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Food and Agriculture Organization of the United Nations

Organisation des Nations Unies pour l'alimentation et l'agriculture

Продовольственная и сельскохозяйственная организация Объединенных Наций

Organización de las Naciones Unidas para la Alimentación y la Agricultura

منظمة الأغذية والزراعة للأمم المتحدة

# CONFERENCE

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| **Audited Accounts - FAO 2012-2013<br>Part B - Report of the External Auditor** |

# LONG FORM REPORT OF THE EXTERNAL AUDITOR ON THE FINANCIAL OPERATIONS OF THE FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS FOR THE FINANCIAL PERIOD 1 JANUARY 2012 TO 31 DECEMBER 2013

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## EXECUTIVE SUMMARY

### Introduction

1. This Long Form Report of the External Auditor on the audit of the financial operations of the **Food and Agriculture Organization (FAO)** of the United Nations is issued pursuant to Regulation XII and the Additional Terms of Reference of the Financial Regulations of FAO. It contains the results of audit on the financial statements for the biennium ending 31 December 2013 and the observations with respect to the administration and management of the Organization and required under Regulation 12.4.

2. The general objectives of the audit are to provide independent assurance to Member States, to increase transparency and accountability in the Organization, and to support the objectives of the Organization's work through the external audit process. The Report discusses in detail the financial and governance matters that we believe should be brought to the attention of the FAO Governing Bodies.

3. This will be the last Long Form Report issued on a biennium basis. Starting 2014, the External Auditor will be presenting a report to the Governing Bodies on an annual basis in view of the adoption by FAO of the International Public Sector Accounting Standards (IPSAS) as its financial reporting framework in 2014. For the purpose of this report, FAO and Organization will be used interchangeably and will refer to the Food and Agriculture Organization of the United Nations.

### Overall Result of the Audit

4. We audited the financial statements of FAO in compliance with the Financial Regulations and in conformity with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board.

5. We issued an unqualified audit opinion on the Organization's financial statements for the biennium ended 31 December 2013. We concluded that the financial statements present fairly, in all material respects, the financial position of FAO for the biennium ended 31 December 2013, and the results of its operations and the cash flows in accordance with the United Nations System Accounting Standards (UNSAS).

6. As explained in Note 24 to the Financial Statements, there was a change in the policy of the Organization in recognizing actuarial gains and losses on its Staff-related schemes from "Corridor method" to "Reserve recognition approach" which necessitated the adjustment of Fund Balance as at 1 January 2012 for consistency in the presentation of Financial Statements (FS) for the Biennium 2012-2013. This change in policy resulted in the recognition of actuarial losses amounting to USD 246 million, which was reflected as an adjustment to the opening Fund balance for the period. This adjustment further increased the deficits in Fund balance to USD 875.4 million in 2013 from USD 641.3 million in 2011. Hence, we also concluded that apart from this change, the accounting policies were applied on a basis consistent with that of the preceding financial period, and that transactions of FAO that have come to our notice during the audit or that have been

tested as part of the audit of the financial statements have, in all significant respects, been in compliance with the Financial Regulations and legislative authority.

7. In line with Regulation 12.4, we provided Management with recommendations that are designed to support the objectives of FAO's work, to reinforce its accountability and transparency, and to improve and add value to FAO's financial management and governance. The greatest challenge in FAO's financial management at present is the generation of the first IPSAS-compliant financial statements. We provided and will further provide our full support and assistance to Management to ensure the successful implementation of IPSAS. We also provided recommendations to improve the recently deployed Global Resource Management System. We also recommended continued work to further integrate risk management in FAO's work, the enhancement of procurement management, and the enhancement of the accountability and internal control framework to reinforce the culture of accountability and transparency in the Organization.

## Summary of Recommendations

8. We made several value-adding recommendations to further improve FAO's financial management and governance. The main recommendations are that the Organization:

| | Audit of Headquarters | Priority | Timeline |
|---|---|---|---|
| **Audit of Accounts – Contributions Receivables** | | | |
| **1** | **Encourage Member Nations to pay their financial obligations promptly and to avail of the installment schemes offered by the Organization. (Paragraph 43)** | **Fundamental** | **2014** |
| **2** | **Intensify the collection of Government Counterpart Cash Contributions (GCCC) arrears and fast-track the re-negotiation of the Host Country Agreements (HCAs) and thereafter, conduct periodic revisions of the contributions to reflect the changes in the economic conditions of the concerned countries. (Paragraph 43)** | **Fundamental** | **2014** |
| **Audit of Accounts – Contributions Received in Advance** | | | |
| **3** | **Enhance the existing policies by including a provision in donor agreements on the manner of disposition of unspent balances and including a timeframe for donors to respond to requests for refund instructions. For existing project agreements, particularly where re-allocation of unspent balances is authorized, promptly start a dialogue/consultation to request donors to transfer unspent cash balances to other FAO projects in lieu of refunds. (Paragraph 47)** | **Significant** | **2014** |
| **4** | **Facilitate the refund of unspent cash balances to active donors, review old balances due to inactive donors from whom no feedback or instructions have been received and the possibility of claim is low, and consider derecognizing the same as a liability in the books once the appropriate policies have been established. (Paragraph 49)** | **Significant** | **2014** |

| | Audit of Headquarters | Priority | Timeline |
|---|---|---|---|
| **Audit of Accounts – Staff Related Schemes and Fund Balance** | | | |
| 5 | Evaluate the best option to address its remaining unfunded staff related scheme liabilities with the end in view of identifying a consistent funding source and come up with a comprehensive plan to fully fund the Staff Related Schemes (SRS) liability over a determined period of time. (Paragraph 57) | Fundamental | 2014 |
| **Shared Services Centre** | | | |
| 6 | Continue implementing measures aimed at improving the quality and accuracy of processed transactions in a timely manner in accordance with FAO's prescribed regulations and policies. (Paragraph 61) | Fundamental | 2014 |
| **Technical Cooperation Programme** | | | |
| 7 | Optimize corporate oversight, management and advisory services for the Technical Cooperation Programme (TCP) by complementing this with the determined implementation of the transformational change programme which is aimed at improving accountability and internal control at decentralized offices. (Paragraph 77a) | Fundamental | 2014 |
| 8 | Prioritize the alignment of the TCP Manual to the New Project Cycle, as well as measures allowing the Country Programming Framework (CPF) to become the starting point for the prioritization of TCP assistance in line with the Strategic Objectives (SOs), so as to simplify the steps, hence, enhancing the approval process. (Paragraph 77b) | Significant | 2014 |
| 9 | Continue its efforts to improve the rate of approval and project delivery through implementation of the management actions identified in previous reports to address recommendations in this area. (Paragraph 77c) | Significant | 2014 |
| **Accountability and Internal Control Framework** | | | |
| 10 | Formalize its policy framework on internal control and design a mechanism in which the overall effectiveness of the internal control system in the three levels of the Organization is monitored, assessed and reported to reinforce accountability and transparency in the Organization. (Paragraph 86) | Fundamental | 2014 |
| 11 | Integrate in its on-going enhancement of its internal control the formulation of a mechanism for responsible officers of the Organization to provide assurance to the Director-General, who is tasked with the overall responsibility for the Organization's internal control, on the functioning of internal controls within their respective areas of responsibility. Such feedback from those officers would be the DG's basis to prepare a Statement of Internal Control that would be appended to the financial statements. (Paragraph 91) | Significant | 2014 |
| **Progress of International Public Sector Accounting Standards (IPSAS) Implementation** | | | |
| 12 | Address the risks associated with the on-going activities such as generation of opening balances, additional dry runs and inventory count and stock takes to ensure the successful preparation of its first IPSAS-compliant financial statements. | Fundamental | 2014 |

| | Audit of Headquarters | Priority | Timeline |
|---|---|---|---|
| | **(Paragraph 97)** | | |
| **13** | **Ensure that the planned staff training on IPSAS is conducted continuously and integrated in the *e*Learning platform, and that the policy enhancements on property accountability are consistently implemented in support of proper asset management. (Paragraph 98)** | **Significant** | **2014** |
| **Implementation of the Enterprise Risk Management (ERM)** | | | |
| **14** | **Continue to embed the ERM in managing corporate results hierarchy, business improvement projects and rapid problem response to ensure that the risks of the Organization are continuously identified, addressed and mitigated. In addition, ensure that capacity development to mainstream the ERM is included in future work. (Paragraph 106)** | **Significant** | **2015** |
| **Management of Procurement** | | | |
| **Procurement Governance** | | | |
| **15** | **Engage more closely with Senior Management to push for the finalization and approval of the proposed Procurement Strategy during the first year of the biennium 2014-2015, and to prepare an Implementation Plan based on the approved strategies so that projected changes are effected before the end of the biennium. (Paragraph 113)** | **Fundamental** | **2014** |
| **16** | **Develop a Procurement Risk Management Process to further enhance risk management capability including a tool to support the decentralized offices in identifying their business risk environment and manage critical procurement risks. (Paragraph 119)** | **Significant** | **2015** |
| **17** | **Prepare an implementation plan based on the approved strategies to strengthen capacity at HQ and in the field in support of the decentralized office network, so that projected changes are effected before the end of the biennium 2014–2015. (Paragraph 128)** | **Fundamental** | **2014** |
| **Procurement Planning** | | | |
| **18** | **Enhance the procurement planning capabilities and related accountability at relevant levels of the Organization particularly in a) requiring the development by Budget Holders of procurement plans, with this task reflected in the Budget Holder Performance Evaluation and Management System (PEMS) Agreement and b) implementing a project planning module in the Global Resource Management System (GRMS) that will allow, to the extent possible, the consolidation of procurement plans. (Paragraph 139)** | **Fundamental** | **2014** |
| **Long Term/Framework Agreements (FA)** | | | |
| **19** | **Enhance its FA procurement policies, procedures and guidelines to include specific decision criteria as to when procurement activities should be tendered as an FA and including additional information regarding FA durations and extension so as to improve the current controlling policies and to support accountability enhancement. (Paragraph 147)** | **Significant** | **2014** |

| | Audit of Headquarters | Priority | Timeline |
|---|---|---|---|
| **20** | **Prepare clearer and more concrete guidelines in monitoring the performance of Framework Agreements and apply these consistently to all vendors to ensure the realization of benefits on FAs. (Paragraph 153)** | **Significant** | **2014** |
| **Procurement Information Management** | | | |
| **21** | **Ensure that Delivery Dates captured in the GRMS reflect the actual date as indicated in the Delivery Notes to ensure the accuracy of information. (Paragraph 159)** | **Significant** | **2014** |
| **22** | **Ensure good contract management and institute measures to ensure that the data provided with regard to Promise/Delivery Dates and Receipt Dates in all Purchase Orders is correct for decision making purposes. (Paragraph 164)** | **Significant** | **2014** |
| **Sustainable Procurement** | | | |
| **23** | **Endorse a Corporate Environmental Responsibility Policy and formulate a green procurement framework with policies and guidelines on: a) conducting a review of current practices in the UN to identify best practice; b) setting best value for money sustainability goals for its adoption where possible, noting that a number of suppliers are continuously improving their 'green' product offering; c) developing an appropriate strategy for the change; d) creating accountability in its implementation and monitoring; and e) adopting specific sustainability practices. (Paragraph 174)** | **Significant** | **2015** |
| **Vendor Sanctioning Guidelines** | | | |
| **24** | **Implement the newly established Vendor Sanction Procedures to further protect the interest of the Organization against defrauding vendors. (Paragraph 178)** | **Significant** | **2014** |
| **Global Resource Management System (GRMS)** | | | |
| **Current GRMS Delivery Status** | | | |
| **25** | **Document the benefits realized by the Organization on the deployed solution to determine the effectiveness of the GRMS programme. (Paragraph 183)** | **Significant** | **2014** |
| **26** | **Include among its priorities for the current biennium the development and completion of the Travel Entitlement, Local Travel and Sourcing of Procurement modules to ensure the realization of the full benefits of GRMS.(Paragraph 188)** | **Significant** | **2014** |
| **27** | **Prepare a consolidated GRMS operations document to ensure that all support and maintenance activities are managed properly and consistently. (Paragraph 193)** | **Fundamental** | **2014** |
| **28** | **Consider the users' views culled from the initial survey results of GRMS modules implementation as inputs to its on-going efforts to stabilize further the solution, and conduct a comprehensive User Satisfaction Survey to accurately measure the actions to be undertaken. (Paragraph 201)** | **Significant** | **2015** |
| **GRMS Process Controls** | | | |
| **29** | **Conduct a thorough test of the functionality to determine processing points where errors reside and revise the interface strategy and design with consideration of the following: a) the automatic interface method; b) data fields being interfaced; c)** | **Significant** | **2014** |

| | Audit of Headquarters | Priority | Timeline |
|---|---|---|---|
| | **the controls to reasonably assure that the data is interfaced completely and accurately; and d) timing requirements. (Paragraph 206)** | | |
| **30** | **Enhance the Month and Year-End Closure facility, by reviewing the system configuration in the processing of accruals to ensure that encumbrances at year-end closures that fall outside the system parameters are managed. (Paragraph 213)** | **Significant** | **2015** |
| **31** | **Conduct a review and analysis of the Travel and Procurement Modules exception reports and based thereon, apply system validation controls, where applicable, for these Modules; instruct Budget Holders to faithfully ensure that outstanding commitments are valid and accurate to avoid repetitive exceptions at year end; and, verify/analyze the causes of inconsistencies and accordingly correct program routines of the month and year- end facility to warrant data integrity, the activities to be performed by the Application Specialists in coordination with the BPOs. (Paragraph 222)** | **Significant** | **2015** |
| **32** | **Closely align asset management and reporting with the Organization's accountability requirements to strengthen the integrity of the Asset Register. (Paragraph 233)** | **Significant** | **2014** |
| **33** | **Perform the following system enhancements: a) capture of serial number in the Receiving functionality of the Procurement Module to ensure that information can be reflected in the Asset Register when it is interfaced from Accounts Payable; b) inclusion of a facility on asset tagging and making this as a mandatory field when manually adding the assets in Asset management module of GRMS; and c) "defaulting" the head of office or unit as the assigned custodian of assets when added to the Asset Register, with linkage to organizational or country codes, and with the necessary authority to update once accountability is transferred to another, in compliance with existing policy. (Paragraph 234)** | **Significant** | **2014** |
| **34** | **Streamline asset reporting and improve efficiency in data processing. (Paragraph 238)** | **Significant** | **2014** |
| **Other Enhancements of System Outputs** | | | |
| **35** | **Enhance the reporting capabilities of the Travel and Cash Modules by considering the users' needs and using the most appropriate format to maximize the use of information. (Paragraph 245)** | **Significant** | **2014** |
| **Other important GRMS concerns** | | | |
| **36** | **Ensure that the Change Management, Service Level Agreement (SLA) Management and Information and Communication Technology (ICT) Security Frameworks are delivered within 2014 and adopt strategies to mitigate risks emanating from the current absence of these Frameworks. (Paragraph 249)** | **Significant** | **2014** |

| Audit of Headquarters | | Priority | Timeline |
|---|---|---|---|
| **Audit of Decentralized Offices** | | | |
| **37** | **Strengthen the internal control system in decentralized offices through a well-designed internal control framework and through a continuous re-tooling of all staff performing programmatic, administrative and financial functions in the decentralized offices. (Paragraph 253)** | **Fundamental** | **2014** |

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

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

9. Other significant recommendations of the External Auditor appear in paragraphs 257, 260, 263, 264, 266, 269, 271, 273, 277, 279, 281, 283, 286, 288, 290, 292, 293, 296, 297 and 298 of the present report.

## Previous Audit Recommendations

10. The status of implementation by Management of previous audit recommendations of the External Auditor is embodied in a separate report presented to the Finance Committee. Of the 69 recommendations made for the Biennium 2010-2011, Management had already fully implemented 43 recommendations (62 per cent) while 26 recommendations (38 per cent) are still under implementation. For the Biennium 2008-2009, seven out of 27 recommendations (26 per cent) remain in process. We reiterate the recommendations and request Management to implement the same.

## A. MANDATE, SCOPE AND METHODOLOGY

### Mandate

11. The External Auditor audited the financial statements and reviewed the operations of the Organization for the biennium ended 31 December 2013 in accordance with Regulation XII of the FAO Financial Regulations and the additional terms of reference appended to said financial regulations.

12. This is the third Long Form Report of the Chairperson (equivalent of Auditor-General) of the Commission on Audit of the Republic of the Philippines who was appointed by the 132nd Session of the Council as External Auditor of the Organization.

### Scope and Objectives

13. Our audit is an independent examination of the evidence supporting the amounts and disclosures in the financial statements. It included the assessment of the accounting principles used and significant estimates made by the Organization, and the overall presentation of the financial statements. It also includes an assessment of FAO's compliance with Financial Regulations and legislative authority.

14. The primary objectives of the audit are to provide an independent opinion on whether:

a. the financial statements presented fairly the financial position of FAO as at 31 December 2013, the results of its operations and the cash flows;
b. the financial statements were prepared in accordance with UNSAS;
c. the significant accounting policies set out in Note 2 to the financial statements were applied on a basis consistent with that of the preceding financial period; and
d. the transactions that have come to our notice or that we have tested as part of the audit, in all significant respects, complied with the Financial Regulations and legislative authority.

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

16. Overall, the audit intends to provide independent assurance to Member States, to reinforce transparency and accountability in the Organization, and to support the objectives of the Organization's work through the external audit process.

### Methodology and Auditor's Responsibilities

17. We conducted our audit in accordance with the International Standards on Auditing. These standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit

includes examining evidence supporting the amounts and the disclosures in the financial statements on test basis. The audit also includes assessing the accounting principles used and the significant estimates made by Management as well as evaluating the overall presentation of the financial statements.

18. A Risk-based Audit Approach was adopted in the audit of the financial statements. This approach requires the conduct of risk assessments of material misstatements at the financial statements and assertions levels based on an appropriate understanding of the entity and its environment including its internal control.

19. The External Auditor's responsibility is to express an opinion on the financial statements based on an audit. The audit is performed to obtain reasonable assurance, not absolute assurance, as to whether the financial statements are free of material misstatement including those caused by fraud or error.

20. Our review of FAO operations with regard to Financial Regulation 12.4 was focused on the following:

(a) Enhancement of the accountability and internal control framework;
(b) Progress towards implementation of IPSAS;
(c) Status of implementation of the ERM;
(d) Management of procurement;
(e) Improvement of the GRMS; and
(f) Review of decentralized offices operations.

