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FINANCE COMMITTEE

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**Progress on Implementation of the Recommendations of the Joint
Inspection Report (JIU) on Fraud Prevention, Detection and Response in
United Nations System Organizations**

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EXECUTIVE SUMMARY

- The Finance Committee is presented with an update on the implementation of the two outstanding recommendations from JIU 2016 report (JIU/REP/2016/4) on *Fraud prevention, detection and response in the United Nations System Organizations*:
 - 1) A corporate Anti-fraud Strategy and related Action Plan, launched in October 2018, form the roadmap guiding corporate improvements in the management of fraud risks over the medium term, with particular focus on an anti-fraud culture and the effectiveness of managerial controls (Recommendation 6).

Progress in achieving set objectives will be reviewed on a biennial basis, while progress in implementing specific actions will be reviewed on a quarterly basis. The Statement of Internal Control (SIC) will integrate required developments in the fraud prevention area.

- 2) FAO implements the possibility of referral to national enforcement authorities as a matter of principle with however due analysis and assessment of each case (Recommendation 14).

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to take note of the information provided in this document.

Draft Advice

- **The Finance Committee notes the progress achieved by the Organization in meeting its commitment to implement the two outstanding JIU recommendations under report JIU/REP/2016/4 *Fraud prevention, detection and response in the United Nations System Organizations*.**
- **The Finance Committee encourages the Secretariat to timely implement actions identified in the Anti-fraud Strategy and its related Action Plan and looks forward to receiving further information in the context of the implementation of actions included in the reporting on development in the fraud prevention area as part of the 2018 Statement of Internal Control (SIC) process.**

Introduction

1. In 2016, the Joint Inspection Unit of the United Nations System (JIU) presented its review of the situation of Fraud prevention, detection and response in the United Nations System Organizations (report JIU/REP/2016/4¹). FAO, at the 158th session of Council in December 2017, was able to report that all but two recommendations had been implemented by the Organization and committed to further report to the Finance Committee at its November 2018 session, on progress in implementing the remaining Recommendation 6 on developing an organization-specific comprehensive Anti-fraud Strategy and Action Plan, and Recommendation 14 on procedures for referrals of fraud cases to national enforcement authorities (see Box 1).

Box 1 - JIU/REP/2016/4: Outstanding recommendations for FAO

1. Recommendation 6 (paragraph 123): ‘The executive heads of the United Nations system organizations, if they have not already done so, should develop organization-specific comprehensive anti-fraud strategies and action plans for implementing their respective fraud policies. Such anti-fraud strategies should be based on the organization’s corporate fraud risk assessments and shall be an integral part of the overall organizational strategies and operational objectives. Based on the level of fraud risk, proportionate resources should be dedicated to operationalize the strategies and action plans.’.

2. Recommendation 14 (paragraph 329): ‘The executive heads of the United Nations system organizations, in consultation with the Office of Legal Affairs (OLA) of the United Nations, and their respective legal offices, should strengthen existing protocols and procedures for referrals of fraud cases (and other misconduct) to national enforcement authorities and courts for criminal and civil proceedings, as well as for asset recovery and ensure that referrals are done in a timely and effective manner.’.

FAO's control environment

2. FAO is committed to ensuring that its resources are used solely for their intended purpose and that its operations are duly protected against fraud and other corrupt practices. The Organization adopted a comprehensive Policy against fraud and other corrupt practices² (the “Policy”), with a zero tolerance approach in cases of uncovered wrongdoings by FAO personnel and those under contractual arrangements with FAO³. The Policy applies to all the Organization’s activities (administrative, technical or operational) at all locations.

3. FAO has placed oversight responsibility for the management of fraud risks, and custody of the Policy at Deputy Director-General (DDG) level. The Deputy Director-General (Operations) is leading this function across the Organization, with the support of a small Internal Control and Compliance Unit (DDOC) and an Internal Control Board⁴ (ICB).

¹ https://www.unjiu.org/sites/www.unjiu.org/files/jiu_document_files/products/en/reports-notes/JIU%20Products/JIU_REP_2016_4_English.pdf

² Policy against fraud and other corrupt practices issued in 2015 (AC 2015/08) builds on the earlier issued Policies, 2004 (AC 2004/09) and 2007 (AC 2007/11), demonstrating the Organization commitment against fraud and other corrupt practices.

³ Implementing partners, suppliers and other third parties. Further referred as Contractors.

⁴ Composition of ICB: DDG/O (Chair), DDP, CS, OSD, CIO, OSP.

