OFFICE OF THE INSPECTOR GENERAL

Audit of Decentralized Offices’ governance structure and capacity (AUD0721)

EXECUTIVE SUMMARY

The Office of the Inspector General (OIG) conducted an audit of Decentralized Offices’ (DOs) governance structure and capacity from October 2020 to June 2021. The audit focused on the structure of DOs, staffing capacity and allocation of resources. It covered the period from 01 January 2020 to 31 March 2021 and included previous and subsequent periods as relevant for documentation analysis.

Main findings and conclusions

Overall, OIG assessed that the processes to enable effective DO governance structures and capacities require **Major Improvement** as described below.

**Governance structure:**

- The FAO Governing Bodies have supported the decentralization of the Organization and provided general guidance on the conditions for establishing DOs in several of their decisions over the years. FAO opened its first Regional Office in 1946, and its first Country Office in 1976. By December 2020, FAO had 167 DOs in 154 countries. However, the Organization did not have a clear policy on decentralization or a sound process for determining the DOs’ governance structure and capacity.

- In 2012, the Organization developed some criteria to determine the minimum capacity requirements for different Country Offices (COs), but these became obsolete over time and were not flexible enough to meet COs’ evolving needs. The Organization has conducted several reviews to improve the structure of DOs, but the recommendations arising from these reviews were not fully implemented. As of June 2021, a CO transformation review was under way.

- OIG audits of COs have observed weaknesses in governance structures which have contributed to some systemic internal control gaps. In addition, 55 percent of respondents to an OIG survey conducted as part of this audit indicated that their offices' governance structure did not support effective and efficient management of operations, and supervisory spans were thinly stretched.

- The policy governing delegation of authority to DOs, as defined by the relevant FAO Manual Sections, was outdated and hampered the effective functioning of the accountability framework. The Organization delegated authority to DOs without periodically assessing their capacity and arrangements for segregation of duties. Guidance and tools were inadequate to monitor the proper implementation of delegated authority. As of June 2021, management had initiated some corrective actions in this regard.

**Staffing capacity:**

- While acknowledging resource constraints, the allocation of staffing positions among COs was inconsistent. Staffing positions were allocated to COs without due regard to their size and the complexity of their operations.

- The criteria to determine the grading of FAO Representative and Subregional Coordinator positions were inadequate. Although in 2017, the Corporate Policy Programme Board made recommendations on the grading of Heads of DOs and

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1 Decentralized Offices (DOs) refers to FAO offices outside its headquarters. There are different types of DOs, such as Regional Offices (ROs), Subregional Offices (SROs), Country Offices (COs) and Liaison Offices.
readjustments of CO staffing capacities, the recommendations were not fully implemented. In some cases, FAO Representatives (FAORs) were promoted because of good performance, while in other cases, the positions were downgraded when a new FAOR or Subregional Coordinator was appointed. These decisions were not supported by job classification assessments. This led to different grades of FAORs ranging from P-4 to D-2, which were not necessarily aligned to the size and complexity of the CO. Although management had promoted all P-4 FAORs to P-5 level (as of March 2021), the misalignment between the grading of FAORs and the size and complexity of COs remained.

- Gaps in succession planning for FAOR positions had an adverse impact on operational effectiveness and delivery. As of March 2021, in ten COs, senior officials of other United Nations agencies were serving as FAOR ad-interim (including one for over a year and four for over six months), which was not a sustainable practice, particularly in COs with large and complex operations. As these individuals were not FAO employees, they could not be held accountable for their decisions. However, as of June 2021, selection decisions for all ten vacant FAOR posts had been made, and the selected candidates were in the process of being onboarded.

- Programme delivery in DOs relied mainly on the use of Non-Staff Human Resources (NSHR), approximately 86 percent of the FAO workforce in March 2021. However, while DOs considered NSHR to be more cost-effective and flexible than staffing positions, the rules governing NSHR did not meet operational demands. For example, the requirement for a mandatory break-in-service every 11 months and restrictions on supervisory roles that could be performed by NSHR led to significant challenges for DOs. This resulted in increased administrative burdens and inefficient workaround solutions.

- DO staffing structures lacked programmatic focus. Despite resource constraints, Regular Programme (RP) staffing positions were not always used to ensure continuity in key programmatic functions and some RP staffing positions were allocated to non-critical administrative functions.

- Sixty percent of respondents to the OIG survey indicated that the process, duration, decisions and the use of unspent funds from the vacant budgeted posts related to recruitment freezes of approved RP-funded positions were not clearly communicated.

**Resource allocation:**

- Allocation of RP funds from headquarters to COs was mostly made through Regional Offices. Since 2012, the proportion of RP budget allocations to the five regions remained about the same for each biennium without taking into consideration the changing needs of COs in the respective regions.

- Staffing costs represented over 90 percent of total RP allocations to COs and were managed as a pool of resources at the regional level. This process was not transparent because staffing budgets were reported in Regional Office financial statements, while staffing expenditure was recorded at the country level.

- With the increase in the number of DOs over the years, RP resources have been stretched too thinly, reducing COs’ capacity to perform advocacy and resource mobilization-related activities. Further, COs faced difficulties in supporting field programme delivery because they did not receive indirect support costs and received only a portion of direct support costs with delays that hampered the efficient delivery of operations.
• COs could not readily benefit from budget fungibility rules that allow the use of unspent funds from vacant staffing positions on other operational needs as they were kept and controlled by Regional Offices.

• Guidance on the criteria for staffing allocations to COs was inadequate. In addition, the Organization used six corporate systems for budget management that were not well integrated, which led to difficulties in reconciling data for budget monitoring purposes.

• The Organization estimated annual cost savings of USD 8.5 million from its participation in the United Nations Efficiency Agenda. However, details on the targeted cost savings and baselines were incomplete at the time of this audit. Moreover, in the absence of terms of reference for the project owner, the project team at headquarters and in Regional Offices, there was no assurance that reliable and timely information would be readily available for decision-making, such as for resource allocation to DOs.

Agreed actions

The report contains 12 actions that FAO management has accepted and committed to fully implement by December 2024. While OIG acknowledges that implementation of structural changes to DOs is challenging, time-consuming and subject to differing views from various stakeholders and interested parties, there is a need for consistency in addressing the longstanding issues highlighted in this report, which OIG believes should start with the development of a clear policy on decentralization. Deviations from, and obstacles to, such a policy should be documented, and their risk impact assessed and escalated.

Mika Tapio
Inspector General

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