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Organización de las Naciones Unidas para la Alimentación y la Agricultura

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Audited Accounts - FAO 2017 **Part B - Report of the External Auditor**

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REPORT OF THE EXTERNAL AUDITOR
ON THE FINANCIAL OPERATIONS OF
THE FOOD AND AGRICULTURE ORGANIZATION
OF THE UNITED NATIONS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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EXECUTIVE SUMMARY

Introduction

1. This 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 the audit on the financial statements for the financial year ending 31 December 2017 and the observations with respect to the administration and management of the Organization as required under Regulation 12.4.

2. This is the fourth report issued on an annual basis since the adoption by FAO of the International Public Sector Accounting Standards (IPSAS) as its financial reporting framework effective financial year 2014. The general objectives of the audit are to provide independent assurance on the fairness of presentation of the financial statements to Member States, to help 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 the External Auditor believes should be brought to the attention of the FAO Governing Bodies.

Overall result of the audit

3. In line with our mandate, we audited the financial statements of FAO in compliance with the Financial Regulations and in conformity with the International Standards on Auditing (ISA). Our audit resulted in the issuance of an unmodified audit opinion[1] on the Organization's financial statements for the financial year ended 31 December 2017. We concluded that the financial statements present fairly, in all material respects: (a) the financial position of FAO for the year ended 31 December 2017; (b) its financial performance; (c) the changes in net assets/equity; (d) its cash flows; and (e) the comparison of budget and actual amounts of its expenditures for the said year in accordance with IPSAS.

4. We also concluded that the accounting policies were applied on a basis consistent with that of the preceding year, and the transactions of FAO that have come to our notice during the audit or have been tested as part of the audit of the financial statements are, in all significant respects, in compliance with the Financial Regulations and legislative authority.

5. We conducted performance audit work in addition to financial audit in line with Regulation 12.4. The review included FAO's: (a) Shared Services Centre (SSC); (b) Statement on Internal Control (SIC); (c) corporate travel management; (d) reporting of programme results; and (e) operations of country offices. 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.

6. On financial matters, we made recommendations to address the sustained funding gap on employee benefit obligations, the need to provide a policy to clean-up long outstanding Accounts Payable, initiation of actions on the long outstanding allowance for doubtful uncollected voluntary contributions receivables, the need to improve overall TCP delivery and

[1]Unmodified audit opinion – Under ISA 700, this is an opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. This is the new terminology that replaced "unqualified or clean opinion".

to provide a solution on the identified system errors, reporting issues and reconciling items concerning Prepayments and Accounts Payable.

7. For the SSC, we pointed out the need to enhance existing controls and establish and/or update policies and procedures in the areas of asset management, travel advance recovery, vendor management, education grants, and dependency allowance. Equally important is the commitment of the Management to implement a robust risk assessment exercise in order to realize the benefits from it that will eventually improve the effective management and control of SSC processes and procedures.

8. In relation to the Organization's SIC, we underscored that to fully deliver the value of the SIC as an accountability document, it is incumbent upon the Organization to institutionalize in synergy the enabling policies and related guidance; design and implement appropriate support tools, processes and arrangements; and draw the necessary representations through the contents of the SIC as an accountability document.

9. For corporate travel management, the efforts of the Organization and the progress it has taken in incorporating improvements are significant. Key areas in our review have signaled opportunities for advancement that include among others the streamlining of policies; performance management with respect to the travel service provider; organization-wide perspectives in managing travels; and improving views on risk management, travel risk in particular. The strategic perspectives we elaborated also provide FAO with an external view on how travel management within the Organization can be better optimized.

10. On the reporting of programme results, we emphasized the inclusion of an explicit workflow step in PIRES, better coordination during regional-level reviews of programme results and improvement of the mid-term results reporting mechanism.

11. Regarding the operations of representation offices, we recommended measures to ensure that monitoring and control activities within the key business processes that are vital to the delivery of the Organization programmatic work in the frontline are in place, functioning effectively and efficiently.

Summary of recommendations

12. We made several value-adding recommendations designed to support the objectives of FAO's work, reinforce accountability and transparency, and improve and add value to FAO's financial management and governance. The main recommendations are that the Organization:

Recommendations		Priority[2]	Timeline
Financial Matters			
Funding of employee benefit obligation			
1	**Continue to encourage the Governing Bodies to consider a robust strategy to progressively fund the After Service Medical Coverage (ASMC) and Termination Payments Fund (TPF) included**	**Fundamental**	**2019**

[2]**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.

