation of the approach performed by an expert. The related findings contained in AUD 3211 report were also considered in our review. We agreed with the Office of the Inspector General (OIG) that the main corporate benchmarks to enable operation of RBM are already in place but at the operational level, enhancements can still be made. Given such state, validation was more emphasized at this level with reference to the JIU benchmarks.

82. The results of our review, including common concerns and issues critical to the realization of RBM implementation in the Organization, were separately communicated to the concerned Departments/Division/Regional/Sub-Regional and FAO Representation Offices with the summary of observations under each RBM process element presented in those reports.

### **RBM Strategic Framework**

#### ***Formulation of ORs and URs and the Related Indicators***

83. We noted that, in general, there were deficiencies in the formulation of ORs and URs and the related indicators. There were ORs which were not stated in a change language such that these do not reflect the changes desired to be achieved over the biennium. Instead, they were stated as either an activity or a condition; thus, it will not be possible to determine whether these have actually been accomplished and have contributed to the achievement of the SO.

84. Our review also disclosed that even at the level of the Regional, Sub-Regional and Country Offices, some OR/UR indicators presented were not measurable because the baseline and target data were either not provided, have remained unavailable, or not identified even in the next PWB. Hence, the stated actual progress and accomplishments for the realization of the OR/UR did not have any objective basis. Our review was complemented by the OIG in its AUD 3211 report, which spelled out

issues on the degree of measurability and other problems on the formulation of ORs such as “fairly vague terms” and the problem on attribution.

85. The OSP explained that the “ORs under the Functional Objectives are not intended to express a benefit to Member countries since the Functional Objectives relate to the establishment of an enabling environment in FAO to contribute to the achievement of the SOs through the ORs. The ORs under FO X represent the result of uptake and use of the outputs produced under those ORs. The performance indicators provide more detailed clarification of precise effects of uptake and use.”

86. **We recommended that OSP together with the Departments/Divisions and Strategy Teams: (a) review the formulation of ORs/URs/OOs by ensuring that these are stated in observable changes or outputs to ensure clear association of its contribution to the achievement of the related SO/FO/OR; and (b) identify and complete the baseline and target values that are consistent with the performance indicators for the ORs/URs/OOs to ensure that the assessment of the progress and achievement of expected results and future planning are facilitated for the next MTP/PWB.**

87. **We further recommended that OSP conduct workshops on the formulation of results/outputs and the related indicators for staff that are directly involved in the activity.**

88. OSP recognized the need to improve the formulation of results statements for the Functional Objectives as part of its efforts to strengthen the application of RBM principles in support of the new strategic framework.

## **Medium Term Plan/Programme of Work and Budget**

### ***Assumptions and Risks at the OR and UR Level and Mitigating Strategies***

89. The MTP 2010-13/PWB 2010-11 requires that at the OR level, strategy teams (a) formulate indicators of outcome including targets and means of verification; and (b) identify key assumptions and risks together with the appropriate mitigation strategies that provide important insights and guidance on the design and implementation of a programme/project.

90. We noted that in both the MTP 2010-13/PWB 2010-11 and the reviewed MTP 2010-13/PWB 2012-13, key assumptions and risks were indicated as addressing all ORs and indicators under a particular SO, but not associated with each OR. Appropriate and adequate mitigation strategies to address the occurrence of the identified risks were not also formally documented and presented in the PWB as part of the results-based framework.

91. At the UR level, we noted that there was no indicative statement manifesting the consideration of assumptions and risks, and the corresponding mitigation strategies to address the identified risks at that level, a vital element of the results-based framework. It was accepted that an explicit assumption and risk analysis was not undertaken in a structured way since this was not required in PIREs.



92. The OSP informed that risks and assumptions were, in fact, identified at the OR level in the MTP formulation process although Management decided not to publish the details in Governing Body documents. A distinction is made between the data collected in the Organization's planning process and the elements formally presented to Governing Bodies. Currently, work plan (UR/OO) risk analysis is not mandatory but strongly recommended. Under the ERM, risk assessment at the UR/OO level will be further enhanced based on the mechanics of the new Strategic Framework. The approach will be designed to maximize the investment return from staff time; it is possible that the less sensitive OO/UR will receive less support from the ERM team.

93. The OSP also explained that the Strategy Teams were not required to maintain working papers. Risks and assumptions at lower levels were not required to be documented. We contend, however, that the approach for the new MTP will have to be consistent with the ERM standards where strategic and process level risks are considered in the analysis following clearer standards and documentation.

94. Assumptions and risks provide important insights and guidance of the design and implementation of a programme/project. Unless appropriate, complete and adequate assumptions and risks are identified, courses of action formulated to address these risks will not be effective. Consequently, without the appropriate and adequate mitigation strategies set to respond to risk eventualities at source, the achievement of expected results to realize the Strategic Objectives is less guaranteed.

95. OSP indicated that they are aware of the qualitative weaknesses of the current MTP outcomes and in the strategic re-thinking process for the MTP 2014-17. These are among the areas where the Organization hopes to make significant improvements.

96. **We recommended that Management: (a) include in the guidelines the identification of key assumptions and risks associated with each OR/OO, the prioritization criteria, and the formulation of the corresponding appropriate and adequate mitigation strategies to enable Management to treat risks at source; (b) state in the PWB the treatment of assumptions as input into the risk identification process with a separate discussion of the common risks identified across the SOs; and (c) at the OO level, include and present the prioritized risks with supporting documentation of the prioritization made in the Work Plans.**

## **Allotments**

### ***Division of Organizational Responsibility and Accountability***

97. The MTP indicates that clear managerial responsibilities throughout the cycle of preparation, implementation and assessment are to be assigned for each SO/ FO/ OR/ Core Function and Impact Focus Area. Managers at all locations will be accountable for progress, not only in terms of provision of products and services but also for the results achieved.

98. We noted that this structure following the RBM implementation is not supported under the current arrangement since budgets are released to the Departments while allocation of resources is done per Strategic Objective.

99. The OSP informed that “the initial part of the planning process entailed the members of the Strategy teams working together to agree on their contributions. Next, resource planning was done within the departments/offices based on these agreed contributions and within the resource envelopes provided.” How to manage a dual accountability system, that is, through the Strategy Teams and the traditional line Departments, is a challenge to the strategic framework of the Organization.

100. With this set-up, the achievement of intended results/outputs/activities will not be facilitated and completed within set timelines without the full support and inputs from authorized officers who are not the main responsible officers in achieving particular intended results.

101. OSP has prepared a document specifying the roles and responsibilities at various levels, and for both the strategic and organizational dimensions. Nonetheless, it recognizes that the Organization’s greater challenge will be to identify ways to ensure that the conceptual model is actually applied and enforced.

**102. We recommended that OSP continue to strengthen the implementation of the recent realignment of roles and responsibilities, and coordination between the Strategy Teams and the Department/Division heads.**

## **Work Planning Phase**

### ***Formal Action Plan to Support the Work Plans for the Achievement of ORs/URs***

103. To realize commitments under the ORs and URs, OSP issued guidelines in the preparation of work plans reflecting the products/services/activities that support the ORs/URs under set timelines, the responsible officer for achieving the results, and the corresponding distribution of planned resources.

104. We noted that the products/services/activities in the PIREs were generally planned to be implemented from 1 January 2010 to 31 December 2011 under the responsibility of the assigned Responsible Officer. Among the sample Departments, two had no formal and detailed work plans or separate implementation plans for each of the UR product/service/activity against which progress or accomplishments could be measured as a basis for establishing accountabilities for the expected outputs and results, and confirming managerial policies and strategies.

105. The OSP commented that the work planning process included an action plan for each Strategy Team to undertake according to guidelines and their respective roles. However, there is no separate plan to implement the framework and ensure the achievement of agreed contributions to ORs. The Departments explained that no action/implementation plans were prepared because the work plans in PIREs were already detailed and specific.

106. Without a formal plan, there can be no effective guide in the implementation, monitoring and reporting of the defined activities which may eventually result in low level of accountability and ownership, and less effective performance measures. The

formal plan will basically benefit the implementing offices but there is a need to make this work through the corporate guidelines issued by OSP since actions by offices as noted earlier depends largely on compliance with issued guidelines.

107. **We recommended that Management: (a) include in the guidelines the preparation of a formal and stable action plan for each product/service that will support the PIRES work plans to facilitate implementation, monitoring and reporting, enhance accountability and ownership; and (b) emphasize in related training sessions the value of the action plan.**

108. OSP recognizes the need to clearly specify how the work plan outputs will be achieved within the work plan itself but not in a separate process or document. It does not see the need to mandate corporate-wide “formal and stable action plan/implementation plan for each product/service” but commits to stress in the guidelines and training sessions the value of identifying critical activities in the work plans.

## **Monitoring and assessment phase**

### ***Progress toward the Achievement of ORs/URs***

109. In PIRES, guidance is provided in undertaking the Mid-term Review (MTR), whereby the responsible officer assesses progress towards the achievement of ORs and UR and identifies impediments, risks, and actions required during the second half of the biennium.

110. We noted that while monitoring of the progress of accomplishing the ORs/URs are designed to be assessed through measurable indicators with baseline information and targets, the progress delivery against the work plans are mostly narrative and difficult to match with the targets set for each OR/UR indicator.