4. The Organization also benefits from a well-established investigative and audit capacity through the Office of the Inspector-General (OIG), and a Whistleblower Protection Policy⁵, with an OIG managed central hotline available for reporting worldwide. OIG, through the Annual Report of the Inspector-General, provides members of the Finance Committee with extensive information about audit and investigative work, including on complaints reported as well as type and outcomes of cases investigated. On a biennial basis, through an Administrative Circular on the Practice of the Organization in disciplinary matters, FAO discloses to all employees the type of fraud cases identified and disciplinary measures adopted during the period. In addition, whenever a situation of misappropriation of funds arises, FAO, through its Legal Office, carries out a systematic assessment of the possibility of seeking recovery through national authorities.

Progress in implementation (JIU/REP/2016/4)

Recommendation 6: Anti-fraud Strategy and Action Plan

5. JIU recommendation 6 called on UN Organizations to develop both an organization-specific comprehensive anti-fraud strategy and an action plan as a means to operationalize and integrate anti-fraud policies within their respective operating environments. It further noted that, commensurate with the assessed fraud risks, an anti-fraud strategy and related action plan should offer a cost-effective approach to combating fraud, by focusing on those areas where efforts may have the greatest impact, as well as an effective and efficient means to enhance programme delivery by minimizing fraud exposure.

6. Internal Audit, in its 2016 High-level review of management of risks of financial fraud and other corrupt practices in FAO (AUD 0716) similarly advocated that a corporate anti-fraud strategy would help address identified key weaknesses in managing fraud risks, particularly in the areas of improving fraud risk information, awareness and communication as well as in monitoring and strengthening the controls for those assessed risks.

7. In line with the JIU and OIG recommendations, the FAO corporate Strategy and related Action Plan, was formulated with the participation of key stakeholders (business owners,⁶ other headquarter divisions⁷ and Regional Offices) and endorsed by the Internal Control (IC) Board in August 2018. It provides a roadmap for required improvements in the management of fraud risks over the next four years (2018-2021). Acknowledging the investigative capacity of OIG, the Strategy is placing particular focus on strengthening the corporate anti-fraud culture, awareness of measures taken, inclusive of the management response to fraud, and the overall effectiveness of managerial controls. The corporate anti-fraud actions identified form an integral part of the overall Enterprise Risk Management and of the Organization's strengthening of its internal control system.

8. The corporate Strategy and related rolling Action Plan presented here, is intended to guide further improvements in the management of fraud risks over the medium term, in line with FAO's Internal Control Framework (ICF), areas of improvement resulting from the Organization's Statement of Internal Control (SIC) and building on the JIU findings and recommendations.

⁵ AC 2011/05

⁶ Corporate Services Department (CS), Shared Service Centre (SSC), Technical Cooperation Department (TC), Office for Human Resources (OHR) and IT Division (CIO)

⁷ Office of Strategy, Planning and Resources Management (OSP), Office of Support to Decentralized Offices (OSD) and OIG

Corporate Fraud Risk Assessment

9. The formulation of the Strategy was based on a corporate assessment of fraud-risk undertaken by the business owners in early 2018 for those areas considered by OIG as presenting potential weakness and risks.

Box 2 - Fraud risk areas assessed (ten)

- project identification, formulation and appraisal (budget, inputs composition, implementing modalities, including risks related to OPIM)⁸;
- vendor management (registration, performance);
- Procure-to-Pay cycle (P2P) (purchase requisitions, sourcing, payment authorizations);
- management of FAO property (assets, inventory, facilities leases; fleet management);
- new operational modalities (OPIM; CBT⁹);
- travel (local/international);
- finance (invoice/expenditures/payments; petty/operational cash; advances, reporting, misuse of exchange rates);
- human resources (management of NSHR; benefits/entitlements);
- Information Technology (IT) - internal and external risk of unauthorized access; and
- security – unauthorized access to FAO premises.

10. The assessment encompassed a review of fraudulent practices that have been detected or could occur and practices that could create opportunities for fraud. It evaluated the effectiveness of existing controls in preventing or/and detecting fraud, and identified gaps and improvement measures, particularly for higher risk areas.

Box 3 - Practices analysed across business areas

Out of 130 types of practices analysed across business areas: 25¹⁰ were classified with high residual risk taking into account existing controls; 68¹¹ as medium risk; and 37¹² as low risk.