21. During the Biennium 2012-2013, we audited the Headquarters (HQ); Shared Services Centre (SSC); two regional offices (ROs): Asia and the Pacific (RAP) and Africa (RAF); two sub-regional offices (SROs): Central Asia (SEC) and Southern Africa (SFS); and seven country offices (COs): Bangladesh (FABGD), India (FAIND), Bolivia (FLBOL), Thailand (FATHA), China (FACPR), Ghana (FRGHA) and Uganda (FRUGA). We also conducted an annual financial audit on the FAO Credit Union and the FAO Staff Commissary for financial years 2012 and 2013. Furthermore, the External Auditor reviewed the Status of Funds of the programmes implemented in cooperation with or on behalf of other agencies, namely: United Nations Development Programme (UNDP) and Global Environment Facility (GEF) Fund.

22. We coordinated planned audit areas with the Office of the Inspector General (OIG) to avoid unnecessary duplication of efforts, and to determine the extent of reliance that can be placed on the latter's work. We also collaborated with the Audit Committee to further enhance our audit work.

23. We continued to report audit results to FAO Management in the form of management letters containing detailed observations and recommendations. The practice provides a continuing dialogue with Management. This long-form report is issued on a biennium basis. Starting 2014, we will be issuing a report on an annual basis in view of the adoption of IPSAS.

## B. RESULTS OF AUDIT

24. This section presents the results of the audit for the Biennium 2012-2013. It covers matters that, in the opinion of the External Auditor, should be brought to the attention of the Governing Bodies. We afforded FAO Management the opportunity to comment on our audit observations to ensure balanced reporting. The recommendations provided to Management are designed to support the objectives of FAO's mandate, to reinforce its accountability and transparency to improve and add value to FAO's financial management and governance.

### 1. FINANCIAL MATTERS

#### 1.1 Financial Review

25. **Decrease in Project Expenditures and Income.** Expenditures on projects funded from voluntary contributions reduced by USD 267.3 million (16 percent) from USD 1,632.2 million in 2010-11 to USD 1,364.9 million in 2012-13, which was mainly caused by the closure in 2011 of the Food Facility funded by the European Union.. As shown by the nature of expenditure breakdown in Note 10 of the financial statements, the purchase of expendable and non-expendable equipment for Trust and UNDP Funds decreased by USD 185.5 million (36 percent) from USD 522.1 million in 2010-11 to USD 336.6 million in 2012-13. Since income from voluntary contributions is recognized proportionately with the degree of project activity completed as measured in terms of expenditure, revenues from voluntary contributions showed a similar decrease. Overall, there was a decline in total revenue by USD 245.9 million (9 percent) from USD 2,837.0 million in 2010-11 to USD 2,591.1 million in 2012-13.

26. **Effect of Change in Accounting Policy.** During the biennium, the Organization changed its policy in recognizing actuarial gains and losses on its Staff-related schemes from "Corridor method" to "Reserve recognition approach". Under the corridor method, the actuarial gains and losses that exceed 10 percent of the value of actuarial liability are deferred and recognized over the expected average remaining working lives of the employees participating in the plan. The reserve recognition approach, on the other hand, requires full recognition of all actuarial gains and losses in the Reserves and Fund balances. The change was implemented in anticipation of IPSAS changing towards immediate recognition of all actuarial gains/losses. This necessitated the recognition of actuarial losses amounting to USD 246 million, which was reflected as an adjustment to the opening Fund balance for the period. This adjustment further increased the deficits in Fund balance to USD 875.4 million in 2013 from USD 641.3 million in 2011.

27. **Increase in Total Assets.** The total assets of the Organization increased from USD 1,412.4 million in 2011 to USD 1,610.4 million in 2013, an increment of USD 198.0 million (14 percent). The increase was brought about by the increase in Cash and cash equivalents and Investments – available-for-sale.

28. **Increase in Investments.** The Investments – available-for-sale balance stood at USD 431.6 million as at 31 December 2013. This amount was earmarked to fund the Organization's defined benefit obligations for after-service employee benefits but was not adequate to meet FAO's liabilities for its staff-related schemes (See note 24 of the

Financial Statements). The total investments (held for trading and available-for-sale) increased by USD 94.9 million from 2011 to 2013. The increase in the value of the investments was attributable to the positive movement in the value of equity investments which were only partially affected by the slightly negative performance of the fixed-income investments.

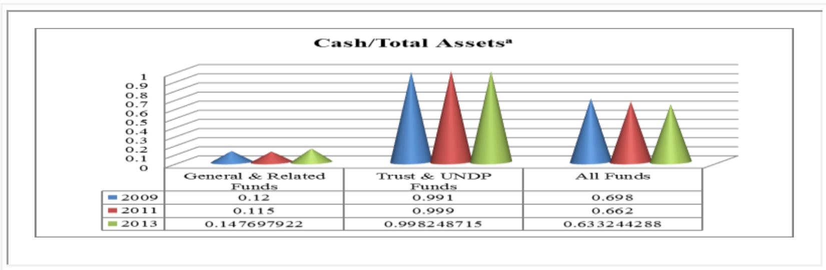
29. **Increase in Total Liabilities.** The Total liabilities rose from USD 1,938.2 million in 2011 to USD 2,325.2 million in 2013. The increase of USD 387.0 million (20 percent) was attributed to the increase in the balances of Staff-related schemes, Unliquidated obligations and Accounts payable. Contributing mainly to that increase was the rise in Staff-related schemes liability by USD 307.1 million due to the decrease in the discount rate considered in the calculations for actuarial valuation and the change in accounting treatment of actuarial gains/losses.

## 1.2 Key Financial Ratios

### 1.2.1 General and Related Funds

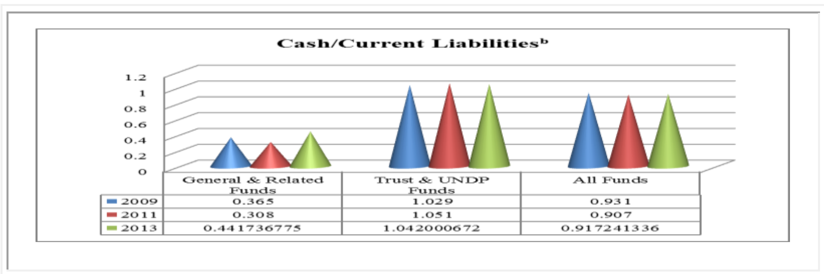
30. **Increase in current ratio.** The liquidity position of the Organization under the General Fund as represented by cash and cash equivalents, which amounted to USD 102.1 million as at 31 December 2013, registered an increase of USD 40.7 million from USD 61.4 million as at 31 December 2011. The improvement in liquidity position was manifested in the increases in cash-to-total assets ratio from 0.115 in 2011 to 0.148 in 2013 (Figure 1.1) and cash-to-current liabilities from 0.308 in 2011 to 0.442 in 2013 (Figure 1.2). Consequently, the short-term liquidity of the Organization as represented by the current ratio of 1.123 in 2013 was slightly higher than 1.052 in 2011 (see Figure 1.3).

**Figure 1.1**



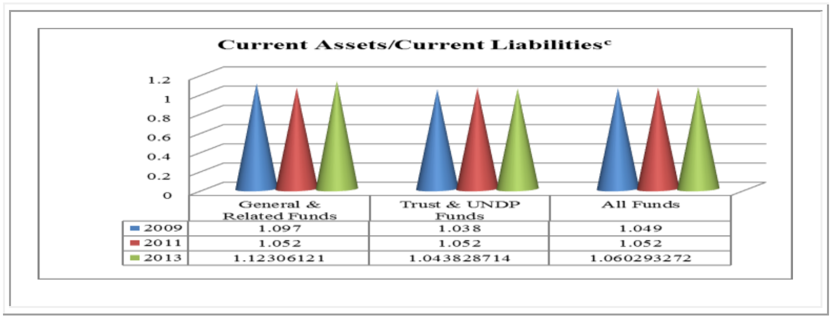

[a] A high ratio depicts a healthy financial position.

**Figure 1.2**




[b] A high ratio reflects the extent of cash available to settle debts.

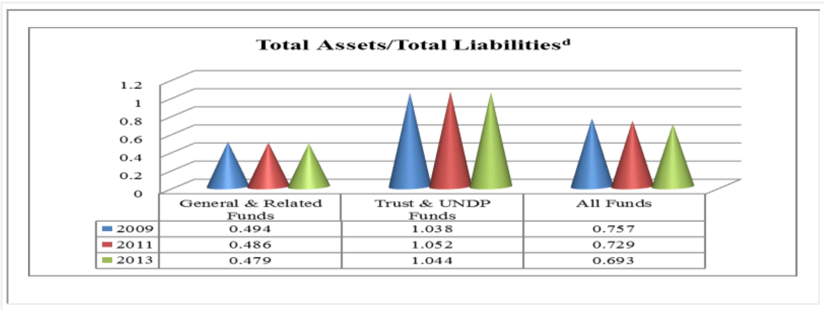
**Figure 1.3**




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

31. **Decrease in the ratio of total assets-to-total liabilities for General and Related Funds.** In spite of the improvement in the liquidity position, the total assets-to-total liabilities ratio continued to decline since 2009 (Figure 1.4). Thus, assets coverage of the liabilities was only about 50 percent and the fund balance deficit also increased from USD 559 million in 2009 to USD 875.4 million in 2013.

**Figure 1.4**




[d] A high ratio reflects a positive solvency position.

### 1.2.2 Trust and UNDP Funds

32. **Favorable Financial Position for Trust Funds.** The Trust and UNDP Funds showed a very highly liquid financial position since the cash-to-total assets ratio stood at 0.998 as at 31 December 2013 (Figure 1.1). The ratios of cash to current liabilities, current assets to current liabilities, and total assets to total liabilities (Figures 1.2 to 1.4) signified that available cash or assets could adequately cover liabilities. The ratios strongly indicated that the ongoing requirements of operations could be adequately supported.

### 1.2.3 All Funds

33. On the whole, the financial position of the Organization was adversely affected by the poor financial position of the General and Related Funds. The ratio of total assets to total liabilities has been decreasing from 2009 to 2013 primarily due to the increase in the balance of total liabilities (Figure 1.4). In 2013, the total assets of USD 1,610.4 million could cover only 69 percent of total liabilities of USD 2,325.2 million. While the total current assets-to-current liabilities ratio of 1.060 (Figure 1.3) in 2013 showed that current

assets could more than cover the current liabilities, it should be noted that for the Biennium 2012-2013, the main reason for the shortfall between total assets and total liabilities was the increase in the unfunded Staff-related schemes.

### 1.3 Audit of Financial Statements

34. Our interim audits for the Biennium 2012-2013 resulted in a number of recommendations aimed at improving management and financial controls, procedures and policies, where necessary, including compliance thereof, and reducing the risks of material misstatements in the financial statements. At biennium-end audit of the financial statements, Management effected the recommended adjustments on affected accounts, corrections in the Statements and supporting note presentation, and the revision or inclusion of additional explanatory notes in compliance with accounting policies and UNSAS.

35. We issued an unqualified opinion on the financial statements of FAO for the biennium ended as at 31 December 2013. As such, we concluded that the financial statements present fairly, in all material respects, the financial position of FAO for the biennium ended 31 December 2013, the results of its operations, the cash flows and the status of Regular Programme Appropriations in accordance with UNSAS and FAO Financial Regulations.

36. As explained in Note 24 to the Financial Statements, there was a change in the policy of the Organization in recognizing actuarial gains and losses on its Staff-related schemes from “Corridor method” to “Reserve approach” which necessitated the adjustment of Fund Balance as at 1 January 2012 for consistency in the presentation of FS for the Biennium 2012-2013. This change in policy resulted in the recognition of actuarial losses amounting to USD 246 million, which was reflected as an adjustment to the opening Fund balance for the period. This adjustment further increased the deficits in Fund balance to USD 875.4 million in 2013 from USD 641.3 million in 2011. Hence, we concluded that apart from this change, the accounting policies were applied on a basis consistent with that of the preceding financial period.

37. We further concluded that the transactions of FAO that have come to our notice during the audit or that have been tested as part of the audit of the financial statements have, in all significant respects, been in accordance with the Financial Regulations and legislative authority.

38. We however noted other financial issues which need to be addressed by Management to further improve financial transactions recording, processing and reporting, and to ensure the fair presentation of the financial statements in the next reporting period, which is the first year of preparation of IPSAS-compliant financial statements. These issues were communicated through a Management Letter to the Director of the Finance Division (CSF).

## 1.4 Audit of Accounts

### 1.4.1 Contributions Receivable

39. Total outstanding assessed contributions as at 31 December 2013 decreased from USD 103.99 million in 2011 to USD 100.90 million in 2013, owing to the increased collection of arrears as a result of Management's efforts to remind Member Nations of their financial obligations and solicit payments thereof. However, the collection rate of current assessments dropped from 93 percent in 2010 to 84 percent in 2013 based on the collection rate aggregated in USD.

40. Delays in the collection of assessed contributions, particularly current assessments which accounted for 87 percent of the total outstanding assessments, weakened the Organization's liquidity position. They could also impede the efficient implementation of the Regular Programme which is greatly dependent on assessed contributions for its operating cash requirements.

41. Likewise, the outstanding balance of Government Counterpart Cash Contributions (GCCC) decreased to USD 3.49 million in 2013 from USD 4.05 million in 2011. However, 92 percent of the 2013 balance is aged two to 21 years; hence, a 100 percent provision for delays in contributions was provided for financial reporting purposes.

42. Further to our review of GCCC collections and by way of follow-up to our previous audit recommendations, it was noted that the re-negotiations of Host Country Agreements (HCAs) which would have provided additional revenue for the Organization were forestalled by the slow responses of the government of the 17 pilot countries.

43. **We recommended that FAO continue encouraging Member Nations to pay their financial obligations promptly and to avail of the installment schemes offered by the Organization. We also reiterated our previous audit recommendation that FAO intensify the collection of GCCC arrears and fast-track the re-negotiation of the HCAs and thereafter, conduct periodic revisions of the contributions to reflect the changes in the economic conditions of the concerned countries.**

44. Management acknowledged that the outstanding assessed contributions are greatly affected by the timing of payments by Member Nations particularly its major contributors and has committed to reinforce collection efforts for timely payment of contributions. As approved under Resolutions 1/2013 and 2/2013, two Members had negotiated for installment plans. Moreover, 55 Members had qualified for a discount for the 2014 assessments, increasing from 47 Members in 2013, indicating an improvement in prompt payments.

### 1.4.2 Contributions Received in Advance

45. The balance of Contributions received in advance for Trust and UNDP funds amounted to USD705.1 million as at 31 December 2013. It included USD10.8 million for unexpended cash balances of already financially closed projects.

46. The absence of a concrete policy specifying a cut-off period for donor responses to requests for instructions for refunds and a timeframe within which to dispose of the same resulted in the accumulation of unrefunded unspent balances aging from over one year to 18 years in 264 projects. Without standing instructions from donors and complete details on refunds or reallocations, these unexpended balances will continue to accumulate.

47. **We recommended that FAO enhance the existing policies by including a provision in donor agreements on the manner of disposition of unspent balances and including a timeframe for donors to respond to requests for refund instructions. For existing project agreements, particularly where re-allocation of unspent balances is authorized, we encouraged FAO to promptly start a dialogue/consultation with donors to request for the transfer of unspent cash balances to other FAO projects in lieu of refunds.**

48. The Finance Division noted that it reviews outstanding balances regularly in order to follow up and remind donors to provide instructions. It further noted that a review will be undertaken on the possibility of including a clause in donor agreements which specifies the timeframe within which the donor must respond to the request for refund instructions and of defining a policy for final disposal of aged unclaimed balances.

49. **We also recommended that FAO facilitate the refund of unspent cash balances to active donors, review old balances due to inactive donors from whom no feedback or instructions have been received and the possibility of claim is low, and effect a reversing entry to remove the same as a liability in the books once the appropriate policies have been established.**

### 1.4.3 Staff-related Schemes and Fund Balances

50. As at 31 December 2013, the Staff Related Schemes (SRS) liability amounted to USD 1,213.2 million which included the Compensation Plan Reserve Fund (CPRF) of USD 18.5 million, the Separation Payment Scheme (SPS) of USD 85.0 million, the Terminal Payments Fund (TPF) of USD 72.2 million and After Service Medical Coverage (ASMC) of USD 1,037.5 million.

51. We noted that only USD 447.2 million was funded out of the total liability in 2013, leaving an unfunded balance of USD 766.0 million. Of the total unfunded liability, USD 693.8 million pertained to ASMC while USD 72 million was for TPF.

52. The Organization’s financial statements for the last three biennia disclosed that its deficits increased from USD 558.6 million in 2009 to USD 641.3 million in 2011 and to USD 875.4 million in 2013. The main factor for this deficit is the unfunded ASMC and TPF liabilities.

53. Initiatives to address the unfunded liability for ASMC and TPF have been made over the years, including the approval by Conference of additional assessments on Members towards funding of the ASMC past service liability as well as through earmarking investment income on the SRS funds for the ASMC and TPF liabilities. While these initiatives have been considered to provide some funding on an ad hoc basis, the

Organization still has no comprehensive plan to fully fund the ASMC and TPF liabilities over a determined period of time.

54. In our Long Form Report presented under document C 2011/5 B, we brought to the attention of Management the matter of funding its staff-related liabilities with extreme urgency as deferment of decisions on funding proposals will in no doubt compromise the financial viability of the Programme of Work in future years.

55. We noted that Management had presented several options to the Governing Bodies in order to address the ASMC funding gap in documents FC 143/4, FC 151/5 and FC 154/3 Add 1. However, final decision has not yet been reached by the Organization as at 31 December 2013 on which funding proposal or combination of proposals will be adopted to fully fund its SRS. Therefore, facing the future funding of the SRS liability still remains to be a financial challenge to the Organization.

56. Regarding termination payments, we noted that the Organization issued Administrative Circular No. 2013/25 which changed the rules governing the commutation of accrued annual leave upon separation. This measure will reduce the amount of accrued annual leave payable to a qualified staff member upon separation from the Organization effective 01 April 2014.