111. **We recommended and Management agreed to stress in the guidelines the importance of reporting progress and accomplishments toward the achievement of the ORs/URs at mid-term by emphasizing the applicability and use of the related indicators and performance measures.**

### ***Mid-term Review for Unit Result***

112. Monitoring and reporting within the Organization’s Planning Framework consist of three main elements: (a) work plan monitoring and mid-year review; (b) mid-term review; and (c) end of biennium assessment. Work plan monitoring is an internal process undertaken by all unit managers at all locations regularly at mid-year to facilitate the assessment of progress towards achievement of URs at end of the first year of the biennium. It is intended to allow units to assess risks and improve their programme delivery.

113. We noted, however, that there was no mid-year review performed in 14 URs under the responsibility of RAF. Management explained that the review was completed

outside of PIREs, and the results thereof were kept on file and shared with the concerned group in Headquarters and OSP.

114. While in this particular case where action was subsequently undertaken to address the identified constraint/impediment, the absence of a mid-year review did not allow Management to institute immediate corrective/remedial actions to issues and concerns as they arose, and therefore, required management decisions were not pursued.

**115. We recommended that Management emphasize in the guidelines that all units undergo the mid-year review and capture the results in PIREs in conformity with the RBM Monitoring and Reporting Guidelines.**

### **End of Biennium Assessment**

#### ***Disclosure/presentation of Performance Ratings as against Validated Actual Accomplishments***

116. Validation of biennium-end assessment in PIREs disclosed inconsistencies in reported performance rating when compared to reported actual accomplishments as noted in sample URs.

117. We noted URs which were rated as “meeting the targets” or “significantly above targets” had no set targets or reported actual accomplishments that could justify the ratings given. Moreover, there were also URs without data certification/validation to prove that the key data entered in PIREs, particularly results against targets, were supported with sufficient information to explain the level of performance reported, and that results of the consultation with the line supervisor have been incorporated in the PIREs report as of the validation process.

118. Conversely, we also noted that there were URs reported at biennium-end with “significantly below targets” performance rating but were registered in PIREs at mid-term as “on track” with respect to achievement of expected results.

**119. We recommended that Management promote and strengthen the use of the existing Quality Assurance facility in PIREs to (a) reinforce accountability and commitment by responsible officers; (b) ensure quality in the design, smooth implementation and monitoring of programmes/projects; and (c) effect the objective evaluation of ORs/URs for the achievement of the intended results.**

120. Management agreed that in-biennium monitoring requires further development and conveyed that they are working towards that end.

### ***Reporting of Results vis-à-vis Resource Inputs and Utilization***

121. The Mid-year Review (MYR) is undertaken by all managers to identify risks and improve programme delivery while the Periodic Budgetary Report presents resource utilization by Department/Office in PIRES from the electronic Budget Maintenance Module (e-BMM).

122. Under the RBM framework, analysis of results vis-à-vis resource inputs and utilization at the different levels of results is appropriate as it provides information on the efficiency and effectiveness of operations in achieving planned results within given financial resources. Such analysis is very useful to policymakers and helps strengthen the overall planning and budget cycle.

123. With the current system of separately reporting on the programme and budget performance through the Programme Implementation Report (PIR) and Periodic Budget Report (PBR), respectively, analysis of performance of ORs/URs in relation to resource inputs and utilization is not undertaken by each Department/Division. Thus, an assessment of the efficiency and effectiveness in delivering results within budget is not available as inputs to programme planning and budgeting for informed decision-making. The present reporting system needs to be reformed to make it consistent with and supportive of RBM.

**124. We recommended that Management: (a) focus on the measurement and reporting of results vis-à-vis resource inputs and utilization; and (b) consider integrating the programme and financial performance into one report to provide policy makers inputs in the planning and budgeting process.**

125. OSP informed, and we noted, that the recommendation is in line with its current intentions. Developing a proposal to align routine financial and programme reporting was identified as a priority activity for OSP in its divisional planning session in January 2012.

126. The benefits derived as well as the lessons learned from the first biennium implementation of RBM are vital to change. These are significant inputs and benchmarks to the Organization as it embarks on the 2<sup>nd</sup> biennium implementation of RBM and preparation of the next MTP/PWB. Refinements and adjustments in the formulation of results/outputs, allocation of resources, and implementation of programmes/projects are expected to be articulated and instituted by Management. Due to some positive outcomes of this particular IPA reform, Management is also expected to formulate better strategies and plans, and actually implement them.

## **7. Enterprise Risk Management**

127. We reviewed the ERM Project of the Organization. Our review included an examination of the Project Timelines and Accomplishments and Project Governance Arrangements, and an analysis of the Risk Assessment Framework and Methodology. Results of our review suggested that there is a need for Management to get the implementation strategies work more progressively against the challenges that the project is facing. It is emphasized that the project's life will be highly dependent on

the level of stewardship factored into the succeeding project activities. The succeeding paragraphs discuss the detailed results of the review.

### ***Project Timelines and Accomplishments***

128. We reviewed several progress reports of the Project, and the Business Plan for the ERM Project as approved by the IPA Programme Board.

129. We observed that the work plan has been “adjusted to put the project back on schedule for completion by end of 2011” which involved the finalization of ERM design, establishment of Corporate Risk Committee, ERM Training and ERM Piloting. Management prepared a Revised Milestone for the ERM project for May-December 2011.

130. In the Progress Report submitted by OSP to the Audit Committee in its 28<sup>th</sup> Session in August 2011, we took note of the significant accomplishments as of that date. They were the completion of 10 pilot tests in the Strategic Framework and the functional hierarchy, commencement of pilot testing for non-facilitated version of the ERM, integration of ERM within the work-planning technical guidance for RBM, and an agreement of Human Resources Management Division (CSH) to reflect risk management within the new competency framework.

131. We also noted that plans for the remainder of 2011 included: (a) making available the forms-based risk assessment tool; (b) undertaking risk assessments at the SO and OR and at the Department and Division Levels; (c) completing the integration of risk assessment and reporting within the new Field Programme Manual; and (d) piloting senior management risk reporting by senior managers and members of the Corporate Risk Committee.

132. By end of 2011, significant progress has been made to institutionalize the ERM project within the Organization, including: (a) integration of ERM within OSP; (b) a defined and documented ERM process put in place; (c) OSP being recognized as the authorized source of corporate practice on operational and administrative risk management in the Organization; (d) risk management terminology and practice being adopted in change initiatives outside OSP; (e) significant work undertaken against each of these ERM milestones reported in the IPA; and (f) positive user feedback on ERM.

133. With reference to the 2011 Work Plan, the timelines appear to be tight and aggressive considering the requirements in each of the specified activities. As of November 2011, the drafts were not yet finalized, and the Draft Facilitated and Non-Facilitated Manuals were reported to have been completed but not finalized. In addition, we noted that as of November 2011, the 2012 Work Plan for the project was still in draft version.

134. Recognizing the perceived risk of delay due to unexpected complexities of the project and its innovations, the strategies to mitigate such risks, and the “tightness” of the timelines, Management instituted risk-mitigating strategies such as (a) the need for the Director of the OSP to secure the cooperation of departments participating in the

design work or in piloting; and (b) the Project Manager applying strong project management disciplines, tracking progress against the plan on a weekly basis and proactively addressing any threat of present or future delays. It was noted that project accomplishments and progress for 2011 were tracked by the ERM Team via a spreadsheet. Monthly accomplishment reports were also prepared but not on a regular basis. The preparation of Pilot Test Plans for each of the pilot test conducted was not considered although a report on Pilot Findings was prepared. The Pilot Findings included proposals for the improvement of the ERM Operating Manual and the conduct of risk assessments mostly in the area of work simplification.

135. Notwithstanding the aggressive timelines and the complexities attached to the development of the policy and reforms in general, it can be concluded that the Project Team has made major progress. However, some planned activities were not achieved due to forces that were beyond their control such as the institutionalization of the Corporate Risk Committee, and the involvement of the top management on certain risk assessment-related activities. With the Organization's growing interest in the project, it is important that the ERM project and its progress are monitored more effectively to achieve the intended results without delay.

**136. We recommended that Management intensify the implementation of the ERM project and monitor more effectively its progress to achieve the intended results on time, enable Management to act on key corporate risks, and protect the reputation, relevance and future existence of the Organization through the following:**

- a. Prioritize the implementation of the planned activities not yet done and include these in activities to be done from hereon.**
- b. Finalize the necessary Guidelines and Manuals such as the ERM Manual and Templates taking into account the requirements of the Business Case. A finalized Guidance will provide more effective authority for the project to progress.**
- c. Prepare a more informative accomplishment report, at least on a monthly basis, to track work activities done and relate these to established work accountabilities. The Accomplishment Report must include the person(s) responsible for a particular activity, the expected output and the information reflecting the percentage of completion for the activity.**
- d. Finalize the 2012 Project Work Plan to ensure that there is a timely basis in the preparation of planned specific activities defined for each project member and for the project as a whole.**

### *Overall Project Governance*

137. As indicated in the ERM Business Case, a project governance arrangement of ERM, its structure and monitoring and communication activities including a Risk Governance framework was developed for the project.

138. With a USD 700,000.00 budget for its implementation during 2010-2011 biennium, the ERM project may be relatively construed to be a small undertaking although it is a part of the IPA reform agenda. Recognizing the far-reaching implications of its product, the ERM project deserves to be highlighted on a higher plane and a wider perspective.

