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## FINANCE COMMITTEE

**Hundred and Forty-eighth Session**

**Rome, 18 - 22 March 2013**

**2012 Annual Activity Report of the Office of the Inspector General**

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### EXECUTIVE SUMMARY

- The Inspector General is pleased to provide the Finance Committee with the 2012 Annual Report of the Office of the Inspector General (OIG) as provided to the Director-General. The report contains information on the audit, investigative and consultancy work of the Office in 2012 as well as its internal management.
- In 2012, OIG completed the first year of its 2012-2013 Risk-Based Audit Plan. The 2012-2013 plan, endorsed by the Director-General following review by the Audit Committee, provides a more systematic basis for prioritizing internal audit work by targeting the highest risks for review. OIG develops its biennial risk-based audit plans from a corporate risk register first developed by OIG in 2009 in partnership with Deloitte which is updated annually. Of the 64 Organizational high risks (in terms of impact and likelihood) in the current register, OIG targeted 42 for coverage in the 2012-2013 biennium. In 2012, OIG covered 30 of the 42 high risks, including 28 which are covered on an annual basis (recurrent risks). The remaining 12 risks are planned to be covered in 2013 along with the 28 recurrent ones. In addition, OIG covered a substantial number of medium and lower ranked risks.
- Areas of focus in 2012 included ongoing assessments of the Organization's decentralized field network; the Global Resource Management System and IPSAS implementation; IT project management; decentralization and integration of emergency operations to the field offices; professional recruitment; monitoring over field procurement and LOAs; the Technical Cooperation Programme and audit recommendation follow-up. Reporting was also completed early in 2012 on work in late 2011 on an overall review of FAO's Immediate Plan of Action (IPA) and on the Organization's Accountability and Internal Control Framework. As in previous years, a significant portion of OIG's activity focuses on field and emergency operations due to the significant risk exposure to the Organization.
- Related to this coverage, OIG issued 44 individual audit and inspection reports to operating units throughout the Organization, including 35 on individual decentralized office operations and nine reports that addressed Organization-wide issues. These audit reports provided management with 494 recommendations and 509 compliance reminders to strengthen the Organization's risk management, internal controls and governance processes, from which there was a greater than 98 percent acceptance rate by management. In addition, under OIG's assessment of FAO's Accountability and Internal Control Framework, OIG provided 18 actions for management's consideration to strengthen its existing accountability and internal controls, as well as an accountability framework outline. FAO continues to progress in implementing past internal audit recommendations.
- In 2012 OIG's Investigation Unit closed a total of 134 matters (97 complaints and 37 consultations) following examination by its Investigations Unit and issued a total of 26 investigation reports and memoranda, one lessons learned report and one inspection report. The number of total matters closed (complaints and consultations) increased by 52 percent and the number of complaints closed by the Investigations Unit increased by 37 percent compared to those in 2011. OIG continues to work with management to strengthen other elements of the Organization's integrity framework.
- The results and recommendations from OIG's activities in 2012 reinforce the need for the Organization to implement structured enterprise risk management processes and a robust accountability and internal control framework, as was discussed in OIG's 2011 Annual Report. These are important ingredients of the internal governance and culture change necessary for FAO to achieve, in a timely way, substantial benefits from its change initiatives.
- OIG continued to improve its capacity during the year through aggressive recruitment, training and upgraded tools, and was actively involved in the professional networks for auditors and investigators of the UN and multilateral organizations. In June 2012, an external quality assessment was completed of OIG's internal audit function, as required under international auditing standards. The overall results were very positive and the consultant

concluded that OIG "Generally Conforms" (in 2007 OIG received a "Partially Conformed"), which is the highest rating attainable under the standards. Furthermore, by 31 December 2012, OIG had fully implemented all the recommendations made by the 2012 assessment to further strengthen the audit function.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to take note of the 2012 Annual Report of the Office of the Inspector General.

Draft Advice

- **The Finance Committee took note of the 2012 Annual Report of the Office of the Inspector General.**

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**Office of the Inspector General**  
**Annual Report**  
**2012**

**Highlights**

This report presents a summary of the activities carried out by the Food and Agriculture (FAO)'s Office of the Inspector General (OIG) in 2012.

In accordance with the Organization's oversight arrangements, this report is also made available to the FAO Audit Committee and the Finance Committee, as well as the general public on the Organization's website.

The OIG provides oversight of the programmes and operations of the Organization, through internal audit, investigation and related activities, in accordance with the mandate set out in its Charter.

Since 2010, OIG's audit activity has been based on a rolling plan aimed at ensuring that all high risks of the Organization are independently reviewed over approximately two biennia, taking into account the oversight coverage of the Office of Evaluation and the External Auditor. Biennial risk-based audit plans are drawn from a corporate risk register first developed by OIG in 2009 in partnership with Deloitte, and updated annually. The register currently includes 64 Organizational high risks (in terms of impact and likelihood), of which 42 were targeted for coverage in the 2012-2013 biennium. In 2012, OIG covered 30 of the 42 high risks, including 28 which are covered on an annual basis (recurrent risks). The remaining 12 risks are planned to be covered in 2013 along with the 28 recurrent ones. In addition, OIG covered a substantial number of medium and lower ranked risks.

Key areas of focus in 2012 included ongoing assessments of the Organization's decentralized field network; the Global Resource Management System and IPSAS implementation; IT project management; decentralization and integration of emergency operations to the field offices; professional recruitment; monitoring over field procurement and LOAs; the Technical Cooperation Programme and audit recommendation follow-up. Reporting was also completed early in 2012 on work in late 2011 on an overall review of FAO's Immediate Plan of Action (IPA) and on the Organization's Accountability and Internal Control Framework (in the interest of timely reporting the results of these were included in OIG's 2011 annual report). As in previous years, a significant portion of OIG's activity focuses on field and emergency operations due to the significant risk exposure to the Organization.

Related to this coverage, OIG issued 44 individual audit and inspection reports to operating units throughout the Organization, including 35 on individual decentralized office operations and nine reports that addressed Organization-wide issues. These audit reports provided management with 494 recommendations and 509 compliance reminders to strengthen the Organization's risk management, internal controls and governance processes, from which there was a greater than 98 per cent acceptance rate by management. In addition, under OIG's assessment of FAO's Accountability and Internal Control Framework, OIG provided 18 actions for management's consideration to strengthen its existing accountability and internal controls, as well as an accountability framework outline.

OIG's Investigation Unit closed a total of 134 matters (97 complaints and 37 consultations) following examination by its Investigations Unit and issued a total of 26 investigation reports and memoranda, one lessons learned report and one inspection report. The number of total matters closed (complaints and consultations) increased by 52 percent and the number of complaints closed by the Investigations Unit increased by 37 percent compared to those in 2011. OIG continues to work with management to strengthen other elements of the Organization's integrity framework.

The annual report provides further information on the results of OIG's audits and investigation work during 2012. The following broad observations emerge from this work:

- The results and recommendations reinforce the need for the Organization to implement structured enterprise risk management processes and a robust accountability and internal control framework, as discussed in OIG's 2011 Annual Report. These are important

ingredients of the internal governance and culture change necessary for FAO to achieve, in a timely way, substantial benefits from its change initiatives.

- Through the Marnet report on the IPA issued in early 2012 and included in the IPA 2011 annual report, OIG has promoted a more holistic approach to Organizational change, greater engagement and accountability throughout the Organization for implementation of reforms, and good metrics for performance indicators over the change. As OIG noted in its 2011 Report, transformational change is achieved only through sustained, integrated attention pursued over several biennia. The Organization needs to be prepared for inherently complex actions like implementing enterprise risk management and an integrated accountability and internal control framework, not to over-complicate the initial approach and to accept progressively better iterations commensurate with the internal capacity to adopt new ways of thinking and practice. What will be important in 2013 is for capacity to be put in place to complete the first editions, knowing they can and will be improved upon, and fully launch them throughout the Organization.
- OIG's overall conclusions on corporate risks and trends, drawing on the results of its work in 2012, reflect that FAO remains an Organization in the midst of significant change. The prospect of significant positive impact from IPA reform activities and current transformational actions is enormous, but important risks to the achievement of this impact remain and require ongoing management attention.

In 2012, OIG continued to improve its capacity. A forensic specialist was added to the Investigation Unit staffing. As of December 2012, OIG had three vacant professional posts (P5 senior auditor, and two P3 auditor posts). The P3 posts were filled in January 2013 and the P5 post is expected to be filled during the first quarter of 2013. OIG therefore expects to be in a strong position to complete the balance of planned coverage for the biennium by the end of 2013.

In June 2012, an external quality assessment was completed of OIG's internal audit function, as required under international internal auditing standards. The standards provide for three ratings, which include generally conforms to the standards, partially conforms and does not conform. The overall results were very positive and the consultant concluded that OIG "Generally Conforms" (in 2007 OIG received a "Partially Conformed"). Furthermore, by 31 December 2012 OIG had fully implemented all the recommendations made by the 2012 assessment to further strengthen the audit function.

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

## **Introduction**

### **General**

1. The present report to the Director-General provides a summary of the 2012 oversight activities of Office of the Inspector General (OIG). In accordance with the Organization's oversight arrangements, this report is also made available to the FAO Audit Committee and the Finance Committee.

### **Mandate and Mission**

2. OIG has responsibility for internal audit, which includes monitoring and evaluating the adequacy and effectiveness of the Organization's system of internal controls, risk management, financial management and use of assets. It is also responsible for investigating allegations of misconduct, including those concerning fraud as well as retaliation against staff who report concerns about misconduct. OIG also draws on its audit and investigation expertise to conduct fact-finding inspections of specific events or activities, to support senior management decision-making on them. OIG's Charter is incorporated as Appendix A to FAO Administrative Manual Section (MS) 107.

3. Together with FAO's Office of Evaluation, OIG provides comprehensive internal oversight coverage for the Organization. The External Auditor, with whom OIG cooperates, provides complementary external oversight.

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

5. OIG's vision is to serve FAO by delivering on its mandate with professional independence, integrity, quality and efficiency.

6. With respect to its internal audit work, OIG follows the International Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors, the global professional body. With respect to its investigative work, OIG follows the FAO Guidelines for Internal Administrative Investigations, which are based on the Uniform Guidelines for Investigation, promulgated by the Conference of International Investigators of the UN System and Multilateral Financial Institutions. Both sets of standards have been adopted by the audit and investigation services across the UN System.

7. The Director-General and the Inspector General receive independent advice on the effectiveness, including the adequacy and quality, of the internal audit and investigative functions of OIG from an Audit Committee comprising senior audit and/or investigation professionals, who are fully external to the Organization. The Terms of Reference of this Committee are incorporated as Appendix C to MS 146.

## **Independence**

8. During 2012, OIG undertook its professional activities independently within the Organization. No limitations of scope were encountered during the course of its audits, investigations or related activities.

## **Discretionary Reports to the Finance Committee**

9. OIG's Charter provides that, at the discretion of the Inspector General, any audit report or any other issue may be submitted to the Finance Committee together with the Director-General's comments thereon and be made available to other interested member states.

10. No such reports additional to the annual report for 2011 were submitted in 2012. However, the Inspector General submitted to the Finance Committee (as well as to the Committee on

Constitutional and Legal Matters), a report on the implementation of the FAO Whistleblower Protection Policy, in response to a request from those Committees in 2011. Additionally, the Inspector General also submitted to the Finance Committee, for review, proposed updates to the OIG Charter and the Terms of Reference of the Audit Committee. All were endorsed by the Director-General without additional comments. The updates to the OIG Charter, endorsed by the Finance Committee in November 2012, primarily bring the Charter up to date with recent changes to Internal Auditing Standards requirements and are explained in further detail later in this report. Proposed changes to the Terms of Reference of the Audit Committee are explained in that Committee's 2012 annual report.

### FAO Risk Exposure and Trends

11. During 2012, FAO continued to implement the Immediate Plan of Action for FAO Renewal (the IPA), the ambitious set of reform measures adopted by Conference in November 2008 in response to the Organization's Independent External Evaluation. The IPA will conclude in 2013. Under the leadership of a new Director-General and with the endorsement of the Governing Bodies, the Organization has also embarked on further transformational changes, aimed at further institutional strengthening and enhanced delivery and impact of programmes. The challenges of successfully achieving these changes and obtaining the intended benefits, as well as ensuring continuity, quality and efficiency of ongoing work, underlines the importance of accountability, risk management and control to the Organization.

12. The results and recommendations of OIG's work in 2012 reinforce the need for the Organization to implement structured enterprise risk management (ERM) processes and a robust accountability and internal control framework (AICF), as discussed in OIG's 2011 Annual Report. These are important ingredients of the internal governance and culture change necessary for FAO to achieve, in a timely way, substantial benefits from its change initiatives.

13. Through the Mallett report on the IPA issued in early 2012 and attached to the IPA 2011 annual report, OIG has promoted a more holistic approach to organizational change, greater engagement and accountability throughout the Organization for implementation of reforms, and good metrics for performance indicators over the change. As OIG noted in its 2011 Report, transformational change is achieved only through sustained, integrated attention pursued over several biennia. The Organization needs to be prepared for inherently complex actions like implementing ERM and AICF, not to over-complicate the initial approach and to accept progressively better iterations commensurate with the internal capacity to adopt new ways of thinking and practice. What will be important in 2013 is for capacity to be put in place to complete the first editions, knowing they can and will be improved upon, and fully launch them throughout the Organization.

14. OIG's overall conclusions on corporate risks and trends, drawing on the results of its work in 2012, reflect that FAO remains an organization in the midst of significant change. The prospect of significant positive impact from IPA reform activities and current transformational actions is enormous, but important risks to the achievement of this impact remain and require ongoing management attention. The status of key risk areas where OIG has been focusing in the current biennia is summarized below:

- **Resource Management and Reporting:** During 2012 OIG focused attention on the Organization's Global Resource Management System (GRMS) programme, which comprises information system enhancements and alignment with IPSAS accounting standards, system deployment to field offices, and non-system aspects of preparing for IPSAS-compliant financial reporting. The GRMS has been an important element of the IPA, and the more comprehensive and timely information that will become available as a result of its successful completion will be critical to the further transformation of the Organization. This year was a critical year for system readiness. Taking into account management responses to OIG audits and advisory work, OIG considers that, overall, programme risks have been successfully managed this year, and adequate attention has been given to deployment risks which will require careful management during and after the system is rolled out in 2013. OIG will devote further attention in its 2013 audit work plan on this and on progress with IPSAS preparedness.

Risk has reduced on IPSAS preparedness with the move of the compliance target to the 2014 financial statements.