57. **We recommended that FAO continue to evaluate the best option to address its remaining unfunded Staff-related scheme liabilities with the end in view of identifying a consistent funding source and come up with a comprehensive plan to fully fund the SRS liability over a determined period of time.**

58. Management highlighted that it continues to draw the attention of the Governing Bodies on this matter and has presented regular documents during the Biennium 2012-2013, providing updated information on the size of the liability, the options to address the funding gap of the ASMC liability, the ongoing discussions within the United Nations (UN) System on this matter, and the activities aimed at containing the costs of the current medical insurance plan.

## 1.5 Shared Services Centre

59. We reviewed selected business processes of the Shared Services Centre (SSC) relating to staff payments, journal vouchers and asset management. We noted areas where improvements can be introduced to ensure that transaction processing is in accordance with the prescribed financial and staff regulations and rules. Major improvement opportunities which SSC agreed to consider and to be followed up in subsequent audits are as follows:

a) Revisit of MS371.2.7(a) on the grant of rental advance;

b) Develop a checklist for ease in review and approval of the Education Grant Claim (EGC);

c) In conjunction with the Finance Division, require the budget holder or responsible officer concerned to assign the assets to custodians or responsible officers;

d) Complete the transfer/disposal of the transceivers which have been stored in Customs since 2008; and

e) Comply with the existing policy on the complete documentation on the disposal/retirement of assets.

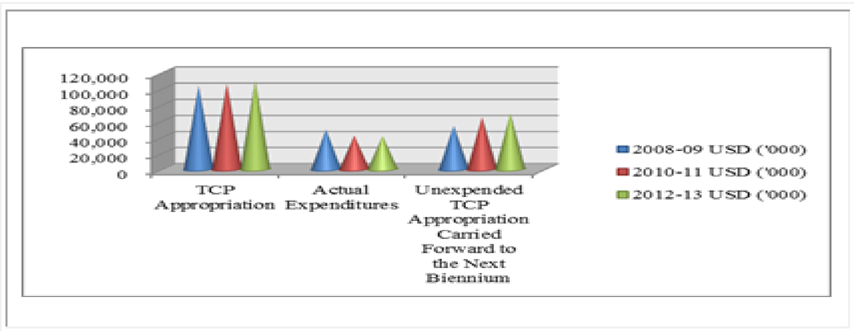
60. SSC commented that a draft document is being prepared for submission to the Director of the Office of Human Resources (OHR) in support of revising MS 371. 2.7(a) to make it less stringent and more adequate to living conditions in field offices. It has developed a checklist and a tracking method to standardize the review and approval of the EGC. The checklist could be used as a tool to assist in the processing of Claims coming from staff members who encounter difficulties in having the ADM 29 form filled up and signed by the school. Lastly, the Assets Unit in the Finance Division is currently working on the assignment of assets from financially closed projects to the associated field offices. We recognize these immediate actions taken by the SSC.

61. **We encouraged FAO through the SSC to continue implementing measures aimed at improving the quality and accuracy of processing transactions in a timely manner in accordance with FAO's prescribed regulations and policies.**

### 1.6 Technical Cooperation Programme (TCP)

62. In line with Conference Resolution 9/89 and budgetary appropriations adopted by FAO Conferences, the TCP appropriation has increased steadily from USD 103.4 million in Biennium 2008-2009, USD 106.6 million in Biennium 2010-2011 to USD 110.9 million in Biennium 2012-2013 (Figure 2). The rates of delivery or actual expenditures during the funding biennium have varied over the last four funding biennia, with a rate of 27% in Biennium 2006-07, a higher rate of 48 percent in Biennium 2008-2009 due to the importance of TCP emergency projects under the Initiative on Soaring Food Prices (ISFP), and a relatively stable rate in the last two biennia of 39 percent in Biennium 2010-2011 and 37 percent in Biennium 2012-2013. While the TCP appropriation remains available for expenditures over two biennia, the current financial delivery ratio of 37 percent was just a little over a third of the allocated resources for the delivery of TCP to member countries during the funding biennium.

**Figure 2. Comparative TCP Appropriations, Expenditures and Unexpended Appropriations**



63. The unexpended balance of TCP appropriations which is reflected as Deferred income in Statement II has been increasing from USD 54.1 million as at 31 December 2009, USD 64.7 million as at 31December 2011 to USD 75.9 million as at 31 December 2013. The Deferred income is carried forward for utilization in the next financial period in accordance with FR 4.3. Thus, the total appropriations or budget available for a given financial period is composed of the appropriations from the funding biennium and the deferred income from previous biennia. We likewise noted that the percentages of total expenditures to total available appropriations decreased from 69 percent in Biennium 2008-2009, 60 percent in Biennium 2010-2011 to 57 percent in Biennium 2012-2013.

### 1.6.1 Delay in the Approval of TCP Requests

64. Based on our audit, we identified that the relatively low approval rate in the first year of the funding biennium contributed to a low delivery rate of projects at end of the funding biennium and an increased delivery rate in the subsequent biennium. We noted that the Organization was able to commit only USD 59.4 million worth of projects in the first year of the Biennium 2012-2013, or 52 percent of the total TCP allocation. It was below the suggested 70 percent approval indicated in the TCP Manual.

65. Analysis of time lags between dates of receipt of official requests for TCP assistance and the dates of project approval revealed that 73 percent of the requests were approved within 10 months while 27 percent took 11 to as long as 39 months before being finally approved. This practice runs counter to the guiding principle to close requests that have been pending in the active pipeline for more than 12 months. Moreover, we also noted that there were 38 approved projects with a total budget of USD 11.1 million (10 percent of 2012-2013 TCP appropriation) that were submitted for funding during the last six months of the biennium, and 10 of these had project durations greater than 20 months, recognizing that these projects would have a low level of delivery by the end of 2013.

66. Management informed us that delivery of projects funded from the previous biennium would have priority considering the parameters set in FR 4.3. However, given the increasing amounts carried over to the next biennium, there is a likely recurrence that delivery targets of current biennium projects would not be accelerated within the funding biennium.

67. Management further asserted that there was no issue per se when it comes to the approval of projects. While Regional Offices were “encouraged” to approve 70 percent in the first year of the biennium, it did not necessarily prevent them from approving a lesser percentage as long as they see to it that at the end of the biennium, there should be no undercommitment of TCP funds. We also noted the actions already being taken by management to address these matters including: continuous monitoring of the level of approvals and providing support and guidance to decentralized offices when required; updating of TCP Step-by-Step instructions to provide guidance on required documentation and timelines of every activity at various stages of the TCP project cycle; improving the monitoring tools available to users/TCP coordinators through FPMIS; and requesting Regional TCP Programme Officers to critically review TCP requests in the active pipeline to ensure that only high priority requests remain and to close requests that have been pending for more than 12 months. Management also highlighted that following the launch

before the end of 2014 of the revised TCP manual and the CPF guidance relating to the development of an indicative TCP pipeline annex to the CPF, capacity development efforts will be undertaken at all levels, and include actions such as the revision of the TCP Web site, the introduction of a specific module in FAOR school, and the development of training modules.

68. It is our view that project starts with an approved project proposal. If there is an improvement in the approval rate, the actual project delivery will most likely improve. Therefore, it is advisable that projects be approved in the shortest time possible to increase delivery rates by the end of the funding biennium even though the TCP appropriation remains available for delivery in the subsequent biennium to achieve the programme's objective.

69. The TCP aims to provide technical expertise and knowledge to its Member Nations. Considering that the TCP is part of the Regular Programme financed from the assessed contributions of Member States, should delivery rates decline, this could hamper the achievement of the programme's objectives in the most time-efficient manner possible.

### 1.6.2 Effect of Decentralization on the Overall Approval and Delivery of TCP Projects

70. We also looked into the effect of the decentralization of TCP management on the approval and delivery of projects. While we initially reviewed this aspect in our audit of TCP in Biennium 2010-2011 and noted no improvement in the approval and delivery projects, the same condition existed for the Biennium under review.

71. Management commented that the decentralized context places the responsibility for monitoring operational activities and the achievement of results to the Budget Holder (BH)/TCP Coordinator. The Regional Representative (RR) ensures the equitable distribution of the regional allocation and its full utilization and "monitors the delivery of the appropriation, and the follow-up on slow delivering TCP projects".

72. Following the decentralization of the TCP in 2010 and the transformational change process and the Strategic Thinking Process during Biennium 2012-2013, it is of utmost importance to ensure that the TCP adapts to the new context and remains a Programme of relevance to Members.

73. We positively noted that better tools for project monitoring for BHs, and staff in the Corporate Services, Human Resources and Finance Department (CS) and the Technical Cooperation Department (TC) have been made available. It was acknowledged, however, that even with the presence of these monitoring tools and reports in Field Programme Management Information System (FPMIS), the perceived effectiveness of these tools still depend greatly on their actual utilization by the BHs. TCP personnel likewise confirmed that they are working on implementation of a set of TCP enhancement measures. Management is finalizing the revised TCP Manual which allows for a greater alignment of the TCP project cycle to the New Project Cycle, and recognizes that the Country Programming Frameworks (CPFs) become the starting point for the prioritization of TCP assistance in line with the Strategic Objectives (SOs).

74. Hence, the interplay of many factors, including *inter alia* the familiarity of BH/TCP coordinators with the forthcoming harmonized project cycle modality, the capacity needed to deliver the expected outputs, and the determined implementation of the internal control and accountability framework, unless appropriately addressed, shall continue to expose FAO to the risk of not being sufficiently responsive and relevant to the needs of its Member States.

75. It is worthwhile to note that one of the three objectives in the decision to pursue a policy of further decentralization was to bring the Organization's technical and operational expertise much closer to those countries and regions where the need is greatest. Taking into account the varying rate of project delivery and increasing rate of unexpended TCP allocation within the funding biennium, the corporate monitoring and oversight over decentralized offices in project implementation need to be optimized.

76. Comprehensively, we took cognizance of FAO's endeavours to deliver strategic, short-term, catalytic projects responsive to the needs of its Member States/intended beneficiaries given that significant reforms take time to give full benefits. However, the challenges mentioned above necessitate relentless and dedicated efforts to improve the performance, results and country-level impact of FAO's work within the context of a decentralized structure.

77. **To address the challenges and gaps noted in the implementation of the decentralized TCP, we recommended and reiterated that FAO:**

a. **optimize corporate oversight, management and advisory services for TCP by complementing such services with the determined implementation of the transformational change programme to improve accountability and internal control at decentralized offices;**

b. **prioritize the alignment of the TCP Manual to the New Project Cycle, as well as measures allowing the CPF to become the starting point for the prioritization of TCP assistance in line with the SOs, so as to simplify the steps, thereby enhancing the approval process; and**

c. **continue its efforts to improve the rate of approval and project delivery through implementation of the management actions identified in previous reports to address recommendations in this area.**

78. Management noted that the TCP appropriation approved by the Conference in June 2013 intended to allow the level of the TCP appropriation for Biennium 2014-2015 to increase so as to progress towards the target agreed by the Conference of 14 per cent of the Net Appropriation.

79. Taking into account on one hand the above concerns regarding approval and delivery rates and, on the other hand, the increase in the TCP appropriation, Management should monitor closely the approval and delivery rates to ensure full utilization of TCP resources.

## 2. GOVERNANCE MATTERS

### 2.1 Accountability and Internal Control Framework

80. The Director-General's transformational change programme (CL 145/3) included improvements in accountability and internal control as part of an integrated package of measures for institutional strengthening to enhance the delivery and impact of programmes in support of the Organization's vision, goals and objectives.

81. Since our last review of this area in October 2013, much work has been done by the Secretariat to strengthen accountability and internal control particularly in the decentralized offices. Among these are: a) the reinforcement of the staff's skills base; b) the development of information technology systems; and c) the investment in a monitoring system for FAO Representatives. As reported by the Secretariat to the Finance Committee (FC151/50), further work that is under consideration on internal control includes: a) the improved corporate performance reporting; b) the production of guidance on control design; c) the introduction of internal control reporting; and d) further streamlining of internal controls and processes.

82. We noted that during the 151st Session of the Finance Committee in November 2013, Management reported on the status of the Organization's considerations on accountability and internal control. Under document FC 151/20, the status of accountability, internal control and enterprise risk management were discussed. With respect to internal control, it was discussed extensively including its definition and main areas of concern in organizational performance, and the vital role of oversight bodies in accountability and internal control. However, the discussion focused mainly on the status of internal control, falling short in formulating a policy framework.

#### 2.1.1 Policy Framework on Internal Control

83. We maintain our recommendation for FAO to formalize its policy framework on internal control for the purpose of reinforcing FAO's internal control system that will aptly address the risks to the Organization's mandate and objectives, and define the parameters of the system itself within the FAO context. The policy framework should also include the roles and responsibilities of various players in implementing and operating controls, the governance and oversight structure for internal control and the manner in which the overall effectiveness of the internal control system is monitored, assessed and reported. FAO can benchmark from other UN organizations in this regard.

84. With a robust internal control framework, the internal control deficiencies we have noted in the 11 decentralized offices we audited in Biennium 2012-2013 could have been minimized or addressed. Moreover, the same deficiencies have been uncovered repetitively in the decentralized offices. The report of the Office of the Inspector General also confirms this observation where many decentralized offices have weak internal controls as presented in their capping report.

85. Presented in **Annex A** is a summary of the internal control weaknesses noted in our audit of the decentralized offices. Most of the deficiencies were noted along the area of programmatic, financial and administrative functions. We believe that these

deficiencies can be addressed by formalizing an internal control framework, thus strengthening internal control in the decentralized offices.

86. **We recommended that FAO formalize its policy framework on internal control and design a mechanism in which the overall effectiveness of the internal control system in the three levels of the Organization is monitored, assessed and reported to reinforce accountability and transparency across the Organization.**

87. Management agreed with the need for a robust internal control and accountability. It has recorded in its report on Accountability and Internal Control Framework to the Finance Committee in November 2013 (FC 151/20) that it considers accountability, risk and internal control to be very closely linked with one another. Management planned further work on this area in 2014.

### 2.1.2 Statement of Internal Control

88. We envision an organization which has an internal control framework that is understood by all stakeholders. The internal control framework must include a mechanism that will require senior managers to provide assurance to the Director-General (DG) on the proper functioning of internal controls within their respective areas of responsibility. Such feedback from the senior managers concerned would, in turn, be the DG's basis to prepare a Statement of Internal Control that would be appended to the financial statements. With this mechanism, the culture of accountability and control in the Organization can be further reinforced.

89. A Statement on Internal Control (SIC) is a necessary tool to effect accountability at all levels and to afford independent assurers, including the external auditors, a better understanding of the FAO operations and a more effective assessment of the risks and controls prevailing in the Organization. In our previous audit, we recommended that FAO incorporate in its plan the preparation of a SIC. Although there is an ongoing discussion in the Finance and Budget Network of the UN System on this matter, we were informed that FAO will still weigh the cost against the benefits of such action in the context of the other needs of the Organization before a SIC could responsibly be included. However, we stand firm about our recommendation in this regard.

90. The Organization nevertheless agrees with our assessment on the need to ensure appropriate mechanisms to monitor and escalate, as needed, the data on the state of internal controls within the context of IPSAS implementation in FAO.

91. **We recommended that FAO integrate in its on-going enhancement of its internal control the formulation of a mechanism for responsible officers of the Organization to provide assurance to the Director-General, who is tasked with the overall responsibility for the Organization's internal control, on the functioning of internal controls within their respective areas of responsibility. Such feedback from those officers would be the DG's basis to prepare a Statement of Internal Control that would be appended to the financial statements.**

## 2.2 Progress on IPSAS Implementation

92. Residual work in the area of IPSAS implementation was required in view of the transitioning of the GRMS project that started in June 2013 through the post-implementation stage. To address the remaining outstanding deliverables, FAO realigned its available resources towards this end, but not without challenges.

93. Our review of IPSAS implementation conducted towards the GRMS closure date resulted in a number of audit recommendations concerning project governance, implementation of timelines and monitoring activities, updating of financial rules and other guidance, and enhancements to asset management. The recommendations underscored two main points: a) Management's continued support to IPSAS implementation; and b) the further enhancements of project controls that would ensure achievement of set milestones and the performance of "change activities".

94. Our audit recommendations provided the impetus for Management to achieve the following:

a. A Post-GRMS Implementation Plan currently used to track the progress of IPSAS implementation;

b. A formal IPSAS Project Governance structure with well-defined roles and responsibilities, accountability lines and coordination relationships;

c. More realistic timelines and work plans;

d. Finalization of MS 202; and

e. Process in managing lost, damaged or stolen items and the documentation of accountabilities relating to assets management.

95. As part of its continuing activities, we noted Management's on-going efforts to evaluate alternatives on asset tagging and policy enhancements on property accountability. We also took note of the capacity-building activities that Management intends to integrate in the *e*Learning platform. We also took cognizance of FAO's planned activities in 2014 that include the generation of opening balances for IPSAS-compliant financial statements, and additional dry runs as well as inventory count and stock take.

96. The Organization will produce its first IPSAS-compliant financial statements in 2015, and will therefore require even more organizational change that involves financial and human resources apart from the performance of the required Key Performance Indicators. To achieve all these, there is a dire need for all activities and resources to be well coordinated and sustained.

97. **We recommended that FAO address the risks associated with the on-going activities such as generation of opening balances, additional dry runs, inventory count and stock takes to ensure the successful preparation of its first IPSAS-compliant financial statements.**

98. **We further recommended that FAO ensure that the planned staff training on IPSAS is conducted continuously and integrated in the *e*Learning platform, and that the policy enhancements on property accountability are consistently implemented in support of proper asset management.**

99. We extended and will continuously extend our full support to FAO in this business transformation initiative and our audit resources will be focused on the remaining IPSAS-related activities in 2014 to help ensure the successful implementation of IPSAS.

### 2.3 Implementation of Enterprise Risk Management (ERM)

100. ERM initially took its position in the Organization upon the approval by the Finance Committee of an outline for ERM implementation during its 135th Session. As such, ERM was envisioned to be guided by ISO 31000 with reference to the Joint Inspection Unit (JIU) of the UN Report and international best practices. The ERM Project (IPA Project 12) was started in November 2010 and slated to be completed by the end of 2013 with a budget of USD 0.7 million in Biennium 2010-2011 for development and implementation, and USD 0.8 million per annum in 2012-2013 for on-going running cost.

101. In the 143rd Session of the Finance Committee, the report on the progress of ERM implementation in FAO (FC 143/10) stated that work commitments for 2011 had been largely delivered. In the same report, the Committee urged the Secretariat to complete the implementation of ERM by end of 2013 as scheduled and to incorporate risk reporting in the corporate planning and performance implementation monitoring as well as in the reporting processes and documents.