139. Despite the enormity of the tasks laid down before the personnel directly involved in the project, positive changes were noted such as: (a) managing a number of challenges and completing several stages of the project; (b) establishing simple strategies; and (c) putting the ERM into the Organization's culture.

140. Our review, however, disclosed several challenges to the Project such as:

- a. The number of staff composing the current ERM team is considered to be inadequate considering the many activities required to complete the projects.
- b. There is an unstable coordination, communication and implementation lines in the project with the absence of the Corporate Risk Committee to guide the ERM team and to act as conduit to the Director General during the pursuit of the ERM project activities.
- c. Creating an increased appreciation of the ERM Project and the use of risk management as an effective tool have been hampered by limited exposure of the Project particularly in the area of accessibility to information by stakeholders, and full use of technology as a communication strategy.

141. **We recommended that Management:**

- a) **enhance the Project Staff Structure by anticipating the next steps vis-à-vis the personnel movement/availability and increasing the number of staff to work on the Project as a means of ensuring that schedules set are met and all required deliverables are transmitted.**
- b) **create a Corporate Risk Committee to ensure the smoother flow of affairs and activities leading up to the achievement of this particular IPA reform.**
- c) **coordinate with concerned communications division, involve people to communicate the essentials, and make technology work for the Project by creating a dedicated webpage link to the ERM Project.**



## ***Risk Catalogue and Risk Log***

142. An integral part of the Organization's ERM Risk Management Policy is its attitude towards managing its exposure to risks. The Organization uses a customized version of the risk management process based on ISO 31000 which is a "generic approach aligned to international good practice and adapted to FAO's needs". The process involves six steps, viz: (a) establish the context; (b) identify key risks; (c) score exposure; (d) reduce exposure; (e) monitor; and (f) report. There are three main areas noted in the process – Establish Context and Risk Identification, Risk Scoring and Risk Cataloguing.

143. The Organization's ERM risk catalogue contains seven high level categories called "Potential Blockages to Delivery" supported by Risk Categories and Sub-Risk Categories. Project facilitators informed that risks are identified using the Catalogue as a guide to achieve identification alignment and uniformity.

144. For every risk assessment done during the pilot testing of the ERM Risk Assessment Methodology, a Risk Log is prepared. The main part of the Risk Log is the Detailed Risk Profile and the "Heat Map" that summarize the risk exposure of an organizational unit based on the Organization's Risk Catalogue. The risk categories are based on common principles of effective delivery management, and provide a strong explicit link to the principles of Results-based Management. They support prioritizing risk mitigation, and when summarized in a heat map, allow managers and reviewing officers to identify any obvious gaps in the risk profile of a particular entity.

145. Based on our review of sample risk logs used on pilot tests, we observed that the Risk Log form does not provide information on the expected level of risk after a strategy or action is done.

146. **We recommended that Management:**

- a. institute the use of clearly pronounced Risk Indicators to have an information that will lead to an early identification of warning signal of increasing risk exposures in all the assessed areas of the hierarchy and ensure that the risks are tracked more effectively;**
- b. enhance the Risk Cataloguing procedure by providing complete and clearer risk definitions, and enhance the preparation of the Risk Log by providing a column for the expected level of risks once a strategy or action is done; and**
- c. make clearer delineations of risks identified in each of the assessed areas to ensure that risks are put in the right perspective, whether each of the risks presented under each area can be categorized as "Primary Drivers" or "Intermediate Risks" or "Proximate Risks".**

147. Management agreed to keep the range and definition of the risk categories under review. Management also agreed in principle to make clearer the delineations of risks

and informed that currently risks are categorized into three groups, namely, *Direct, Enable, Deliver*.

## 8. Technical Cooperation Programme

148. We noted that expenditures for the 376 TCP projects with a budgeted cost of USD 110.81 million were only 37.77 per cent of the TCP budget. There was a decline in the percentage of expenditure when compared to the 45.96 per cent in the previous biennium with a budgeted cost of USD 107.29 million.

149. Management anticipated this decrease because of the decentralization of TCP projects in January 2010 which delegated to the field offices a wider array of functions and responsibilities.

150. The primary reason for such reduced expenditure level on the 2010-2011 appropriation was the high value of carried-over unobligated TCP balances of USD 54.10 million from the 2008-2009 appropriation. We identified two probable root causes of this concern- the slow process in project approvals, and relatively low delivery.

### *Slow Process in Project Approval*

151. A time lag validation from receipt of the request for assistance to project approval for 376 TCP projects disclosed the following:

Time Lag	No. of Projects	Percentage
Up to 4 months	248	66
4 to 6 months	50	13
6 to 12 months	42	11
Over 12 months	36	10
Total	376	100

152. The above table indicates that approval of projects ranged from 4 months to more than 12 months, indicating the lack of a definite policy or prescribed time frame for approval of projects.

153. Further verification showed that 57 TCP requests for projects were received during the current biennium pending approval, exclusive of the nine which were newly received at year-end of 2011. There were seven in the Idea pipeline (P2) which have been static for six months to one year and four months, while 50 in Active pipeline (P3) for three months to two years. It appears that there is no policy that defines timeframe for every stage of the process.

154. Verification of available project documents in the FPMIS disclosed certain reasons for holding the TCP request in the pipeline for a considerable time such as: (a) the project is in the lower level of priorities or merely not prioritized; (b) there is no sufficient funding available; (c) the written formal request from the

government/country partner is being awaited; and (d) the revised project proposal has yet to be submitted.

**155. We recommended and Management agreed to improve the rate of approval and project delivery by:**

- a. **providing a policy that defines a timeframe for every stage of the process taking into account past experiences or lessons learned in securing project approvals and the peculiarity of the project;**
- b. **monitoring action of the budget holders on uncontrollable factors such as government response time and change in priority by the government counterpart, and providing optimal advice on the disposition of the project based on these factors;**
- c. **examining projects in various pipeline stages and extract exceptions caused by insufficient funding, low priorities, pending formal requests from governments/partners and project revisions, if any, and monitoring the disposal by the budget holders of these exceptions; and**
- d. **the TCP Coordinator ensuring that projects in the active pipeline can be funded within 12 months.**

156. Management commented that project approvals and time lag are dependent on: (a) the extent of the response time of the government/national counterpart to queries and actions needed from their end; (b) complexity of the project since the more complicated it is, the more time is required by the technical officers to process the requirements of the project; and (c) change in project priority by the government counterpart so that there is the need to abandon what was started and begin with the process anew.

### ***Slow Project Delivery***

157. Validation of 30 sample deliveries out of 376 projects approved against the 2010-2011 biennium funding highlighted the following exceptions:

- a. Two (2) projects (TCP/KYR/3303 and TCP/RWA/3301) had expired NTE as of 31 December 2011 but their deliveries were still at 65.29 and 60.02 percentage of their budgets respectively;
- b. Eleven projects had already been implemented within four months to two years but the deliveries as at 31 December 2011 were relatively low, ranging from 0.03 per cent to 35.41 per cent of the approved project; and
- c. Three projects (TCP/RAF/3312; TCP/RAB/3304; TCP/NER/3303) were disclosed as having no deliveries but were already being implemented for about two to five months.

158. As part of the oversight and monitoring procedures of the TCP Unit over the projects, reminders are sent through emails and triggers in the FPMIS for the budget holders to expedite the implementation of the projects. However, the Unit does not have immediate information on the reasons for delay. Such information still has to come from the budget holders and TCP Coordinators as part of their decentralized responsibilities.

159. While the budget holder's monitoring perspective is limited only to the projects under his supervision and responsibility, the TCP team at HQ is mandated to provide support in monitoring the projects and is afforded the global perspective of project implementation status.

160. The project approval process has inherent impediments that, if not managed well, the level of its expenditure will not improve, or may even get worse. The manifestation of this risk has a corresponding effect on the level of budget deliveries which will affect the succeeding biennium.

**161. We recommended and Management agreed to intensify the monitoring of project data particularly those logged at the Field Programme Support Network (FPSN) taking note of milestones and the project remarks/comments; and deliver appropriate actions to ensure that the desired global information on deliveries is available to TCP management for decision-making purposes.**

#### ***Information Management in FPMIS***

162. Monitoring activities are generally performed through the FPMIS. It provides corporate information on all activities funded from extra-budgetary resources as well as TCP and Special Programme for Food Security (SPFS) funded from the Regular Budget.

163. We have reviewed the information templates in the system and noted deficiencies such as unclear standards on project documentation requirements, cumbersome use of triggers, unfilled "Clearances" field, underutilized "General Comments" field, delay in the uploading of the Quarterly Project Implementation Report (QPIR), and uploaded documents not in final forms.

164. **We recommended and Management agreed to:**

- a. enhance the existing guidelines to include a policy that will standardize the documentation and timelines of every activity in the project cycle with consequent adjustments in the FPMIS;**
- b. include all the processes involved in the project cycle in its on-going enhancement of the FPMIS to give all users of the system comprehensive information for project monitoring and management;**
- c. require the completion of "Clearances" field in the FPMIS as this facilitates monitoring instead of going over the other documents to look into the approval and dates of issued clearances. Create a link between**

the “TCP” field and “Clearances” field for the automatic upload of the data input of clearances;

- d. establish timelines for the uploading of information in the system especially reports such as the QPIR in aid of monitoring and to give more value to the purpose of the report; and
- e. ensure that only documents/reports in their finalized forms are entered in the system to maintain the integrity of the desired information to be delivered.