- **Decentralized Financial Management and Administration:** Further decentralization of responsibilities from Headquarters to FAO's extensive network of field offices is a key element of FAO's transformation. A significant proportion of the Organization's expenditure is already being disbursed through these offices. OIG welcomes the work in progress to developing performance indicators for decentralized offices. At the same time, OIG audits and investigations continue to point to significant capacity issues in the field offices across a range of programmatic and operational areas. Risk remains high in the area of financial management and administration, where half of the offices reviewed in 2012 had deficiencies across a range of areas. The risk is heightened for offices experiencing long periods of transition between managers, but is also reflecting a lack of integrated systems and monitoring that the GRMS project should alleviate. A long standing high priority OIG recommendation to develop a comprehensive accounting manual remains pending and needs to be completed in conjunction with GRMS roll out and IPSAS implementation. Over 2013, GRMS roll out will prove both challenging to implement in many offices with weak capacity, while at the same time providing an intense capacity building opportunity. The better information and disciplined approach to transactions intended to be produced by the system offers to reduce risk in the medium to longer term.
- **Decentralized Programme Delivery:** OIG audits in 2012 point to challenges in ensuring consistently high performance in project efficiency, delivery and compliance with donor conditionality across FAO's portfolio. OIG's review of the Technical Cooperation Programme (TCP), responsibility for which was substantially decentralized to the field in 2010, and of other emergency and non-emergency projects as part of field office audits, identified the need for more attention to guidance, quality assurance and monitoring for projects throughout their lifecycle. The further decentralization of emergency operations now underway adds further importance to this. The publication by the Technical Cooperation Department in late 2012 of the first edition of a project cycle guide is a welcome step in this direction. OIG notes management's close attention to managing the heightened risks of funds diversion around Cash for Work programs especially in locations where for security reasons FAO has limited monitoring capacity. In this regard, it welcomes the continuous strengthening of mitigating measures, and a more in depth review of these in the Horn of Africa is underway and will be concluded in early 2013. OIG also notes that, while steps were taken in 2012 to better integrate the TCP into country programming activities through FAO's corporate planning and monitoring instruments, the absence of clear programme-level performance indicators makes it difficult for any programme-level evaluation of TCP's performance of the kind recommended in a 2005 independent review.
- **Human Resources:** Attracting, retaining and developing staff is key to FAO as a knowledge organization, and one that can effectively support members to turn knowledge into action. Management of risks in this domain remains a work in progress, with improvement efforts being described in recent biennial Human Resources Strategic Frameworks and Action Plans. During 2012, OIG focussed on professional level recruitment, and made recommendations to help the Organization attain a more efficient and effective merit-based selection process, while promoting equitable geographic representation and gender balance and ensuring fairness and transparency. Past high priority recommendations related to determining Non-Staff Human Resources remuneration and streamlining of contract types remain pending.
- **Procurement and Letters of Agreement:** With much procurement and Letters of Agreement with partners now being managed in the field, weaknesses in monitoring expose the Organization. A 2012 audit noted that responsibilities in this area are not clearly defined and neither regional offices nor the Headquarters procurement service (CSAP) is assigned or resourced for this purpose. OIG acknowledges a number of positive initiatives by CSAP to build capacity and post international procurement offices in selected locations. OIG's Investigation Unit has worked in 2012 with CSAP to develop vendor sanctioning procedures aimed, along with other measures, to better deter vendor fraud and corruption in FAO

operations, and guide the Organization's responses when this has been found to occur. These are expected to be finalized in early 2013 following further consultations within the Organization. OIG's field office audits and investigations also point to the need for stricter adherence to the Organization's procurement policies, including vendor checking, tendering and evaluation procedures, to reduce the risks of fraud and corruption in procurement; and stronger systems to monitor and account for delivery of project inputs.

- **Information Technology:** OIG has, in recent years, audited IT governance and security, with management reporting good progress in mitigating identified risks. Consolidation of IT functions within the Organization is now being pursued. The most recent (2012) audit of CIO project management identified further scope for managing the efficiency and effectiveness of new IT investments.
- **Business continuity and disaster recovery:** Progress is pending, following OIG's 2010 audit, on an Organization-wide corporate-level business continuity plan, though a working group was established. The Organization needs to finalize the work begun in the audit and subsequent working group meetings to ensure that it is able to respond to accidents, disasters, emergencies and/or threats without any stoppage or hindrance to its key operations.

## Audit Services

### Development and Implementation of a Comprehensive Risk-Based Audit Plan for 2012-2013

#### *Planning approach*

15. To meet the requirements under the International Standards, as well as to address FAO's IPA item 2.91, beginning with the 2010-2011 biennium, OIG follows a risk-based planning approach to identify and select its activities to review. This approach provides a more systematic basis for prioritizing internal audit work. The aim is to ensure that the management of all major risks of the Organization is, collectively with FAO's Office of Evaluation and External Auditor, independently reviewed over approximately two biennia. Through its coverage of those risks not reviewed by the other oversight functions, OIG provides assurance over the implementation of risk management measures and advice on how these measures can be improved.

16. The risk-based audit plan (RBAP) for the 2012-2013 biennium took into account inputs from management and the FAO Audit Committee, and was endorsed by the Director-General in early 2012. The plan is based on a risk register, originally developed in 2009 in partnership with Deloitte and with input from management, and regularly updated since to reflect emerging risks and changing risk priorities. The results from FAO's Enterprise Risk Management (ERM) pilot project have also been incorporated into the risk register. In the course of updates, the ranking of some risks may be increased or decreased and some risks dropped or added based on emerging risks, action taken by management and new information. Implementation of the RBAP is monitored through quarterly reports to the Director-General, and by the Audit Committee, which meets three times each year. In addition, the achievement of the plan continues to be a key performance indicator for OIG in the Organization's Results-Based Management Framework.

17. As of 31 December 2012, the updated risk register identified 64 high risks, of which 42 were included under planned audit assignments in the 2012-2013 RBAP. Of the remaining 22 high risks not included in this plan, OIG had covered 16 in the previous 2010-2011 biennium, and the remaining six will be covered after 2013.

18. As the Organization's risk management under the ERM project matures, OIG will modify its approach, drawing more fully on the results of risk self-assessments undertaken by management, as well as its own professional analysis, to adjust and develop its future RBAPs.

#### *Plan implementation*

19. As at the end of 2012, OIG had completed assignments that covered 30 of the 42 high risks included in the 2012-2013 RBAP, as well as 39 medium risks (see attachment A (i)). The 30 high risks covered in 2012 include 28 which are covered on an annual basis. The other two high risks covered in 2012 related to IT project management and the “Horn of Africa” programme. The remaining 12 high risks will be covered in 2013 along with those covered annually.

20. Based on findings from the audits of decentralized offices in 2010-11, OIG continued to devote substantial resources to review field activities in the areas of finance and administration, but also expanded its coverage of decentralized programme management, IT controls and physical security. This included completing audit missions to 28 field offices, including 6 Sub-regional and Liaison offices. In 2013, the field programme will be adjusted to reflect the role-out of FAO’s upgraded enterprise-wide resource management system (GRMS) in the decentralized offices.

21. OIG issued 44 audit reports related to its reviews in 2012 and late 2011 (Attachment A (ii)), which included 35 field office reviews as well as a capping report that summarized the field review results from 2011 and addressed corporate issues arising from these reviews. Reports issued in early 2012 provided management with assessments of the Organization’s overall Accountability and Internal Control Framework (AICF) and implementation of the IPA – the results were covered in OIG’s 2011 annual report. It subsequently issued reports on the GRMS system and IPSAS implementation, Monitoring of Procurement and Letters of Agreement in Field Operations, Recruitment of Professional Staff, IT Project Management and the TCP.

22. These reports provided management with assurance and advice, including 494 recommendations at various levels to strengthen the Organization’s risk management, internal controls and governance processes, of which management accepted more than 98 per cent. The 35 field office reports also identified 509 compliance issues that managers in the field offices needed to address.

23. The annual audit work plans include provision for additional work outside the risk-based priorities, primarily to conduct inspections of particular events or activities at management request.

### **Results of 2012 Organization-wide Audits**

24. OIG issued a number of key reports in 2012 that addressed some of the most important risks confronting the Organization. These include OIG’s assessment of the Organization’s accountability and internal control framework, that supports FAO’s commitment to implement an internal control framework by 2013; and an overall assessment of the IPA, for which reports were issued in early 2012. Due to their importance, OIG included the results in its 2011 annual report. Results of other Organization-wide audits in 2012 are summarized below:

#### *GRMS - Assessment of IPSAS Implementation Q1 2012*

25. The implementation of upgrades and deployment to field locations of FAO’s Oracle-based enterprise resource management represent a substantial investment by the Organization in improving its financial management capacities, as well as supporting the move to IPSAS-compliant financial reporting. These are being managed under the Global Management Resource System (GRMS) Programme. An important component of OIG’s review of reform/transformation activities focussed in 2012 on this Programme.

26. OIG’s 2011 annual report noted the challenges in IPSAS implementation which were prevailing at the end of that year. The project started in late 2006, at a time when the Organization needed to significantly catch up in terms of accounting policies, procedures, systems and business processes, and support systems in FAO’s extensive Decentralized Offices (DO) network. By late 2011, FAO’s implementation strategy had evolved from sequentially implementing IPSAS-compliant systems and then IPSAS compliant financial statements by 2013, to one where these two objectives would be achieved in parallel. This relied heavily on exercising the transitional provisions to meet IPSAS standards, and on a series of manual workarounds to be executed across the Organization’s decentralized offices network, as well as headquarters in 2012, to generate key opening balances.

27. In early 2012, OIG concluded that the Organization's proposed 2013 target date for achieving IPSAS-compliant financial statements, before the supporting systems and non-system components are fully deployed in the field and staff thoroughly trained in their use, was not likely to be attainable. More than 80 OIG country audits in 2010 and 2011 had clearly shown that many field offices lacked capacity, with the risk that the data collected through manual workarounds may be inaccurate, incomplete and not auditable.

28. OIG was also concerned that the significant resources that would be required to support these temporary solutions would divert vital resources from those dedicated to the wider GRMS implementation, including deploying the system, building the decentralized offices network capacity in the use of the system and completing the remaining non-systems deliverables. These elements are critical to sustain IPSAS adoption and provide the tangible business benefits from the GRMS investment.

29. FAO management, with the endorsement of the Governing Bodies, subsequently agreed to move back to the initial strategy of first implementing the systems and non-system components with production of IPSAS financial statements compliance now shifted to the end of 2014. OIG considers that this markedly reduced the implementation risks. A further OIG audit of IPSAS implementation against the revised timelines will be concluded in early 2013.

#### *GRMS – Review of System Components Q2-3 2012*

30. At mid-2012, OIG reviewed the prospects for the Programme to deliver the proposed system solutions within the agreed timeframes. It concluded positively, noting that the only substantial uncertainty at that stage concerned the readiness for deployment of the travel solution. At the same time, the review also identified several risks that needed to be addressed by the GRMS management in order to ensure the Programme's success, in particular relating to organizational readiness and the realization of benefits.

31. Programme's management was aware of the risks related to Organizational readiness, and the training strategy was relatively sound, however, the skills gap in some decentralized offices may be too large to successfully achieve expected goals in the short time available, and the acceleration of the deployment deadline reduced the risk mitigation inherent in the pilot approach envisaged. This may need to be compensated by an extended post-implementation phase to ensure users receive adequate guidance until the situation becomes more stable. A post-implementation plan had not been developed at the time of the audit, and OIG therefore recommended that the Programme management clarify precisely what is to be considered completion of deployment as of May 2013 and what should be considered post-deployment tasks.

32. Insufficient attention had been placed on the identification of benefits and the assessment of their realization in the early stages of the Programme, though the Programme was now addressing this. OIG recommended that, as decisions on scope changes or deferrals were being made in the final stages of the Programme, the GRMS benefits realization plan should address the impact on expected benefits of any such scope changes.

33. The report was reviewed by Programme management and the Programme Executive Board and OIG is satisfied with action taken, or underway, subsequent to the report on the matters raised. A further audit of GRMS system implementation is planned for early 2013, and system deployment will also be included in the scope of decentralized office audits in the coming year.

#### *GRMS – Review of Programme Expenses*

34. OIG reviewed the GRMS programme's expenses for 2011. More than 90 per cent of the expenses related to human resources (staff salaries and consultant fees); however, OIG could not verify whether all these costs were appropriately linked to the GRMS Programme, or economical, because no time reporting system was being maintained. Following the review, project management implemented a time reporting mechanism to permit closer monitoring of the use of human resources.

#### *Monitoring of Procurement and LOAs in Field Operations*

35. As part of the Organization's ongoing reform, delegated authority levels and expenditure on procurement and Letters of Agreement (LOA) by decentralized offices have significantly increased since 2009. In 2011, this amount was USD 295 million, or 20 percent of the Organization's total expenditure. On-going decentralization is likely to result in additional increases in field procurement and LOA activities. At the same time, half of OIG's 2011 decentralized office audits had identified significant weaknesses in procurement and LOA processes. OIG's review of arrangements for monitoring confirmed that these were not yet effective.

36. OIG noted that monitoring responsibilities over field procurement within the Organization were not clearly defined under the current policies and procedures (MS 502 & 507), as neither CSAP nor the Regional Offices have been assigned to, nor have the resources to, adequately monitor procurement and LOA activities by the decentralized offices. However, the review did note FAO's procurement service (CSAP) has taken several actions to mitigate key field procurement risks. Specifically, CSAP completed a general risk assessment of the decentralization of procurement; revised both MS 502 - Procurement of Goods, Works and Services, and MS 507 -Letter of Agreement, in 2010-2011; implemented a procurement training programme; recruited additional international procurement officers for select field locations; issued guidelines on procurement planning and collusion and fraud; and undertook selected field review missions.

#### *Review of Professional Recruitment*

37. Besides being the major cost component, human resources are key to the Organization's ability to deliver effectively on its mandate. OIG conducted a review of FAO's policies and procedures for the recruitment and selection of professional staff to Regular Programme (RP) positions. The objectives of the review were to assess whether the recruitment and selection policies and procedures are effective, efficient, timely, and fair and transparent.

38. OIG identified weaknesses and made recommendations for nearly all phases of the recruitment and selection process, including the Organization's recruitment strategy, guidance, training and monitoring.

39. During the audit, the Human Resources Division, CSH (OHR), was taking a number of actions to address several issues presented in the report, e.g., creation of a workforce planning sub-unit in CSHE (CSPP); development of generic job profiles; development of the competency framework; launch of a database of institutions for wider VA circulation, implementation of iRecruitment and the development of an HR Strategic Action Plan on Gender. The report noted other areas for which OIG recommended attention:

- *Strategy*: insufficient attention had been given by senior management to promoting better gender and geographic balance beyond enforcing strict controls over gender balance in shortlists and the recruitment of candidates from countries that are over-represented or close to the limit. Other efforts were needed to identify and attract suitably qualified women candidates and those from under or non-represented countries to apply for FAO positions.
- *Guidance*: CSH (OHR) had not developed and provided delegated hiring units with sufficient guidance and instructions for carrying-out key phases of the recruitment process. Furthermore, when guidance did exist, it was usually fragmented in various sources, which made it more difficult to be identified and followed. In addition, key policies and procedures had often been issued on an *ad hoc* basis in different forms and not updated in a timely manner.
- *Training*: CSH (OHR) had put great effort into providing advice and support to recruitment units and managers, but this was mostly reactive, aimed at addressing specific issues that may have arisen. It had not developed comprehensive training for hiring managers and other staff responsible for recruitment, to help them carry-out a consistent and more effective recruitment process.
- *Monitoring*: CSH (OHR) did not exercise sufficient monitoring of the units' performance in executing recruitment actions that have been delegated to them. The PSSC is perhaps the best working control, however, it has had limited scope and comes only at a very late stage in the process when the ability to fix shortcomings of a selection process is limited.

*Review of the Technical Cooperation Programme*

40. The Technical Cooperation Programme (TCP) has made full use of the appropriated RP funds since its inception in 1976, spending approximately USD 1.26 billion. However, OIG noted that while there are ten TCP project approval criteria adopted by FAO's Governing Bodies, in the absence of clear programme-level performance indicators a programme-level evaluation of the TCP, of the kind recommended in a 2005 Independent Review, presents challenges for the Organization.

41. For this reason, past and current reporting on the TCP has been limited to providing summaries of the number of projects approved, the amount of money spent, and the strategic objectives covered by projects. Agreed performance indicators would be necessary for any Programme-level evaluation of performance, as recommended in the past, as well as support enhanced effectiveness following the decentralization of the TCP to field offices in 2010.