Level of effectiveness of controls to address each identified practice varied, with a larger concentration of controls perceived to be less effective (partially effective, largely ineffective or absent) for practices rated as medium (68 percent of cases) and high risks (88 percent). For both, medium and high risks, most identified improvements relate to strengthening the application of existing controls/improve compliance (knowledge and use of supporting tools) and some to strengthening the design or addressing gaps. A number of improvements to address those risks were already ongoing or planned at the time of the assessment. ¹³

⁸ Operational Partners Implementation Modality

⁹ Cash Based Transfers

¹⁰ across 4 business areas - P2P cycle: 13; IT: 7; vendor management: 3; project identification: 2

¹¹ across 9 areas - project identification/formulation/appraisal: 7; vendor management: 9; P2P cycle: 13; FAO property: 8; NOM: 12; finance: 5; travel: 2; IT: 8; HR: 4

¹² across six areas – P2P cycle: 6; FAO property: 8; finance: 5; travel: 2; security: 6; HR: 9

¹³ For a more detailed overview of risks associated to each business area and type of required improvements please see Annex 2.

11. Overall, this assessment evidenced a need for action in:

- strengthening fraud awareness and capacity of all employees (demonstrated knowledge about key policies and procedures in line with their specific functional responsibilities), to better ensure compliance in fraud sensitive areas;
- addressing detected weaknesses or gaps in existing controls (policies, rules and procedures) to mitigate identified fraud risks; and
- strengthening tools and systems for compliance monitoring, managerial oversight and early detection.

*Strategy and Action Plan*¹⁴

12. The Strategy and its corporate Action Plan¹⁵ focus on three, mutually reinforcing, objectives implemented through actions in six main areas.

Objective 1: Improve awareness on FAO's control measures to prevent, detect and report on suspected cases of fraud, with actions to ensure that:

- all employees¹⁶ and external stakeholders are systematically kept aware of (i) key fraud related policies (Policy against fraud and other corrupt practices, Whistleblower protection) and measures put in place to ensure strong anti-fraud environment; (ii) experiences in strengthening prevention and detection (across locations and with other UN agencies); and (iii) on reported cases of fraud and related management response (administrative/disciplinary actions and/or vendor sanctions);
- employees, through a progressive and structured training programme, are duly trained in (i) key fraud related policies – key concepts, and their roles and responsibilities in preventing, detecting and reporting on fraud (all employees); and (ii) procedures and related systems/tools to ensure required compliance (employees with fraud sensitive functional responsibilities, e.g. management of resources and performing critical administrative functions).

Objective 2: Strengthen effectiveness of controls to mitigate fraud risks, with actions to ensure that:

- business owners, through regular fraud risk assessment, more systematically assess control effectiveness and implement required improvements (along three strategy objectives: design/implementation of programmes to improve capacity, design of controls/mechanisms to ensure compliance and related support tools). Attention will be given to adopting a streamlined and integrated approach to assessing fraud risk vulnerabilities taking into account OIG findings through audits and investigations, results obtained through the internal controls reporting and risks escalated (including through the Fraud Prevention Plans at country level);
- all FAO units/offices progressively adopt a streamlined approach to plan and monitor responses to their specific fraud risk vulnerabilities. Units will (based on the corporate fraud risk register and ICQ¹⁷ findings) assess their own risk vulnerabilities and plan for required improvements in implementing the controls (linked to the three strategy objectives, i.e. increasing capacities and compliance, and use of supporting tools). This approach allows, in particular Country Offices, to put in place a more dynamic, risk-focused Fraud Prevention Plan, tailored to the size and nature of their country programme.

¹⁴ For a more detailed overview of the actions planned please consult the Anti-fraud Strategy (available on Members Gateway)

¹⁵ High-level corporate Action Plan is presented in Annex.

¹⁶ The term "Employees" includes both staff and non-staff human resources (NSHR), reflecting FAO's workforce.

¹⁷ Internal Controls Questionnaire (ICQ)

Objective 3: Strengthen systems and tools for the managerial oversight and early detection/deterrence, to facilitate:

- *planning, monitoring and reporting on actions taken* (corporate, business owner and unit level, including Country Offices) to mitigate fraud risk, in line with the overall corporate risk management process;
- *compliance monitoring in fraud sensitive areas* such as (i) expanded use of business intelligence and dashboards, as well as (ii) upgrading of existing monitoring and tracking tools, with attention to enhancing data analytics/use of alerts/red flag system.

Box 4 - Highlights of selected achievements to date (year 2018) in the implementation of the Anti-fraud Strategy and Action Plan

Objective 1: to improve awareness on FAO's control measures to prevent, detect and report on suspected cases of fraud:

- launch of an e-learning course on Prevention of Fraud and other corrupt practices allowing all employees to better understand FAO's Anti-fraud Policy and its implications (responsibilities in preventing, detecting and reporting, and FAO's response mechanism to uncovered cases of fraud), and increase awareness of key areas of risks (fourth quarter 2018).