#### **TCP- Housekeeping Actions**

165. We recognize Management’s efforts to improve its monitoring and reporting activities. We noted, however, gaps in the three project milestones on closure – NTE, operational closure and financial closure. The TCP Management is faced with some process and decision-making risks specifically attributed to performance gaps and protracted turnarounds that can ultimately result in stakeholders’ misguided actions and intervention.

#### ***Past NTE for 83 projects***

166. We noted that there were 83 projects with past NTE as at 31 December 2011 of which Latin America, Africa and Asia registered the highest percentages at 33, 32 and 14 respectively. These are still in the pipeline as “Operationally Active” due to unfinished activities. Details are shown below:

<i>Year of Actual NTE</i>	<i>Projects Still Operationally Active</i>
2007	1
2008	2
2009	23
2010	13
2011	44
Total	83

167. Despite the lapse of the project date, the existence of these projects indicates a less desirable project monitoring structure from planning to project implementation. Root causes are not sufficiently known and monitored at the HQ end, thereby affecting project closure and eventually management reporting decisions.

168. **We recommended and Management agreed to improve corporate monitoring and oversight over the programme. Take essential actions to address the root causes of projects which have remained unfinished despite the past NTE dates and those needing operational and financial closure. This is to minimize, if not eliminate, similar occurrences in the future.**

### ***Operational closures of 204 completed TCP projects***

169. As at 31 December 2011, 204 TCP projects with activities completed dating back as early as 2005 remained not operationally closed as presented below:

<b>Year Activities Completed</b>	<b>No. of Projects</b>
2005	2
2006	7
2007	4
2008	31
2009	33
2010	61
2011	66
<b>Total</b>	<b>204</b>

170. As disclosed by Management, the impediments to the closure activity were pending actions on assets handover/disposal, and the preparation and submission of the Terminal Reports/Statements or Concluding Letters.

171. The delay of a project closure affects the timely reporting to the counterpart country/government of the project's achievements and recommendations for policy and decision-making purposes.

**172. We recommended and Management agreed to expand the provisions on project closures to include (a) more detailed instructions on assets handover/disposal; (b) timelines on disposal of assets/equipment and submission of Terminal Reports; and (c) corporate sanctions for non-compliance.**

### ***Financial Closure of 124 Projects***

173. We noted that 124 projects remained not financially closed as of the end of the biennium as presented in the Table below. Forty-four projects from 2005 to 2009 had not been financially closed for as long as 80 months. The concerned budget holders did not initiate the closure activity or monitor the submission of the required closure documents.

<b>Year of Operational Closure</b>	<b>No. of Projects</b>	<b>Estimated No. of Months Financial Closure Inactivity</b>
2005	3	76 -80
2006	6	62-69
2007	12	50-59
2008	15	36-46
2009	8	24-31
2010	38	12-21
2011	42	1-11
<b>Total</b>	<b>124</b>	

174. The projects with past NTE and non-compliance with closure formalities are indications of insufficient control procedures over the budget holders. In exercising its corporate monitoring function, the TCP Unit does not have enough authority under the TCP Manual to demand compliance from budget holders. A number of budget holders do not act promptly on messages, triggers and follow-up letters as can be deduced in the number of projects needing housekeeping actions.

175. The TCP Unit explained that the FPSN monitoring tool in the FPMIS effectively monitors project implementation though there are no set timeframes as projects are approved during the funding biennium. Monitoring reports are extracted from the system to monitor data quality in addition to the regular triggers sent automatically by the system.

**176. We recommended and Management agreed to strengthen monitoring structure by instituting periodic internal Quality Assurance Reviews on projects to detect and address promptly at source warning of delays and other impediments.**

177. We also concurred with Management's suggestion to review the corporate Budget Holder training course and include the FPMIS operational monitoring tools for projects (FPSN and Pending Housekeeping Actions), and create e-learning related products for the staff members in the field.

## **9. Management of Emergency and Rehabilitation Activities**

178. At the Headquarters level, we noted several issues that need to be addressed. These are discussed in the succeeding paragraphs.

### ***2010-2011 Operational Strategy Milestones and Accomplishments***

179. We noted that the TCE has adopted the Operational Strategy 2010-2013, divided into "quick wins", leading up to the achievement of the Organization's Strategic Objective I. The strategy revolves around the seven (7) identified "drivers" expected to propel the Division's work to a more effective operation and delivery. What the Division has done for getting their vision right and coming out with a tool to monitor its progress is commendable.

180. As an evolutionary road mapping tool, the Operational Strategy Framework outlines the defined milestones at the end of 2011. We validated the accomplishments of the Division vis-à-vis the set milestones taking into account the corresponding risks and impediments. We noted the following gaps in several delivery areas:

#### ***a. Coordination Mechanism***

181. We noted in this area that country-level data were not available to provide needed operating information as basis for decision-making.

182. **We recommended and Management agreed to make the operating information more reliable by obtaining necessary country-level data as basis for decision-making.**

183. Management confirmed that data related to the indicator are currently available at country level but recognized the need to improve the aggregation of country data at the global level. Management also confirmed that the achievement statements for 2013 will be re-formulated according to GFSC objectives and milestones for success in cluster coordination and functioning.

***b. Internal Partnerships***

184. We noted that milestone was reached for HQ personnel but Field staff, though consistently working towards SO I, are not systematically involved in significant numbers in global SO I coordination mechanisms, meetings and decisions.

185. **We recommended and Management agreed to pursue monitoring activities with the participation of non-TCE personnel in the entire SO I activities. We also recommended that Management embed in the programmed actions the monitoring activities pertaining to coordination since majority of SO I teams are not directly under the supervision of the TCE.**

186. Management informed that the on-going decentralization process will foster the collaboration and the ownership of SO I outputs by the country offices which had been done so far through the contributions of the ERCU.

***c. Communication Strategy***

187. We noted that the level of awareness falls below expected thresholds where 54 per cent of the overall objective is achieved. In Africa, where most of the Organization's work in emergency is located, 79 per cent of the objective is achieved. The objective set end of 2011 is that all country/regional portfolios with delivery of about USD 5 million per year shall have a trained national or international communications officer by the end of 2011.

188. **We recommended and Management agreed to: (a) review the milestone set to make it more realistic after recognizing impediments that may not have been considered during the initial strategy formulation; (b) consider a more appropriate timeframe within which the milestone will be achieved; and (c) set the bottom line at a level where information movement is not hindered.**

***d. Resource Mobilization Strategy***

189. The formulated milestone is not readily measurable in terms of percentages. Management found it impossible to extrapolate data on the milestone rendering the event a complex undertaking to monitor and measure.

190. **We recommended and Management agreed to include clearer and more accurate indicators in the reformulation of milestones for more effective tracking with utmost consideration of decentralization efforts.**



191. Management further commented that it will develop a new indicator which will capture the on-going decentralization efforts, and measure accomplishments with regard to the mobilization of resources for Disaster Risk Management in support of the Country Programme Framework.

*e. Security Policy*

192. TCE has not developed a security strategy as of the end of 2011. Instead, the Standard Operating Procedures (SOP) team has so far established a working group with the Security Service (CSDU) and Medical Service (CSDM), and they are developing SOPs for security. Without a security strategy developed by the end of 2011, security issues encountered cannot be addressed systematically in the entire operational cycle that can result in protracted security-related decision-making processes.

**193. We recommended that Management shorten time lag, and manage obstacles that persist among collaboration points, synergy principle agreements and final delivery of security strategy, and provide adjustments to milestone.**

194. Management informed that the new Administrative Circular recently issued related to Field Security will frame Standard Operating Procedures (SOPs) development and that the indicator of this area will be revised accordingly.

*f. Donor Reporting*

195. Out of the 76 per cent of reports targeted to be submitted within the Donors' timeframe, only 33 per cent of reports were submitted on time, and a further 34 per cent submitted within three (3) months from due date. The low turnout of reports exposes the Organization to partnering risks and delayed management decisions.

196. Management informed that the reason for the delay are the (a) short timeframe of usually three (3) months in finalizing reports of emergency projects; and (b) delay in the submission by field offices of the first draft of the report.

**197. We recommended that Management require submission of reports within the project time frames despite identified constraints. We also recommended that Management prioritize the enhancement of the competencies of those charged with report preparation particularly in the field offices.**

198. Management commented that donor reporting remains a top priority for the Division and that it will pursue its capacity development efforts towards reporting particularly in support of field offices.

***End of Biennium Assessment- SO I***

199. The primary purpose of the End of Biennium Assessment is to provide a comprehensive analysis of achievements against unit and organizational results, identify opportunities for improved organizational performance, and generate information to be used in the PIR 2010-11. Of particular significance during our review

of TCE are the process points within the reporting process where human judgment is materially employed such as qualitative assessments, the additional elements inputted and where apparent inherent risks reside. The review and monitoring elements in the process were also included in our assessment.

200. From 2010-2011, 32 UR narratives under the 3 ORs, seven achievements - qualitative and quantitative summaries - were further verified and our recommendations arising from that review are presented below:

***a. OO IO1G116 - Coordination, Advocacy, Communication and Risk Analysis for Enhancing Prevention of Food Chain Emergencies***

201. Management recognized that due to lack of resources, this OO could not be achieved during this biennium. Management also explained that the positive effects of collaboration take some time to manifest or happen. We believe that without any information on the impact of the tool in the enhancement of food crisis prevention, its effectiveness in achieving the intended output may not be known.