42. TCP programme records contain several options for objectives and performance indicators, such as a focus on using TCP funds as a co-financing for initiating investment by other stakeholders and measuring that objective by the extent to which the number of projects actually has a catalytic impact and the amount of investment generated.

43. OIG's review identified a number of areas where attention is required to improve the effective and efficient use of TCP resources under the current structure:

- The report recommends reducing the time period for applying the indicative targets to the first year of the biennium instead of the first 18 months. This would allow for a more deliberative process in considering proposals and avoiding time pressure for their review in the last few months of the biennium.
- Due to wide variation in understanding the TCP criteria in the field offices, the burden for quality assurance has been assumed by the regional TCP programme officers. OIG recommends that the decentralized procedures in the TCP Manual be given further attention by TCS to strengthen quality assurance.
- OIG noted in its samples two factors contributing to delays in project implementation: (i) delays in government approvals and (ii) the disincentive to technical officers in performing technical backstopping work near the end of a biennium due to the requirement to claim and use Technical Support Services income in the same biennium in which services are rendered. OIG recommends that management consider possible measures to reduce the impact of these factors.
- OIG found that offices had not consistently prepared Quarterly Project Implementation Reports (QPIRs) and their format added little value. Terminal reports were also absent or delayed in a number of cases sampled. OIG notes that QPIRs have now been replaced by semi-annual progress reports. In addition, TCS is moving forward with an Ex-Post Assessment tool to collect certain data on projects one year after their completion. TCS plans to assemble the collected data as the basis for determining whether projects have longer range success.

*IT project management*

44. The CIO is responsible for IT infrastructure projects and FAO-wide applications development/implementation projects. In addition to the GRMS programme, which comprises four major IT-related projects, between 2010 and 2012, CIO completed some 25 IT projects with an overall budget of approximately USD 12 million. Other units in the Organization are also responsible for IT projects, but this fragmentation of IT responsibilities is being addressed by the Organization and may be resolved in the near future by centralizing all IT services in CIO.

45. OIG carried out a review to assess the effectiveness and efficiency of CIO's project management practices to ensure projects are delivered on time, within budget and meet the stated business objectives.

46. OIG notes that CIO has adopted PRINCE2 (PRojects IN Controlled Environments 2) as its methodology for IT project management, and provided training to its staff and external stakeholders on the use of this methodology. However, OIG found that there was a lack of consistency in the application of the methodology by various project managers in CIO. In addition, CIO had not adapted PRINCE2 to the FAO environment, which consists of projects that differ significantly in size, cost, complexity and type. This limits considerably the effectiveness and efficiency of the methodology and discourages adherence with it.

47. Project Boards (PB) that are accountable for the success or failure of the project in terms of the business, user and supplier interests, are responsible for monitoring all aspects of the projects' performance. However, the audit noted that PBs often fail to exercise this responsibility effectively, which is the cause of many issues observed by OIG in specific projects. While the performance of the PB is not an exclusive CIO responsibility, OIG believes that CIO is in the best position to promote improvements, given its advanced knowledge of sound IT project management practices compared to other PB members.

48. At the same time, given that CIO was not the only FAO unit that could deliver IT solutions, its ability to force PBs to abide by sound project management practices was challenged, because client units perceived it as an unnecessary overhead for projects and had the option to obtain IT services elsewhere without a controlled mechanism. This is a FAO-wide IT governance issue that had already been reported in the past, and which could be definitively resolved if a proposal to centralize all IT services within CIO were implemented.

49. OIG also considers that the role of CIO's Project Management Office (PMO) could be enhanced. Currently, the PMO's role is largely limited to being a librarian of project documents without adding significant value. The absence of a project portfolio management tool and a time reporting system is an additional obstacle to verifying actual work done and project status in an effective and efficient way. OIG recommended expanding and upgrading the PMO's role to monitor adherence with PRINCE2 (or CIO's adaptation of the methodology) in all CIO projects.

#### *Commissary Inventory Count and Write-offs*

50. OIG performs this annual review to assist the External Auditor in evaluating the existence and completeness of the inventory balance as at the end of each year.

51. Procedures for completing the year-end inventory count and sample counts undertaken by OIG supported the Commissary's reporting at the end of 2011. Internal policies and procedures for write-off of inventory were applied satisfactorily. OIG made recommendations to the Commissary management on timely, regular recording of all inventory discrepancies in the Discrepancy Reports and Management System and timely reporting so that, when applicable, recovery from an insurance carrier or suppliers on discrepancies can be pursued.

### **Results from Decentralized Office Reviews**

52. In 2012, OIG issued reports on audits at 25 Country Offices (COs), two Liaison Offices, four Subregional Offices and four Regional Offices. The scopes of these audits varied, ranging from comprehensive office reviews, including programmes and operations, to more targeted reviews, focusing on the financial and administrative practices and controls of the offices. The individual reports issued in 2012 are summarized in Attachment A (iii).

53. These reports contained 381 recommendations directed locally, and in some cases to headquarters, to improve controls and processes in the areas of programme and project management, financial management, procurement, human resources, IT and security. Management accepted all recommendations, and had already begun implementing a substantial number of the recommendations by the end of 2012.

#### *Capping Report of the Financial Management and Administration Reviews of Decentralized Offices*

54. In addition to the 35 individual decentralized office reports to address local findings and recommendations, OIG issued a capping report for the 31 financial and administrative reviews

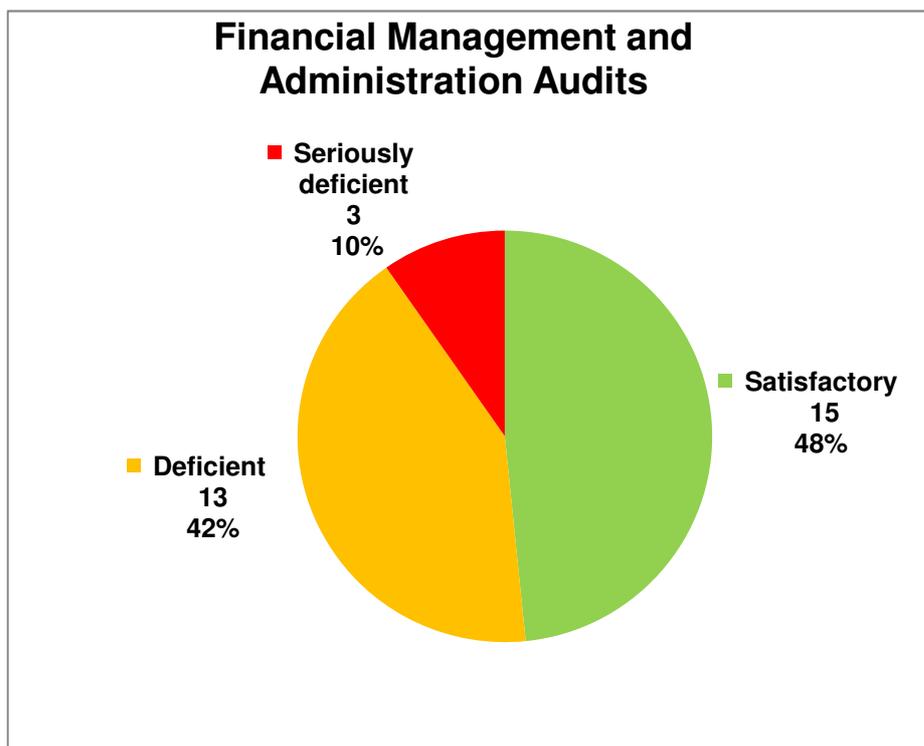
conducted the prior year.<sup>1</sup> This capping report outlines the crosscutting issues and conclusions that go beyond the individual COs, and makes recommendations at the corporate level to improve the efficiency and effectiveness of the decentralized offices network as a whole. It also assesses how the recommendations made in the previous capping report on 2010 audits, have been addressed by management.

55. In the capping report, the 31 COs reviewed were grouped based on OIG's rating criteria:

- **Satisfactory** (Green): controls are properly designed and operating as intended. No or only limited improvement is needed.
- **Deficient** (Amber): the majority of key controls and/or management activities are in place; however a high level of risk remains. Significant opportunities for improvement have been identified.
- **Seriously deficient** (Red): key controls and/or management activities are non-existent or have major deficiencies and do not operate as intended. As designed, they are highly ineffective in mitigating risk and driving efficiency.

56. Consistent with previous findings, 52 percent of COs included in the capping report, had significant weaknesses in internal control and were rated deficient or seriously deficient (see Figure 1).

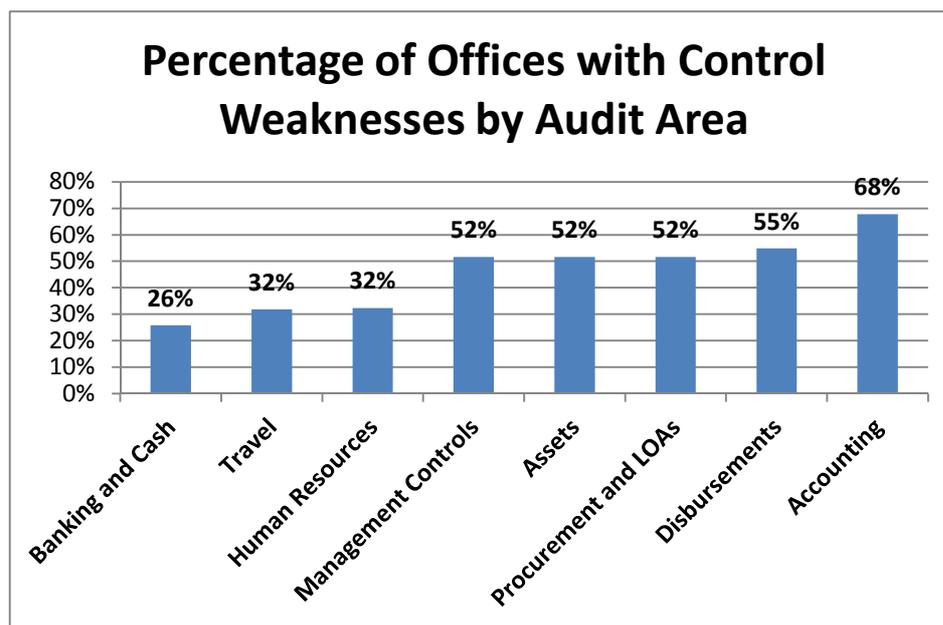
**Figure 1 Financial Management and Administration Audit Results**



57. Control weaknesses varied among the offices reviewed, but in aggregate were present in all areas within the audit scope (see Figure 2).

<sup>1</sup> The 31 reports for 2011 relate to Offices visited. They include 23 of the 28 country office reports issued in 2011 as well eight further country office reports, on audits carried out in 2011, for which reports have been prepared in early 2012 until the preparation of the capping report.

Figure 2 - Control Weaknesses in Financial Management and Administration Audit Reports



58. Weaknesses were most frequent and significant in nature in the areas of accounting, disbursements, procurement and LOAs, assets and management control. These weaknesses considerably undermine the capacity of COs to manage operations well and support decentralization reform. If not addressed in a timely fashion, they expose the Organization as a whole to financial, operational and reputational risks such as:

- FAO's failure to deliver its programme objectives;
- fraud, waste and abuse of official resources and assets; and
- mis-representations in FAO's financial statements.

59. The same causal factors identified in the previous capping report contributed to the current results, specifically lack of resources and skills and weak tone at the top at CO level, as well as lack of monitoring by headquarters' units and absence of a mechanism to replicate good practices across the network.

60. OIG followed up on actions undertaken by senior management to address the audit recommendations from the previous capping report. Progress has been made in some areas, in particular with respect to reinforcing or clarifying guidance on Administrative Operational Support (AOS) and Unliquidated Obligations. However, eight of ten recommendations have not yet been concluded. Contributing factors to delays may have been the ongoing decentralization reform, which now includes emergency operations, and lack of accountability and clarity in roles and responsibilities in implementing audit recommendations affecting the decentralized network.

61. The outstanding recommendations have been reiterated in the current capping report, and further recommendations have been formulated to complement them. These recommendations *inter alia* aim at (i) the clarification of roles and responsibilities within FAO's Operations arm, (ii) the establishment of a framework for policy monitoring responsibilities, (iii) the establishment of a management and support pool for decentralized offices, as well as (iv) making more consistent the approach to opening and maintaining, scaling up and scaling down COs.

62. In addition, the current report contains specific recommendations for the individual audit areas covered by OIG's financial management and administration audits. In this regard, a cross-cutting issue on segregation of duties has been identified, and weaknesses and loopholes in current guidance have been detailed for action by management.

63. Finally, observations on well-performing COs and their good practices have been identified to reinforce the key elements that facilitate their good management. In this context, the significant improvements in performance of the FAO Somalia office in a period of 15 months has been used as a case study to illustrate how the joint efforts of management and OIG can turn around decentralized offices.

64. Altogether, the current capping report made 30 recommendations, addressed either directly to the DDG (Operations), or to individual units of the Operations arm, in particular CS, CSF, OSD, the SSC Assets Group and the Regional Offices, represented by the ADG/RRs.

#### *IT and Security related issues*

65. In 2012 the financial and administrative audits of country offices also regularly included Security and IT components, aiming to assess whether the respective office complies with Minimum Operating Security Standards (MOSS), has adequate IT controls in place and complies with relevant IT policies. The review results varied among the different offices. For individual results see the summaries in Attachment A (iii).

#### *Country Office Programmes and Projects*

66. OIG issued ten reports on comprehensive reviews of country offices in 2012. These reviews included in their scope, besides a finance and administration audit component, the programme and project operations of the respective offices. The aim of these broader reviews was to assess how these offices were fulfilling their responsibilities as a country office, according to FAO's mandate, and whether the respective field programme is managed effectively and efficiently. Concerning the former, while many offices received positive conclusions, a number were found to have performed weakly, in particular in the Central Asian Subregion where, at the time of the audit, a number of offices had been led under double accreditation arrangements.

67. With regard to the latter, there were also good practices in project management and implementation in place in many cases. However, there were also a number of areas for improvement identified, in such areas as:

- Pace of project implementation
- Project monitoring and reporting
- Selection of Implementing Partners
- Coordination and cooperation with other UN agencies and government entities.

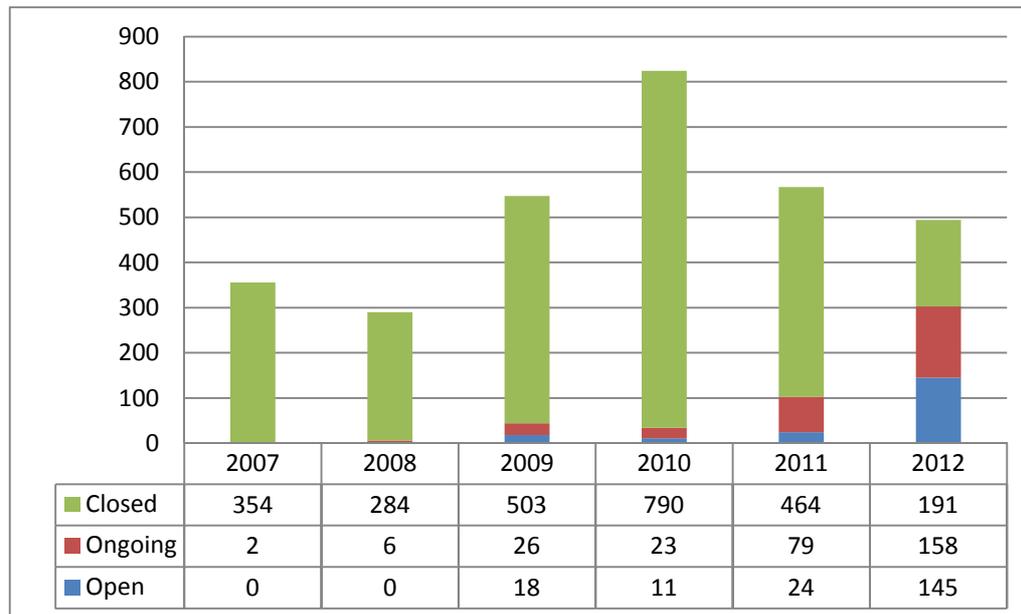
68. Summaries of the results for each office are presented in Attachment A (iii).