102. In the Final Management Report on Immediate Plan of Action (IPA) Implementation and the FAO Reform Process – Executive Summary (C2013/26/ES) presented during the FAO Conference, it was assessed however, that two important IPA reforms to improve the effectiveness of performance monitoring (i.e., IPSAS compliance and ERM) were not completed by the end of 2012. The report also highlighted that more effective monitoring of organizational performance based on the full integration of risk assessment practices awaits completion in 2013. We also underline these expectations.

103. Our review of ERM implementation also took note of Management's representation in FC 143/10 paragraph 8 that the work on ERM project was temporarily suspended in January 2012. They found the need to reassess the integration of ERM in the results-based management framework in the light of their experience, and the findings of recent reviews of the OIG. We also recognized in the same Report that even if the ERM project was temporarily suspended, some ERM works were still continued, an action by Management that we wish to commend.

104. During our audit in May 2014, we noted significant progress in the implementation of ERM. One of which is the formal adoption of Corporate Risk Policy endorsed by the Corporate Programmes Monitoring Board. Another is the integration of risk management in the activities in the field offices. We recognize the effort of Management in implementing risk management in three levels: a) Management of Corporate Results Hierarchy; b) Extra-budgetary and Business Improvement Projects; and c) Rapid Problem Response.

105. However, embedding operational risk management in all levels of operations and capacity development to mainstream ERM remains a challenge to Management.

106. **We recommended that FAO continue to embed ERM in managing corporate results hierarchy, business improvement projects and rapid problem response to ensure that the risks of the Organization are continuously identified, addressed and mitigated. In addition, we recommended that capacity development to mainstream ERM be included in future work.**

## 2.4 Management of Procurement

107. During the Biennium 2012-2013, total procurement for expendable and non-expendable supplies and equipment reached USD 387.5 million making it the second highest item of FAO's expenditures. Hence, we reviewed the Organization's procurement management focusing on the structure, competencies, risk assessment, on-going and proposed strategies as well as the relevant policies and guidelines and their application to the current state of procurement arrangements and operations. We noted that FAO's procurement management is stable, dynamic and proactive but it needs further enhancement in the following areas:

a) Procurement Governance
b) Procurement Planning
c) Long Term/Framework Agreements
d) Procurement Information Management
e) Sustainable - Green Procurement
f) Vendor Sanctioning Policy.

### 2.4.1 Procurement Governance

108. In our review of procurement governance, we noted enhancement opportunities on: a) the need to link procurement strategies to downstream activities; b) the need for a structured risk management process; and c) the limited staff resources including their need for sustained procurement capacities.

***a) Need to link procurement strategies to downstream activities***

109. We noted that the procurement strategy of the Procurement Service (CSAP) reflects a "flexible framework" that focuses on three areas: a) scaling up of the International Procurement Officer (IPO) network to cover Field Offices where higher volume and complexity entails higher risk; b) establishment of a monitoring function to identify exceptions and provide feedback to managers to address and manage capacity and competency gaps; and c) enhancing CSAP skill sets to increase its capacity to provide relevant and timely advice, backstopping and direct procurement support across the Organization, including the support in FAO's preparedness and response to Level 3 emergencies as well as the appropriate expertise to develop and maintain the strategic policy, procedures, technology and communications. Strategy themes such as risks and stakeholders' management must also be put across.

110. From the three (3) identified proposed procurement strategies, we determined that: a) the expansion of the IPO network provides a strong backbone to sustain and further enhance procurement management particularly in the decentralized offices; b) the establishment of a monitoring function for a well-managed procurement and Letters of Agreement (LoAs) is a necessary activity for the effective functioning of procurement in the Organization; and c) the enhancement of CSAP capacity and competencies in HQ and Decentralized Offices still has to evolve based on the findings and surveys indicated in the Strategy Document.

111. However, we noted that CSAP has yet to finalize the strategy implementation plan as they are still reviewing the procurement data for the identification of potential country offices that would benefit from having their own IPOs. With respect to the other initiatives, we noted that CSAP is consolidating all recent initiatives to identify those that fit within the core strategy which, together with the approval of the staffing proposal, will allow them to develop an initial implementation plan.

112. We further observed that the proposed FAO procurement strategies are established around the basic procurement principles that the Organization had embraced with the end in view of aligning the procurement activities with the Organization's current needs. But we wish to emphasize that strategies can only be as good as the timing of their implementation.

113. **We recommended that FAO engage more closely with Senior Management to push for the finalization and approval of the proposed Procurement Strategy during the first year of the Biennium 2014-2015, and to prepare an Implementation Plan based on the approved strategies so that projected changes are effected before the end of the biennium.**

***b) Need for a structured risk management process***

114. The proposed Procurement Strategy for the Biennium 2014-2015 specifically recognized that procurement risks change upon decentralization. We also noted that CSAP undertook a risk assessment exercise in 2013 where a number of risk factors were identified. These risk factors include the non-recognition by managers across the Organization of the importance of a compliant and efficient procurement/LoA function, insufficient procurement capacity, knowledge and experience of personnel carrying out the procurement function, and the lack of process monitoring.

115. According to CSAP, the Organization addresses risks in terms of the overall project deliverables, and risk assessment is undertaken at all stages of the procurement process although it is not formally documented. This is something that CSAP is interested in developing.

116. In our review of the draft Procurement Risk Log, we noted that the Organization has the capacity to control and mitigate only the risks prevailing in the internal procurement environment based on the identified classification of risks (i.e., General Procurement, Specify Needs, Verify Available Funds, Establish Procurement Strategy, and Select Vendor).

117. Although CSAP also considered external risks in its risk assessment, a closer scrutiny of the procurement risk model used does not exactly identify the potential external risk events, thereby affecting substantially the ability to craft the appropriate mitigating actions. We noted that the risk model that is currently being used “hides” external potential risk events.

118. Further, a good exercise needs to be undertaken to delineate risk factors from risk events to ensure the proper identification of risk events and their root causes. Undoubtedly, there is a need for a systematic contextualization of risk assessment with proper guidance so that the full procurement risk scenario is identified, and the appropriate procurement risk model is used to achieve a common and more coherent risk management across the Organization.

119. **We recommended and FAO agreed to develop a Procurement Risk Management Process to further enhance risk management capability including a tool to support the decentralized offices in identifying and managing critical procurement risks.**

### *c) Limited staff resources and need for sustained procurement capacities*

120. We noted that at present, CSAP has 12 Procurement Officers, four based at HQ, in addition to the Chief CSAP, and eight IPOs detailed in field offices that have high levels of procurement, and/or complex procurement needs. It is foreseen that an additional three (3) IPOs will be required in the coming months for Mozambique, Ghana and Mali. The manpower complement in HQ is backed up by 17 General Service (GS) staff and short-term consultants. CSAP considers the officers to have the competencies beyond the Chartered Institute of Purchasing and Supply (CIPS) level 2 and even CIPS level 3. As regards the non-HQ offices, CSAP informed us that it is not considered necessary to post IPOs in every local office or in the Regional Offices where there are only low levels of straight-forward procurement. In such cases, they note that they can ably offer support and advise on a needs basis.

121. In its report on Procurement Service Strategy, CSAP reported that it will be necessary to change the skill sets in CSAP HQ by abolishing nine GS posts and creating five Professional level posts to properly implement its strategies. This set-up was reported to “support CSAP’s work that has shifted from predominantly direct implementation and processing of procurement activities on behalf of the field to an enhanced advisory, support, capacity development and backstopping role”. Aside from the savings to be generated in the reduction of GS posts, the change in the staffing structure will address the skills imbalance and allow CSAP to meet new requirements including the implementation of a monitoring function in a more decentralized environment.

122. We took note that the manpower restructuring as part of CSAP’s strategy is set to take place by the Third Quarter of 2014 and is expected to establish a staffing structure which is better aligned with the Organization’s needs while bringing savings of approximately USD 270,000 and reducing staff count by four posts. CSAP has identified the selection criteria and the tasks to be accomplished by the new posts. They informed that while the strategy was agreed upon, the rollout of the staffing requirements was put on hold and is awaiting Management’s final approval to pursue staffing changes.

123. We also noted the concerns on procurement staff capacities. In the risk assessment exercise conducted by CSAP in 2013, staff capacity is among the several identified risks. CSAP disclosed that it is working to systematically provide CIPS training to General Service Staff and Officers but there are budget constraints in providing training at this level to all staff. Aside from the budget considerations, they added that the training also requires a high level of commitment from the participants to complete detailed assignments. With regard to Procurement Officers, CSAP is looking into the possibility of having CIPS grant Practitioner qualifications based on their experience. Some of the officers even have Masters Degrees in procurement-related topics.

124. The on-going support and strategies for the current manpower complement and capacities of the procurement function in FAO are laudable. In spite of these efforts and the availability of procurement regulations and issuances as guidance to all, we still noted deficiencies and lapses in the procurement function that are attributable to weaknesses in capacity.

125. The recent results of our audits conducted in the Regional Office for Africa, and in the Country Offices of Ghana and Uganda support this assertion. Among the observations pertained to basic compliance issues such as a) the non-signing of Purchase Orders by FAO and the Vendor; b) the non-submission of Request for Procurement for routine operations; c) the incomplete and inaccurate information in the Purchase Orders raised for LoA; and d) the inaccurate information indicated in the GRMS data.

126. While procurement entails the performance of several critical processes, it cannot be ignored that, as a strategic function, it is heavily dependent on the mix and quality of the personnel carrying it out. The ability to attract and retain the right mix of people with regard to education, experience, expertise and skills is vital.

127. Also, establishing the right environment becomes critical to the provision of an effective and efficient procurement function. The case presented by CSAP in the Strategy document that pertains to staffing requirements is a valid concern. Stability in the delivery of CSAP's services cannot be compromised even with the change in its role in the procurement function.

128. **We recommended and FAO agreed to prepare an implementation plan based on the approved strategies to strengthen capacity at HQ and in the field in support of the decentralized office network so that projected changes are effected before the end of the Biennium 2014-2015.**

### 2.4.2 Procurement Planning

129. Procurement planning is described as a collaborative process to assist the Organization to meet requirements to procure goods, services and works in a timely manner on a Best-Value-for-Money basis and in accordance with the rules and regulations of FAO. Procurement Planning is formalized in a procurement plan which summarizes the requirements of the organization/office over a certain period of time (usually one year), resulting in the timely deliveries of goods, services and works to meet project/programme needs.

### *a) Operational Procurement Plans not made mandatory*

130. We noted that procurement plans are not mandatory requirements from FAO operating units/offices although these are encouraged to be prepared as a management tool. This current state was corroborated with the result of a survey undertaken by the External Auditor, where only five out of 14 respondent offices/units from HQ, the SSC, the RAF and the CSAP positively responded to having prepared procurement plans during the years 2012-2013 or 2014. The other respondents informed us that they do not prepare procurement plans but they submit their purchase requisitions through the facility in the GRMS: a) when they find a need for specific goods and works; b) when the equipment reaches its Not-to-Exceed (NTE) date; or c) when an existing contract comes to maturity, among others, and not according to a pre-determined schedule developed in a Procurement Plan.

131. In emergency operations, an IPO, who is part of the Level 3 Emergency Response Team, assists the Emergency Response Manager in the finalization of the emergency procurement plan. Procurement activities in emergency operations involve the IPO/surged IPO who is given an initially delegated authority for the procurement requirements. The authority given to surged IPO, however, is subject to the review of the Administrative Services Division (CSAD) for re-delegation of authority to appropriate levels depending on the need within 24 hours. We verified that procurement plans for the emergency operations in the Philippines, South Sudan and Central Africa were prepared, and appropriate delegation and re-delegation of authority was provided to the IPOs.

### *b) No consolidated procurement plans*

132. We further determined that there is no consolidated procurement plan developed for the whole organization at the corporate, regional, divisional or country office levels that are readily available in a database or report. Such a plan can be used in analysing the procurement portfolio for inputs to assess: a) past and projected procurement expenditure for goods, services and works (spend analysis); and b) the vulnerabilities and risk associated with securing these goods, services and works (risk analysis).

133. FAO's own guidelines espouse the benefits in preparing a procurement plan at the operations level, but do not contemplate on drawing a procurement plan at the corporate level or a consolidated one that depicts the picture of the procurement needs of the Organization as a whole. The present procurement arrangement, as elucidated by CSAP, is that the Service collates procurement plans for the headquarters and takes action at a corporate level for the best use of framework agreements, UN agency piggy-backing and other contract modalities for the best use of the Organization's resources.

134. However, we noted that not all operating units prepare their procurement plans, and only some share their plans with CSAP. Thus, the complete picture of the procurement needs and requirements of the Organization is not fully appreciated and further procurement decisions, if needed, are not provided with adequate information.

135. We requested copies of the Procurement Plan and Monitoring Tool (PPMT) for the Biennium 2012-2013 from the CSAP but these were not available. Instead, the CSAP

submitted to us a consolidated PPMT for the Biennium 2014-2015, covering 21 out of approximately 50 HQ Offices/Divisions/Units, which shows a less-than desirable rate of compliance with FAO Manual Section 502. CSAP noted that they regularly remind all concerned BHs/Authorized Officials to submit PPMTs in January of each year. In an email to all HQ and Country Offices, we noted that the CSAP Director highlighted the importance of procurement planning followed by a reminder to BHs/Authorized Officials of their duty to ensure that Procurement Plans for the office and projects under their respective areas of responsibility are prepared and submitted. The CSAP also circulated the Procurement Planning Brief of 2011 to provide practical guidance on how to develop an effective procurement plan.

136. CSAP explained that for procurement of goods using General Funds, most planning and procurement functions are done locally. As such they noted that they have limited opportunity to initiate procurement for most field offices for goods using annual procurement plans. Nevertheless, they expressed their belief that there is an opportunity to develop procurement planning and explore the best way to consolidate procurement plans, and to share the information across the Organization. For them, the two field offices in Brazil and Mozambique are ideal for a pilot scheme since both do not have IPOs but are undertaking large-scale procurement activities this year. We also noted that there is a resource planning module available in Oracle, but it has not been activated in the current rollout of GRMS.

137. CSAP informed us that an appropriate use of the Procurement Plan template it developed would allow project managers to plan their procurement activities better and initiate the procurement process promptly to ensure timely delivery of inputs. Such template takes into consideration all the elements that have an impact on the procurement process. The template can be used also for emergency procurement activities as the relevant "constraints" could be taken into consideration. They also informed us that inasmuch as any "mandatory" compliance is outside of CSAP's responsibility and extremely difficult to monitor, one way could be to place the task of developing individual procurement plans in the Performance Evaluation and Management System (PEMS) of Budget Holders.

138. However, CSAP emphasized that to create a mandatory consolidated procurement plan would only be possible for certain items at HQ that are within the General Fund. In addition, CSAP underlined the fact that consolidation would be more efficient if access to the project planning module is made available in the GRMS. At the moment, these consolidated procurement plans are created manually using Excel, and are updated and shared on the Workspace.

139. **We recommended and FAO agreed to engage FAO Senior Management to support the enhancement of procurement planning capabilities and related accountability at relevant levels of the Organization particularly by:**

a. **requiring the development by BHs of procurement plans to be reflected in the their PEMS Agreement; and**

b. **implementing a project planning module in GRMS that will allow, to the extent possible, the consolidation of procurement plans.**

### 2.4.3 Long Term/Framework Agreements

140. Guided by the JIU Report on Long Term Agreement (LTA) procurements in the UN System, we reviewed the LTAs in the Organization. An LTA is an agreement/contract with a framework of terms and conditions, valid for a specified time period (usually more than one year). FAO is currently using the terminology Framework Agreement (FA) instead of LTA to describe the same type of contract. We noted two issues which need to be addressed: a) the absence of clear and specific criteria on FA arrangements and on the terms of its use; and b) the absence of more concrete monitoring guidelines for vendor performance under Framework Agreements.

141. The strategic benefits in the use of LTAs as elaborately emphasized in the United Nations Development Programme (UNDP) Procurement Guidelines include: a) simplified business process leading to reduced transaction cost; b) competitive prices; c) consistency in quality; d) standardization of requirements; and e) reduced delivery lead time. The UNDP report, nonetheless, cautioned that when LTAs are not set up, used or managed properly, they may not necessarily represent best value for money or reduce supply sources, and may expose UN Organizations to other risks such as dependency on vendors, hedging, and opportunity losses.

142. Currently, FAO has a total of 99 FAs covering goods and services. For the Biennium 2012-2013, the total contract amount of these FAs reached USD 108.4 million and USD 37.5 million.

***a) Absence of clear and specific criteria on FA arrangements***

143. The FAO Handbook provides the guidelines for when to establish and how to use FAs. It underlines a requirement that a FA should be resorted to when a Requester anticipates that a specific type of goods, works or services will be procured on a regular basis. We further noted that an FA may be appropriate Organization-wide, regionally, or locally and if it exists for the type of goods, works or services required, it may be possible for Budget Holders to issue orders against the agreements without further competitive bidding. Procurement under the FA will generally take the form of a Purchase Order or a Work Order. It is usually valid for a period of one to three years with the possibility of renewal for a maximum of five years. The Handbook also contains advice that CSAP should be informed regarding the establishment/use of FA and should be contacted if assistance is required. Further inquiry from the CSAP disclosed that they are developing a checklist to ensure that the Guidelines for the FAs are followed.

144. We noted that while the Handbook provided that the initial FA is established after competitive solicitation, the guideline is short on details such as the process and criteria for determining the appropriate use of FAs, their duration, pricing structure or establishment of Service Level Agreements (SLAs). This observation was confirmed by CSAP. We were also informed that the Organization does not have a formal analysis model for the assessment of existing FAs.

145. CSAP further explained that after the conduct of analysis of the actual expenditure history, the Organization holds negotiations with Vendors before the renewal of FAs. The negotiations have often resulted in significant price discounts as pointed out in the FAs for

office supplies and IT consultancy services. We were also informed that CSAP tests the market to see if the current FA is delivering the best value. Aggregation of volumes is also conducted together with the World Food Programme (WFP) and International Fund for Agricultural Development (IFAD) as was done for the rental of multi-function machines.

146. Based on the above management representation, it is clear that the CSAP undertakes vendor negotiations and market tests to ensure best value. However, important procurement decisions on vendor negotiations and other procurement decisions to establish FAs need to be backed up by concrete and specific policies so that authorities are properly established and accountability is reinforced. This is particularly focused for those contracts that will become FAs for the first time. Absence of such guidelines can also lead to a disparate application of existing policies which, in turn, can result in the sub-optimal use of the FA itself.