**202. We recommended that Management conduct an evaluation of the expected impact of a more inclusive and integrated analysis on food chain crisis prevention, a desired outcome stated in the PIR.**

203. Management informed that an evaluation on the tool is foreseen within the framework of the corporate strategy on information systems for food and nutrition security which is still being developed.

***b. OO IO1A113 - A Sub-regional Food Insecurity, Malnutrition and Vulnerability Monitoring System in place.***

204. Management reported that no activities were undertaken because of lack of funds. Management further asserted that the expected impact of the project proposal is material but no voluntary contributions were received in support of the project. We believe that this event can change the decision on the UR since the proposed project has not attracted donors since 2008.

**205. We recommended that Management consider whether to redefine the Organizational Output, or undertake a more aggressive partnering campaign with donors to fund the project, considering its significant contribution to the attainment of the OO and the age of the proposal.**

206. Management informed that this OO has not been included under the 2012-2013 PWB.

***Project Monitoring and Housekeeping – HQ Level***

207. The FPMIS, during the biennium under review, logged 213 completed emergency and rehabilitation projects (OSROs) at various stages of closure but with recognized impediments.

208. Discussions with Management, review of related Manuals and Guidance, and analysis of project documentations further explained the prevalent impediments to project implementation and closure activities which include: (a) failure to fully settle commitments; (b) pending claims; and (c) lengthy and time-consuming processing of Property Transfer Forms (PTF).

**209. To address the identified impediments and root causes to project closure, we recommended that Management make policy enhancements to the Field Programme Manual to define timelines for full settlement of commitment, filing of pending claims, and processing of PTF. We also recommended that Management include in the Project Agreements clauses pertaining to the Disposal of Equipment or use of equipment after the NTE date.**

## **10. Human Resources Management**

210. We reviewed and assessed various functional areas carried out by the CSH. We focused on the review of (a) gender and geographic distribution; (b) JPP; (c) system for a wider publication of vacancies; (d) measures to reduce recruitment timeframes; (e) iRecruitment system; and (f) staff rotation scheme.

211. We noted that the Organization achieved progress in:

(a) wider publication of the Organization's vacancies through accelerated distribution of vacancy announcements on a wider data base which includes governmental or non-governmental organizations, universities, research centres and women's association;

(b) reduction of recruitment time frames from 378 to 502 days in the processing of applications with Vacancy Announcement (VA) closures, and improvement of the recruitment process through various HR initiatives;

(c) increase by 21 the number of equitably-represented countries of which 11 countries were new additions to the list through external selections from non-represented and under-represented countries; and

(d) participation of the targeted 50 per cent female candidates in the first group of cohorts in the JPP.

212. Our review, however, revealed certain areas where improvements need to be made.

### ***Announcement of Vacancies***

213. We noted that the delays in the recruitment for several vacancy announcements in the current biennium were caused by system deficiencies arising from policy, technical and resource issues. These issues relate to gaps in the functionality of the iRecruitment module which does not fully reflect the Organization's HR and recruitment policies.

214. We further noted that no policy has been issued to establish the retention period for the *i*Recruitment-generated reports such as the Organization's Applicant Bulk resume Upload, List of Applicants, and Screening Report. Gaps in numbering were also noted due to errors like absence of several Vacancy Announcement Numbers in the database.

215. **We recommended that the hiring units and the CSH:**

- (a) **closely monitor vacancies that are experiencing delays in the processing of applications and that efforts be made to facilitate the timely completion of the evaluation;**
- (b) **define a policy on the maximum time allowed for accounts to remain idle in *i*Recruitment before they may be purged from the system as well as the desired retention period for reports; and**
- (c) **revisit the design and routine assignment of vacancy numbers in the *i*Recruitment to ensure that (i) the basic control on the existence of an audit trail is embedded in the system so that the processed data are complete, timely and accurate; and (ii) gaps and duplications in numbering are avoided.**

#### ***Recruitment Timeframe***

216. We recognize that Management committed to reduce recruitment timeframes by, among others, requiring recruiting units to submit recommendations to the PSSC within four months following Vacancy Announcement (VA) closure.

217. We observed a remarkable reduction in the period of submission of recommendations to the PSSC from a range of 478 to 635 days during the first half of 2010 to a range of 178 to 228 days for the same period in 2011. Such reduction, however, still lags behind the target period of 120 days or 4 months.

218. The inability of recruiting units to achieve the targeted maximum period for submission of recommendations was due to: (a) long recruitment processing time averaging at 250 days after VA closure; (b) delayed implementation of most of the measures proposed to accelerate recruitment; and (c) posting period for some vacancy announcements in *i*Recruitment exceeding the prescribed period of one month.

219. **We recommended that Management continuously pursue its efforts to cut down the processing time from VA closure to submission of recommendations to PSSC by reducing the time spent by recruiting units for pre-screening, short-listing, interviewing and selection.**

220. CSH took note of the recommendations and committed to implement them as they expect that the recommendations will be facilitated in some instances by the introduction of Oracle R12.

### ***Gender Balance and Equitable Geographic Representation***

221. To advance gender representation, the Organization aims for 50 per cent of its external recruits in the professional (P and D) categories to be female particularly in units where there are currently less than 33 per cent women. Likewise, in order to meet the MTP geographic representation, the Organization sets the following targets: (a) 40 per cent of current vacancies of foreseen external selections shall be filled with nationals of non-represented and under-represented countries; and (b) if a Unit has more than 40 per cent nationals from over-represented countries, the geographic target shall be increased to 50 per cent.

222. We noted that while geographic representation targets were notably achieved for the period 1 January 2010 to September 2011, the gender balance for the professional category was below target. Only 57 out of 133, or 42.86 per cent of the selected external candidates, were women.

223. We also noted that there was no disclosure of the causes of changes in representation of member countries in the Monthly Reports on Geographic Distribution.

**224. To sustain the Organization's gender balance and geographic representation targets, we recommended that Management require hiring units to closely coordinate with CSH and PSSC Secretariat to ensure that submissions for possible appointment will not cause the countries they represent to reach the upper representation limit.**

**225. We also recommended that Management (a) ensure timely recording of the changes in the geographical representation resulting from change of nationality, recruitments, mandatory retirements, resignation and other modes of separation; and (b) include in the Geographical Representation Report the causes of the change in representation of member countries for an accurate and timely representation profile.**

226. Management acknowledged and noted well the need for more information on and analysis of the causes of change in the geographic distribution of the Organization's Member Countries.

### ***Selection Process for JPP***

227. The JPP was developed and implemented to attract young professionals. The objective of the initial pilot implementation of JPP was (a) to test and whenever necessary, revise the elements of the proposed programme such as recruitment, placement, and training and development processes; and (b) to assess its progress in meeting its objectives prior to the increase in scale in the succeeding biennia.

228. We noted that the entire selection process, which was initially estimated to take four months from the development of materials to the commencement of the pilot programme, actually took 10 months to complete. CSH attributed the delay to: (a) the complex and manual screening of the applications including the qualifications of the

candidates as well as the gender and geographic representation status of their countries; and (b) the absence of a clear plan of action outlining the activities, and the corresponding timeframes.

**229. We recommended that CSH establish measures to (a) streamline the recruitment process of Junior Professionals; (b) use the system of iRecruitment in processing applications under the JPP; and (c) ensure compliance with the requirements of preparing a PID to establish a clear project outline, and more realistic targets and timeframes.**

230. CSH commented that actions have been taken and the next group of JPs will be recruited using iRecruitment.

231. We also noted that the Organization accepted 149 applications beyond the 31 August 2010 deadline. CSH, however, clarified that the Director, CSH, in consultation with the recruiting units, can make exceptions.

**232. We recommended and CSH agreed to establish clear-cut rules on the acceptance and processing of late submissions from prospective JPP candidates to promote fairness among candidates.**

#### ***Turn-out of JPP applications***

233. JPP supports the Organization's objective of achieving gender balance among its professional staff as well as an equitable geographic representation through recruitment of entry-level professionals from non-represented and under-represented developing countries. In line with that goal, a participation target of at least 60 per cent from non and under-represented developing countries was established for the pilot programme.

234. We noted that FAO Representatives, especially those in non-represented and under-represented countries, were requested to widely publicize the call for expressions of interest for the JPP; however, only a small number of applications came from these countries. CSH was unable to establish a link with tertiary educational and professional institutions as a means of increasing the number of candidates from non-represented and under-represented developing countries.

235. We also noted that the participation target of 60 per cent from non-represented and under-represented developing countries was not achieved since only seven or 39 per cent of the JPs hired come from the developing countries.

**236. We recommended that CSH undertake active measures to increase JPP's market base. In this regard, establish linkage with relevant tertiary educational institutions and professional associations to attract participants from target countries.**

237. CSH highlighted that the launching of a database of institutions for wider circulation of vacancies in October 2010 is expected to increase applications from non-represented and under-represented developing countries.

### ***Corporate Mobility Policy***

238. Despite the absence of official mobility guidelines, 79 staff members were rotated as at 30 September 2011. However, although the Organization's target was 100 geographical mobile assignments for the 2010-2011 biennium as indicated in its Immediate Plan of Action using temporary mobility guidelines.