Objective 2: to strengthen effectiveness of controls to mitigate fraud risks:

- scaling up the Electronic Funds Transfer (EFT) capabilities to an increasing number of countries. This represents a safer way of moving funds and strengthening the internal control environment within offices;
- scaling up the use of InTend solution for tendering process across all locations, linked to the United Nations Global Market Place (UNGM). This is to strengthen confidentiality and transparency of the procurement process, as well as improve tracking of procurement actions. Between June and November 2018, rollout has been completed for headquarters, (Sub)Regional Offices as well as Country Offices with an International Procurement Officer;
- development of a new corporate procedure (Manual Section) related to Cash based transfers, establishing minimum standards of administrative and operational management that fully or partially mitigate identified fraud risk vulnerabilities (third quarter 2018);
- launch of a new, more dynamic and risk focused approach for preparing Fraud Prevention Plans at country level, building on the corporate fraud risk assessment (fourth quarter 2018).

Objective 3: to strengthen systems and tools for managerial oversight and early detection/deterrence:

- set up of a new tool to facilitate planning, monitoring and reporting on anti-fraud action plans by business owners and Country Offices. This tool will allow: (i) business owners and Regional Offices to have a consolidated view of the fraud risks identified by business area/type and location, and of the measures in place; and (ii) Country Offices, to prepare more dynamic, risk focused Fraud Prevention Plans (fourth quarter 2018);
- expanding the use of dashboard for local travel – following the rollout of the local travel module to all FAO field offices in 2017, a dashboard was set up to facilitate compliance monitoring, the first analytical results of which are expected by the fourth quarter.

Strategy implementation and reporting arrangements

13. The Strategy will be implemented through a corporate plan (see details in Annex I) consolidating more detailed business owner action plans. The plan includes actions over the short and medium term, and follows FAO's planning cycle.
14. Progress in achieving the objectives will be reviewed at mid-term (end-2019) as well as at the end of the implementation period (end-2021), and reported accordingly to the Internal Control Board.¹⁸ periodic fraud risk assessments will assess progress in improving the effectiveness of the controls.
15. Progress in implementing specific business owner action plans will be monitored regularly, with quarterly reporting to the Deputy Director-General (Operations), as custodian of the Anti-fraud Policy. This will serve as input for reporting on the status in implementing the overall corporate Anti-fraud Action Plan.
16. The Statement of Internal Control (SIC) will integrate developments in the fraud prevention area, as required.

Recommendation 14: Formalization of protocols and procedures for referrals of fraud cases to national enforcement authorities

17. Recommendation 14 called on UN Organizations to "strengthen existing protocols and procedures for referrals of fraud cases (and other misconduct) to national enforcement authorities and courts for criminal and civil proceedings, as well as for asset recovery, and ensure that referrals are done in a timely and effective manner".

Progress

18. FAO, like many UN organizations, expresses support for recommendation 14 and acknowledges the leadership role of the UN Office of Legal Affairs. It also generally aligns with the CEB position reported to Council in document CL 158/INF/7:

Box 5 - Extract from CL 158/INF/7

"It was noted that the implementation of the recommendation is conditioned on the boundaries set by the parameters, protocols and procedures for referrals to national authorities inherent in each organization's legal status and, in a similar vein, that these processes would in principle already be in place in all United Nations entities through host-country agreements, among other mechanisms, and depend to some degree on the responsiveness of the Member States in which they operate." (paragraph 31¹⁹).

"It was also noted that the recommendation appears to assume that existing protocols or procedures do not exist or require improvement, and that strengthening such protocols and procedures would result in more referrals to national authorities. However, organizations note that besides a legal analysis of the strengths and weaknesses of the case, substantial and careful review of salient or potential risks and liabilities is required, and in this regard the report does not assess adequately the costs and risks involved, nor does it explain why such costs are outweighed by the potential benefits." (paragraph 32).

¹⁸ Baseline to be set and performance indicators developed.

¹⁹ A/71/731/Add.1

Present Status

19. FAO implements recommendation 14 on possible referral to national enforcement authorities. This is done as a matter of principle and of routine. More specifically, whenever a situation of misappropriation of funds arises, FAO, through its Legal Office, carries out a systematic assessment of the possibility of seeking recovery through national enforcement authorities.