### **Audit Recommendations and Resolution**

69. The 44 audit reports issued by OIG in 2012 included 494 recommendations. The recommendations were made to all levels of management throughout the Organization to strengthen risk management, internal controls and governance processes. Management accepted more than 98 per cent of these recommendations.

70. As Figure 3 below illustrates, as at 31 December 2012, management had closed 39 percent of the 2012 recommendations and had initiated action to address another 32 percent. Furthermore, management continued its efforts to implement all remaining recommendations issued prior to 2012, having closed 82 percent of those made in 2011, 96 percent of all recommendations made in 2010, and 92 percent prior to 2010. This compares favourably to previous years. The information is based on auditee reporting, which is subject to OIG verification at the time or during a further audit of the unit/function.

**Figure 3 - Status of implementation of all recommendations for 2007-2012 (as at 31 December 2012)**



Note: Statistics are based on information reported by auditees as at 31 December 2012.

71. As Figure 4 below illustrates, the recommendation closure rates for 2012, which represent the actual implementation of the recommendations, is slightly lower when compared to previous years' rates from 2007-2011; however, this can largely be attributed to the fact that half of the outstanding recommendations for 2012 were issued during the 4<sup>th</sup> quarter of 2012 and management has not had sufficient time to address them. OIG finds the long-term trend an encouraging indication of management's continued commitment towards improving the Organization's system of internal controls, risk management and governance processes.

**Figure 4 - Recommendation Closure Rates**

	As of 31/12/12	As of 31/12/11	As of 31/12/10	As of 31/12/09	As of 31/12/08	As of 31/12/07
2005	99%	98%	98%	98%	96%	89%
2006	99%	97%	96%	94%	89%	77%
2007	99%	99%	99%	94%	84%	48%
2008	98%	92%	89%	70%	45%	
2009	92%	88%	68%	28%		
2010	96%	86%	56%			
2011	82%	64%				
2012	39%					

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

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

73. Since more than 80 percent of OIG’s recommendations are generated from audits at the field or business entity level, a high proportion are rated Medium and Low. However, at the business entity level these recommendations are very important to improve the system of controls and improve operational efficiencies.

74. As Figure 5 below illustrates, of the 509 outstanding recommendations for 2002-2012, 44 are rated High. These comprise 31 made in 2012, five in 2011, and eight prior to that. In comparison, for the same reporting period at the end of 2011, there were 36 high risk recommendations, which included 17 that were made in 2011, eight in 2010 and 11 prior to that. The eight recommendations made prior to 2011, for which more information is provided in Attachment A (iv), relate to:

- Organization-wide business continuity management framework;
- IT disaster recovery arrangements (2 recommendations);
- Project accounting manual;
- Defining negligence and fiduciary obligations of staff towards the Organization;
- Performance indicators for assessing how well Regional Offices addressing regional priorities;
- Improving policy for determining NSHR remuneration and delegating the process of hiring NSHR to individual divisions (2 recommendations).

**Figure 5 - Outstanding Recommendations by process 2002-2012**

	Low	Medium	High	Total
<b>Operations</b>	24	113	16	153
<b>HR</b>	44	60	18	122
<b>Financial Management and Budgeting</b>	27	46	4	77
<b>Procurement</b>	18	41	0	59
<b>IT</b>	11	35	4	50
<b>Infrastructure Management</b>	12	15	2	29
<b>Communications</b>	1	14	1	16
<b>Legal</b>	1	3	0	4
	138	327	45	510

75. Of the 509 outstanding recommendations, 103 were made prior to 2011 and are thus classified as long-outstanding. In 2012 OIG changed the definition of long-outstanding from 36 to 24 months, based on the request of the Audit and Finance Committees. Consequently, the long-outstanding recommendations as at 31 December 2012 included eight high, 57 medium, and 38 low risk recommendations. Figure 6 summarizes the results by risk category.

**Figure 6- Long Outstanding Recommendations by Risk**

	Low	Medium	High	Total
<b>2002</b>	-	1	2	3
<b>2003</b>	-	1	-	1
<b>2004</b>	-	1	1	2
<b>2005</b>	2	4	-	6
<b>2006</b>	3	3	-	6
<b>2007</b>	-	2	-	2
<b>2008</b>	3	3	-	6
<b>2009</b>	14	27	2	43
<b>2010</b>	16	15	3	34
	38	57	8	103

76. In comparison, at the end of 2011, there were six high, 29 medium and 15 low-risk recommendations that were classified as long-outstanding (not addressed within 36 months). Although management has made some progress in addressing the remaining long-outstanding recommendations, such as developing a business continuity framework and making some improvements in IT security policies, the actions are not sufficient to yet close the recommendations. OIG continues to follow up with management on the implementation of these recommendations on a six-monthly basis.

## Investigating Fraud and Other Misconduct

77. OIG's Investigation Unit (OIG-INV) is responsible for promoting an environment of integrity throughout the Organization's operations through investigation of allegations or indications of fraud and misconduct, and the promotion of preventive measures. The Unit ensures that investigation results are captured in order to develop lessons learned and recommends procedural and policy changes that enhance integrity within FAO. The Unit also assists the Inspector General in the conduct of other fact finding inspections requiring legal or investigative knowledge.

78. In 2012, staffing of the Unit was strengthened. One Investigator position was upgraded in level, and a forensic investigator was added, reflecting the increased complexity of using forensic and technical analysis during the course of its investigations. This increased the number of professional level staff to five. In order to manage the caseload, OIG-INV staff were supplemented with expert consultancy services (475 consultant/days in total in 2012).

### *Investigation Case Load Management*

79. The gradual rising trend in caseload reported over recent years continued in 2012, with 82 new complaints (allegations) and 37 requests for consultations/advisory services. OIG was able to complete all consultations/advisory requests, and close 97 complaints, including ones carried over from 2011, resulting in a lower end-of-year case load compared to prior years. Figure 7 provides an overall view of the disposition of complaints during the year and comparison with recent years:

**Figure 7 – Case Load Comparison**

Case Load	2008	2009	2010	2011	2012
Complaints Carried over from previous years	18	21	37	26	35
New Complaints	28	45	60	80	82
<b>Subtotal</b>	<b>46</b>	<b>66</b>	<b>97</b>	<b>106</b>	<b>117</b>
New Consultations / Advisory services	4	12	14	17	37
<b>Total Matters (Cases &amp; Consultations)</b>	<b>50</b>	<b>78</b>	<b>111</b>	<b>123</b>	<b>154</b>
Complaints Closed	11	20	48	62	97
Consultations / Advisory services Closed	4	12	14	17	37
<b>Ending Case Load</b>	<b>21</b>	<b>37</b>	<b>26</b>	<b>35</b>	<b>20</b>

80. All complaints received are subject to preliminary review to determine whether the matter falls within OIG's mandate or should be referred to other Divisions in FAO or to other organizations. For those falling within OIG's mandate, the review assesses whether there are sufficient grounds to initiate an investigation. Decisions to initiate an investigation are made by the Inspector General in consultation with the Senior Investigator, based on the results of the preliminary review. To ensure that attention is appropriately prioritized, OIG/INV relies on a triage system. The prioritization is based on a system that considers (i) impact on FAO's operations and objectives, (ii) impact on FAO's finances, (iii) impact on FAO's reputation, (iv) other factors (including ability to deter future wrongful practices, resources required and likelihood of resolution).

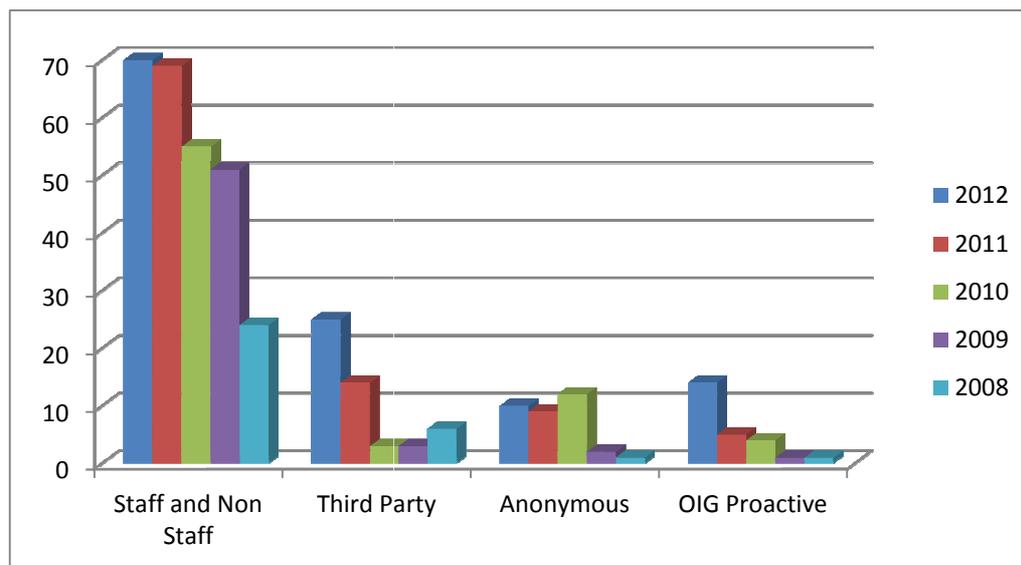
81. Of the 97 complaints closed in 2012, 24 were closed after completion of a full investigation (24 complaints). The other 73 were closed after completion of the preliminary review. In 18 cases,

the matters were referred to other Divisions within FAO, as they were either determined to fall outside OIG’s mandate or alternative measures could be taken to address the concerns raised by the complainant; or in the absence of sufficient information to warrant investigation at this time, were referred to OIG-AUD for consideration in a future audit.

#### *Types of complaints*

82. As indicated in Figure 8, most complaints were received from FAO personnel (staff and non-staff). In addition, 2012 showed an increase in the number of “OIG proactive” complaints, which indicate those areas of interest that were identified as the result of reviews initiated by OIG including matters that may arise during the course of a field audit.

**Figure 8 – Source of Complaints in 2012**

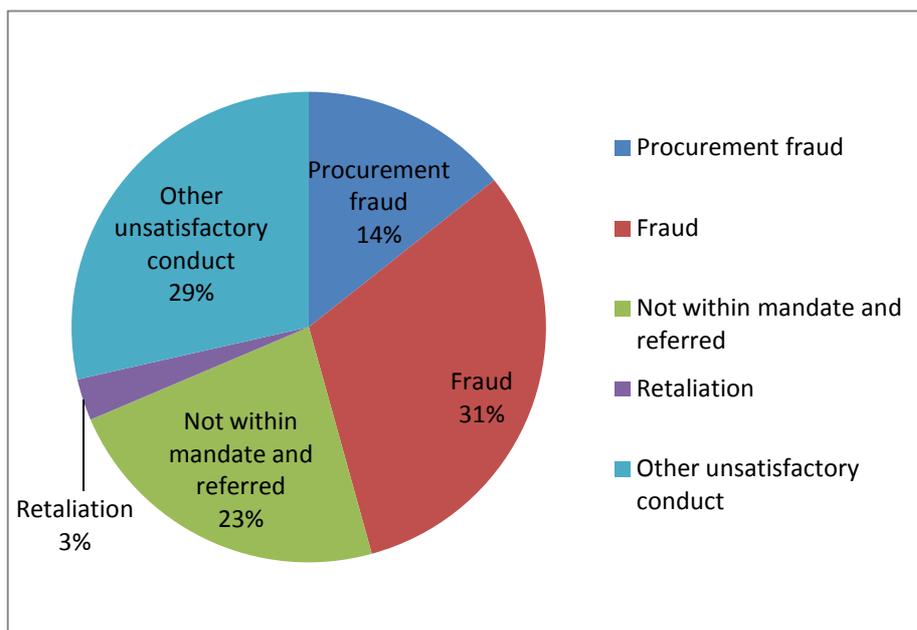


83. The chart in Figure 9 shows the types of allegations received during 2012. It is important to note that an individual complaint received by OIG may include multiple allegations. The initial classification of allegations is based on the preliminary information OIG receives. For example, in 2012 the 82 new complaints received involved 120 allegations. Over the course of an investigation, OIG may modify the classification as more information becomes available.

84. Allegations not referred to other Divisions are broadly divided into the following categories:

- procurement fraud, which includes allegations into any of the four definitions included in FAO Manual Section on “Procurement of Works and Services”, corruption, fraud, collusion and coercion;
- other fraud, not related to procurement;
- whistleblower retaliation, as defined under FAO’s Whistleblower Protection Policy; and
- other unsatisfactory conduct under FAO’s investigation mandate, which includes favouritism, conflict of interest and other matters as described in MS 330.

**Figure 9 – Type of Allegations Received**

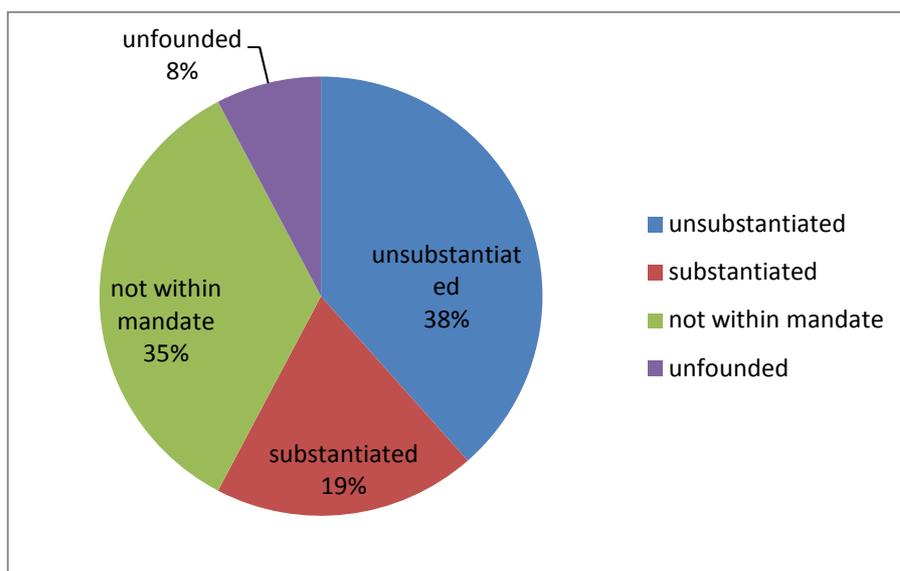


85. An OIG investigation will conclude on whether the allegations are:
- substantiated - the evidence gathered is sufficient to establish that the allegation is true, and fraudulent activity or misconduct occurred;
  - unsubstantiated - the evidence gathered is insufficient to establish that the allegation is true, and fraudulent activity or misconduct occurred; or
  - unfounded - the evidence is reasonably sufficient to conclude that the allegation is not true and no fraudulent activity or misconduct occurred.