239. The adoption and implementation of staff rotations and reassignments despite the absence of a duly-approved Corporate Mobility Policy might result in subjective and non-uniform application of processes, support systems, eligibility criteria and entitlements.

240. **We recommended that CSH proceed with the issuance of an official Corporate Mobility Policy to (a) provide a common understanding of the goals, benefits and specific expectations of the Organization with regard to staff performance and conduct; and (b) provide guidance on staff rotations and reassignments.**

241. CSH noted that the draft mobility policy has been revised and is expected to be issued by the end of September 2012. The policy is accompanied by procedural guidelines that establish the processes and mechanisms of the mobility scheme. Guidelines are also being prepared for posts that are considered non-mobile.

## **11. Project Evaluation**

242. We reviewed the work of the OED and made observations and recommendations in some areas to further improve the efficiency of project evaluation, and ensure the quality of evaluation processes and outputs which are set out below.

### ***Evaluation Policy and Guidelines***

243. The OED Charter defines the roles and responsibilities of the Governing Bodies, Director-General and Internal Evaluation Committee, and the OED. We noted that the following areas were not covered by the Charter:

- a. Clear definition of the required competencies and responsibilities of the evaluators who are tasked to conduct the evaluation;
- b. Expectations from senior management and programme managers whose outputs undergo evaluation;
- c. Criteria for the selection/prioritization of individual programmes and projects for evaluation, and specific criteria for determining the timing of a project evaluation as to whether mid-term, final or terminal, or ex-post;
- d. Explicit policy on the monitoring of evaluation results, and its integration into the organizational learning/knowledge management systems; and

- e. Maintenance of an up-to-date database containing the findings, recommendations and lessons learned for decision making purposes.

244. Management, however, considers that the issues mentioned are not of sufficient magnitude to require a change in the Charter. They noted that most of them are by nature subject to adjustments and change. Management confirmed that these recommendations will be taken into account as appropriate in the guidelines and tools of OED.

245. The evaluation guidelines are meant to implement the details of the policy and thus the need to establish the policy first. Moreover, the guidelines have yet to be completed.

**246. We recommended that Management enhance the evaluation policy to comply with the UNEG Standards by including in the OED Charter: (a) responsibilities of evaluators and their required competencies; (b) expectations from senior management and programme managers; (c) criteria for the selection of projects to be evaluated; (d) timing of the conduct thereof; (e) institutionalization of the monitoring of evaluation results; and (f) maintenance of an up-to-date database containing the findings, recommendations and lessons learned that will be electronically available to the Organization and its stakeholders for an informed decision-making.**

**247. We further recommended that Management develop the guidelines to implement the recommended additional evaluation policies and ensure its completion.**

#### ***Detailed Project Evaluation Work Program***

248. The project evaluation process consists of phases of activities with varying outputs to be completed within given periods. We noted the absence of a formal plan which provides the details of project evaluation, the prescribed activities and timelines for each phase of the evaluation processes, responsible officers, and such other information necessary to monitor the evaluation process.

249. We noted that there is no evaluation work plan. No targets were set for the number of project evaluations to be conducted in the current biennium as in the 2008-2009 biennium. OED's level of performance can hardly be measured without the target accomplishments.

**250. We recommended that Management review the existing planning and collaboratively develop with OED staff the evaluation work plan to foster transparency in planning, monitoring and reporting on the status and results of each project evaluation.**

251. Management commented that while it continually looks for ways to improve its work, OED's experience with the current planning and monitoring process for project evaluations is quite cost-effective in ensuring proper identification of projects for evaluation and staff assignment as well as process control, and timely adjustments



whenever required. Moreover, Management stated that they have a “Rolling” target where the number of projects for evaluation depends on the level of resources available to conduct them.

252. Notwithstanding the above explanation, we urge Management to prepare a formal work plan indicating the targeted number of evaluations to be conducted in a biennium and the prioritization criteria based on the available resources to conduct them. The work plan will facilitate in determining the level of performance of the OED at the end of each biennium.

### ***Ex-post Evaluation of Projects***

253. We brought to the attention of the OED that no ex-post evaluation was conducted during the first year of the current biennium to assess the impact and sustainability of projects completed in the previous biennium 2008-2009. The Organization’s regulations require that all projects and activities are subject to evaluation to ascertain that objectives are attained and the impact of the projects to the intended beneficiaries is determined.

254. OED explained that the conduct of ex-post evaluation on individual projects was not done since these projects have been operationally and financially closed ; thus, there is no budget available for such evaluations. OED informed, however, that they conducted impact evaluations that included the assessment of projects already closed which is essentially an element of ex-post evaluation in the framework of country evaluations.

255. Audit of the Myanmar Representation Office also disclosed that no project evaluation was conducted for three projects under the ERCU with implementation periods of less than one year.

256. The Myanmar Representation explained that these projects were funded out of the OCHA Central Emergency Response Fund (CERF) with a three-month time frame as emergency input assistance to disaster-affected farmers. Thus, impact evaluations are not feasible for such short-time projects with small budget.

257. Since documents for these rapid response projects have categorically stated the expected outcome of the undertakings especially on sustainability, there is no way to check on the results without the benefit of an evaluation. In such a case, the Organization may not be able to assess and document the effectiveness of its interventions, the lessons learned, the potential for sustainability, and the outputs/results that can be used as inputs in the development and management of its future projects.

**258. We recommended that Management conduct an ex-post evaluation on projects to fully assess the impact and sustainability of the completed projects. We further recommended that Management allocate a budget for the conduct of ex-post evaluation.**

### *Quality Assurance Project Evaluation Processes*

259. We reviewed the Quality Assurance Questionnaire developed for the evaluation team members. It is intended to provide feedback on the evaluation process and assess the evaluation team members' opinion on the whole evaluation process from the preparation up to finalization. We noted that the Questionnaire needs substantial improvement to serve its purpose.

**260. We recommended and Management agreed to improve the QA tools by providing adequate descriptions/criteria or values to the questions/issues and the scoring scale, where applicable and to the extent practicable, to ensure the quality of the whole project evaluation process and outputs. Utilize the QA tools during the execution of evaluation apart from ex-post to ensure improved quality of evaluation processes and reports.**

### *Management Response and Follow-up Reports*

261. We noted a delay in the submission of the Management Response and Follow-up Reports. In 20 sample projects out of the 41 reported completed evaluations in biennium 2008-2009, nine Management Responses were received one to four months beyond the timeline of one month.

262. Our review of 15 Follow-up Reports due for submission as of November 2010 showed that four reports have not been submitted by the concerned offices while 11 Follow-up Reports were submitted more than one to four months after due date.

263. Further verification also disclosed that: (a) there were no documentation of the validation conducted for implemented recommendations and disposition on closure; and (b) there was no monitoring system in place to readily determine the inventory of recommendations implemented or closed, on-going and for follow-up.

264. The absence of feedback on the evaluation reports may preclude OED from conducting follow-up action. Also, any delay in feedback will preclude timely and appropriate follow-up reports to ensure compliance with agreed recommendations and account for any variation between actions decided in the management response and those actually implemented. The magnitude of unimplemented recommendations could not also be readily determined by OED in the absence of a monitoring tool that captures all the evaluation recommendations and their status as of a certain period. Further, the recommendations not fully or partly considered may signify an ineffective evaluation that needs to be addressed.

**265. We recommended and Management agreed that OED (a) continue to closely monitor the submission by responsible officials of their responses to evaluation and follow-up reports; (b) call the attention of those concerned for noted delay or non-submission of the Management Response and Follow-up Reports; and (c) indicate on the report or record the date of receipt of the said reports for monitoring and control purposes.**

266. We also recommended that Management establish a validation/closure procedure for implemented recommendations and a monitoring system that will keep track, either on a semestral or annual basis, the status of recommendations until closure.

### **Audit of Decentralized Offices**

267. We visited 11 decentralized offices consisting of three regional offices (RAP, RAF and RLC); two sub-regional offices (SEU and SRU); and six country offices (Myanmar, Sri Lanka, Somalia, Pakistan, Ethiopia and Sudan). We reviewed important areas in their operations such as project management, procurement, asset management, consultants, travel, and financial and cash management. Likewise, we reviewed the implementation of RBM in these decentralized offices and the issues are consolidated in the discussion of RBM.

## **12. Project Management**

### ***Expenditures for Projects***

268. We noted that the four projects out of the 14 Pakistan specific projects and the six out of 29 Emergency and Rehabilitation projects we reviewed had negative cash balances as at 20 November 2011 due to over-expenditure.

269. Management explained that some of the reported “overspends” were offset by earned interest on the projects which could be used to cover the additional expenditures. Also, the “overspend” reflected the standard funding arrangements for certain donors whereby a percentage of total funds for a specific project is withheld by the donor pending completion of final reporting. The donor allows the use of unutilized cash balances of other projects to finance these expenditures pending final settlement of the balance withheld.

270. Notwithstanding Management’s explanations, we emphasize the importance of BH compliance with the policy against over-expenditures. The incurrence of over-expenditure of trust funds projects will affect the funds and activities of other projects. Besides, it is not reflective of an efficient and effective project budget management.