20. This is done following a review of all the relevant circumstances in each case, including, inter alia, the actual level of misappropriated funds, the possibilities of recoveries from terminal emoluments held by the Organization, as well the practicability and appropriateness of engaging in complex processes before national institutions and courts. In a few recent cases, following a review of all relevant circumstances, it was decided that it would not be appropriate to make referrals to national authorities. This was the case, in particular, where it was assessed that the costs of pursuing a matter in this way outweighed the likelihood of successful recovery and any deterrent effect it might have.

21. Consistent with the principles underlying General Assembly resolution 72/112, entitled “Criminal accountability of United Nations officials and experts on mission”, FAO is prepared to make more systematic reporting of cases to the Ministries of Foreign Affairs of concerned countries, together with requests that they take such steps as necessary for criminal and civil proceedings and for asset recovery.

Annex I: Corporate Anti-fraud Action Plan

Action	Action owner	2018-19 ²⁰ (short term)	2020-21 (mid term)
Objective 1: Improve awareness on Organization's control measures to prevent/detect/report on suspected cases of fraud			
Action 1.1: Internal/external stakeholders systematically kept aware of key controls measures, experiences, reported cases and administrative actions			
<ul style="list-style-type: none"> Establish regular communication: of set of policies/measures in place to ensure a strong anti-fraud environment (internally/with members) – [define mechanisms, frequency, responsibilities; monitor follow up] 	OIG/DDOC/OSD/ OCC/ROs/Business Owners	Continuous implementation	Continuous implementation
<ul style="list-style-type: none"> Establish mechanism/tools for sharing experiences in strengthening prevention/detection (e.g. across locations/with other UN agencies) and facilitate exchange 	OIG/OSD/ROs	Early 2019 (internally) End 2019 (externally)	Continuous implementation
<ul style="list-style-type: none"> Continue with periodic communication: reported fraud cases/related administrative actions (issue of Administrative Circulars/OIG annual report/other means) including referrals to national enforcement authorities, as required. 	OIG/LEG	OIG annual report (2018, 2019) AC (2019)	OIG annual report (2018, 2019) AC (2021)
Action 1.2: Define and implement a coherent and structured approach to training (various modalities)			
<ul style="list-style-type: none"> All employees: <ol style="list-style-type: none"> develop/launch e-learnings on corporate policies (fraud and whistleblower protection), as well as other learning support tools; ensure that all employees complete compulsory online training within specified time frame. 	Development: OIG, OHR, DDOC; Implementation: headquarters units and ROs	4th quarter 2018 (fraud) Early 2019 (Whistle blower protection)	Continuous implementation
<ul style="list-style-type: none"> By functional responsibilities: <ol style="list-style-type: none"> Map/strengthen existing learning programmes in fraud sensitive areas (e.g. procurement, finance, assets, travel); Elaborate progressive rollout out plan by area and setup relevant compliance monitoring mechanisms. 	Business Owners; OHR; DDOC (development) headquarters units/ROs (implementation)	4th quarter 2018 (travel, procurement) ²¹	Continuous implementation
Objective 2: Strengthen effectiveness of controls, with particular focus on higher fraud risk areas			
Action 2.1: Introduce systematic assessments of fraud risks vulnerabilities within key business/functional areas and improving controls effectiveness (design)			
<ul style="list-style-type: none"> Carry out periodic corporate fraud risk assessments, integrating feedback from OIG/other units (link: Action 2.2) 	DDG (O)/DDOC; Business Owners (in consultation with DOs)	By May 2018 (initial) By end-2019	By end 2021
<ul style="list-style-type: none"> Establish mechanisms/processes for obtaining: <ol style="list-style-type: none"> systematic OIG feedback on the control effectiveness to address identified risks (following OIG conducted audits/or investigations) 	OIG	By end-2019	By end-2021
<ul style="list-style-type: none"> <ol style="list-style-type: none"> Information on risks escalated or identified during the year 	OIG/DDOC/OSD/ ROs	Continuous	Continuous
<ul style="list-style-type: none"> Define/prioritize required improvements; update/prepare specific business owner plans (with actions addressing all Strategy objectives, as relevant) and an aggregate corporate Anti-fraud Action Plan. 	DDOC; Business Owners/OIG/OSD	4th quarter 2018 (initial) 1st quarter 2019 (update)	By 1st quarter each year (update)

²⁰ Indicative timelines

²¹ Information on other training during 2019 will be added once a detailed training plan is prepared and periodically updated