*Outcome of complaints*

86. Figure 10 shows the results according to these conclusions for all 97 cases closed in 2012. Those cases identified as not within the investigation unit’s mandate include those that are referred to other divisions or to OIG-AUD’s audit unit:

**Figure 10 – Outcome of complaints concluded in 2012**



87. The Unit issued 13 investigation reports, one report on lessons learned from an investigation and one inspection report. A further 13 memoranda on investigations carried out where full reports

were not required or the allegations were not substantiated but conclusions and/or observations needed to be conveyed to management. OIG-INV's target is to close complaints within six months of receipt. The average number of days between receipt and closure for complaints in 2012 was 123.

88. The majority of investigations in 2012 related to FAO personnel or contractors/bidders in the field (where the risks for the Organization have been growing along with the recent and ongoing Organizational decentralization). These tend to be more resource intensive, in terms of staff time as well as travel, compared to headquarters-based cases, contributing to a greater investigative workload for the Office.

89. An important number of cases dealt with in 2012 arose from the Emergency Operations programme in Somalia. Given the inherent risks posed by the operations, which in parts of the country cannot be subject to FAO's usual supervision processes due to the prevailing security situation, OIG and TC agreed to scale-up further OIG/INV coverage of the Somalia Programme. This includes the assignment of a dedicated investigator for the Programme from late 2012, in parallel with enhanced monitoring by FAO, to follow up on all allegations and indications of potential funds diversion, particularly in the Cash for Work Programme. OIG is working closely with TC and the Somalia Office in this regard.

90. The following summary presents examples of cases completed in 2012, the findings of which led, or are likely to lead, to disciplinary measures and/or lessons learned, as appropriate. These examples were chosen as illustrative of the main issues subject to investigation in the year:

- **Case 1:** An investigation into a Service Provider concluded that it had defrauded the Organization by mis-representing in its report to the Country Representation: (i) work performed, (ii) duration of work, (iii) the number of beneficiaries employed, and (iv) amounts paid to the beneficiaries. The FAO Representation terminated all ongoing contracts with the Service Provider and cancelled all further payments.
- **Case 2:** An investigation concluded that a vendor violated its contractual obligations by not visiting project sites and complying with its obligations to project beneficiaries, but leaving it to another service provider to comply with the obligations to the beneficiaries. OIG concluded that the vendor defrauded the Organization by requesting and receiving payments, including a commission, for its purported services and that the vendor submitted false payment vouchers to FAO in support of its fraudulent claim. Action is under consideration by management.
- **Case 3:** An investigation established that a Service Provider had overcharged FAO and concluded that the provider defrauded the Organization by submitting misleading invoices to FAO that purported subcontracting costs they did not incur, in so doing the provider violated its contractual obligations. Management is considering restitution of costs and other measures.
- **Case 4:** An investigation into alleged attempted bribery by a supplier established that this was insufficient to substantiate the allegations, however it identified areas of concern in the administrative function of the office, including relating to the treatment of confidential information and communications with third parties, and recommended corrective action to the FAOR.
- **Case 5:** An investigation established that a retiree had presented fraudulent invoices and prescriptions for reimbursement for almost seven years for herself and her dependents. The matter is under review by management.
- **Case 6:** An investigation established that a staff member claimed FAO rental subsidy for an apartment that he actually owned and that he had made a false declaration to obtain an undue financial benefit. OIG/INV recommended administrative action as appropriate as well as the recovery of undue rental subsidy amounts paid. The matter is under review by management.

91. OIG issued one report on lessons learned from an investigation. These reports allow the Office to communicate recommendations to address weaknesses in internal controls related to the matters reviewed. In this report, OIG alleged collusion involving a national technical entity responsible for verification of inputs was not substantiated. However, the investigation identified various areas of concern related to the process for procuring the inputs, and the report recommended steps aimed at mitigating risks arising from the specific circumstances in the country, including increased

monitoring and follow-up process, update of vendors database and physical verification of vendors.

#### *Development of vendor sanctioning procedures*

92. OIG and CSAP worked together to draft Sanctions Procedures for vendors found to have engaged in misconduct. These will assist with FAO's implementation of the Model Policy Framework for Vendor Eligibility adopted by the CEB in 2012 for application across the UN System. The draft procedures are now undergoing internal review with the intention to implement them in 2013.

### **Other Advisory Services**

93. OIG also responded to more than 50 other requests for short duration advisory and consulting services during 2012. These included comments and advice on 18 partnership agreements, reviewing several project agreements; audit clauses in various draft donor contracts; review of FAO's new investment policy, input of comments on various JIU reports and various IPA activities, and reviews of FAO policies on the Disclosure of OIG Reports and Whistleblower Protection for reporting to the Governing Bodies.

94. In addition, at the request of management, OIG completed inspections in RNE, the International Media Centre Construction Project, the Organization's processes for arriving at organizational policy positions, and project reporting in Sierra Leone and Mozambique.

### **Implementing the OIG Report Disclosure Policy**

95. The FAO Council approved an OIG report disclosure policy in April 2011, which was incorporated in OIG's Charter. Under this policy, audit reports and reports of lessons learned from investigations issued on or after 12 April 2011 may be viewed by Permanent Representatives or their nominees upon direct request to the Inspector General. No requests were submitted in 2012.

96. In November 2012, to facilitate implementation of the policy, senior management submitted, and the Finance Committee endorsed, a revision to the policy to allow for remote on-line viewing of reports, as an alternative to viewing them on OIG premises. From 2013, information on OIG reports issued and covered under the policy will be periodically updated on the Permanent Representatives' website; and a secure internet-based solution, configured to apply the "view only" policy, will be deployed.

### **OIG Management**

#### **Updating the OIG Charter**

97. During 2012, taking into account the results of the internal audit quality assurance reviews and following consultation with the FAO Audit Committee, the Inspector General submitted, for Director General and Finance Committee endorsement, updates of the OIG Charter. These updates bring the Charter into line with current requirements in the International Standards for the Professional Practice of Internal Auditing on the contents of internal audit charters. They relate to the definition of internal audit and related assurance and consulting services, annual confirmation of independence within the Organization, reporting on the status of past internal audit recommendations and reporting on independent quality assurance of the audit function. The information added reflects current practice already adopted by OIG. There were also modifications to the report disclosure policy in line with the changes mentioned above. The proposed updates were endorsed, to take effect from January 1, 2013.

#### **Strengthening OIG's Internal Capacity and Operations**

##### *OIG Staffing and Budget*

98. As at 31 December 2012, OIG had 27 approved posts under the 2012-2013 Programme of Work and Budget. This includes the Inspector General, 20 Professional staff members, four of whom are out-stationed in each of the Regional Offices in Cairo, Bangkok, Accra and Santiago de Chile; and

six General Service posts. Attachment B to this report depicts OIG's staffing situation, with some demographic and gender information, as at 31 December 2012. At the end of the year, the D and P-level staff on board comprised 10 males and seven females, and representation from most regions. Collectively, OIG also has, among its professional staff, full capability in all six official languages.

99. At the end of 2012, OIG had three vacant professional audit and one investigation posts vacant in headquarters. This included two P3 internal audit positions due to resignations, one P5 senior auditor who had earlier transferred to OSP, and one P4 Investigator transferred to the Secretariat of the Appeals Committee just prior to year end. In January 2013 two external candidates accepted offers to fill both P3 posts, and a submission was finalized to fill the P5 post. A vacancy announcement to fill the P4 investigative post is planned for early 2013. OIG supplemented its own staff, and backfilled vacancies, with experienced specialists on short-term consultancies for selected audits and investigations. To ensure timely action on priority investigation cases, in 2012 OIG relied on the full time equivalent in consultancies of almost two additional investigators.

#### *Use of audit and investigation tools*

100. OIG relies heavily on TeamMate, an audit management software package, to provide a streamlined process for managing internal audit work processes, internal quality assurance and electronic archiving of working papers. In 2012, a case management system, procured in 2011 for analogous purposes for work conducted by the Investigation Unit, became fully functional. In 2012, OIG also purchased specialized software for forensic seizure, searching and analysis by OIG/INV staff.

#### *Implementing gender dimensions into the work of OIG*

101. During 2012, OIG's appointed gender focal points in both the audit and investigation units, to assist the Office in mainstreaming relevant gender issues in its own operations, as well as in OIG's audit coverage. The audit gender focal points worked with other relevant parts of the Organization to respond to the commitment, in the recently adopted FAO Policy on Gender Equality, to implement by 2015 an annual assessment by the audit function of FAO's capacity to meet its gender equality mandate including gender parity in staffing at headquarters, regional and country levels.

#### *Management of Professional Staff time*

102. OIG maintains a time reporting system which permits analyses of time spent by staff. Of the total 2012 Professional Staff time, including consultants, audit absorbed approximately 70 percent of the time while investigations absorbed 30 percent.

#### *Implementation of Performance Evaluation and Management System*

103. In 2012, OIG continued to fully participate in the Organization's Performance Evaluation and Management System (PEMS). PEMS is the new system for performance appraisal that is an integral part of FAO's Human Resources Strategy and is linked to other key components including career performance management.

104. Annual work plans linked to OIG's Unit Results, were completed for all staff. The performance planning, evaluation and development elements of the process will support greater internal communications within the Office on performance and will be a core component of OIG's quality assurance and improvement programmes for both the audit and investigation groups.

#### *Audit Quality Assurance and Improvement Programme*

105. In June 2012, BDO Consulting Finland completed an external quality assessment (EQA) of OIG's internal audit function. The International Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors and adopted by all United Nations Oversight Offices, require an EQA to be completed at least every five years. The 2012 EQA reviewed conformity with the latest version of the International Standards and actions taken on recommendations of the previous EQA five years ago. The standards provide for three ratings, which include generally conforms to the standards, partially conforms and does not conform. The overall results were very positive and the consultant concluded that the OIG function now "Generally

Conforms” to the International Standards (in 2007 it “Partially Conformed”). Furthermore, OIG had fully implemented all the recommendations made by the EQA to further strengthen the audit function by 31 December 2012.

#### *Staff Meetings and Professional Development*

106. During 2012, OIG held five full staff meetings, holding at least one each quarter, for information sharing and input into professional and administrative matters. Regional staff participated when available via videoconference facilities. These meetings were supplemented with four meetings in which IPA Project Leaders presented to and discussed with OIG staff their projects under the Organizational reform programme. These covered: the GRMS Programme; Decentralization; ERM; and Results Based Management.

107. OIG fully utilized the dedicated budget allocation for staff development, primarily comprising professional audit/investigation, management, language, and technology training. Individual training needs are identified under the Individual Development Plan component of the PEMS employee appraisal system at the beginning of each year. In addition, broader staff needs are addressed in group training sessions during the year, where possible in collaboration with counterparts in the other Rome-based agencies or other UN/intergovernmental organizations.

108. Six OIG staff at both professional and general service level participated in FAO’s management and leadership programme training during the year. In-house training courses were organized in 2012 for audit staff on building skills in auditing governance, and on use of TeamMate. Staff from the investigations unit participated in an intensive four-day training course on the recently acquired forensic software, during which its investigators and support staff received training in computer forensic seizure, searching and analysis. Three investigators from OIG also attended the 2012 training session for UN investigators, which was organized at the International Anti-Corruption Academy in Vienna, Austria.

### **Maximizing Oversight Coverage and Harmonization through Coordination and Collaboration with other Oversight Bodies**

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

109. During the year, OIG met routinely with OED and the External Auditor to discuss their respective work plans to ensure their work did not unnecessarily duplicate review activities, as well as to assist both with the planning of their respective assignments. In November 2012, OED and OIG conducted a half day joint staff session that focused on ways to strengthen collaboration between OED and OIG.

110. OIG met with the External Audit staff on six occasions in 2012 to collaborate on and coordinate their respective audit activities, including the review of GRMS/IPSAS implementation, decentralized office financial and administrative operations. In updating its risk register, preparing its 2012-2013 Audit Plan, and in individual audit assignments, OIG reviewed and took into account the issues and recommendations the External Auditors presented to management in their long form management letter for their 2010-2011 biennium financial audit.

#### *Collaboration with other UN Agencies and Intergovernmental Organizations*

111. OIG continued to be an active member of the professional networks for audit and investigation in the UN System and the wider international organization sector.

112. During 2012, OIG actively participated in the two major networks for internal auditors (RIAS) and investigators (CII) of the UN agencies, Multilateral Development Banks and other intergovernmental organizations. These provide the fora for information sharing, benchmarking and collaboration among the two professional communities, including guidelines and position papers to promote harmonized approaches to common issues. Both networks meet physically on an annual basis and a UN subgroup of the audit community (UN-RIAS) meets by teleconference several times per year in between annual sessions.

113. In September 2012, the Inspector General and the Senior Auditor for decentralized activities attended the 6<sup>th</sup> Annual UN-RIAS Meeting and the 43<sup>rd</sup> Plenary RIAS Meeting, which were hosted by the United Nations Office of Internal Oversight Services at the United Nations Offices in Vienna. At the UN-RIAS Meeting the Inspector General concluded his 2011-2012 term as Chair of the UN-RIAS group.

114. Also in September, the Inspector General and Senior Investigator participated in the 13th Conference of International Investigators (CII), which was hosted by the European Investment Bank at its headquarters in Luxembourg. The Senior Investigator, who is a member of the organizing secretariat for the Conference, participated in a panel discussion on external assessments.

115. The Senior Investigator also attended a prior meeting of UN Heads of Investigations Sections. This was the second such meeting and in line with the recent recommendation by the Joint Inspection Unit in its report on "The Investigation function in the UN system", the group was formally established to regularly meet and share practices and information of common interest.

116. The investigation sections of FAO, UNDP and UN-OIOS jointly organized the second training session for investigators of the UN system. The week training session was hosted at the International Anti-Corruption Academy in Vienna, Austria in March 2012.

117. On 23 April 2012, OIG staff participated in the Third Joint Session of the Audit, Inspection & Investigation Functions of the Rome-Based Agencies that this year was hosted by WFP headquarters, Rome. These now annual events provide a venue for sharing insights and methodologies and discussing opportunities for collaboration in audit and investigation, with the aim of improving performance. In addition, opportunities are explored to conduct joint training and audits.

118. Piloting a new approach to the audit of joint funds and programmes within the UN System, the Internal Audit Services of seven UN organizations (UNDP, UNESCO, UNFPA, UNICEF, UNIDO, FAO, WFP) conducted a joint audit of the United Nations "Delivering as One" programme in Tanzania with a joint audit mission in February-March 2012. The results are summarized in Attachment A (iii) of this report.