271. Our review of the expenditures of 12 of the 17 emergency projects in Somalia with past NTE dates revealed a total over-expenditure of USD 2,393,351. As at 30 November 2011, these projects were four to 22 months past their NTE dates with unreleased budget of USD 1,377,313. Management commented that some donors specifically provided for such over-expenditures pending completion of final reporting.

272. The practice of committing and disbursing funds in excess of the available funds, and the significant amount of unreleased budget for projects with past NTE dates are not reflective of an efficient and effective project budget management.

273. **We recommended and Management agreed that (a) the Budget Holders must work within the approved project budget, and in the case of TF projects, within the cash received from donors; (b) ensure that funds are available for the project before incurring commitments and expenditures; (c) diligently monitor and check cash balances through FPMIS, Oracle Data Warehouse and FAS; and (d) alert CSF of the prospective need to obtain additional cash from the donor.**

274. **We also recommended that Management review and monitor the status of projects with past NTE dates to determine any reporting deficiencies, require immediate compliance with donor's other requirements, and request full release of the remaining funds for said projects.**

#### ***Evaluation of Projects Implemented by Decentralized Offices***

275. It is the responsibility of the project formulator to ensure that evaluation costs are budgeted at agreed rates. On the other hand, the budget holder is responsible for confirming the availability of funds including evaluation budget. The BH is also tasked to authorize commitments and expenditures in support of the project work plan in line with the Organization's rules and regulations. We noted, however, that in a number of decentralized offices that we visited (FAORs in Pakistan, Somalia, Ethiopia and Somalia and the Regional Office for Africa), the required budgetary allocation for the conduct of project evaluation was not consistently applied.

276. The absence or inadequacy of a budget for evaluation will prevent the Organization from conducting the required evaluation to assess the efficiency, effectiveness, impact and sustainability of these projects and to help Management in making decisions.

277. **We recommended that Management ensure the provision of evaluation budget for every project to enable the conduct of a terminal or ex-post evaluation.**

#### ***Progress Monitoring and Reporting***

278. We noted delays in uploading required reports such as the QPIR, and/or terminal reports in the FPMIS. Being a monitoring tool, the QPIR provides opportunities at regular predetermined points to validate the logic of project activities and their implementation, and to allow adjustments whenever necessary.

279. **We recommended that the QPIR be made available on a timely basis to all stakeholders for objective decision-making, transparency and complete documentation of project implementation.**

### 13. Procurement and Letters of Agreement

#### *Procurement in Decentralized Offices*

280. Manual Section 502 of the Administrative Manual establishes the principles and procedures that apply to the procurement of all goods, works and services in all offices and locations.

281. We reviewed the procurement activities in the decentralized offices we visited and noted the following:

- a. Absence of delivery terms and conditions in the preparation of PO (FAORLC, FAOR Sudan, FAOSEU);
- b. Improper classification of procured items (FAORLC, FAOSFE);
- c. Direct selection of service providers for LoAs instead of competition (FAOR Ethiopia);
- d. Deficiencies in the Terms of Agreement of LoAs (FAOR Ethiopia);
- e. Absence of the information on the actual receipt of goods (FAOR Sudan);
- f. Non-inspection and non-certification of receipt of deliveries (FAOSFE);
- g. Absence of the date for the opening of bids in the Invitation to Bid (FAOR Myanmar); and
- h. Non-enforcement of liquidated damages (FAOR Myanmar, FAOR Somalia).

282. The gaps noted in the procurement activities in the decentralized offices showed that the competencies of the field procurement offices need improvement.

**283. We recommended that Management, especially the Procurement Service (CSAP), take an active role in developing the competencies of field procurement to ensure that procurements in the decentralized offices are done correctly and in the best interest of the Organization.**

#### *LoA with implementing partners*

284. We noted overpayments to Implementing Partners in five projects in Pakistan totaling Rupees 23,434,606 or US Dollars 247,122 (USD 1=PKR 94.83).

285. The overpayments are indicative of gaps in monitoring and reporting the implementation of activities as set forth in the LoA; hence, they manifested inaccurate planning and budgeting. We noted that some activities in the SOE were not performed and yet were considered as fully completed. There were also instances of poor estimation because only a part of the budget was spent to complete all the activities in the SOE.

286. Moreover, under MS 507, the authorized officer shall sign the LoA only upon ascertaining, among others, that a schedule of payment has been established to protect the Organization's interest including the timely delivery of service/products. In all cases and unless properly justified, the amount of initial payment should not normally exceed 30 per cent of the total amount of the LoA.

287. We noted an instance of an LoA entered into by FAOR Pakistan where 50 per cent of the LoA was paid upfront as an initial payment. The reason cited for exceeding the 30 per cent limit is that the IP did not have enough resources of its own to start the project.

288. The advance payment of more than 30 per cent of the contract amount negatively affected the project funds because of the substantial initial cash outlay. Moreover, the advance payment scheme exposes the Organization to a risk that IPs may not implement the required activities or that the outputs do not meet the anticipated results.

**289. We recommended and Management agreed that FAOR Pakistan, particularly the Monitoring Officers, monitor the progress of completed activities vis-à-vis the expenditures incurred by the IPs to avoid incurring overpayment.**

**290. We also recommended that FAOR Pakistan (a) ensure that the schedule of payment in the LoA protects Organization's interests; and (b) encourage the timely delivery of service/products.**

**291. We further recommended that FAOR Pakistan ensure that the selected IPs possess good track record and financial capacity to perform the activities without requesting for initial payment beyond the 30 per cent limit set out in MS 507.**

## **14. Asset Management**

### ***Balances of Property Inventory Reports***

292. In three FAO regional and five country offices, we noted the following instances of non-compliance with the provisions of the manual/rules on asset management:

- a. Non-maintenance or non-updating of local inventory records;
- b. Non-submission of the YEAR;
- c. Failure to reconcile the local inventory report with the report of the headquarters;
- d. Delayed/incomplete/inaccurate/non-reporting of purchases of non-expendable properties including attractive items ; and

- e. Error/misclassification/failure to report new acquisitions, transfers to country-beneficiary, and the dropping of unserviceable properties.

293. The deficiencies noted above affected the accuracy and completeness of the YEAR as well as the disclosure of assets in the Notes to Financial Statements.

**294. We recommended that Management improve its asset management by: (a) strict compliance with the Organization's manual, regulations and rules through regular submission of an updated YEAR as basis for reconciliation with headquarters records; (b) regular monitoring of procurement of non-expendable properties; and (c) prompt reporting of acquisitions using the ADM 41, and of losses, damages and non-serviceability using ADM 83.**

#### *Accountability for Non-Expendable Property*

295. In two regional offices (RAP and RLC) and in two country offices (Somalia and Sudan), the issuance of inventory items to staff members were not acknowledged through the *Custody of Property* form. This form as required under Section 503.2.12 of the Administrative Manual identifies the individual end-user, shows physical possession, and effectively establishes custodial responsibility as a means of controlling the movement of properties and accountability for loss or damage. The practice of one region is to maintain a list of property, both the expendable and non-expendable items, identifying only the *description, quantity and date of purchase* of each property, without the corresponding cost of the property. In the other region, only the IT equipment are being accounted for, using a tool where every computer and IT equipment are matched with every personnel and their office location.

296. The financial liability for lost or damaged property may not be attributed to any staff member since ownership and accountability over a particular property is not documented. Moreover, reconciliation will be difficult without the disclosure of essential information such as *asset number, serial number, and value in USD* in the list maintained by one region since the record has to be matched with the YEAR .

**297. We recommended that Management establish custodianship and accountability of each staff member and official for both expendable and non-expendable items using the *Custody of Property* form.**

## 15. Consultants

298. During the audit visits to decentralized offices, we noted several weaknesses in the administration of consultancy contracts, namely:

- a. Absence of consultants' outputs and quality assessment forms;
- b. Lack of performance indicators in consultancy contracts;
- c. Absence of competitive selection process in hiring of consultants;
- d. Non-observance of guidelines for hiring special consultants not observed;
- e. No appointment/ contract attached to the payment voucher which were not also found in the record/folder;
- f. No TOR annexed to contract and/or found in the consultant's folder;
- g. No report of accomplishment on record or found in the consultant's folder;
- h. No evaluation report of accomplishment; and
- i. No ADM 104 on record.

299. These weaknesses in the administration of consultancy contracts were also noted in previous audits. This was due to inadequate monitoring at an overall organizational level as a result of the decentralized nature of the Organization. The weaknesses might lead to individual units not implementing competitive and comparative engagement practices to ensure that selected candidates are the most qualified.

300. **We recommended that Management implement the prescribed controls and guidelines/regulations in hiring consultants.**

### *Hiring of Consultants in Decentralized Offices*

301. We evaluated the selection process employed by the FAOR Ethiopia through a review of 17 sample contracts issued for the biennium 2010-2011. We noted that in 12 contracts, the consultant hired was the sole candidate considered in the selection. No justification for said single source selection and reference to the Roster, if any, was indicated in all of the 12 contracts we examined. The practice is not in accordance with Manual Section 319.6.1 which requires that "employing units are expected to consider a number of candidates and to bear in mind the desirability of drawing expertise from a range of Member Nations before selecting the best person qualified to perform the task specified in the Personal Services Agreement".