Action 2.2: Improved planning and monitoring of the fraud risk response at the unit level (headquarters and Decentralized Offices)			
<ul style="list-style-type: none"> Update guidance/template for Country Offices, as integral part of country annual reporting 	OSD/DDOC/OIG, in collaboration with ROs	4th quarter 2018	Periodic updates
<ul style="list-style-type: none"> Definition of the approach/fraud risk response mechanism for other locations (integrated into relevant corporate processes) 	DDOC/OSP/OIG	2019	(as above)
<ul style="list-style-type: none"> Work with regions to establish documented routines to ensure operationalization of Fraud Prevention Plans in Country Offices 	OSD/DDOC/ROs	1st quarter 2019	Continuous implementation
Objective 3: Strengthen systems and tools for managerial oversight and early detection/deterrence			
Action 3.1: Progressive improvement of systems and tools for compliance monitoring			
<ul style="list-style-type: none"> Expand and ensure more systematic use of existing dashboards for managerial oversight across all fraud sensitive areas, starting with those with higher risks 	Business Owners/CIO, in consultation with DOs	Continuous	Continuous
<ul style="list-style-type: none"> Introduce or improve existing IT tools/systems in fraud sensitive areas - starting with higher risk areas (e.g. procurement and IT), followed by other areas (e.g. human resources) 	Business Owners/CIO, in consultation with DOs	Continuous	Continuous
Action 3.2: Develop online tools to facilitate preparation, monitoring and reporting on Fraud Prevention Plans			
<ul style="list-style-type: none"> Tool for periodic updates of fraud risk assessments, monitoring and reporting on implementing action plan (corporate; business area specific) with attention to other corporate processes/compliance monitoring tools 	DDOC/Business Owners/CIO	4th quarter 2018	With Periodic upgrades/refinements
<ul style="list-style-type: none"> Tool for preparing, monitoring and reporting on country specific Fraud Prevention Plans (integral part of the corporate tool, located within the existing annual reporting workspace) 	OSD/DDOC/CIO in consultation with DOs	4th quarter 2018	With Periodic upgrades/refinements

Annex II: Fraud Risk Assessment - highlights

1. An overview of key areas assessed and the level of residual risks:

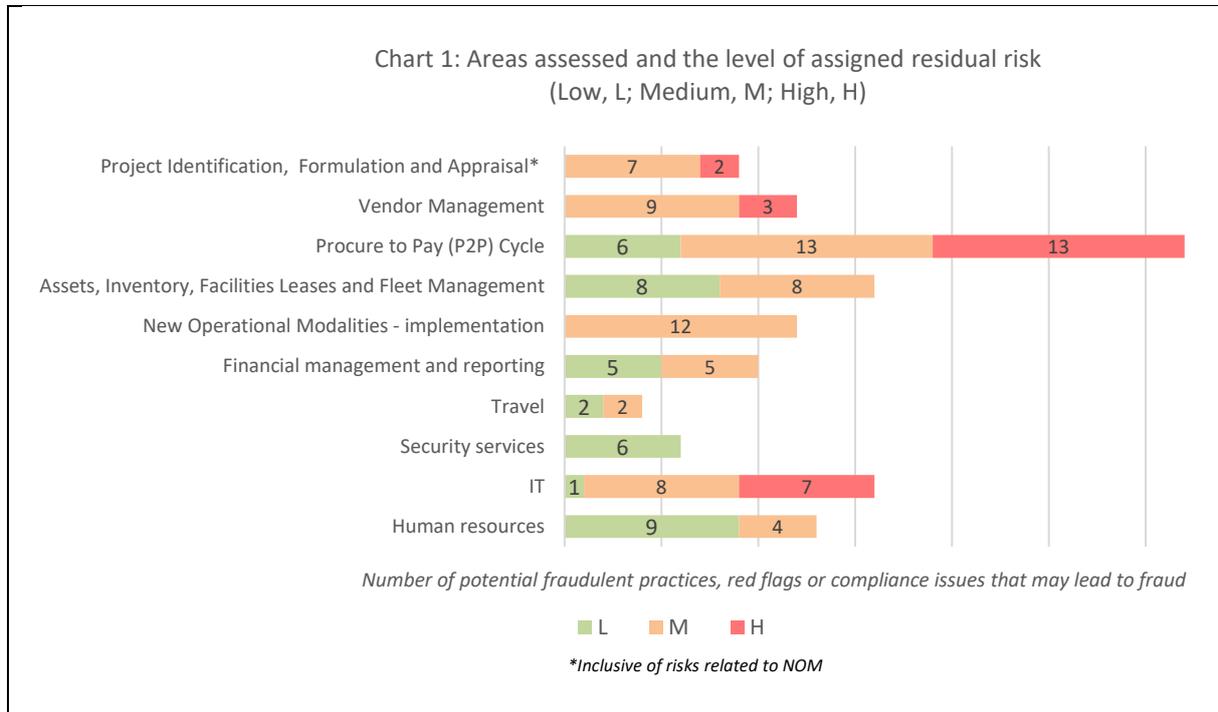


Chart 1 shows the overall distribution of risks across different business area (assessment time frame: Jan-May 2018):