## Attachment A (i)

## Categorization of Risks Covered in 2012

				Number of Risks
Category	Sub-category	Risk Area (Function/Process/Entity)	High	Medium
<b>Governance</b>	Internal Control System	Administrative Procedures/Internal Control Framework	2	
	Senior Management Performance	Implementation of Recommendations	1	
<b>Strategic Management</b>	Decentralization	Decentralization	1	
<b>Planning, Budgeting and Reporting</b>	Planning and Budgeting	Budget Management		1
<b>Financial Management</b>	Accounting	Accounting/Decentralized Accounting		4
	Financial Controls	Advances/Disbursements by DOs/Field Budget Authorizations	2	1
	Financial Statements Reporting	Compliance with Accounting Standards	1	
	Treasury	Cash Flow Management		1
<b>Human Resources</b>	HR Strategies and Policies	NSHR Policies	1	
	Recruitment	Recruitment of NSHR		2
<b>Procurement, Assets and Facilities Management</b>	Assets Management	Expendable and non-expendable property of FAO and projects	1	1
	Contract Management	Contract management/Monitoring contracts		2
	Procurement	Field Procurement/LOAs/Procurement process (low-value orders, i.e. former local orders)		5
<b>Administrative and Other Services</b>	Compliance with administrative policies and procedures			
	Other Services			
	Travel			

	Management			
<b>Communication and External Relations</b>	Collection and dissemination of information	Collection and dissemination of information		1
<b>Information Systems and Technology Management</b>	Acquire and Implement	Identify automated solutions (COBIT - A11)		1
	Plan and Organize	Manage projects (COBIT - PO10)	1	
<b>Safety, Security and Continuation of Activities</b>	Security	Field Security	2	
<b>Decentralized Offices</b>	Decentralized Offices	DOs strategy/Administration of major contracts (travel agent, building maintenance, cleaning, mail service)/Government provided staff	3	8
<b>Field Programme Cycle</b>	Project Formulation and Approval	Emergency Project Formulation and Approval/Non-emergency Project Formulation and approval/Project Impact Sustainability	6	3
	Project Management and Delivery	Emergency Project management and delivery/Non-emergency Project management and delivery		2
	Project Monitoring	Distribution of inputs/Project monitoring/Project monitoring tools	5	
<b>Reforms</b>	Reforms	FAO reform (overall IPA)/IPSAS and Oracle	3	3
<b>Total</b>			<b>30</b>	<b>39</b>

## Attachment A (ii)

**Office of the Inspector General****Reports Issued in 2012 Subject to Disclosure Policy****Organization-wide Audit Reports**

<b>Assignment Description</b>	<b>Reports Issued</b>
Accountability and Internal Control Framework Assessment*	AUD 0412
Assessment of the Immediate Plan of Action*	AUD 0712
Assessment of IPSAS Implementation in FAO	AUD 1012
Monitoring of Procurement and LOAs in Field Operations	AUD 1412
Commissary Inventory Count and Write-offs for 2011	AUD 2112
Review of Professional Recruitment	AUD 2212
Mid 2012 Review of GRMS	AUD 2812
IT project management	AUD 4212
Review of the Technical Cooperation Programme*	AUD 0313
<i>* In the interests of timely reporting, AUD0412 and AUD0712 were covered in OIG's 2011 annual report and AUD0313 is covered in this 2012 annual report, as the work and draft reporting was substantially completed in the earlier year</i>	

**Decentralized Activities Audit Reports**

<b>Description</b>	<b>Reports Issued</b>
<b>Thematic Reviews</b>	
Financial Management and Administration Capping Report of FAO Representations Audits from 2011	AUD 3312
<b>Regional, Subregional and Liaison Offices:</b>	
Financial Management and Administrative Audit: FAO Regional Office for Asia and the Pacific (RAP)	AUD 0112
Comprehensive Audit of the Subregional Office for Central Asia	AUD 1112
Financial Management and Administration Audit: FAO Regional Office for Near East (RNE)	AUD 1212
Financial Management and Administration Audit: FAO Liaison Office for the European Union and Belgium (LOB)	AUD 1712
Financial Management and Administration Audit: FAO Liaison Office for North America (LOW)	AUD 2312
Financial Management and Administration Audit: FAO Regional Office for Europe and Central Asia (REU)	AUD 2412
Financial Management and Administration Audit: FAO Sub-regional Office in Barbados (SLC)	AUD 2512
Comprehensive Audit: FAO Sub-regional Office for the Pacific Islands (SAP)	AUD 2712
Financial Management and Administration Audit: FAO Sub-regional Office for Central America (SLM) in Panama	AUD 3412

<b>Description</b>	<b>Reports Issued</b>
FAO Regional Office for Latin America and the Caribbean –Review of Procurement Cycle	AUD 3812
<b>FAO Representations and related programmes and projects:</b>	
Comprehensive Country Review: FAO Representation in Colombia	AUD 0212
Comprehensive Country Review: FAO Representation in Uganda	AUD 0312
Comprehensive Country Review: FAO Representation in South Africa	AUD 0512
Comprehensive Country Review: FAO Representation in Madagascar	AUD 0612
Comprehensive Country Review: FAO Representation in Zambia	AUD 0812
Financial Management and Administration Audit: FAO Representation in Peru	AUD 0912
Financial Management and Administration Audit: FAO Representation in Djibouti	AUD 1312
Comprehensive Country Review: FAO Representation in the Dominican Republic	AUD 1512
Comprehensive Country Review: FAO Representation in Mexico	AUD 1612
Financial Management and Administration Audit: FAO Representation in Iran	AUD 1812
Comprehensive Country Review: FAO Representation in Honduras	AUD 1912
Financial Management and Administration Audit: FAO Representation in Venezuela	AUD 2012
Financial Management and Administration Audit: FAO Somalia Office	AUD 2612
Financial and Administrative Review: FAO Coordination Office for the West Bank and Gaza Strip Programme	AUD 2912
Financial Management and Administration Audit: FAO Representation in Jordan	AUD 3012
Comprehensive Country Review: FAO Representation in Malawi	AUD 3112
Comprehensive Country Review: FAO Representation in Ethiopia	AUD 3212
Joint Audit of the United Nations Delivering as One Programme in Tanzania	AUD 3512
Comprehensive Review: FAO Representation in Bangladesh	AUD 3612
Comprehensive Review of the FAO Representation in Cote d'Ivoire	AUD 3712
Operations Review: FAO Representation in Kyrgyzstan	AUD 3912
Comprehensive Country Review: FAO Representation in Sierra Leone	AUD 4012
Limited Scope Review: Double Accreditation Office in Azerbaijan	AUD 4112
Operations Review: FAO Representation in Tajikistan	AUD 4312

### Investigations Lessons Learned Reports

<b>Description</b>	<b>Reports Issued</b>
Democratic Republic of Congo	INVL 0112

## Attachment A (iii)

**Summary of Results for Decentralized Office Audit Reports Issued in 2012**1<sup>st</sup> Quarter*AUD 0112 - Limited Scope Audit: FAO Regional Office for Asia and the Pacific*

The scope of the review included financial and administrative management practices and controls, compliance with security standards (MOSS), IT controls and policies, and regional TCP programme management. OIG found the Regional Office had relevant controls in place that are functioning properly in most areas reviewed. Recommendations were made to address weaknesses in the management of assets and procurement, and, with regard to TCP management: timeliness of terminal statements and adherence to approval criteria.

*AUD 0212 - Comprehensive Country Review: FAO Representation in Colombia*

OIG found the Representation's management of its country programme and operations; financial and administrative management practices and controls; and compliance with security standards, to be **deficient**. Compliance with information technology controls and TCP project formulation and management were found to be **satisfactory**.

The Representation had undergone a long and hard period of transition. A 2009 OIG audit observed a decline in administrative and financial management compared with the previous review in 2006. OIG found during its mission in 2011 that the situation has worsened, due to lack of adequate managerial oversight arising from the extended absence on sick leave of one FAOR, followed by his retirement and a long delay in the arrival of another after in mid 2011.

In the area of finance and administration there were instances of incorrect accounting and insufficient documentary evidence to support disbursement decisions; uncompetitive and unplanned procurement activities; lack of documented procedures for the recruitment of non-staff human resources; and travel activities not approved at the appropriate level. There was a low level of MOSS compliance by offices located outside the capital.

Unilateral Trust Fund (UTF) projects form a significant part of the project portfolio. Difficulties were noted in the application of national legislation to project audits, recruitment and renewal of consultants, delays in the provision of funds, and project implementation. OIG highlighted the need to strengthen FAO's co-ordination with donors in order to mobilize a more diverse range of project resources.

*AUD 0312 - Comprehensive Country Review: FAO Representation in Uganda*

OIG found the Representation's country programme and operations management, its financial and administrative management practices and controls, information technology controls, as well as its TCP project management practices to be **satisfactory**. External stakeholders interviewed by OIG recognized and appreciated the work of the Representation and its staff. However, there were still a number of individual control weaknesses identified in relation to management controls, assets and disbursements, for which recommendations were made. In relation to technology, CIOF had yet to upgrade the corporate bandwidth available to the Representation.

Further, although we found the Representation was generally MOSS and MORSS compliant, it needs to maintain organized security documentation records and complete outstanding security measures

*AUD 0512 - Comprehensive Country Review: FAO Representation in South Africa*

OIG found the Representation's financial and administrative management practices and controls to be **seriously deficient**. Individual control weaknesses were detected in all areas audited, and were particularly widespread in areas of management control, accounting, assets and disbursements. There was general misapplication of FAO's policies and procedures and management and monitoring of the Administrative and Finance function had been lax and inadequate. The Representation was overstaffed

for its size and programme, and several non-staff employees were contracted under the Regular Programme budget for non-essential posts.

With respect to country programme and operations, key partners interviewed by OIG recognized the contribution of the FAOR within the UN community, especially with respect to the UN Country Team (UNCT) and Security Management Team (SMT). However, the management of country programme and operations, compliance with security standards, and its information technology controls were rated as **deficient**.

With regard to security, the UN House building is not MOSS compliant; confidential data is not adequately safeguarded; field security training is insufficient; and vehicles are not fitted with the proper communication equipment.

*AUD 0612 - Comprehensive Country Review: FAO Representation in Madagascar*

OIG found the Representation's management of its country programme and operations, its financial and administrative management practices and controls, its information technology controls as well as its management of TCP to be **satisfactory**.

The FAOR is well perceived by external stakeholders and the UN community, with strong positive feedback given to OIG. In particular, the Government praised FAO's successful mobilization of funds for the Anti-Locust campaign. However, there is insufficient financial monitoring of projects, low delivery on TCP projects, and poor selection of implementing partners and beneficiaries. Furthermore, FAO lacks visibility and is not perceived as having sufficient human resources and technical capacity in the field.

With regard to finance and administration, recommendations were made to improve internal controls for project monitoring, accounting, storage of agricultural inputs and safekeeping of backup of electronic data. The Representation's compliance with security standards was found to be **deficient**. MOSS requirements should be implemented at the Representation office and the project office in the South

*AUD 0812 - Comprehensive Audit: FAO Representation in Zambia*

The audit found the areas of Country Programme and Operations, Finance/Administration and Security to be **deficient**, while Information Technology was **satisfactory**.

The extended vacancies of two key posts, i.e. the FAOR and the AFAOR/Admin, had contributed to the weakened implementation of controls, creating gaps in regular supervision of the Representation and impacting on the liaison and advocacy function with partners and stakeholders.

In the area of Programme and Operations the Representation needed to improve delivery of planned technical inputs and monitoring of project implementation. There was poor segregation of responsibilities in the finance function and weakened daily supervision of the Administrative and Finance Unit. Also, the administrative and financial controls required improvement to comply with the Organization's regulations and reduce inefficiencies. Six of the seven control categories OIG reviewed in this area were found to be deficient. In particular, procurement practices should be more rigorous and weak vendor selection practices posed risks for misuse of resources. In addition, four audit recommendations from OIG's review in 2009 remained outstanding. Contractual arrangements for provision of IT technical support services required revision.

Security controls were weak because the Representation had not implemented all the United Nations Department of Security and Safety (UNDSS) recommendations or systematically followed up with CSDU to obtain the necessary guidance on how to address the outstanding issues.

*AUD 0912 - Financial Management and Administration Audit: FAO Representation in Peru*

Financial and administrative management practices and controls, and compliance with IT controls and security standards, were found to be **deficient**. The finance and administration function is particularly weak, as deficiencies were identified in the areas of management control, accounting, asset

management, banking and cash, disbursements, and travel. Compliance with IT controls was generally found to be **satisfactory**.

Regarding security, only two out of 29 offices related to FAO operations in Peru were MOSS compliant, while nine had not prepared a MOSS self assessment and 12 had an unacceptable level of compliance. The rest were compliant with limitations or had a deficient level of compliance.

*AUD 3912 - Operations Review: FAO Office in Kyrgyzstan*

Overall, management of the country programme and operations is **satisfactory**. Partners contacted provided positive feedback to OIG. The Office was the first among the Central Asian countries to develop and present the CPF to its key stakeholders in March 2012. In August 2012, an ESA technical officer was seconded to the Office as designated FAOR, pending establishment of the post and signature of the country agreement. However, some areas of operations should be further improved to ensure effective and efficient management of the field programme. SEC had not developed an adequate monitoring and evaluation mechanism to track the progress of field programme implementation and to assess its effectiveness. As it is not yet a fully fledged Representation, the office has not had access to Administrative and Operational Support (AOS) funds from the projects implemented in the country and insufficient RP funding to compensate.

Financial and administrative management practices and controls were found to be **deficient**, in particular in the areas of management controls, accounting, banking and cash, and disbursements. The office did not have an imprest account as a result of which local staff were receiving and storing significant amounts of cash paid through the local UNDP office to disburse at project sites and in field locations, exposing the funds to a high inherent risk of misuse or loss.

*AUD 4012 - Comprehensive Country Review: FAO Representation in Sierra Leone*

Overall, the Representation's programme and operations management were found to be **satisfactory**, even though there is a need for improvement in the area of project management. Financial and administrative management practices and controls as well as security management were found to be **deficient**. IT controls were found to be **satisfactory**. While some controls examined were functioning as prescribed, weaknesses were detected, in particular, in the areas of accounting, assets, procurement, disbursements and human resources

Project implementation is often delayed and subject to a variety of problems, linked to partner capacity and insufficient monitoring/reporting arrangements, which have undermined effectiveness and strained relations with some important donors. OIG acknowledges efforts of the current FAOR to implement corrective action.

As regards the financial and administrative area, the Representation had acceptable controls in place in specific key areas, such as management controls, banking and travel. However, weaknesses were found in accounting (transactions not charged to the right accounts), assets (lack of annual inventory counts and incomplete asset records), procurement (lack of adherence with vendor selection procedures), disbursements (incomplete disbursement vouchers) and human resources (selection process not well documented).

*AUD 4112 - Limited Scope Review: Double Accreditation Office in Azerbaijan*

Overall, OIG's review found finance and administration functions to be **seriously deficient**, across a range of areas including implementation of standards of conduct and a fraud prevention plan, personal use of official resources, correct use of account and activity codes for disbursements, LOA service provider selection and management, banking and cash management, quality of documentation supporting disbursements, monitoring of field budget authorizations, recruitment processes and travel management.

The office did not have an adequate structure, sufficient resources or appropriate tools to ensure segregation of duties in the key processes of procurement, receipt of goods and payments. The main reason being the lack of adequate funding for staff and systems, as the office did not receive any

Administrative Operational Support funds (AOS) for projects implemented in the country, and Regular Programme (RP) funds were inadequate to compensate.

In the absence of an imprest bank account, the UNDP office was used as a means of effecting disbursements to the different local payees, as well as advancing funds for projects and Office activities. OIG reported on the risks involved with such operational modalities in its report AUD 2106 in 2006, and recommended that CSF take action. However this remained unresolved at the time of the current audit. During the period under review, the Office received a number of substantial advances for projects and other official activities from different budget holders (SEC, REU and headquarters units), through UNDP. These funds were deposited in an unapproved bank account for which no reconciliations were prepared/reported. Supporting documents available were also insufficient to fully justify the transactions. This issue was reported previously to SEC and CSF for their action in the SEC audit report (OIG 1112), and is being followed up by OIG separately from this audit.

CSF has authorized, on an exceptional basis, the opening of an imprest bank account which provides the means for SEC to regularly monitor transactions and obtain bank statements from the Office. This resolved some of the issues identified by the audit mission, however, due to the absence of a permanent FAOR in the country to assume the role of supervisor and bank signatory, alternative mitigating controls should also be implemented.

Based on the findings of the audit mission, OIG stressed the importance of establishing and maintaining a strong control environment. It recommended that SEC should carry out periodic monitoring missions to verify the current state of controls and train local staff in the areas where discrepancies are found.