302. We also noted that consultants were engaged several times during the biennium, sometimes under different projects. From the documents examined, 127 contracts



were awarded to only 23 individuals in 2011. The repeated employment of the same individuals several times during the year indicates that the process of contracting consultants is not competitive and broad-based. This condition might not only deny the Organization the opportunity of getting the best consultants at the most advantageous cost but also creates an impression of permanent or semi-permanent employment of consultants in the Organization. Single source selection and repeated engagement of the same consultants limit competition and minimize the opportunity for a wider choice of candidates with the needed competence and expertise.

**303. We recommended and Management agreed that FAOR Ethiopia enforce the provisions of MS 319 particularly on the competitive selection process in the choice of consultants to afford the opportunity of getting the best expert at the most advantageous cost. We further recommended and Management agreed that it expand its database of consultants, and maximize the use of the Roster to reduce dependence on a limited number of experts in the hiring process.**

## **16. Financial and Cash Management**

### ***Compliance with Financial Regulations, Rules and Policies***

304. We noted that the decentralized offices we visited did not adhere strictly to financial regulations, rules and policies. This resulted in several deficiencies and weaknesses in financial and cash management which need to be addressed by the concerned officers in the respective offices, among which were as follows:

- a. Non-segregation of incompatible functions (FAOR Pakistan, FAOR Somalia, FAOR Myanmar, FAOR Sri Lanka);
- b. Non-compliance with regulations on Operational Cash Accounts (FAOR Pakistan, FAOR Somalia and FAOR Myanmar);
- c. Non-conduct of independent cash count (FAOR Pakistan, FAOSFE);
- d. Maintenance of local currency (rupee) bank balance in excess of requirement (FAOR Pakistan);
- e. Incorrect charging of payment of locally-hired non-professional services against allotment for Consultants (FAOR Somalia);
- f. Non-compliance with regulations on Petty Cash Facility (FAOR Somalia, FAORLC, FAOSFE);
- g. Erroneous recording of non-expendable procurement in FAS (FAO Somalia);

- h. Negative General Ledger (GL) balance (FAORAP);
- i. Negative cash book balance (FAOSEU);
- j. Inaccurate requests for cash replenishments and issuance of cheques despite insufficient bank balance (FAO Sri Lanka);
- k. Inaccurate recording of reconciling items (FAORLC); and
- l. Long outstanding reconciling items in their accounts (FAORLC).

305. The presence of the abovementioned deficiencies may lead to an increased risk in the management of funds. It also emphasizes the need to strengthen the monitoring control on cash and financial management functions in these offices. These deficiencies have been communicated to the heads of the respective offices through a Management Letter.

**306. We recommended that Management ensure strict compliance with financial regulations, rules and policies to improve the financial and cash management in the decentralized offices.**

**307. We further recommended that CSF improve its monitoring control in decentralized offices by checking regularly their compliance with financial regulations and policies to address the risk of inappropriate use of funds. We also recommended that CSF consider in its action plan the build-up of competencies of staff performing financial functions in the decentralized offices.**

## **C. Disclosures by Management**

### **17. Write-off of Losses of Cash, Receivables and Property**

308. There were two write-offs during the biennium totalling USD 9,802.50. Of this amount, USD 4,702.50 was an operational cash advance of a national consultant in FAOR Democratic Republic of Congo who passed away without having settled the advance. The amount of SDG 5,100 (approximately USD 2,500) involved the loss of funds in the project office in Sudan following conflict in Abxei.

## **18. Ex gratia Payments**

309. Management reported that there were no ex gratia payments made by the Organization in biennium 2010-2011.

## **19. Cases of Fraud and Presumptive Fraud**

310. Pursuant to paragraph 6 (c) (i) of the Additional Terms of Reference Governing External Audit (Annex 1 to the Financial Regulations), Management reported cases of fraud and presumptive fraud.

311. During the biennium, there were a total of 26 cases of fraud and presumptive fraud. There were also seven fraud cases which were pending in the previous biennium and subsequently closed during the current biennium.

### ***Fraud Cases***

312. During the biennium, there were 14 fraud cases reported by the medical insurance company Vanbreda. The cases were committed by former staff members, current staff members and a widow of a former staff member who are enrolled in the After-Service Medical Coverage plan. It involved submission of false documentation in support of claims for reimbursement of medical expenses, thereby obtaining undue financial gain. Of these 14 cases, 13 were already closed while one is still under investigation.

### ***Other Fraud Cases and Presumptive Fraud***

313. There were 12 cases of other fraud and presumptive fraud investigated by the Office of the Inspector General during the biennium 2010-2011. It involved mostly misconduct or unsatisfactory conduct of staff members, national project personnel or a government-provided staff. The cases included: (a) provision of false information to support application for post; (b) fraudulent activity in procurement process; (c) conflict of interest; (d) conduct of personal business on Organization's time; (e) wrongfully retained Daily Subsistence Allowance (DSA); (f) theft of Organization's funds; (g) improperly favouring a supplier; (h) improperly communicating with a supplier during procurement process; (i) abuse of position to pressure a supplier to provide false information against a colleague and staff member in exchange for future help with procurement offered to the supplier; (j) wrongfully monitoring and sharing private communications of a colleague with others; (k) providing falsified documentation regarding payment of taxes, and setting up and administering a fraudulent project; and (l) fraudulent employment and payment arrangement. All these cases are now closed.

314. We noted that as a deterrent in the commission of fraud, the Organization has issued Administrative Circular No. 2004/19 which outlines the policy on fraud and improper use of the Organization's resources and Administrative Circular No. 2007/11 entitled "Zero-tolerance policy in respect of fraud and improper use of the Organization's resources". It aims to remind all staff members and other personnel as appropriate, of the content of Administrative Circular No. 2004/19 of June 2004. It

stresses the Organization's stand that FAO will not tolerate any type of fraud within the workplace or associated with the work performed on its behalf.

315. We also noted the adoption of the Whistleblower Policy of the Organization and the establishment of an Ethics Office.

316. While we acknowledge that the required policies are in place and the appropriate measures have been taken to resolve the cases, recover whatever amount possible and impose the appropriate sanctions, we noted the increase in the number of cases of fraud and presumptive fraud committed during the biennium. This adverse development requires more attention and study by Management.

#### **D. Acknowledgement**

317. The External Auditor wishes to express its appreciation for the cooperation and assistance extended to its staff by the Director-General of the Food and Agriculture Organization of the United Nations and his staff.

**Ma. Gracia M. Pulido Tan**  
Chairperson, Philippine Commission on Audit  
External Auditor

20 August 2012

**i. List of Acronyms**

AGP	Plant Production and Protection Division
AUD	Internal Audit
BH	Budget Holder
BR	Budget Revision
CSAP	Procurement Service
CSF	Finance Division
CSH	Human Resources Management Division
CSDU	Security Service
CSDM	Medical Service
e-BMM	electronic Budget Maintenance Module
DG	Director General
DSA	Daily Subsistence Allowance
ERCU	Emergency Rehabilitation and Coordination Unit
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
ESW	Gender, Equity and Rural Employment Division
FAO	Food and Agriculture Organization of the United Nations
FAOR	FAO Representation Office
FAORAP	FAO Regional Office for Asia and the Pacific
FAORLC	FAO Regional Office for Latin America and the Caribbean
FAOSEU	FAO Sub-regional office for Central and Eastern Europe
FAOSFE	FAO Sub-regional Office for Eastern Africa
FAS	Field Accounting System
FO	Forestry Department
FOM	Forestry Assessment, Management and Conservation Division
FPMIS	Field Programme Management Information System
FPSN	Field Programme Support Network
FRETH	FAO Representation in Ethiopia
GCC	Government Cash Contributions
GEF	Global Environment Facility Fund
GL	General Ledger
GRMS	Global Resource Management System
HQ	FAO Headquarters
IFAC	International Federation of Accountants
IP	Implementing Partner
IPA	Immediate Plan of Action
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
ISO	International Standards Organization
JIU	Joint Inspection Unit
JPP	Junior Professional Programme
LoA	Letter of Agreement
MS	Manual Section
MTP	Medium Term Plan
MTR	Mid-term Review
MYR	Mid-year Review
NRL	Land and Water Division
NTE	Not-to-Exceed Date
OED	Office of Evaluation

OIG	Office of the Inspector General
OO	Organizational Output
OR	Organizational Result
OSP	Office of Strategy, Planning and Resources Management
PBR	Periodic Budget Report
PID	Project Implementation Document
PIR	Programme Implementation Report
PIRES	Programme Planning, Implementation Reporting and Evaluation Support System
PSSC	Professional Staff Selection Committee
PTF	Property Transfer Form
PWB	Programme of Work and Budget
QA	Quality Assurance
QPIR	Quarterly Project Implementation Report
RBM	Results - Based Management
SEU	FAO Sub-regional Office for Central and Eastern Europe
SFERA	Special Fund for Emergency and Rehabilitation Activities
SO	Strategic Objective
SOP	Standard Operating Procedure
SPFS	Special Programme for Food Security
TC	Technical Cooperation Department
TCE	Emergency Operations and Rehabilitation Division
TCP	Technical Cooperation Programme
TCS	Policy and Programme Development Support Division
TF	Trust Fund
TOR	Terms of Reference
UNDP	United Nations Development Programme
UNEG	United Nations Evaluation Group
UNFPA	United Nations Population Fund
UNSAS	United Nations System Accounting Standards
UR	Unit Result
URAW	User Request Analysis Worksheet
URD	User Requirement Document
VA	Vacancy Announcement
YEAR	Year-End Asset Report