- business owners analysed 10 areas of risks across business functions (as listed above);
- 130 potential compliance issues/fraudulent practices/red flags were reviewed (identified by OIG and business owners), of which, 25 were classified as high, 68 as medium and 37 with low residual risk for the Organization. It is important to note that numbers do not reflect the relative importance in terms of global impact on FAO, but rather awareness of practices that could occur (fraudulent or unintentional creating enabling environment to fraud);
- high risks were found to be concentrated within the Procure-to-Pay cycle, IT, vendor management and within the project identification/formulation/appraisal phase (procurement related). Example of needed improvements is available in Section 2 of this Annex II.

Notes:

- Risk rating: Refers to a perceived residual risk (risk that still remains with controls currently in place) by business owners. The likelihood and impact of some risks may, however, differ across locations, and hence the related residual risk.
- Risks related to new operational modalities - Cash Based Transfers – significant portion of the identified risks is applicable to all implementation modalities that entail the provision of assistance/distribution of inputs to individuals or households. Those are integrated under other broader areas such as “Assets, Inventory, Facilities Leases and Fleet Management”.

2. Overview of controls effectiveness by the level of risk.

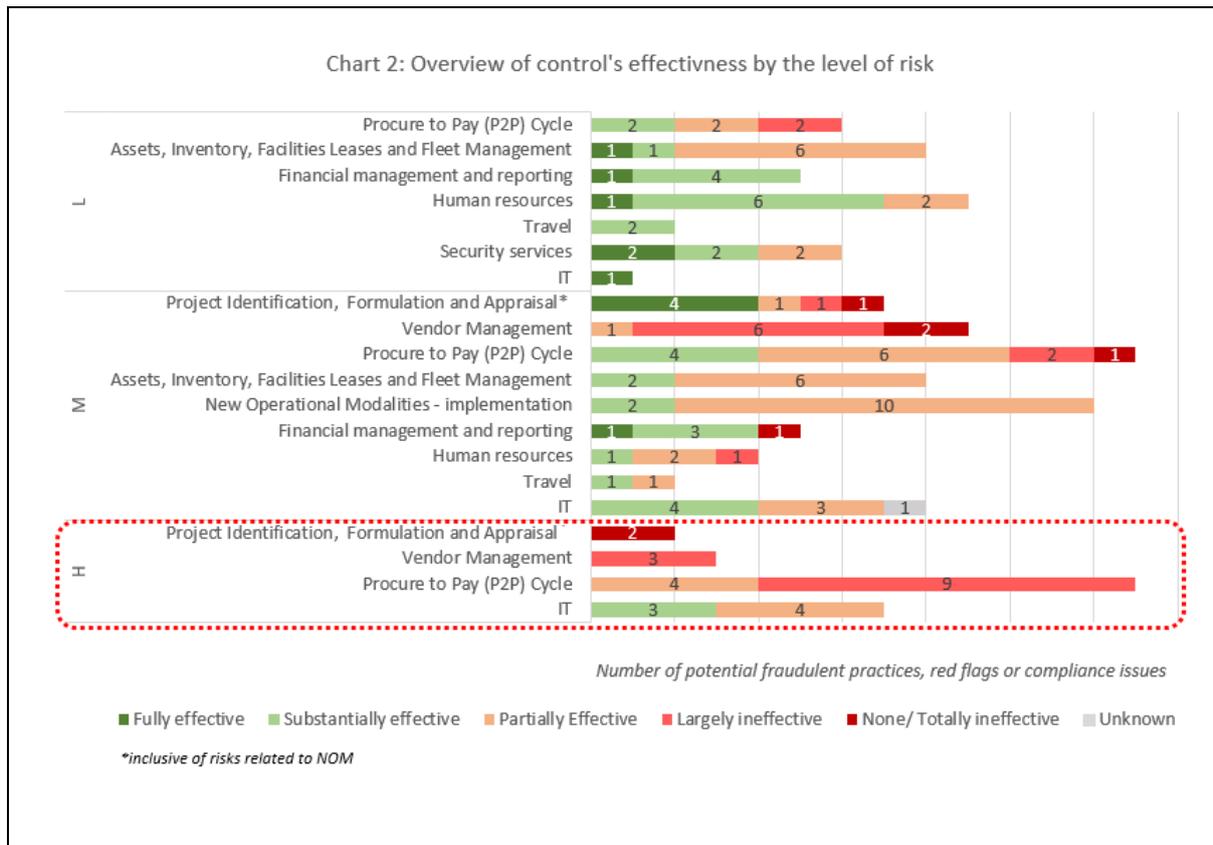


Chart 2 shows the perceived level of effectiveness of controls by business owners (at the time of assessment, Jan-May 2018) addressing various compliance issues/potential fraudulent practices. Examples of improvements required and/or underway are listed below.