#### *AUD 4312 - Operations Review: FAO Representation in Tajikistan*

Overall, country programme management and operations is **seriously deficient**. In this context, representation, strategy development and cooperation were particularly weak, and some areas of operations should be further improved to ensure effective and efficient management of the field programme. FAO has not put sufficient resources and an adequate office structure in place to achieve a strong local presence in the country, generally recognized as key success factors for effective country programme management. Splitting the responsibility for country office management between the Emergency Programme Coordinator (EPC) and the SRC, who is also the FAOR for three other countries, proved to be an ineffective substitute for a fully fledged Representation. As a result, there was no full-time FAOR responsible for development and implementation of the Country Programme Framework (CPF), liaison with key stakeholders, advocacy and resource mobilization. Coordination of efforts between REU, SEC and the local office in Tajikistan was weak. As a result, donors and other key stakeholders were unclear regarding FAO's operational modalities in the country.

Financial and administrative management practices and controls were found to be **satisfactory**, with some individual control weaknesses detected in the areas of management controls and accounting.

However the funding for the Administrative Support Team, responsible for supporting the entire field programme and the Office, was reliant on a single project. Administrative and Operational Support (AOS) funds from the field programme were not allocated to the Office, and its Regular Programme allotment was not sufficient to compensate.

OIG noted following its last audit mission to the SEC in 2011, the Subregional Office provided several training opportunities to strengthen administration capacity in the sub-region, including the Office in Tajikistan. In addition, as a result of a mission by SEC's International Administration Officer, action was taken to streamline controls in administration and finance. OIG recommended that SEC build on the positive outcome of this monitoring mission as a best practice, regularize such missions, expand their scope to include monitoring of operations, and roll out this practice to the other country offices in the subregion.

#### Quarter 2

#### *AUD 1112 – Limited Scope Review of the Sub-Regional Office for Central Asia*

The audit found that the areas of Finance/Administration and TCP Project Management to be **deficient**, while the areas of Information Technology and Security were **satisfactory**.

Six administrative and financial control areas had deficiencies, and one was rated seriously deficient. OIG noted insufficient control over personal use of official resources, inappropriate use of LOAs, non-transparent selection of vendors and recipient organizations, use of unauthorized accounts and poor quality supporting documentation for disbursements, inappropriate contracts to hire personnel, arbitrary pay rates for personnel, lack of a filing system and inappropriate segregation of duties over recruitment. Ten recommendations from the audit conducted in 2008 remained outstanding.

The lack of monitoring of field payment authorizations issued to the country offices under double accreditation and lack of proper guidance and staff training in those countries unduly risked inappropriate and inefficient use of FAO resources, as well as delays in programme implementation.

TCP controls were rated deficient mainly because there was no finalized Country Programming Framework (CPF) or National Medium-Term Priority Framework (NMTPF) at the country level; the TCP approval criteria were not met at the outset and the process to formulate and approve a project with local Governments is lengthy. The implementation of current projects was not sufficiently monitored, with reporting related strictly to financial and not operational delivery.

*AUD 1212 - Limited Scope Audit: FAO Regional Office for Near East (RNE)*

OIG's audit covered financial and administrative management practices and controls, compliance with security standards, and performance expectations of the regional TCP programme management. While these areas were rated **satisfactory** overall, overall management controls and practice merited urgent attention. A separate OIG inspection mission in April 2012 assessed further issues raised by staff regarding management issues.

The audit identified opportunities for improvement in controls over assets, procurement and LOAs. In the area of TCP management timeliness of terminal statements deserves further attention. RNE was rated as satisfactory on security, based on its CMOSS-compliance in the UNDSS security assessment report of 2012. OIG's inspection raised a number of issues, beyond CMOSS-compliance, that merited further follow up.

*AUD 1312 - Financial Management and Administration Audit: FAO Representation in Djibouti*

The audit found the Representation's financial and administrative practices and controls to be **satisfactory**. The Representation has strong controls in place in individual key areas such as: management controls, banking and cash, travel as well as accounting. However, a number of individual control weaknesses were detected, in particular in the areas of assets and disbursements. Further, compliance with security standards as well as information technology controls was found to be overall **deficient** and need immediate attention.

*AUD 1512 - Comprehensive Country Review: FAO Representation in Dominican Republic*

Overall, the Representation's country programme development and operations, its management of financial and administrative controls, and compliance with information technology and security controls were found to be **satisfactory**. The FAOR was well perceived by Government counterparts and external stakeholders and considered an active and respected member of the UN country team. FAO was well positioned in the country in its areas of work.

OIG noted a significant improvement in the Representation's performance compared to its previous audit in 2009. It had implemented strong controls in individual key areas such as management controls, procurement, cash management, travel, and information technology. However, the latest audit, with its broader scope, identified further opportunities for improvement of internal controls with regard to accounting, distribution of project inputs and non-staff human resources contracts.

*AUD 1612 - Comprehensive Country Review: FAO Representation in Mexico*

Overall, the Representation's management of its country programme and operations; financial and administrative management practices and controls; compliance with security standards; and information technology controls, were found to be **satisfactory**.

The Representation had implemented a strong control environment and the key stakeholders and beneficiaries interviewed by OIG recognized the Representation's contribution and its staff. Field programme delivery was generally satisfactory, with improving practices in project implementation, however, there was a lack of clear performance indicators. The Representation informed OIG that the Country Programming Framework (CPF) would not be concluded before 2013.

The audit noted a number of areas where financial and administrative compliance could be improved or better control introduced. The audit also noted that recommendations from the December 2011 CSDU security assessment had yet to be implemented.

*AUD 1712 - Financial Management and Administration Audit: FAO Liaison Office for the European Union and Belgium (LOB)*

LOB's financial and administrative management practices and controls were found to be **deficient**. Compliance with information technology controls was found to be **satisfactory**. Significant weaknesses were detected, in particular in the areas of management controls, accounting, assets, procurement, banking and cash and disbursements. Further, the physical security of the server was found to be inadequate.

LOB was a small office with only three staff members and one volunteer. The shortage of administrative staff, insufficient knowledge of FAO's financial and administrative procedures, and lack of adequate supervision contributed to the deficiencies noted.

*AUD 1812 – Limited Scope Audit: FAO Representation in Iran*

Overall, the Representation's financial management and administration practices and controls, security and information technology controls were found to be **satisfactory**. However, within financial management and administration, the areas of accounting, asset management and procurement needed to be improved to fully comply with the Organization's rules and regulations, and to reduce inefficiencies.

*AUD 1912 - Comprehensive Country Review: FAO Representative Honduras*

The Representation's management of its country programme and operations was found to be **satisfactory**, although monitoring of the Programa de Acceso a la Tierra (PACTA) financing will need to be improved. The review found that the Representation assisted and supported Honduras according to FAO's mandate. All key partners interviewed by OIG recognized the contribution of the Representation and its staff. Field programme delivery was generally satisfactory, with improving practices in project management and implementation.

Financial and administrative management practices and controls on the whole, and information technology controls, were also found to be **satisfactory**, though a number of control weaknesses were detected in particular in the areas of accounting adjustments, procurement and banking. Compliance with security standards are **deficient** based on the recent CSDU BTOR.

*AUD 2012 - Financial Management and Administration Audit: FAO Representation in Venezuela*

The Representation's financial and administrative management practices and controls, as well as Security and IT controls were found to be **satisfactory**. The Representation has sound controls in place in specific key areas, such as management controls, procurement, banking and cash, as well as information technology. However, a number of improvements are needed in the areas of Travel, Assets and Accounting, and window strengthening to attain full compliance with the Minimum Operating Security Standards (MOSS).

Quarter 3

*AUD 2312 - Financial Management and Administration Audit: FAO Liaison Office for North America (LOW)*

The office's financial management and administration, as well as its management of information technology, were found to be **satisfactory**, and this was an improvement since its previous audit in December 2009. Compliance points or recommendations were made in the areas of accounting, assets and human resources.

*AUD 2412 - Limited Review of the FAO Regional Office for Europe and Central Asia (REU)*

Overall, REU's financial management and administrative practices and controls, security and information technology controls were found to be **satisfactory**. The administrative and financial controls at REU have improved following the implementation of the recommendations of OIG's 2010 audit. However, travel and non-staff human resources still require attention by management to ensure full compliance with financial rules and regulations.

*AUD 2512 - Financial Management and Administration Audit: FAO Subregional Office in Barbados (SLC)*

The review of SLC focused on internal financial and administrative management practices and controls, compliance with security standards, and IT controls. Overall, the fields of finance and administration, as well as security, were found to be **deficient**. Six control areas had deficiencies: inaccurate accounting; weak procedures over asset additions and disposals; lack of evidence of transparent selection of vendors and service providers; absence of procurement planning; poor quality supporting documentation for disbursements; and lack of segregation of duties over recruitment and disbursements. Security controls are deficient because of poor monitoring by the Security Focal Point (SFP) and the SRC's inability to make him accountable for his security related duties. The compliance with IT controls was generally found to be **satisfactory**.

*AUD 2612 - Financial Management and Administration Audit: FAO Somalia Office*

In May 2012, OIG carried out a two-week audit mission to the FAO Somalia Office in Kenya to assess whether its internal financial and administrative management practices are sound and it applies key controls. This followed-up on the previous audit carried out by OIG in October 2010, which had rated the Office as seriously deficient in complying with financial management and administration controls.

Overall, financial and administrative management practices and controls in the office have improved significantly since the previous audit, and are now found to be **satisfactory**. Improvements in the performance of the FAO Somalia office on financial and administrative practices were noted in all audit areas under review and the audit identified various good practices for consideration for other offices. OIG commends the office management for the significant positive changes in office financial management and administration.

However, opportunities for improving the internal controls exist in the following areas: conducting regular meetings of the management team to discuss financial and operational performance and forecasts on projects; asset additions and disposals; certification procedures and supporting documentation for disbursement vouchers; and human resources management. Clear corporate guidance was pending on how to manage a possible transfer of positions to Somalia, with consequent impact on Nairobi-hired staff, as the office moved towards an integrated longer-term development approach.

A revamped control system is being implemented to better manage risks involved in the 'cash for work' programme. This is being reviewed as part of a separate audit of the programme and operations of FAO Somalia due to report in the 1<sup>st</sup> quarter of 2013.

*AUD 2712 - Comprehensive Audit: FAO Subregional Office for the Pacific Islands (SAP)*

The review of SAP was carried out to assess whether the office fulfilled the responsibilities as a subregional office with multiple accreditation for 14 Pacific islands; the field programme was managed effectively and efficiently; internal financial and administrative management practices and controls were sound and in compliance with rules and regulations; security standards were complied with; and IT controls are adequate.

The overall assessment for SAP is **deficient**. In the area of programming and operations, SAP had effectively identified national and subregional priorities, but did not have adequate resources to assess the capacities and manage programmes in the widely dispersed Member Countries in an equitable manner. In addition, reliance on TCP as the primary source of project funds stretched SAP technical officers among many small projects. These were already facing considerable implementation delays, which raised questions about SAP's ability, without further strengthening, to manage future large projects.

Management and officers lacked regular and accurate information on field programme status and budget availability. The outdated use of handwritten records for procurement actions, Letters of Agreement (LOAs), and contracts, limited SAP's ability to monitor developments for timely completion. A staff post assessment was needed to cover unattended technical needs and correct an imbalance in using casual labour staff for project support work. The staff post assessment could also highlight gaps in the administrative unit, such as the urgent need for the creation of a procurement buyer unit and the improvement of asset management. In addition, IT controls were weak. Basic controls, such as backing up electronic data, fell short of expectations, and attention to monitoring and controlling internet usage was needed.

Security controls were **satisfactory** overall. SAP is fully MOSS compliant according to a November 2011 UN Department of Safety and Security (UNDSS) assessment. At the time of the audit mission, a separate Security Service (CSDU) mission evaluated security conditions and was to issue a separate report with recommendations.

*AUD 2912 - Financial and Administrative Review: FAO Coordination Office for the West Bank and Gaza Strip Programme*

Overall, finance and administration, as well as IT controls, were found to be **satisfactory**. However, a number of individual control weaknesses were detected, in particular relating to asset control and HR evaluations. Compliance with security standards was found to be **deficient**. In October 2011, the UN Department of Safety and Security (UNDSS) assessed the office and concluded that it was 82 percent MOSS-compliant. Some of the issues reported by that inspection were still unresolved at the time of the audit, including the lack of mandatory satellite phones.

*AUD 3012 - Limited Country Review: FAO Representation in Jordan*

Overall, the Representation's financial management and administration practices and controls were found to be **deficient**, due to staff unfamiliarity with FAO financial and administrative rules and procedures. In particular, weak accounting and procurement practices, inappropriate accounting for expenditures and Unliquidated Obligations, absence of an up-to-date asset inventory list and overtime payments to ineligible personnel posed risks of misuse of resources. The absence of an FAOR created an urgent need for the Regional Office for the Near East (RNE) to provide the Representation with technical support managing project implementation and staff with training on FAO's rules and procedures.

Observation of security standards was also **deficient**, as the Representation still needed to ensure compliance with the Minimum Operating Security Standards (MOSS). The Representation lacked a dedicated security budget allotment.

*AUD 3112 - Limited Country Review: FAO Representation in Malawi*

Overall, the Representation's financial and administrative management practices and controls, were found to be **deficient**. Security and IT controls were found to be **satisfactory**. Areas identified for improvement included adjustments to accounting entries, use of Disbursement Vouchers, accounting classifications for expenditure, compliance with procurement rules and documentation of procurement actions, completeness of asset registers, approval and documentation of disbursements, and authorization of local travel.

Quarter 4

*AUD 3212 - Comprehensive Country Review: FAO Representation in Ethiopia*

Overall, the Representation's country programme and operations management were found to be **satisfactory**, however, there were a number of individual control weaknesses which need to be addressed in the areas of programme planning and operations, management controls, banking and cash, and disbursements. Nevertheless, Government at all levels, donor partners and beneficiaries appreciated, in their feedback to OIG, FAO's contribution to the agriculture sector. The Representation had been active in consultative fora where Government and donors meet concerning the agriculture sector. OIG noted that during the transition between SRC/FAORs, communication and liaison between the Representation and its partners had not been given appropriate priority. OIG was informed subsequent to the audit that a communications officer had been recruited, and the SRC had taken steps to improve liaison with all stakeholders.

While positive aspects were noted with regard to programme management, there was a need to improve delivery of planned technical inputs; better plan budget utilization and cash flow requirements; have timelier reporting to stakeholders; and ensure relevant updates were made to FPMIS information. Weaknesses in these areas have hampered programme development and implementation which is reflected in generally low delivery rates and requests for no-cost extensions in all project categories.

Generally, operation of administrative and financial controls and controls over information technology was **satisfactory**. However, improvements are required in three main areas i.e. segregation of duties, cash flow management and completeness of disbursement documentation, to comply with the Organization's regulations and reduce inefficiencies. In addition, a number of high priority audit recommendations from OIG's 2010 audit report remained outstanding, including SFE's identification of priorities and work planning, Government support to the SFE, and the number of responsibilities assigned to the SRC.

*AUD 3412 - Financial Management and Administration Audit: FAO Sub-regional Office for Central America (SLM) in Panama*

OIG rated financial and administrative management practices and controls at SLM to be **deficient**. Compliance with IT controls and with minimum security standards in the country were rated as **satisfactory**. There are significant opportunities to improve in most areas of Finance and Administration, in particular: accounting of transactions and cash advances; asset management and asset record-keeping; procurement including vendor selection; preparation and review of bank reconciliations; recruitment process for project staff; maintenance of personnel files; and safeguarding of back-up electronic data.

In OIG's view, many of the weaknesses developed because the key positions of the Administrative Officer and Field Programme Support and Monitoring Officer remained vacant for long periods and staff responsible for procurement lacked sufficient experience.