147. **We recommended and FAO agreed to enhance its FA procurement policies, procedures and guidelines to include specific decision criteria as to when procurement activities should be tendered as an FA and additional information regarding FA durations and extension to support accountability enhancement.**

***b) Absence of more concrete monitoring guidelines for vendor performance under Framework Agreements***

148. The JIU report emphasized monitoring as an activity that should form part of FA management. The report was specific on areas of supplier performance; utilization; and market conditions and prices. The Report also highlighted that monitoring the Organization's utilization of FAs is critical in evaluating the outcomes of such FAs. Based on the report, few organizations required on-going monitoring of market conditions and prices throughout the lifetime of the FA.

149. We observed in the FAO handbook that there is no mention of activities dealing with the monitoring of FA performance. Although we noted that CSAP has currently developed guidelines on FA Management, we determined that more details to support the monitoring of suppliers' performance with respect to FAs need to be embedded in the same guidelines.

150. Further inquiry disclosed that most of the FAs and contracts have SLAs which are managed by the Contract Manager and not by CSAP. Only in cases of poor supplier performance is CSAP advised through the Supplier Performance Report available to requisitioners/end-users in the FAO website. CSAP also emphasized that since 2010, FAs have systematically included SLAs to protect the Organization in the event of price changes. In addition, CSAP undertakes the review of contracts including any negative supplier reports, achievements against SLAs, volume and actual expenditures and changes in the market situations.

151. Of the 13 sampled FAs, only one contained an SLA establishing the parameters for measuring performance of the Vendor. CSAP explained that the other contracts did not have SLAs since they were entered into prior to 2010. However, CSAP informed us that there are SLAs associated with other contracts such as for the multifunction machines and

printers, office supplies, acquisition and maintenance of video-conferencing equipment, rental of cash registers and staff medical insurance and the Organization's largest contract so far.

152. Although such parameters are not consistently applied to all vendors, they provide a good start to monitor vendors' performance. Records provided to us by CSAP showed that evaluation is limited to contractors' performance whereby the Vendors are rated according to criteria such as courtesy and cooperation to FAO staff, reaction time to requests, adherence to contract specifications, respect of safety rules and the like. As the CSAP embarks on establishing a procurement monitoring tool through the Procurement Dashboard, it is equally important that the activities applied to monitor procurement through FAs are backed up by clear and specific guidelines and procedures to make the monitored information more meaningful.

153. **We recommended that FAO prepare clearer and more concrete guidelines in monitoring the performance of Framework Agreements and apply these consistently to all vendors to optimize the benefits of using FAs.**

### 2.4.4 Procurement Information Management

154. There are two important issues noted in this area: a) the discrepancy of receipt dates between GRMS entries and delivery notes record; and b) the absence of delivery and receipt dates in the Purchase Orders (POs).

#### *a) Discrepancy of receipt dates between GRMS entries and Delivery Notes Records*

155. The Revised FAO General Terms and Conditions for Goods, a required annex to every PO/Contract entered into by the Organization, provides that the Contractor shall hand over or make available the goods, and that FAO shall receive the goods at the place and time specified in the Contract.

156. We evaluated FAs reported in the GRMS covering 2013 transactions and compared these with the information contained in the corresponding procurement delivery notes. We confirmed that a significant percentage of the procured goods and services in six FAs, covering 370 POs with a total amount of USD 4.3 million, registered disparities in reported delivery dates ranging from 23 to 57 days. CSAP explained that that it is not appropriate to use the data presented in GRMS to draw conclusions about delivery performance under FAs because 2013 was a transition year to GRMS and this was the first experience where users were required to complete the data in the system.

157. CSAP confirmed us that they were already aware of the need to address the issues related to the accuracy of receipt information. This was particularly a problem with deliveries to field locations where there had been no prior experience with an ERP system. In particular, CSAP cited three POs (Nos. 303073, 301763 and 301822) for the delivery of IT equipment to HQ. The actual delivery time lags as evidenced by the delivery notes were only 13, 7 and 5 days as against the 72, 177 and 17 days indicated in GRMS. Other instances were also cited which revealed the same result of significant discrepancies in actual delivery versus recorded delivery in GRMS. From the foregoing, it is determined

that there are wide discrepancies between the actual receipt dates posted in GRMS against the actual delivery dates as evidenced by the delivery notes.

158. CSAP also explained that it has not been possible to obtain information for similar POs since there were deliveries to the field and that GRMS does not capture information about the cause of delays which may not be within the control of the suppliers. With respect to deliveries to the HQ, CSAP informed us that it is already working with the Information Technology Division (CIO) to address the issue of accurate reporting of deliveries in GRMS.

159. **We recommended that FAO ensure that Delivery Dates captured in the GRMS reflect the actual date of delivery as indicated in the Delivery Notes for purposes of accurate reporting.**

***b) Absence of Delivery and Receipt Dates in the POs***

160. From the total approved POs covering 1 June 2013 to 31 December 2013, we determined that out of the total 3,814 POs totalling USD 80.4 million, 37% or 1,430 POs amounting to USD 24.6 million have no information on Promised/Delivery Dates. The Promised/Delivery Dates serve as basis in determining the actual delivery date and calculating the appropriate penalties. We also determined that as at 31 May 2014, there were 776 transactions totalling to USD 34.7 million without noted delivery dates.

161. According to CSAP, except for construction contracts issued by CSAP where they file the Certificate of Completion of Works, they do not maintain additional or shadow records on the receipt of goods and services other than the GRMS. Although system fields are available to store such information, these were not fully utilized and completed by the users of the system. This condition undermines the ability of the Organization to evaluate and monitor the vendors' performance in terms of timeliness of delivery.

162. We were informed that the responsibility for the correct data entry and implementation of the receiving function in GRMS lies with the receiving unit or decentralized office. CSAP can provide capacity support though with the issuance of Contract Management Guidelines, the creation of on-line training resources such as Users Productivity Kit (UPK) for the correct entry of Promise/Delivery Dates and Receipt Dates in all POs, and by communicating the importance of understanding the difference between *Need By* and *Promised By* dates.

163. We also noted that the month-end closure of the system to accommodate IPSAS requirements can create a false receipt date in the system if it is not recorded in time for month-end. The lack of stipulation on the delivery period in the POs and the missing information when the goods and services were actually received rendered less protection to the Organization.

164. **We recommended that FAO advise the Unit Heads and the BHs of their responsibility to ensure good contract management and to institute measures to ensure that the data provided with regard to Promise/Delivery Dates and Receipt Dates in all Purchase Orders are correct. We also recommended and FAO through**

**CSAP agreed to provide guidance notes, training resources and other materials to inform and support the Unit Heads and the BHs in this task for Financial Year 2014.**

### 2.4.5 Sustainable Procurement – Green Procurement

165. We reviewed the implementation of Green Procurement in the Organization. The High Level Committee on Management (HLCM) of the UN System that was established by the Chief Executives Board for Coordination has explicitly declared to focus on sustainable procurement. The declaration was embodied in its decision on “Environmental Sustainability Management in the UN System” and in its Strategic Plan for 2013-2016 with the idea of mainstreaming the environmental sustainability management approach in the programming and planning processes through the increased coordination among the relevant HLCM networks.

166. In its report (JIU/NOTE/2011/1), the JIU Inspectors noted that some UN Organizations have adopted practices pertinent to environmental procurement to a certain extent but these practices are not underpinned by a clear policy yet. In the same report, the Inspectors pointed out that some UN organizations have already made progress in adopting related policies and included a statement that FAO, among others, follows the United Nations Environment Programme (UNEP) procurement guidelines for the HQ. Such guidelines include environmental factors in the procurement of construction materials, energy, information and technology equipment, paper and stationery.

167. CSAP informed us that it started introducing the Sustainability and Environmental criteria in a number of contracts entered into with vendors to move forward the corporate sustainability initiatives. They also affirmed that the concept of Green Procurement (i.e., environmental and sustainability issues) is now included in the individual trainings provided for MS502 and Advanced MS502 with focus on the best value for money. The procurement personnel in both HQ and field offices have a specialized training course in the United Nations Global Marketplace (UNGM) platform, the “Sustainable Procurement for the UN System”. These actions taken by Management are laudable for they create greater awareness among procurement personnel and vendors alike, a basic building block in adopting sustainable procurement.

168. Our review of existing procurement policies and guidelines (such as the FAO Manual Section 502, the FAO Procurement Guidelines, and the General Terms and Conditions issued by FAO in 2013 as well as the revised version issued in 2014) indicated that provisions relevant to environmental sustainability standards were not mentioned.

169. We further tested several 2013 Purchase Orders for goods that are likely to contain green procurement provisions like vehicles, computers, toners and drums, heating and air conditioning equipment, desks and video walls monitor, among others. Based on our review, we determined that there were no indications that the green procurement requirements are included in the provisions whether in the attached Invitation to Bids, Request for Quotations or Request for Proposals, or in the Framework Agreements.

170. The necessity of embracing concrete and formalized green procurement policies within the Organization is seen as an alignment to the increasing demands for global

environmental protection for which the UN organizations are expected to be at the forefront.

171. A close analysis of the nature of FAO's business showed that in the administration of its programmes and services, it will consistently need and utilize IT equipment, furniture, fuel and lubricants and vehicles, among others. These products are perceived to contribute to the worsening of greenhouse emissions and ozone depletions.

172. CSAP informed us that for the successful implementation of a green procurement framework, policies and guidelines, a Corporate Environmental Responsibility Policy needs to be endorsed at the most senior level of the Organization's governance. CSAP also emphasized that it will continue to integrate sustainability into procurement processes wherever possible.

173. It also brought to fore a fact that there are more products and vendors with competitively priced "green" products coming into the market, but the choice is often not available in many developing countries. CSAP also underlined the fact that FAO's MS502 mandate is to achieve "best value for money" and this must remain the priority goal for procurement delivery.

174. **We recommended that FAO finalize and endorse a Corporate Environmental Responsibility Policy. We also recommended and FAO agreed that based on such approved policy, a green procurement framework with policies and guidelines will be formulated with reference to the following:**

**a) conducting a review of current practices in the UN to identify best practice;**

**b) setting best-value-for-money sustainability goals, wherever possible, noting that a number of suppliers are continuously improving their "green" product offers;**

**c) developing an appropriate strategy for the change;**

**d) creating accountability in its implementation and monitoring; and**

**e) adopting specific sustainability practices.**

### 2.4.6 Vendor Sanctioning Guidelines

175. In its 148th Session, the Finance Committee stressed in its report the need to finalize the Vendor Sanctioning Guidelines within 2013. In its 2012 Annual Report, the Director-General concurred with this recommendation and requested the Legal and Procurement Services with OIG support to give priority to the draft Procedures.

176. In our previous audit last October 2013, we recommended that FAO finalize and implement its 1st Vendor Sanctioning Policy before the end of 2013 and allocate funding resources for its proper implementation. Moreover, we supported the recommendation of the lead departments to hire a consultant or a lawyer who will eventually act as Secretariat for the Sanctions Committee.

177. In our audit in May 2014, we noted that the OIG, together with the Office of the Legal Counsel and the CSAP, has prepared FAO's first Vendor Sanction Procedures. The procedures were approved by Senior Management in late 2013 and efforts are underway to identify funding for the services of a consultant or staff member so that the policy may be implemented by 2014. We commend Management for preparing the Vendor Sanction Procedures which is very timely in the light of some cases of fraud committed by vendors as reported by Management.

178. **We recommended that FAO implement the newly established Vendor Sanction Procedures to further protect the interest of the Organization against defrauding vendors.**

## 2.5 Global Resource Management System

179. The audit of the GRMS during the biennium was one of the main areas of our review. The review covered the update on the overall GRMS implementation and the assessment of modules with the aim of determining the following:

a. Status of delivery/implementation of the GRMS modules deliverables;

b. Adequacy of procedures and controls over input, processing and output to ensure that the information captured is complete and accurate for greater reliability of account balances in the financial statements, and that the information processing complies with required business rules;

c. Existence of a formal stabilization and/or operations and maintenance plan to ensure sustainability of the deployed solution, and if available, to assess its design; and

d. Feedback from the initial users on the level of their satisfaction with selected modules of GRMS.

### 2.5.1 Current GRMS Delivery Status

180. The Global RMS Programme - Project Closure Report of July 2013 reported the performance of the GRMS Programme against the Project Initiation Document and confirmed the handover of the programme's products to CIO and other Divisions for on-going production support. The estimated budget for the programme was USD 38.5 million but only USD 33.5 million was utilized as of closure date. The report also disclosed that approximately USD 3.6 million of the remaining balance was to be used between July and December 2013 for the CIO on-going support structure, the IPSAS project, and the backfill for a number of operation gaps in the finance modules of GRMS.

181. During our second validation/review of the deployed GRMS in October 2013 to find out the actual operational state of the integrated solution, we determined that certain operational challenges pertinent to entitlement and local travel, sourcing under

Procurement, and selected accounting and reporting process areas at the HQ level were not yet delivered. The overall results of our past two reviews of GRMS pointed toward several risks attributed to the production support arrangements where the Organization's needs have been vulnerable to inefficiencies and weak or inexistent controls.

182. We updated the October 2013 status during the audit in May 2014, and we determined that most of the GRMS modules deliverables have already been put in place except for some sub-modules for procurement and travel. From a high-level project delivery perspective of the Programme however, the GRMS is already considered completely delivered and is already operational. We noted though that Management has not yet formally documented the benefits realized on the deployed solution.

183. **We recommended that FAO formally document the benefits realized by the Organization on the deployed solution to determine the effectiveness of the GRMS programme.**

a) ***Delays in the delivery of travel entitlement, local travel and sourcing sub-modules***

184. We referred to FC 151/13 dated 11-15 November 2013 – *Progress Report on the Global Resource Management Programme*, with the objective of ascertaining the status of the identified modules and noted the following significant accomplishments of the Programme:

a. successful deployment of the GRMS to FAO offices worldwide as planned;
b. turnover of the post-implementation support activities to CIO;
c. resumption of the FAO Manual focusing on streamlining; and
d. activities in support of the IPSAS implementation.

185. The GRMS closure report indicated that the project was "closed" as at 30 June 2013 and that the new ERP solution is now operating in 108 decentralized offices, replacing the Field Accounting System (FAS) with IPSAS-compliant systems and processes. The same report also explicitly stated the handover of post-implementation support from GRMS team to CIO effective July 2013 and included, among others, the planned completion and deployment of the entitlement travel solution between September 2013 and December 2013, and increased stabilization of the deployed solution through monthly system updates. We noted however that in the document FC 154/12 – *Progress Report on the Global Resource Management Programme*, that under item no. 7, the "work on the entitlement travel functionality" was reported as one of the main activities planned between April 2014 and September 2014. After the closure of the GRMS project in June 2013, the planned entitlement travel solution was started but not finalized since resources were prioritized towards other business requirements.

186. To determine the current status of the overall GRMS delivery, we updated the October 2013 status by using the information in the Finance Committee (FC) reports as the baseline of our assessment and the information provided by the GRMS focal person. We determined that most of the GRMS modules deliverables have already been put in place except for the following Process/Sub-Process: a) Manage Sourcing in the Procurement Module; and b) Manage Entitlement Travel and Manage Local Travel in the

Travel Module. We also noted that the Manage Sourcing and Manage Entitlement Travel functionalities have been included in the initiative, "Improvements to existing corporate administrative systems" for which funding was approved from the Capital Expenditures (CapEx) appropriation for 2014-15. We were informed that development of a local travel solution will be initiated following completion of travel stabilization activities and implementation of entitlement travel.

187. The local travel, travel entitlement and sourcing modules which were originally included in the planned functionalities were considered functionality gaps. This is a clear manifestation that while the majority of the system has been deployed and is now in operation, the travel entitlement, local travel and procurement sourcing process areas have not yet been delivered. At present, Management is still confronted with challenges that affect the efficient and effective operations in support of the administrative processes at the level of decentralized offices.

188. **We recommended and FAO agreed to include among its priorities for the current biennium the development and completion of the Travel Entitlement, Local Travel and Sourcing of Procurement modules to ensure the realization of the full benefits of the GRMS.**

### *b) Absence of a consolidated GRMS operations and maintenance manual*

189. From a high-level project delivery perspective of the Programme, the GRMS is already considered completely delivered and is already operational. It must therefore be ably supported by a concrete maintenance plan that can cover several requirements for corrective, customized, enhancement and preventive maintenance activities. These various types of maintenance require different modalities and competencies and must therefore be adequately planned. CIO provided the three guidance documents in the area of operations and maintenance support to GRMS. These are described below:

a. GRMS On-going Operations 2014-15 Requirements Document – which indicated that the deployed GRMS with the business processes were mainstreamed into the on-going operations under CIO responsibility including the framework that covers two work areas and related activities pertinent to the support and maintenance of the ERP for 2014-15.

b. Proposed Structure for GRMS On-going Operations - to support the maintenance framework with corresponding notes on the different functions.

c. Oracle E-Business Suite (EBS) Maintenance Plan – a two-page document that describes briefly the maintenance activities of the Oracle EBS that are broken into two parts, namely:

- Application of the Critical Patches Update (CPU) released by Oracle on a quarterly basis; and

- Application of cumulative roll-up patches for Oracle modules.

The Oracle EBS Maintenance Plan also includes the process for managing patches and a list of tasks with corresponding responsibilities at the office level (i.e, CIO and CSF). In addition, the Team Track (TT) is used by CIO for logging and monitoring systems enhancements which are vital components of the GRMS maintenance framework.

190. We also revisited the LANDesk tool, a user support model that implements a single point of contact (Service Desk) for each of the regions and the HQ. The tool manages the support of the implemented GRMS at varying levels of complexity of the user incidents. To obtain further understanding on how the user support works, we requested tickets logged from 01 November 2013 to 4 June 2014 for the modules of the global GRMS. Under a three-level framework, we determined from the LANDesk that a total of 21,823 tickets were issued from 1 November 2013 to 4 June 2014.

191. We have noted that the LANDesk data presented already pre-sets the points where interventions are needed, and assistance with differing levels warrants more concrete undertaking on the part of the CIO. We commend the substantial efforts made by CIO in providing a process to ensure system's availability and performance like defining the on-going operations framework, technical processes on managing critical patches, existence of monitoring tools and on-going improvement of maintenance processes.