Low risk areas (37 potential fraudulent practices/red flags):

- 23 cases – controls considered fully effective (6 cases, no further improvements required), or substantially effective (17 cases) with some improvements planned/underway to improve compliance: training (e.g. security – falsification of badges; international duty travel) and widening the application of existing controls (e.g. finance – introduction of Electronic Fund Transfers in Decentralized Offices);
- 12 cases – controls considered partially effective with improvements planned/underway to: widen application of existing controls (e.g. security – CCTV coverage; HR - use of Taleo for issuance of all contracts; reference checks for NSHR); reinforce use of existing systems/monitoring tools (e.g. procurement – use of GRMS/for PRs or procurement activity tracking tool/for timely issue of POs/contracts) and define new policies, procedures and systems (e.g. Inventory tracking; fleet management);
- two cases – controls considered largely ineffective, requiring additional training/checklists for improved compliance (procurement – for buyers/AOs to ensure regular follow-ups during PO/contract execution or clearances for items outside of LTAs).

Medium risk areas (68 potential fraudulent practices/red flags):

- ◀ five cases – controls considered fully effective (i.e. preventing false reporting to resource partners or ensuring selection of operational partners with adequate capacities) with some improvements planned for OPIM to ensure compliance with existing procedures (e.g. continuation of training, building operational capacities for Decentralized Offices, development of support systems/tools);
- ◀ 17 cases – controls considered substantially effective, with some needed improvements to ensure compliance to existing rules (e.g. HR – spot checks, and extending list of preferred providers for COs to mitigate risk of false medical certificates; OPIM – training, support systems/tools; procurement – introducing InTend solution/sourcing tool), to define/strengthen procedures (e.g. assets: for disposal of IT/security assets; IT – through web-firewalls to prevent backdoor entry to the systems);
- ◀ 30 cases – controls considered partially effective, with some improvements planned/underway to define/upgrade existing procedures/guidance (e.g. Cash Based Transfers – new MS702; procurement – for segregation of duties; HR – for service incurred compensation; Inventory – temporary custody of goods/final distribution to beneficiaries); expanding use of existing tools (e.g. procurement – for tracking) or setting up new tools (e.g. system for tracking/valuation of inputs); improve capacities/awareness for increased compliance with existing rules (for local travel, vendor management/sanctions - reporting of suspicious cases);
- ◀ 10 cases – controls perceived as largely ineffective (10), with improvements needed to address gaps in knowledge and skills (e.g. procurement – PR preparation/sourcing); guidance/procedures (e.g. HR - cross-checking with RBAs/duplicate staff benefits) or strengthening the use existing system tools (e.g. for procurement tracking);
- ◀ five cases – controls perceived as ineffective or absent, with improvements needed to address gaps in procedures/guidelines (procurement – outsourcing; management of exchange rates for CBT interventions) and knowledge (vendor registration/checks);
- ◀ one case – IT related – the effectiveness of controls currently unknown (controls to address risks of data manipulation in the systems, requiring policy owners to assign business access privileges on need to know principles).

High risk areas (25 potential fraudulent practices/red flags):

- ◀ three cases - controls perceived substantially effective (IT area), with some required improvements in policies/measures (policy regarding privilege escalation to mitigate internal risks or use of web-application firewall for external threats);
- ◀ eight cases - controls considered partially effective (Procurement, IT), with improvements mostly needed to address awareness/knowledge gaps in terms of rules and procedures (e.g. procurement planning/late purchase requisitions/required clearances) and introduce additional controls in IT area (multifactor authentication to prevent risk of external unauthorized system access);
- ◀ 12 cases - controls perceived as largely ineffective (Procure-to-Pay, vendors management) with a need to address (i) gaps in understanding/application of rules/procedures (e.g. PR approvals; sourcing/tendering modalities); and (ii) gaps in monitoring tools or ensuring more systematic use (e.g. the e-sourcing solution currently rolled out; use of dashboards for compliance monitoring);
- ◀ two cases – controls perceived as ineffective/absent (project identification/formulation/appraisal) requiring additional guidance/definition of policy requirements regarding procurement activities.