*AUD 3512: Report on the Joint Audit of the United Nations Delivering as One programme in Tanzania:*

Piloting a new approach to the audit of joint funds and programmes within the UN System, the Internal Audit Services of seven United Nations organizations (UNDP, UNESCO, UNFPA, UNICEF, UNIDO, FAO, WFP) conducted a joint audit of the United Nations "Delivering as One" (DaO) programme in Tanzania with a joint audit mission from 20 February to 2 March 2012.

The audit found that the UN Country Management Team (UNCMT) has made significant progress in coherent programme delivery. However, it found that a) lack of harmonized rules and procedures at the Agency corporate level has limited the harmonization effort and the possibility of reducing the administrative burden and transactions costs; b) Delayed disbursement of joint programme funds to implementing partners has affected the rate of programme implementation; c) Implementing Partner capacity constraints were not adequately addressed; and d) improvements in Agency accountability for delivering development results were being made but at the expense of decreasing harmonization in implementing UNDAP activities.

The audit recommended that, at United Nations Development Group (UNDG) and the United Nations Development Operations Coordination Office (UNDOCO) level, further efforts to harmonize agency systems and processes for programme management to avoid duplicate requirements and reduce transaction costs should be explored; and general guidance on the programme modalities for “Delivering as One” (DaO) prepared. The audit also made recommendations to the UNCMT on improved follow-up on release of resources to implementing partners (IPs); follow-up with Agency Headquarters on timely release of funds and to establish a mechanism to monitor performance in that regard; and on improving the capacity of implementing partners. Management has accepted the recommendations and confirmed action is being taken on all the issues raised.

In the context of the ‘One Fund’ the UNCMT introduced a results-based-management approach to the release of funds to sharpen the focus of the One UN Programme. The report suggests that Resident Coordinator (RC) and the UNCMT pursue efforts to secure adequate funding for the One Fund throughout the UNDAP period. Demonstrated reductions in transaction costs would help these efforts.

The principle of ‘One Leader’ is not supported by formal authority therefore the RC might not have the authority to enforce accountability for underperforming UNCMT members. The audit noted the independent review of the Management and Accountability (M&A) system’s implementation had outlined areas for improvement which are being closely monitored by UNDG.

The joint audit found weaknesses in the administrative management arrangements and in measuring transaction cost savings. There was also slow progress in harmonizing HR procedures; in completing the macro and micro assessments of implementing partners; in implementing ICT activities, and, in establishing joint HACT (Harmonized Approach to Cash Transfers) audit and assurance activities. Furthermore, management of procurement documents needed improvement. In addition to recommendations targeting these areas, the audit report recommended that the UNCMT improve the composition of the Working Groups; and develop a performance appraisal mechanism for staff with significant involvement in DaO activities.

#### *AUD 3612: Comprehensive Review: FAO Representation in Bangladesh*

The overall assessment for the Representation, covering Country Programme and Operations, Finance/Administration, Security, and Information Technology is **Satisfactory**. In a challenging development environment, the Representation’s audit performance has steadily improved compared to results from earlier audits completed in 2005, 2008 and 2010. Active and effective FAOR liaison with counterparts and stakeholders contributed directly to the growth of the field programme, which has emerged as one of the largest among FAO Member countries. Stakeholders consulted during the audit confirmed FAO’s positive image. The out-posting of an international procurement officer has also led to improved procurement practices, an area that was traditionally weak.

Recommendations were made to mitigating disruptions to project implementation; improve the accuracy and completeness of financial accounting; providing better accountability and monitoring of assets; and strengthening oversight of banking and cash management.

#### *AUD 3712 -Comprehensive Review of the FAO Representation in Côte d’Ivoire*

Overall, the Representation's management of its country programme and operations, and compliance with security and information technology standards was found to be **satisfactory**. Strategy development and operations stand out with good procedures and controls. However, the Representation should strengthen the procedures of review of work performed by Implementing Partners.

Financial and administrative management practices and controls were found to be **deficient**. Since OIG’s last audit in July 2010, the Representation improved its rating only in the area of disbursements. The rating had not improved in the other deficient or seriously deficient areas. The review identified persisting deficiencies in accounting practices, including inappropriate accounting for expenditures, processing of Disbursement Vouchers and Unliquidated Obligations; non-compliant procurement and asset management practices; and weak practices in recruitment and evaluation of non-staff personnel.

*AUD 3812 – FAO Regional Office for Latin America and the Caribbean – Review of Procurement Cycle*

The overall objectives of the audit were to assess whether RLC is properly managing financial and administrative functions as related to its own procurement processing, and to determine whether RLC has adequate capacity to provide operational and administrative support to procurement at country offices.

The audit concluded that there are adequate and effective internal controls over disbursement of funds and for financial monitoring of Letters of Agreement (LOAs) and Purchase Orders. However, the report made recommendations to: (i) strengthen internal controls over procurement processing; (ii) enforce compliance with quality assurance requirements of MS 507 on LOAs and ensure that adequate documentation of the LOA process and the reviews performed is prepared and maintained; (iii) ensure consistency in the selection of sub-accounts (child accounts) to which similar transactions are posted; and (iv) improve recording, monitoring and disposition of non-expendable assets. The large shortage of core staff due to long-standing vacant Professional and General Service posts, including those of a manager and other staff in the Administration Support Unit (ASU), contributed to weaknesses noted and affected the unit's capacity to provide proper segregation of duties.

RLC does not currently have adequate capacity nor does it routinely provide operational and administrative support to procurement at country offices. In early 2012, OIG conducted a separate, corporate wide review of monitoring of field-based procurement and LOAs (AUD 1412). The review concluded that such a monitoring system is lacking, and explored options for management to address this. OIG noted that monitoring responsibilities over field procurement within the Organization were not clearly defined under the current policies and procedures (e.g. MS 502 & 507), as neither CSAP nor the Regional Offices had been assigned to, or have the resources to, undertake this role. Until this is clarified, OIG refrained from making recommendations on this to RLC.

## Attachment A (iv)

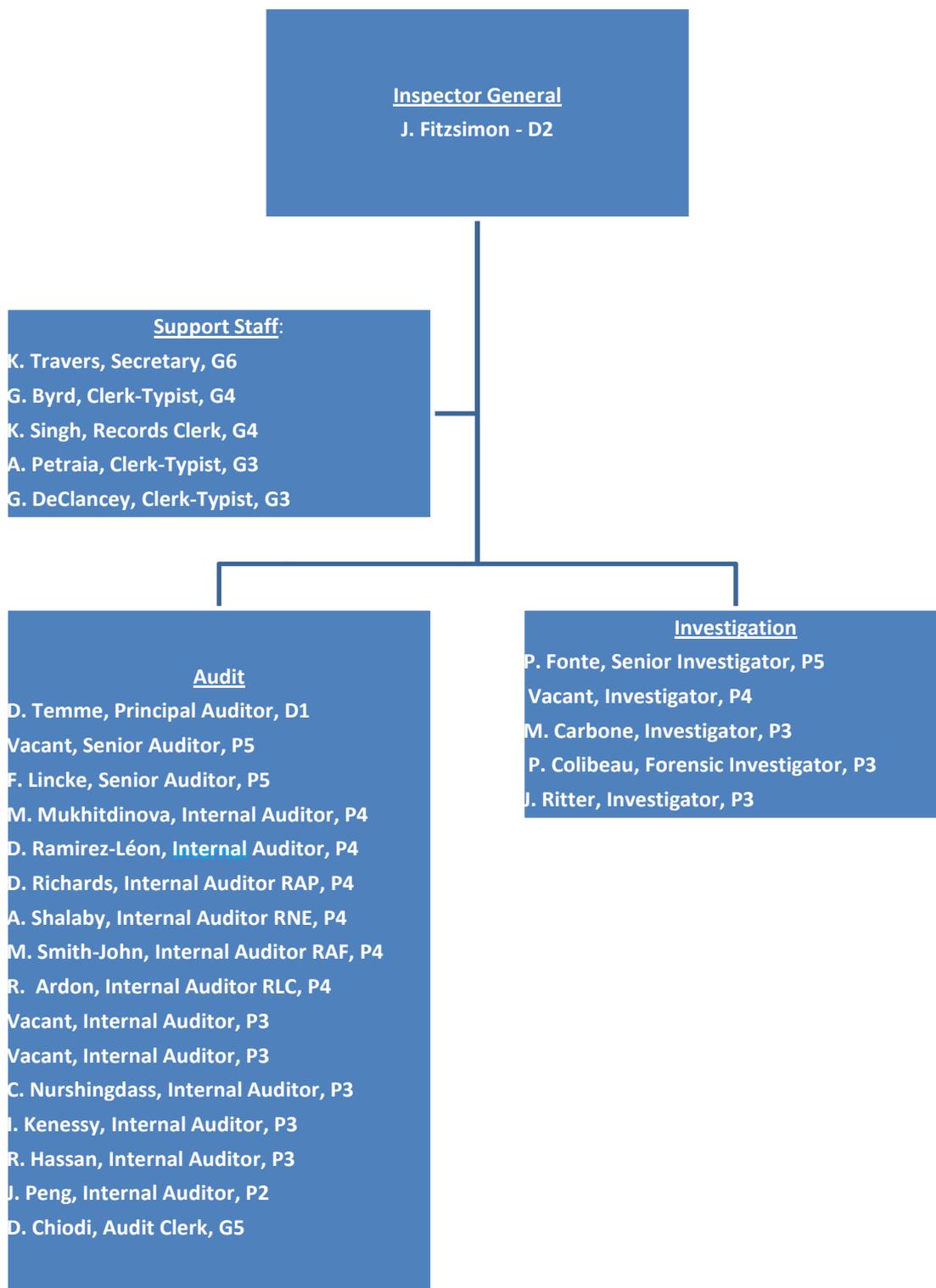
**Summary of Long Outstanding High Risk Recommendations (prior to 2010)**  
**(as at 31 December 2012)**

<b>Report ID</b>	<b>Report Name</b>	<b>Recommendation</b>
3102	Disaster Recovery	Prepare a schedule of regular disaster recovery tests to ensure that the Plan is complete, accurate and up-to-date. Procedures should be tested at least annually and the results thoroughly documented.
3102	Disaster Recovery	Update the study performed in 1998 and develop and implement a comprehensive IT disaster recovery plan within the framework of an Organization-wide IT strategy and an Organization-wide business continuity strategy. The IT disaster recovery plan should follow risk assessment, business impact and cost-benefit analysis and must be kept current at all times.
3504	Financial reporting to donors - general procedural matters	Issue a comprehensive project accounting manual.
0109	Key Issues Affecting Regional Offices in Addressing Regional Priorities	Identify performance indicators for assessing how well the regional offices are addressing their responsibilities.
1409	Disciplinary Procedures Analysis - Consistency of Decisions and Procedures	Update MS 330 and MS 303 with a definition of gross negligence and recklessness
1710	Shared Services Centre	<p>Amend the existing policy for determining NSHR remuneration in order to:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Establish a two-stage process: i.e. 1) assess work level and 2) determine the corresponding remuneration;</li> <li><input type="checkbox"/> Develop standard language for the description of required competencies in NSHR TORs;</li> <li><input type="checkbox"/> Establish official scales of remuneration for NSHR (on a monthly basis for long-term assignments and a daily basis for short-term) that classify assignments according to qualifications and experience required to perform the task, and other parameters as necessary (e.g. previous performance, security or working conditions of the duty station, etc.);</li> <li><input type="checkbox"/> Establish formal requirements for the justification of remuneration exceeding regular scales (waivers), including the necessary documentation (these cases may continue to be reported on a post-factum basis, but subject to regular monitoring by CS). Generally in such cases, requesting divisions should provide documentary evidence that a more economic alternative was not available;</li> </ul>

		<p><input type="checkbox"/> Other criteria, particularly previous earnings, should be used in exceptional cases (i.e. when the assignment does not allow for comparison with established scales) or, secondarily, to determine the step within the assessed category. The justification for application should be fully documented by divisions to avoid inequities among employees.</p>
1710	Shared Services Centre	In parallel with the above recommendation, delegate the process of hiring NSHR to individual divisions.
3410	Business Continuity Management	Establish and begin implementing an organization-wide BCM framework, which takes into account the guidance included in this report as well as other good practices.

Attachment B (i)

**Office of the Inspector General  
Organization Chart (December 2012)**



## Attachment B (ii)

## Office of the Inspector General

Staffing table as at December 2011

	<u>Grade</u>	<u>Male</u>	<u>Female</u>	<u>Vacant</u>	<u>Total</u>
Inspector General	D2	1			1
<u>Auditors</u>					15
Principal auditor	D1	1			
Senior Auditor	P5	1		1	
Regional Auditor	P4	3	1		
Auditor	P4	1	1		
Auditor	P3	1	2	2	
Auditor	P2		1		
<u>Investigators</u>					5
Senior Investigator	P5	1			
Investigator	P4			1	
Investigator	P3	1	2		
		<b>10</b>	<b>7</b>	<b>4</b>	<b>21</b>
<u>Audit Clerk</u>	G5		1		1
<u>Secretarial and Administrative Support</u>					5
Secretary	G6		1		
Clerk/Typist	G4		1		
Records Clerk	G4	1			
Clerk/Typist	G3	1	1		
		<b>12</b>	<b>11</b>	<b>4</b>	<b>27</b>

The following countries are represented in the above:

<u>Country</u>	<u>Headquarters</u>	<u>Region</u>	<u>General Service</u>	<u>Total</u>
Argentina	1			1
Australia	1			1
China	1			1
Egypt	1	1		2
France	1			1
Germany	1			1
Honduras		1		1
India			1	1
Italy	1		3	4
Jamaica		1		1
Mauritius	1			1
Spain	1			1
UK			1	1
USA	3	1	1	5
Uzbekistan	1			1
Vacant	4		0	4
	<b>17</b>	<b>4</b>	<b>6</b>	<b>27</b>

## Attachment C

**LIST OF ACRONYMS USED**

ADG/RR – Assistant Director-General, Regional Representative  
BCM – Business Continuity Management  
CIO – Information Technology Division  
CS – Corporate Services, Human Resources and Finance Department  
CSA – Administrative Services Division  
CSAP – Procurement service  
CSF – Finance Division  
DDG-K – Deputy Director-General, Knowledge  
DDG-O – Deputy Director-General, Operations  
DO – Decentralized Office  
DON – Decentralized Office Network  
ERCU – Emergency Recovery and Coordination Unit  
ERM – Enterprise Risk Management  
EUFF – EU Food Facility  
FAOR – FAO Representative  
FPMIS – Field Programme Management Information System  
GOE – General operating expenses  
GRMS – Global Resource Management System  
ICF - Accountability and Internal Control Framework  
IIA – Institute of Internal Auditors  
IPA – Immediate Plan of Action  
ISFP – Initiative on Soaring Food Prices  
JIU – Joint Inspection Unit of the UN  
LEG – Legal Office  
LOA – Letter of Agreement  
NMTPF – National Medium Term Priority Framework  
OED – Office of Evaluation  
OIG – Office of the Inspector General  
OSD – Office of Support to Decentralization  
OSP – Office of Strategy, Planning and Resources Management  
PEMS – Performance Evaluation Management System  
PIR – Programme Implementation Reporting  
PIRES - Programme Planning, Implementation Reporting and Evaluation Support System  
PWB – Programme of Work and Budget  
RBAP – Results-based audit plan

RBM – Results-based management

REU – Regional Office for Europe and Central Asia

SLA – Service level agreements

SRC – Subregional Coordinator

SRO – Subregional Officer

SSC – Shared Services Centre (Budapest)

UN-RIAS – UN Representatives of Internal Audit Services