192. However, we noted that related activities are not formalized into one cohesive and comprehensive Operations and Maintenance document that stipulates the proper authority, provides guidance to all concerned players and lays down the related controls.

193. **We recommended that FAO through CIO prepare a consolidated GRMS operations document to ensure that all support and maintenance activities are managed properly and consistently. The document should bring together, as a minimum, the following:**

- **a. GRMS operations structure with team roles and responsibilities;**
- **b. Approach to technical support and maintenance activities, including incident and problem management, change and release management, security, testing, and documentation; and**
- **c. IT environment including hardware, connectivity, facilities, support software, storage and backup/restore arrangements.**

194. Management commented that they have begun implementing a plan to ensure end-to-end GRMS support and maintenance for the Organization. All activities related to this will be outlined in the consolidated GRMS operation documents, ensuring that they are manage properly and consistently.

### *c) Result of limited user-satisfaction survey GRMS delivered modules*

195. To afford us with a better perspective on the current state of the deployed GRMS from the standpoint of the users, we conducted a selected user-satisfaction survey with business process experts of accounting and reporting area as respondents. We purposely

selected staff from the CSF and CSAP at the Headquarters, the RAF, the SSC and the Country Offices of Bangladesh, Uganda, China and India and there were 46 respondents to the survey.

196. The survey did not intend to utilize the information gathered to imply a level of technology acceptance or to make an inference on the rest of the population. Rather, it was administered to afford us initial feedback based on a series of attribute satisfaction measurements at the affective and cognitive levels, the results of which might need further validation in the future. We designed the questionnaire to be a uniform set of closed-in questions that have a choice of standard responses. We also allowed ample time for the respondents to carefully indicate their answers without interference. Furthermore, we permitted anonymity during the survey and offered the respondents an avenue to support their responses with descriptive statements.

197. The summary of responses to the survey is presented in Table 1 below:

**Table 1: Summary of Responses on the User Satisfaction Survey-GRMS**

| Satisfaction Levels/ Other Responses | DIMENSIONS | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Help-Desk | Inter-face | Functiona-Lity | Systems Output | System Documenta-tion | Perceived System Perform-ance | Training | Enhance-ments |
| VS | 12% | 7% | 3% | 15% | 10% | 4% | 5% | 0% |
| S | 59% | 63% | 66% | 64% | 45% | 59% | 58% | 21% |
| N | 23% | 15% | 23% | 11% | 24% | 25% | 21% | 36% |
| D | 5% | 1% | 5% | 4% | 4% | 4% | 2% | 8% |
| VD | 1% | 0% | 0% | 0% | 2% | 0% | 3% | 0% |
| Not Applicable | 0% | 5% | 0% | 0% | 10% | 4% | 7% | 18% |
| No Response | 0% | 9% | 3% | 6% | 5% | 4% | 4% | 17% |
| **TOTAL** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |

The standardized responses for each satisfaction level are as follows:

- Very Satisfied (VS)
- Satisfied (S)
- Neutral (N)
- Dissatisfied (D)
- Very Dissatisfied (VD)

198. The foregoing table indicates that the satisfaction level of most respondents to all defined dimensions registered positive results (VS and S responses). However, there were a considerable number of respondents who were either satisfied or dissatisfied (Neutral Level) with the defined dimensions that should be followed through as this might indicate unclear expectations and perception of the service delivered. Lastly, an observed small number of respondents expressed dissatisfaction (D and VD responses) over the dimensions rated with the Enhancements dimension garnering the highest rate of dissatisfaction at 8%, followed by System Documentation and Training which registered 6% and 5% dissatisfaction rating respectively.

199. To complement the choice of responses offered in the survey, the descriptive statements submitted by the respondents disclosed inadequacies in the GRMS modules that need to be addressed by Management. Based on the users' overall comments, we summarized a number of concerns that must be addressed and these are as follows:

a. Inefficiency and longer turnaround still exist in some processes where the opportunity for streamlining exists.

b. Capacity for production support might not be sufficient as indicated by some processing problems.

c. More GRMS process guidelines are still needed.

d. Need for more capacity building is the most common comment of the respondents.

200. We noted that the CIO was made aware of the users' concerns and is currently applying system modifications and enhancements defined and prioritized by FAO business units who are responsible for the various processes. From 01 July 2013 to 06 June 2014, we determined that about 56% or 552 of the total requests for enhancements had been acted upon. However, the remaining percentage is still a significant challenge to Management. A more comprehensive set of actions has to be put forward including the enhancement of delivery strategies by considering other dependencies and factors outside of the CIO.

201. **We recommended and FAO agreed to consider the users' views culled from the initial survey results of GRMS modules implementation as inputs to its on-going efforts to stabilize further the solution. We also recommended that FAO conduct a comprehensive User Satisfaction Survey to better assess whatever further actions, if any, need to be undertaken.**

### 2.5.2 GRMS Process Controls

202. The quality of information always depends on two sides of the controls embedded in a process, i.e., the design of the control and its operating effectiveness. We have tested the programmed controls focusing on input, processing, output, and interface controls of selected process areas of GRMS. Tools and techniques were used in performing the controls tests such as walkthrough, analysis of generated outputs, analysis of processed transactions, and validation interviews. We also conducted simulation of the processing routines of select modules to further verify that embedded controls are indeed operating as designed. Confirmation from Business Process Owners (BPOs) and concerned application specialists on the correctness of the outcome of the processing routines on extracted data from the database was also done together with further verification and validation in the production database. The results of the tests are discussed in the following paragraphs.

### *a) Accounts Receivable (AR) Module - Daily automatic interface to transfer AR data to GL is not utilized*

203. We noted that the system involves a manually-initiated interface notwithstanding that an automatic facility is a basic feature in every implemented ERP solution to ensure efficiency and to warrant integrity of transferred data. Our verification disclosed that while the process can be automatically set and run just like any other GRMS modules (e.g., Accounts Payable (AP), and Travel), a manual process was being used since the users were still encountering some bugs/errors involving field-generated entries, which required immediate monitoring and corrective action.

204. Analysis of the interface process showed the existence of other controls particularly after the interface run:

a. Generation of exception report showing the number of errors or problems encountered during processing; and

b. A monitoring mechanism through user control procedure where the outcome of the interface is monitored, the errors/exceptions are detected, and the necessary corrections are effected wherever appropriate.

205. While the system includes an interface that is triggered manually, the risks of inefficient and untimely processing and transfer of AR data to the GL is not mitigated because the activity necessitates human intervention. Based on business requirements on job definition, scheduling and event triggering activities are necessary to initiate an interface daily, weekly, monthly, or after a triggering event. "Triggering events" are used to start interface processing based on specific criteria such as date/time or completion of another event.

206. **We recommended and FAO agreed to conduct a thorough test of the functionality to determine processing points where errors reside, and revise the interface strategy and design with consideration for the following:**

**a) the automatic interface method;**

**b) the data fields being interfaced;**

**c) the appropriate controls for complete and accurate data interface; and**

**d) the timing requirements.**

### *b) Accounting and Reporting Module - General Ledger (GL) Accounting - Outcome of the year-end closure for Travel Accruals is not in accordance with the parameters criteria*

207. One of the sub-processes of the Accounting and Reporting module is the Month- and Year-End Closure where accruals of transactions are processed. The Organization's use of accrual accounting, standard definitions, measurement criteria and reporting requirements are all geared toward becoming IPSAS-compliant. Accrual accounting

measures the performance and financial position of an organization by recognizing the revenue when it is earned and the expense when it is incurred rather than when cash is received or paid.

208. One significant basis of the review of the Month- and Year-End Closure facility is the Organization's 2012-2013 Biennium Accounts Closure Instruction that sets out the Accrual criterion for Purchasing (PRs), Purchase Orders (POs), Travel Plans and Travel Authorizations (TAs) and Non-staff Human Resource (NSHR) commitments for implementation by all FAO Offices. The instruction is aimed at ensuring that original transactions are properly recorded and accounted for in the period that they occurred.

209. A walkthrough of the Month- and Year-End Closure process was conducted with the BPOs and concerned application specialist to determine current controls that are embedded in the module.

210. To evaluate the operating effectiveness of the process controls, we requested for the Accrual Detail and Exception Reports generated by the system at year-end closure for the different modules that include Purchasing, Travel, NSHR and Receipts, among others. The objective set in our review is the correct definition of FAO policies on accounting and reporting in the system. We noted that the closure instruction for the accrual of travel provides that all TAs with departure date on or before 31 December 2013 and return date before 10 January 2014 will be accrued in accordance with the prescribed loading criteria.

211. A comparison of the defined parameters against the Travel Accrual Detail Report for the Biennium end 2012-2013 showed that there were 16,652 outstanding travel encumbrances that were accrued at year-end. Our verification however, disclosed that 24 TAs included in the report did not fall within the set parameters and had negative balances totaling USD 31,892. The presence of these negative balances in the Travel Accrual Detail Report indicates a gap in the Travel Module information processing system.

212. Our further analysis indicated that of the 1,328 TAs that were excluded in the accrual at the end of the biennium, 717 TAs or 54 per cent has Trip Begin Dates in 2013 but Trip End Dates after the cut-off date of 10 January 2014. Further analysis of the 717 TA exceptions revealed that these encumbrances are aged 111 days on the average with various Trip Start Dates up to 31 December 2013.

213. **We recommended that FAO accurately define and align in the system the accrual standards and policies to enhance the Month- and Year-end Closure facility by reviewing the system configuration in the processing of accruals so that encumbrances at year-end closures that fall outside the system parameters during year-end closures are properly managed.**

214. Management commented that due consideration is being given to the method of calculation of the travel accrual in support of the IPSAS financial statemens. The basis of the accrual will depend on but will not be limited to: (i) accuracy of the accounting transaction, (ii) relative ease/complexity in the ability to record such transactions, i.e. the cost / benefit of recording the cost, (iii) systems capability.

### c) *Absence of data input control procedures in the Travel and Procurement Modules resulting in entries in the Exception Reports*

215. Our review of the interface process in the accounting and reporting module of GRMS revealed that it contains a basic control of generating exception reports for transactions that did not pass the defined parameters. However, our test detected certain gaps therein particularly for the required user control procedures which are designed to provide reasonable assurance that all transactions are accounted for, and that all errors, once identified and isolated, are further analysed and corrected in a timely manner.

216. We noted in our review of the Travel and Procurement Modules data that there was a total of 3,747 exceptions for travel and PO. Verification of these exceptions however, disclosed a far greater concern as presented below:

a. Negative balances for Travel and PO encumbrances are effects of system glitches in the reversal of the commitments;

b. Exceptions for "Activity expired or disabled" are effects of non-cancellation of invalid and outstanding commitments in the upstream process; and

c. Two (2) TAs with "Currency Code is Null" relating to tickets and hotel fees were excluded in the accrual but other items in the same TAs like Daily Subsistence Allowance (DSA) and other fees were considered and accrued.

217. Negative balances relating to Travel and PO encumbrances were confirmed with the BPOs and Application Specialists, indicating that there seems to be a system issue where reversal entries were not properly captured in the system. The technical team will be looking into this matter. There were 10 transactions reflected in the Travel Accrual Exception Report totaling USD 56,643 and 1,210 transactions under the PO Accrual Exception Report totaling USD 1,056,576, all with negative balances. The existing state of these exceptions is a matter of concern since negative balances would regularly reflect in the reports, thereby impacting on budgetary and financial reporting.

218. Moreover, the exceptions for the 152 outstanding POs with FINALLY CLOSED codes were validated in the system and confirmed by the BPO and the Application Specialist as well. The system excludes the PO with outstanding commitments in the accrual if and when the header status is FINALLY CLOSED. Budget Holders are supposed to close all outstanding commitments before finally closing the project. However, this instruction oftentimes is not complied with, and yet the closure of accounts is affected.

219. We further analyzed selected accrual transactions reflected in the Accrual Details Report to verify consistency in the application of the system to the exceptions. We noted that there were 59 POs with FINALLY CLOSED Codes totaling USD 2,960,699 that were accrued at Biennium-end 2013. These include encumbrances that date back to as early as 2003.

220. For exceptions for "Activity expired or disabled", we observed that these pertain to PO outstanding balances which were not closed or cancelled by Budget Holders before the

final closure of projects. Perusal of the details of the exceptions disclosed that these relate to prior year encumbrances starting 2001 which were not acted upon or reviewed by the responsible units.

221. We also noted that there is an absence of user control procedures involving appropriate review and corresponding action done on the exceptions detected in the closure functionality of GRMS, thus lowering the level of reliability of the generated balances in the GL.

222. **We recommended and FAO agreed to:**

- **a. conduct a review and analysis of the exception reports in the Travel and Procurement Modules, and based thereon, apply system validation controls, where applicable, for these Modules;**

- **b. instruct the BHs to faithfully ensure that outstanding commitments are valid and accurate to avoid repetitive exceptions at year-end; and**

- **c. enjoin Application Specialists, in coordination with the BPOs, to verify/analyze the causes of inconsistencies and accordingly correct program routines of the month- and year-end facility to warrant data integrity.**

223. Management noted that the accuracy of the data is a responsibility of the upstream processes and the BHs as emphasized in the closure instructions and recommended that errors should be avoided by introducing system validation at the data input level. They further informed us that in order to facilitate the monitoring of POs, they had issued the PO List and published procedure GLP003 – *How to generate and use PO List reports to* the Field Offices. The accrual procedures relating to GRMS travel and Purchase Orders are currently under management review. Lastly, they also disclosed that any system issue that will be identified will be prioritized in the context of the GRMS work plan.

### *e) Manage Asset Module - Incomplete capture of relevant information in the Asset Register*

224. One of the significant changes brought about by the implementation of the GRMS is the Manage Asset module. The Module processes, tracks and records all transactions related to FAO property including equipment, non-expendable inventory and intangible items up to the preparation of FAO's first IPSAS-compliant financial statements. Along this line, we focused our audit on significant process controls of managing assets on additions, retirement and processing at month/year-end to determine its level of effectiveness as to design and operation specifically on the following:

a) Data input and changes;
b) Data transfer;
c) Conversion and processing; and
d) Accounting and reporting.

225. We were provided with the Asset Register for the Biennium-end 2013 which is the repository of data for all the assets of the Organization with pertinent details including Asset No., Location, Activity, Description, Serial No. and Employee Name (Custodian). A review of the register, however, showed that there some equally relevant information that are not captured by the system. The Register listed a total of 45,391 asset items. We noted that as at 31 December 2013, there were 8,795 without serial numbers, and 25,345 items without Custodians.

226. The quantity for assets without serial numbers was taken after filtering the Asset Register for items that do not require serial numbers under the major category like furniture and fixtures. Out of the 8,795 assets, there were 6,647 with blank data and 2,148 with "Pls. Inform/Advise/Assign" notations. The assets with no custodian's name were extracted from the file with "No data for Employee Name". As confirmed by the BPO, the "Employee Name" column refers to the custodian's name of the asset, which can be the FAO Representative (FAOR) or Department Head or the designated staff in cases when the property is issued and turned over through a Property Loan Form.

227. To determine the cause of the non-capture of relevant asset data, we conducted a simulation of the Asset module in the test environment (ERP1) and validated this with interviews and queries with the BPO. Our verification disclosed that there is no system design to capture the needed information like serial numbers. We also revisited the Procurement module to determine the point of capture of information of non-expendable items where assets are eventually added to the Asset Register. We noted that at the point of receiving the asset, receipt information are entered like Receipt Date, Delivery Note No. and Comments.

228. We determined that the data on serial number of asset can be captured during the process where pertinent documents like delivery invoices and statements are available and uploaded to the system to record the actual receipt of items. The serial numbers are often already written on the face of the delivery receipt. The process therefore, would be a proactive approach to ensure compliance with policies, and not the other way around where the Asset Responsible Officer need to update and revert back to the serial numbers after the year ends. Moreover, we also tested the system whether serial numbers and tag numbers are required when adding assets in the system. We found out that the fields are not mandatory and additions of assets can still be processed without such data.

229. Further, we noted that the matter of having 25,345 assets with no custodian, or 55% of the total registered assets, must be addressed for purposes of internal control and accountability practices, as stipulated in Manual Section 202.10.4.4, where *every asset must be assigned to a custodian, who is responsible for its safekeeping.* The FAO Handbook also explicitly provides that the custodian shall be the Asset Responsible Officer who is normally the head of office or the unit chief of the duty station or department using the property.

230. We also simulated and validated the controls on the process of adding and updating assets in the Module and noted that these are operating effectively as designed specifically for embedded controls on predefined unique asset number, "assignment" pertaining to the name of the authorized staff with index number, and other related fields. We however, found out that the default setting of the "Assignment" field is not the head of the unit or

linked to the organizational or country code of the asset to be added. Moreover, we noted that the initiator manually searches for the "Employee Name", and if and when the initiator selected an incorrect employee name of another organizational code, the system still accepts such addition.

231. Also, the presence of numerous items without assigned custodians in the Asset Register only shows that even without filling in the "Assignment" field, assets can still be accepted and processed in the system. We noted that the system was envisioned to facilitate management of assets purposely with complete relevant information particularly the asset number, assignment and serial number, among others.

232. We discussed with the BPO the possibility of including the capture of serial numbers in the Receiving functionality to which the BPO concurred as well as the enhancement of the module for the tagging of assets. We expect that the perennial issue of the integrity of the Asset Register, in spite of the annual physical verification of assets by concerned offices, will eventually be addressed once enhancements in the module are put in place.

233. **We recommended that FAO closely align asset management and reporting with the Organization's accountability requirements to strengthen the integrity of the Asset Register.**

234. **We also recommended that FAO perform the following system enhancements:**

a. **Capture of serial number in the Receiving functionality of the Procurement Module to ensure that information can be reflected in the Asset Register when it is interfaced with Accounts Payable;**

b. **Inclusion of a facility on asset tagging and making this as a mandatory field when manually adding the assets in Asset Management module of the GRMS; and**

c. **Making the head of office or unit as the default setting in the "Assignment" field for the designated custodian of the asset to be added to the Asset Register with a provision for a linkage to organizational or country codes, and the necessary authority to update once accountability is transferred to another person in compliance with existing policy.**

235. Management commented that they continue to strengthen the integrity of the Asset Register through system enhancements, training and improved internal controls. Regarding proposed enhancements:

i. The Organization is considering improvements to Receiving functionality and will evaluate means of capturing the serial number such that It can be added to the Asset Register automatically.

ii. The Organization plans to introduce an asset tagging system in the near future. The tag number shall be required for specific asset categories based

on the uniqueness and constraints of the asset categories – e.g. intangible assets cannot be tagged.

iii. While they agreed with the recommendation c, the current setup of the HR tables in GRMS does not allow for the recognition of department head by organizational or country code.

236. Management added that will continue to address the said recommendations with monitoring and exception reporting to encourage compliance with policies.

***f) Fixed Asset Reports not streamlined***

237. During our audits of the decentralized offices, we observed that different reports are still being maintained in the field, and more often than not, the Fixed Asset Report in Country Office Information Network (COIN) report does not match the PVAR or the Asset Register. Our interview and confirmation by the BPO disclosed that decentralized offices were already informed not to use the COIN Year-end Asset Report (YEAR) report considering that it is not current and therefore, not updated when compared to the Asset Register in GRMS. The PVAR, which is a report generated in *i*MIS with established linkage with the oracle system, replaced the YEAR previously used by decentralized offices to conduct physical verification at year-end. The usability of the COIN Report, therefore, has become nil so it has to be removed to avoid further complexities in information build-up. This contention was acknowledged by the BPO as well.

238. **We recommended and FAO agreed to decommission the Fixed Asset YEAR Report in COIN to streamline asset reporting and improve efficiency in data processing.**

### 2.5.3 Other Enhancements of System Outputs

239. Our evaluation of the different GRMS modules identified several areas that require system enhancements in terms of generating useful reports. Our previous audits in selected field offices as well as the recent biennium-end audit at FAO Regional Office for Africa (RAF) revealed that the system design of the Travel module does not include monitoring reports at the initiator or division level. The initiator can only view the TA Report in the module of GRMS for a limited purpose and has no facility to generate the list of TAs issued together with the corresponding processed or finalized Travel Expense Claim (TEC) and the Back-to-Office Report (BTOR). A parallel excel monitoring spreadsheet still has to be prepared to monitor travel advances and liquidations.

240. We confirmed that there is really no monitoring report generated by the system at the initiator level for the purpose of ensuring that staff and non-staff personnel comply with FAO's policy on submission of TEC and BTOR, among others. Reminder programmes for TEC and BTOR submission at the transactional level have been incorporated in to the system design. We were informed that, being the centralized support hub for all FAO offices to include asset, vendor management and travel, SSC has an access to travel monitoring reports on a global scale.

241. In the same line, our review of the Bank Reconciliation process under Cash Management module also revealed substantial reporting concerns. During the validation walkthrough of the bank reconciliation process for decentralized offices, we confirmed that there is a lack of monitoring reports in the cash module which were designed to generate relevant information such as the status of bank reconciliations done in the field.

242. The periodic reconciliation of bank accounts provides the necessary management control to verify accuracy and completeness of all transactions recorded in the bank accounts with the recorded transactions in the GL, and is a vital procedure in detecting errors and other reconciling items. Failure to prepare the monthly bank reconciliations in a timely manner increases the risk of unidentified and intentional errors resulting, among others, in the waste and loss of necessary resources and questionable reliability and integrity of reported information.

243. It is for this reason that the Finance Division requires the performance of month-end procedures on the reconciliation between the closing balance of the bank account in the Cash management module of GRMS and that of imprest/GL account. The FAO Manual, Chapter II – Finance, Section 202 – Financial Regulations and Financial Rules also requires the timely reconciliation of all bank accounts at the Headquarters and at locations away from the Headquarters for the same reason.

244. The result of the GRMS User Satisfaction Survey directed to different offices in the Headquarters and the field also reflected concrete issues on the report outputs of the system.

245. **We recommended and FAO through CIO agreed to enhance the reporting capabilities of the Travel and Cash Modules by considering the users' needs and using the most appropriate format to maximize the use of information.**

### 2.5.4 Other Important GRMS Concerns

246. In our audit of the GRMS implementation conducted in October 2013, we noted the need to address other important GRMS concerns by Management. The actions taken by Management were validated during our audit in May 2014. These are as follows:

a) Work out for the immediate approval of the Information and Communication Technology (ICT) Security Framework and immediately publish the approved document in the CIO intranet website. Management informed us that this work is being prioritized once the position of the IT Security Officer is filled up.

b) Establish a formal SLA management framework including the appropriate strategies with due consideration for the current limitations of the CIO. The formal SLA management framework to be developed should include processes for creating service requirements, service definitions, SLAs, Operational Level Agreements (OLAs) and funding sources. There is also a need for Management to ensure that the framework defines the organizational structure for service level management for the delineation of

responsibilities among the internal and external service providers and customers.

c) Prioritize the finalization, approval and adoption of the Business Continuity Framework Plan (BCFP) taking into consideration the major findings and observations on the recently-conducted disaster recovery review and formalize the Change Management Framework to ensure that all changes endorsed to production systems are managed consistently and formally.

247. Management informed us that a detailed review of the existing BCFP and other disaster recovery and preparedness plans was conducted in the second half of 2013. On the basis of that analysis, a full set of documents was prepared to support the implementation of a Business Continuity Management (BCM) Program in FAO. The effective implementation of a BCM in all FAO offices requires dedicated resources, which are currently being identified in collaboration also with the WFP.

248. The resulting actions undertaken by CIO on these important concerns still hinge on future actions that will definitely have an impact on the current implementation of the GRMS, if not acted in due time. While some processing controls need to be enhanced, we are also concerned about the implementation of general guidance and controls that we recommended including the design of frameworks that will support the Enterprise Resource Planning (ERP). We emphasize FAO's need to have an enabling environment within 2014 in terms of information processing. Any protraction has to be dealt with the most effective strategies to mitigate several risks threatening the integrity of information processing.

249. **We recommended and FAO agreed to ensure that the Change Management, SLA Management and ICT Security Frameworks are delivered within 2014 and adopt strategies to mitigate risks emanating from the current absence of these Frameworks.**

## 3. AUDIT OF DECENTRALIZED OFFICES

250. We audited 11 decentralized offices consisting of two regional offices: Asia Pacific (FAORAP) and Africa (FAORAF); two sub-regional offices: Central Asia (FAOSEC) and South Africa (FAOSFS); and seven country offices: Bangladesh (FAOBD), India (FAIND), Bolivia (FLBOL), Thailand (FATHA), China (FACPR), Ghana (FRGHA) and Uganda (FRUGA). We reviewed important areas in their operations such as project management, procurement, asset management, consultants, travel, and financial and cash management.

251. For the past three biennia (2008-2009, 2010-2011 and 2012-2013), we noted common internal control deficiencies in decentralized offices detailed in Annex A in spite of the presence of FAO Handbook, Manual Sections, guidelines and information notes provided to all staff.

252. Considering that most transactions are now processed at the decentralized offices, we see the need to address these weaknesses and deficiencies, and strengthen the internal

control system in the decentralized offices. We believe that with a well-designed internal control framework and the provision of capacity building to all staff involved in operations, these deficiencies can be addressed and will reinforce accountability and transparency in the decentralized offices, and in the Organization as a whole.

253. **We recommend that FAO strengthen the internal control system in decentralized offices through a well-designed internal control framework and a continuous re-tooling of all staff performing programmatic, administrative and financial functions in the decentralized offices.**

254. The specific deficiencies and weaknesses noted in decentralized offices are discussed by audit area to provide specific recommendations:

## 3.1 Project/Programme Management

### 3.1.1 Technical Cooperation Programme (TCP)

***a) Uneven distribution of allocation at biennium-end***

255. At the end of Biennium 2012-2013, we noted that out of the 47 countries in FAORAF, 25 countries received budgets in excess of their indicative allocation; 21 countries did not avail of their allocation; and one country availed of the program despite the absence of an allocation. On the other hand, four out of the 20 countries under FAORAP received relatively low allocations *vis-à-vis* their indicative allocation for the Biennium 2012-2013.

256. To preclude the uneven distribution of allocation in the TCP, there should be a periodic review of the causes for the deviation in the utilization of country allocations. Likewise, these causes should be considered in the guidelines for the distribution of allocation. Unless a sound and realistic basis of allocation is devised, and a strict adherence thereto is observed, there is a high risk that selection and approval of projects will not be equitable, and might result in the failure of the programme in meeting its objectives.

257. **We recommended and the Regional Offices concerned agreed to ensure that the allocation to country offices is in accordance with the guidelines in the TCP Manual based on the needs and priorities of the countries and the Organization, as embodied in the Country Programme Framework, Regional Initiatives and the Strategic Framework.**

***b) Project approval rates below the "encouraged" approval rate of 70 percent/ Delayed approval of TCP projects***

258. We noted that TCP project approval rates for the first year of the Biennium 2012-2013 were below the "encouraged" approval level rate of 70 percent with only 60 percent for FAOSFS and 45 percent for FAORAP.

259. The decentralized offices concerned attributed the following causes for the low approval rate:

a) non-availability of FAORs;
b) lack of technical staff at the field office to handle projects;
c) priority being given to emergency instead of TCP projects; and
d) failure to get official commitments from counterpart governments.

260. **We recommended and the decentralized offices concerned agreed to be proactive in coordinating with their counterpart governments to identify needs that will support the country's development objectives in order to maximize the utilization of their TCP allocations. We also recommended that the decentralized offices ensure the availability of technical staff to handle TCP projects and that priority be accorded for their implementation.**

***c) Low project delivery and inadequate TCP project planning and management***

261. We noted low deliveries in the projects of the following decentralized offices: FAORAP – 7; FAOSEC – 6; FAOSFS – 4; FABGD – 3; FATHA – 2; FLBOL – 2; FACPR - 2.

262. These were due mainly to project design flaws, delayed inception, poor monitoring, changes in government priority, late release of funds, and changes in Lead Technical Officer (LTO) which were not promptly addressed.

263. **We recommended and the decentralized offices concerned agreed to thoroughly identify and study key assumptions and potential risks during project planning/development to determine alternative courses of action that will mitigate the impact when risks occur.**

264. **We also recommended and the decentralized offices agreed to be responsive to government priorities by anticipating common project implementation bottlenecks, particularly in the procurement activities, and employ adequate monitoring to ensure the timely completion of projects.**

***d) Inadequate project documentation***

265. Our review of TCP projects of FLBOL and FACPR disclosed approved projects which did not have the required minimum information under the TCP Manual submitted by counterpart governments. The inability to quantify government inputs and weaknesses noted in the planning/project formulation stage resulted in tying up TCP resources to the project budget which could otherwise have been used to finance other TCP projects.

266. **We recommended and the decentralized offices concerned agreed to ensure that the minimum information contemplated in Section 6.1 of the TCP Manual are submitted by the counterpart or the requesting government together with the official request for TCP assistance before they are recorded in the active pipeline. This will provide inputs for an accurate assessment of the technical feasibility of TCP requests. We further recommended that FAO exhaust all means to quantify the government inputs in the project document to be able to come up with realistic budget allocations.**

### 3.1.2 Trust Fund Projects

***a) Deficiencies in project monitoring and reporting***

267. We noted gaps in the reporting and uploading of monitoring reports in the FPMIS due principally to the lack of cooperation and coordination between the budget holders and the technical officers at FRUGA, FABGD, FACPR, FATHA, FAOSFS, FAOSEC, FAORAP and FAORAF. Failure to upload monitoring reports would leave the beneficiaries and donors without information at all on the status of the project. While reports may have been prepared since these are prerequisites to succeeding payments or reimbursements, they will have no value to stakeholders if they are not uploaded in the FPMIS.

268. In FABGD, Terminal Statements and Quarterly Accomplishment Reports prepared by the Technical Officers lacked identifiable indicators for easy assessment of outputs against work plans.

269. **We recommended and the decentralized offices concerned agreed that their Budget Holders regularly coordinate with the Technical Officers on the project reporting requirements for the complete and timely uploading of information, thereby enhancing the value of FPMIS as an indispensable tool in project monitoring. We also recommended that the decentralized offices establish control measures to ensure the accuracy and completeness of Terminal Statements and Accomplishment Reports.**

***b) Activities not completed on or before NTE dates***

270. We noted a number of projects which were completed one to seven months after their NTE dates (9 FRGHA projects, 7 FACPR projects, 6 FAORAF projects and 5 FABGD projects). The delays in the completion of the projects were caused by revisions in work plans, delayed delivery of essential inputs, budget revisions, undisposed assets and unfinished Terminal Statements.

271. **We recommended and the decentralized offices concerned agreed to strictly monitor the implementation of projects and ensure that all deliverables and documentations are completed within the lifespan of the project.**

***c) Delay in project closures***

272. We noted delays in operational and financial closures of projects during Biennium 2012-2013 in all the decentralized offices that we audited. These were due mainly to the non-submission of Terminal Reports and assets not being turned over. Delay in the project closure diminishes project's value since stakeholders are not provided with the accurate information for decision-making.

273. **We recommended that the decentralized offices require the Budget Holders to expedite the operational and/or financial closure of the projects and follow up on the status of the requests for closure.**

## 3.2 Procurement

274. Our review of procurement practices in the decentralized offices revealed the following gaps:

a. Non-segregation of procurement duties at FAORAF;

b. Absence of procurement plan at FAOSFS and the procurement not in accordance with the plan at FACPR, FAORAF and FAORAP;

c. No Purchase Requests at FRGHA and FAORAF;

d. Vendor selection not documented and lack of competition in the award of contract (FRUGA);

e. Absence of delivery dates and/or unsigned POs at FAOBDG, FAORAF, FAORAP, FATHA, FLBOL, FACPR, FRUGA and FRGHA;

f. Absence of information on the actual receipt of goods, delays in processing of POs and/or non-enforcement of liquidated damages for late deliveries at FATHA, FRUGA, FRGHA and FAORAF; and

g. Misclassification of expendable and non-expendable items at FAOBDG and FAORAF.

275. We also noted deficiencies in the procurement covered by LoAs:

a. Deficiencies in the required reports and/or delays in the submission/delivery of outputs by FAOBDG, FAOSFS, FAORAP, FACPR, FRUGA, FATHA, FRGHA and FAORAF;

b. Direct selection of Service Provider by FACPR; and

c. Absence of review by the Local Procurement Committee at FAORAF and FRUGA.

276. The foregoing deficiencies in procurement in the decentralized offices suggest the need to enhance the capabilities of field personnel to manage procurement and to comply with the existing regulations on procurement.

277. **We recommend that the decentralized offices ensure compliance with prescribed regulations and guidelines in conducting procurement and perform procurement activities that will result in the best interest of the Organization**.

## 3.3 Asset Management

***a) Balances of Property Inventory Reports are not complete and accurate***

278. Our review of asset management by decentralized offices revealed deficiencies which would affect the accuracy and completeness of other disclosures on non-expendable property:

a) No asset verification was conducted;
b) Non-utilization of Physical Verification Asset Reports (PVAR) in *i*MIS by FRGHA, FRUGA, FAORAP and FAORAF; and
c) Unrecorded/Unreconciled asset records of FAOSFS, FABDG, FAIND, FLBOL, FACPR, FRGHA, FAORAF, FATHA, FRGHA and FRUGA.

279. **To ensure complete and accurate data on property, we recommended that the decentralized offices concerned improve their asset management by: a) conducting a physical verification of assets regularly; b) utilizing PVAR in *i*MIS in the conduct of their physical verification of assets; and c) reconciling physically verified assets against the asset records in GRMS.**

***b) Accountability for Non-expendable Property***

280. In FLBOL, several assets were under the custodianship of one individual although no custody Asset Form or FAO Property Loan Form was issued. Custody asset form and FAO Property Loan Forms are not being utilized in FATHA, FRGHA and FAORAF. In FRGHA, it was noted that custodianship records were inaccurate. When there are discrepancies in custodianship records, it would be difficult to establish accountability for property in case of loss or damage.

281. **We recommended that Management establish custodianship and accountability of each staff member and official for non-expendable items using the prescribed forms.**

***c) Disposals/ transfers***

282. Our audit revealed that several unserviceable assets remained at the FAOSFS storage and transfers of project assets at FAOSEC were not done in accordance with the prescribed guidelines.

283. **We recommended that the decentralized offices concerned ensure that property disposals/transfers comply with prescribed guidelines for proper accountability.**

### 3.4 Consultants

284. We noted the following weaknesses in the administration of consultancy contracts in the decentralized offices:

***a) Non-observance of guidelines and regulations on hiring of consultants by FAIND;***

***b) No Terms of Reference (TOR) appended to the contract and/or found in the consultant's folder at FRUGA;***

c) ***Lack of performance indicators in consultancy contracts and absence of consultants' outputs and quality assessment forms at FRUGA;***

d) ***No report of accomplishments on record or found in the consultant's folder at FRUGA; and***

e) ***No ADM 104 on record for consultants at FABGD, FAOSFS, FAIND, FAORAP and FATHA.***

285. The lapses observed in the administration of consultancy contracts had already been noted in previous audits. These practices may cast doubts on whether selected consultants are the most qualified for the position.

286. **We recommended that the decentralized offices ensure that the Guidelines provided under MS 317 on the employment of consultants and under MS 319 on subscribers to Personal Services Agreement are complied with**.

*f) Rehiring consultants without Quality Assessment*

287. We evaluated 20 consultants who were engaged in 15 operationally active projects implemented by FRGHA and FATHA, and covered by a total of 68 contracts. Our audit revealed that these consultants were given subsequent contracts without being assessed on their performance at the end of their previous contracts. The absence of the required evaluation of consultants at the end of every contract may result in rehiring consultants who failed to satisfactorily accomplish the required assignment under a previous contract. This practice could be detrimental to the successful implementation of the various programs and projects of the Organization.

288. **We recommended and the decentralized offices concerned agreed that quality assessment be made for every consultant upon completion of each assignment so that only those who satisfactorily accomplish their contracts are considered in future selection processes.**

*g) Issuance of new contracts within the duration of existing contracts*

289. In the evaluation of 13 consultants engaged by FRGHA during the Biennium 2012-2013, we noted that new contracts were issued to five of them, increasing their honoraria even if there was no change in the terms of reference. This practice affected the financial operation of the FRGHA as additional funds were required to meet the increase in honoraria.

290. **We recommended and Management agreed: a) to refrain from adjusting the honoraria of the consultants if there is no change in the terms of reference; and b) to consider all relevant factors such as, but not limited to, the nature of work to be performed, standard rates in the locality for comparable position and educational**

**qualification required for the job to determine a realistic and reasonable honorarium to avoid contract amendments.**

### 3.5 Travel

***Delay in the submission of Travel Expense Claims (TECs) due to incomplete documentation***

291. We reviewed travel transactions of FAIND, FACPR, FRUGA, FRGHA, FATHA, FAORAP and FAORAF and noted cases of delayed submission or incomplete documentation of TECs submitted by NSHRs and staff. Likewise, there were cases of non-recovery of travel advances due from consultants.

292. **We recommended and the decentralized offices concerned agreed to protect the Organization from incurring losses due to non-recovery of travel advances and enjoin all NSHRs as well as their staff to settle their travel advances one (1) month after completion of a journey, or 60 days where travel is more than 30 days in accordance with MS 450.5.31.**

293. **We further recommended and the decentralized offices concerned agreed that the travel initiator regularly monitor outstanding travel advances, and refrain from granting further travel advances unless the previous one has been settled.**

### 3.6 Cash Management

***Non-compliance with Financial Regulations, Rules and Policies***

294. We noted deficiencies and weaknesses in cash management which need to be addressed by the decentralized offices such as:

a. Non-segregation of duties at FABGD;
b. Unresolved outstanding reconciling items in the Bank Reconciliation Statements of FAORAF, FAIND and FABGD;
c. Encashment of check with cancelled payment raised in the GRMS by FAORAP;
d. Non-compliance with existing guidelines in the grant and settlement of Operational Cash Advances at FRUGA and FABGD; and
e. Non-compliance with the existing guidelines in the grant, recording and replenishment of petty cash accounts at FRUGA, FABGD, FLBOL, FAIND, FAOSFS and FAOSEC.

295. The presence of the abovementioned deficiencies exposes the Organization to greater risks in the management of funds. There is a need to strengthen the monitoring control on cash and financial management functions in these offices.

296. **We recommended and the decentralized offices concerned agreed to ensure strict compliance with financial regulations, rules and policies to improve the financial and cash management in the decentralized offices.**

297. **We further recommended that CSF improve its monitoring control in decentralized offices by regularly checking their compliance with financial regulations and policies to lessen the risk of inappropriate use of funds.**

298. **We also recommended that CSF consider in its action plan the continuous re-tooling of staff performing financial functions in the decentralized offices.**

## C. DISCLOSURES BY MANAGEMENT

### 1. WRITE-OFF OF LOSSES OF CASH AND RECEIVABLES

299. During the biennium, total write-offs amounted to USD 526,915. Of this amount, USD 501,746 was approved by the Director-General pursuant to Financial Regulation 10.4 and USD 25,169 was authorized by the Assistant Director-General for Corporate Services pursuant to Manual Section 202.92. We noted that the write-offs were recommended by the OIG and were supported with proper documentation.

300. We further noted that most of the amount written off pertains to the GCCC of Myanmar, Honduras and Mali. We requested Management to carefully review GCCC arrangements to prevent write-off of receivables.

### 2. EX-GRATIA PAYMENTS

301. Management reported that there were no ex-gratia payments made by the Organization in Biennium 2012-2013.

### 3. CASES OF FRAUD AND PRESUMPTIVE FRAUD

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

303. During the Biennium 2012-2103, there were a total of nine cases of fraud and presumptive fraud, a substantial reduction from the 26 reported in the previous biennium. Of the three fraud cases which were carried over from the previous biennium for investigation, two were decided and closed while one is still awaiting final decision.

#### 3.1 Fraud Cases

304. During the Biennium 2012-2013, there were four fraud cases as against 14 in Biennium 2010-2011 that were reported by the medical insurance company Vanbreda.

The cases were committed by former and current staff members. We noted a sharp decline in the number of fraud cases along this area by 10. Fraud committed involved submission of false documentation in support of claims for reimbursement of medical expenses, thereby obtaining undue financial gain. Disciplinary measures were imposed on the persons involved. All of these cases were closed as at 30 April 2014.

### 3.2 Other Fraud Cases and Presumptive Fraud

305. There were five cases of other fraud and presumptive fraud investigated by the OIG during the Biennium 2012-2013 *vis-a-vis* 12 in Biennium 2010-2011. It involved mostly misconduct or unsatisfactory conduct of staff members, national project personnel or a government-provided staff. The cases included: (a) purchasing of a vehicle by a staff member from the Organization without competitive bidding; (b) overcharging by a FAO contractor of services provided to the Organization; (c) misusing the Organization's letterhead paper and official stamp in support of bank loan applications; (d) requesting and receiving more payments than those to which a money vendor is entitled in the context of FAO's cash-for-work programme; and (e) conflict of interest and procurement fraud in a trust fund project. Except for items (d) and (e), all the cases are now closed.

306. We noted that although there is a substantial decrease in the number of cases committed during the biennium, we expressed concern in the manner the fraudulent acts are committed and the persons committing the fraudulent acts. There were new fraudulent acts committed and the acts were not only committed by staff members but also by vendors. Management is encouraged therefore to be continuously vigilant in addressing fraud.

307. We recognize the effort of the Organization in addressing fraudulent acts committed by vendors with the adoption of a Vendor Sanctioning Policy. Such policy will be a deterrent in the commission of fraud, in addition to Administrative Circular No. 2004/19 which outlines the policy on fraud and improper use of the Organization's resources, and Administrative Circular No. 2007/11 entitled "Zero-tolerance policy in respect of fraud and improper use of the Organization's resources".

## D. ACKNOWLEDGEMENT

308. We wish to express our appreciation for the cooperation and assistance extended to our staff by the Director-General, Deputy Directors-General, Assistant Directors-General, Regional Representatives, HQ Directors, the Director of Finance, Country Representatives and members of their staff during our audit.

**Maria Gracia M. Pulido Tan**
**Chairperson, Commission on Audit**
**Republic of the Philippines**
**External Auditor**

**18 August 2014**
**Quezon City, Philippines**

**Annex A**

**Summary of Internal Control Deficiencies in Decentralized Offices**

**Biennium 2012-2013**

| DEFICIENCIES | FAORAP | FAORAF | FAOSFS | FAOSEC | FAIND | FAOBD | FLBOL | FATHA | FACPR | FRGHA | FRUGA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Programmatic Aspect/ Country Programming Framework (CPF)** | | | | | | | | | | | |
| CPFs of countries under jurisdiction not prepared/complete | | ✓ | | ✓ | | | | | | | |
| CPF not yet finalized | | | | | ✓ | | | | | | |
| Delayed implementation of CPF action plan | | | ✓ | | | | | ✓ | | | |
| CPF not fully aligned with the new strategic objectives of FAO | | | | | | | | | ✓ | | |
| Absence of Finalized Resource Mobilization & Management Strategy | | | | | | | | ✓ | ✓ | ✓ | |
| Approval process of emergency projects still at HQ | ✓ | | | | | | | | | | |
| Delayed capacity development and integrated programme delivery | | | | | | | | | ✓ | | |
| **Technical Cooperation Programme** | | | | | | | | | | | |
| Not fully utilized/relatively low allocation in some countries | ✓ | ✓ | ✓ | | ✓ | | | | | | |
| Over commitment of TCP Facility | | | | | | | | | | ✓ | |
| Peer review not made within 7 working days | | | ✓ | | | | | | | | |
| Low approval rate/delayed approval of projects | | ✓ | | ✓ | | ✓ | | | | ✓ | |
| Delayed project implementation | | | | | | ✓ | | ✓ | | | |
| Low project delivery | ✓ | | | | | | ✓ | ✓ | | | |
| Delay in project closures | | | | | | | | ✓ | | | |
| **Project Management** | | | | | | | | | | | |
| No baselines and targets in the log frames | | | | | | ✓ | | | | | |
| Projects not linked to Strategic Objective or Operational Result | | | | | | | | ✓ | ✓ | ✓ | |
| Low project delivery | | | ✓ | ✓ | ✓ | | | | ✓ | ✓ | |
| Delay in project implementation | ✓ | ✓ | ✓ | | | ✓ | | | ✓ | ✓ | ✓ |
| Work plans not revised/updated | ✓ | | | | | ✓ | | | | | |
| Delay in project closures | ✓ | | ✓ | ✓ | ✓ | ✓ | | ✓ | | ✓ | ✓ |
| Gaps in submission/uploading of reports in FPMIS | | ✓ | ✓ | ✓ | | ✓ | | ✓ | ✓ | | ✓ |
| Deficiencies in project monitoring and reporting | ✓ | ✓ | | | | | | | | | ✓ |
| Projects with over expenditures | | ✓ | | | | | | | | | |
| **Human Resource Management** | | | | | | | | | | | |
| Prolonged vacancy of posts | | | | ✓ | | | | | | | |
| Non-observance of standard procedures for hiring/rehiring | | | | | ✓ | | | | | ✓ | |

| DEFICIENCIES | FAORAP | FAORAF | FAOSFS | FAOSEC | FAIND | FAOBD | FLBOL | FATHA | FACPR | FRGHA | FRUGA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Deficiencies in Consultant's Terms of Reference | | | | | | | ✓ | | | | ✓ |
| No evaluation undertaken for locally recruited consultants/subscribers using ADM 104E | ✓ | | ✓ | | ✓ | ✓ | | ✓ | | ✓ | ✓ |
| **Procurement and Letter of Agreement** | | | | | | | | | | | |
| Non-segregation of duties | | ✓ | | | | | | | | | |
| Re-delegation of authority not transparent/properly observed in GRMS | | ✓ | | | | | | | | | |
| No annual procurement plan | | | ✓ | | | | | | | | |
| Absence of Purchase Requisition (PR) before procurement | | | | | | | | | | ✓ | |
| Undocumented Vendor Selection process | | | | | | | | | | | ✓ |
| Lack of competition in the award of contract | | | | | | | | | | | ✓ |
| Absence of Local Procurement Committee review | | ✓ | | | | | | | | | ✓ |
| No Framework Agreement | | | | | | ✓ | | | | | |
| No specified minimum requirements for Purchase Orders including delivery dates | | ✓ | ✓ | | ✓ | ✓ | | ✓ | | | |
| Delay in the approval of Purchase Orders | | | | | | | | ✓ | | | |
| Unsigned and undated Purchase Orders | | ✓ | | | | | ✓ | | | ✓ | ✓ |
| Advance payments in excess of prescribed 30% ceiling | | | | | ✓ | | | | | | |
| Late Delivery/non-compliance with required outputs/reports by the Service Providers (SPs) | ✓ | | ✓ | | | ✓ | | ✓ | ✓ | | |
| Payment to SPs not properly computed | | | ✓ | | | | | | | | |
| Misclassification of procured expendable and non-expendable equipment | | | | | | ✓ | | | | | |
| Delayed procurement activities | ✓ | ✓ | | | | | | | | ✓ | |
| Incomplete filing of LoA documents | | | | | | | | ✓ | | | |
| LoA not yet countersigned by the service provider | | | | | | | | ✓ | | | |
| Direct selection of the SP/ Non-employment of a realistic assessment on the financial capacity of the SP | | | | | | | | | ✓ | | |
| Non-availment of Tax Exemption privilege | | | | | | | | | ✓ | | |
| No liquidated damages on late deliveries | | ✓ | | | | | | | | ✓ | |
| Incomplete record keeping of LoAs and their supporting documents | | | | | | | | | | ✓ | |
| Procurement without the supporting Inspection and Acceptance Reports | | | | | | | | | | | ✓ |

| DEFICIENCIES | FAORAP | FAORAF | FAOSFS | FAOSEC | FAIND | FAOBD | FLBOL | FATHA | FACPR | FRGHA | FRUGA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Absence of Performance Appraisal of vendors | | | | | | | | | | | ✓ |
| **Asset Management** | | | | | | | | | | | |
| Custody of assets not placed under the user | | | | | | | ✓ | | | | |
| No actual physical checking of assets | ✓ | | | | | | | | | | ✓ |
| Unlocated assets | | | | | | | | ✓ | | | |
| Property not included/reconciled with the Asset Report/COIN | | ✓ | | | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ |
| No Custody Asset Form/Property Loan Form in GRMS | | ✓ | | | | | | ✓ | | ✓ | |
| No project assets reflected in Asset Reports and in FPMIS | | | | | | | | ✓ | | | |
| Non-utilization of the Physical Verification Asset Report (PVAR) | | ✓ | | | ✓ | | | | | ✓ | |
| Incomplete information in the PVAR | | ✓ | | | | | | | | ✓ | |
| Inclusion of disposed assets in GRMS | | ✓ | | | | | | | | | |
| **Overtime Services** | | | | | | | | | | | |
| Overtime Services not supported with form ADM 48 | | | ✓ | | | ✓ | | | | | |
| Improper monitoring of overtime services | | | | ✓ | | | | | | | |
| **Cash and Financial Management** | | | | | | | | | | | |
| Amounts requested for replenishment did not match petty cash disbursements/petty cash level | | | | ✓ | | ✓ | | | | | ✓ |
| Receipts/bills and other documents supporting payments not marked paid | | | | | | ✓ | | | | | |
| Outstanding reconciling Items in the Accounts | | ✓ | | | ✓ | | | | | | |
| Deficiencies in petty cash transactions/delayed submission of petty cash requests | ✓ | | | | ✓ | | | | | | |
| Petty cash disbursement exceeding limit not supported by disbursement voucher | | | | | | | ✓ | | | | |
| Lack of controls in the disbursement of the Out-posted Petty Cash | | | | | | | ✓ | | | | |
| Encashment of check previously cancelled in the GRMS | ✓ | | | | | | | | | | |
| No regular cash count conducted | | | | | | | | | | | ✓ |
| Deficiency between the total accountability and the actual cash on hand | | | | | | | | | | | ✓ |
| Non-recording of disbursements and replenishments in MS Excel as required by policy | | | | | | | | | | | ✓ |
| Settlement of Out-posted Cash Advance (OCA) beyond the required 3-month period | | | | | | | | | | | ✓ |

| DEFICIENCIES | FAORAP | FAORAF | FAOSFS | FAOSEC | FAIND | FAOBD | FLBOL | FATHA | FACPR | FRGHA | FRUGA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Multiple advances granted to staff or consultant | | | | | | | | | | | ✓ |
| OCA exceeded the ceiling of USD10,000 | | | | | | | | | | | ✓ |
| **Travel** | | | | | | | | | | | |
| Submission of Travel Expense Claims (TECs) beyond due dates | | ✓ | | | ✓ | | | ✓ | | ✓ | ✓ |
| Grant of multiple travel advances | ✓ | | | | | | | | | ✓ | ✓ |
| Advances to consultants beyond the 80% limit | | | | | | | | ✓ | | | |
| Backlogs in processing TECs | ✓ | | | | | | | | | | |
| Non-utilization of the Outstanding Advances Report (OAR) | | ✓ | | | | | | | | | |
| Non-completion of Back-to-Office Reports (BTORs) | | | | | | | | | | | ✓ |
| Travel advances beyond 90 days not automatically recovered | ✓ | | | | | | | | | | |

## List of Acronyms

| Acronym | Description |
|---|---|
| AR | Accounts Receivable |
| AP | Accounts Payable |
| ASMC | After-service Medical Coverage |
| BCFP | Business Continuity Framework Plan |
| BCM | Business Continuity Management |
| BH | Budget Holder |
| BPO | Business Process Owner |
| BTOR | Back-to-Office Report |
| CIO | Information Technology Division |
| CIPS | Chartered Institute of Purchasing and Supply |
| CO | Country Office |
| COIN | Country Office Information Network |
| CPF | Country Programming Framework |
| CPU | Critical Patches Update |
| CS | Corporate Services |
| CSAD | Administrative Services Division |
| CSAP | Procurement Service |
| CSF | Finance Division |
| DG | Director-General |
| DSA | Daily Subsistence Allowance |
| EBS | Oracle E-Business Suite |
| EGC | Educational Grant Claim |
| ERM | Enterprise Risk Management |
| ERP | Enterprise Resource Planning |
| FA | Framework Agreement |
| FABGD | FAO Representation Office in Bangladesh |
| FACPR | FAO Representation Office in China |
| FAIND | FAO Representation Office in India |
| FAOR | FAO Representative |
| FAORAF | FAO Regional Office for Africa |
| FAORAP | FAO Regional Office for Asia and the Pacific |
| FAOSEC | FAO Sub-regional Office for Central Asia |
| FAOSFS | FAO Sub-regional Office for Southern Africa |
| FAS | Field Accounting System |
| FATHA | FAO Representation Office in Thailand |
| FC | Finance Committee |
| FLBOL | FAO Representation Office in Bolivia |
| FPMIS | Field Programme Management Information System |
| FRGHA | FAO Representation in Ghana |
| FRUGA | FAO Representation in Uganda |
| GCCC | Government Counterpart Cash Contributions |
| GEF | Global Environment Facility |
| GL | General Ledger |
| GRMS | Global Resource Management System |
| GS | General Service |
| HCA | Host Country Agreement |
| HLCM | High Level Committee on Management |

| | |
|---|---|
| HQ | FAO Headquarters |
| ICT | Information and Communication Technology |
| IFAD | International Fund for Agricultural Development |
| *i*MIS | Integrated Management Information System |
| IPA | Immediate Plan of Action |
| IPO | International Procurement Officer |
| IPSAS | International Public Sector Accounting Standards |
| JIU | Joint Inspection Unit |
| LoA | Letter of Agreement |
| LTA | Long Term Agreement |
| LTO | Lead Technical Office |
| NSHR | Non-staff Human Resources |
| NTE | Not-to-Exceed |
| OHR | Office of Human Resources |
| OIG | Office of the Inspector General |
| OLA | Operational Level Agreement |
| PEMS | Performance Evaluation and Management System |
| PO | Purchase Order |
| PPMT | Procurement Plan and Monitoring Tool |
| PR | Purchase Request |
| PVAR | Physical Verification Assets Report |
| RO | Regional Office |
| RR | Regional Representative |
| SIC | Statement on Internal Control |
| SO | Strategic Objective |
| SLA | Service Level Agreement |
| SRO | Sub-regional Office |
| SRS | Staff Related Scheme |
| SSC | Shared Services Centre |
| TA | Travel Authorization |
| TC | Technical Cooperation Department |
| TCP | Technical Cooperation Programme |
| TEC | Travel Expense Claim |
| TPF | Terminal Payment Fund |
| TT | Team Track |
| UNDP | United Nations Development Programme |
| UNEP | United Nations Environment Programme |
| UNGM | United Nations Global Marketplace |
| UNSAS | United Nations System Accounting Standards |
| WFP | World Food Programme |
| YEAR | Year-end Asset Report |