	Recommendations	Priority[2]	Timeline
	within the Employee Benefit Obligations (EBO) to address funding risks. ***(Paragraph 38)***		
Voluntary contributions			
2	**Review the provisions and initiate actions for write-off, where appropriate, considering the procedures set out in FAO Financial Rule 202.611 on project deficits and Rule 202.10.7.1 on authority to write-off bad debts.** ***(Paragraph 43)***	**Significant**	**2018**
Financial implementation of TCP			
3	**Improve further overall TCP delivery by reviewing the related processes and procedures and determine and address the root causes that contribute to implementation time lags.** ***(Paragraph 51)***	**Significant**	**2018**
Long outstanding accounts			
4	**Prioritize the AP review process clean-up to address long outstanding payables, and consider crafting a policy to cover all long outstanding payables in the regular cleanup process, factoring in timelines for clearing and possible de-recognition and/or cancellation of outstanding payables following an appropriate review and follow-up.** ***(Paragraph 55)***	**Significant**	**2018**
5	**Continue the ongoing work undertaken by the business unit, CIO and Oracle to prioritize the solution of the identified system errors, other reporting issues and reconciling items to ensure that generated reports are complete, accurate and reliable.** ***(Paragraph 59)***	**Significant**	**2018**
Shared Service Centre			
6	**Undertake the necessary action to enhance further the efficiency and effectiveness of management controls within the functional processes of SSC as well as improve compliance with existing and applicable policies, regulations and rules relating to the deficiencies noted.** ***(Paragraph 63)***	**Significant**	**2018**
7	**Update the relevant Manual Sections, "How to" guides, and internal procedures including maintaining business process documentation of all administrative processes under the SSC responsibilities to reflect its actual processing activities using a process map such as e-Guide or equivalent.** ***(Paragraph 68)***	**Significant**	**2018**
8	**Fast track the transfer of responsibilities for asset functions and processes aligned with the current practice and SLA between CSF and SSC, resulting**	**Significant**	**2018**

	Recommendations	Priority[2]	Timeline
	in a defined and transparent governance, accountability, and responsibility over asset functions. ***(Paragraph 69)***		
9	**Initiate a robust risk assessment exercise within the SSC functional unit level in coordination with the Office of Strategy, Planning and Resources Management responsible for assisting FAO offices in understanding and applying good risk management practices.** ***(Paragraph 72)***	**Significant**	**2018**
Governance Matters			
Statement of Internal Control (SIC)			
10	**Enhance the descriptions of risk assessment, and information and communication components in its Internal Control Framework (ICF) to more closely reflect the adopted COSO Framework principles and support the clear communication of such adopted internal control principles.** ***(Paragraph 79)***	**Significant**	**2018**
11	**Improve its corporate guidance on internal control reporting, moving forward, to integrate a more detailed workflow and basis for the production of the SIC, built upon its first year of reporting experience.** ***(Paragraph 83)***	**Significant**	**2018**
12	**Enhance its SIC production process by formally documenting the process, adding more specificities in the Internal Control Questionnaires (ICQs) in relation to the operational contexts of its offices, and, through a robust lessons-learning mechanism.** ***(Paragraph 87)***	**Significant**	**2018**
Corporate Travel Management			
13	**Improve its travel planning arrangements by clarifying and strengthening its travel planning policy and related processes, ably supported by its information management system and an effective oversight and monitoring mechanism to exact better accountabilities, improve cost efficiency controls and achieve full compliance.** ***(Paragraph 94)***	**Significant**	**2018**
14	**Consider the use of premium economy class for air travel giving due consideration to cost savings and FAO's commitment to sustainable travel and that FAO prepares a roadmap for adoption of the travel policy parameter on stop-overs within 2018.** ***(Paragraph 101)***	**Significant**	**2018**
15	**Undertake a comprehensive review of its corporate travel policies with the end-view of enhancing their contents and processes to ensure consistency,**	**Significant**	**2018**

Recommendations		Priority[2]	Timeline
	establish clear accountabilities and policy ownership; ensure they are properly monitored with a concrete feedback mechanism; are supported by a high level of staff awareness on the policies; and provide effective policy implementation oversight. ***(Paragraph 113)***		
16	**Improve its travel risk data and assessment by providing a clearer and more accurate risk management context for risk identification and assessment and adequately document the activities to support risk monitoring and decisions.** ***(Paragraph 118)***	**Significant**	**2018**
Reporting of programme results			
17	**Inclusion of an explicit workflow step in PIRES that covers actions on rejected programme results and closer monitoring of the reported accomplishments to ensure the completeness of information reported in future MTRs.** ***(Paragraph 126.a)***	**Significant**	**2018**
18	**Better coordination during regional-level reviews of programme results to improve the quality of reported accomplishments; and, identification and mitigation of the common root causes of output exclusions to address the risk of inaccurate programme results.** ***(Paragraph 126.b)***	**Significant**	**2018-2019**
19	**Improve its mid-term results reporting mechanism through the adoption of a more optimal review timeframe; institution of better monitoring capabilities of its managers; building of capability of its regional monitoring and reference to organizational learning in succeeding MTRs to support transparency in results reporting and coordination towards overall reporting improvement opportunity.** ***(Paragraph 131)***	**Significant**	**2018-2019**
Operations of Representation Offices			
Delivery of TCP			
20	**Ensure the overall efficiency and effectiveness of the delivery of TCP projects through mechanisms that properly manage events or instances and exact responsibilities affecting the promptness, level, adequacy and reliability of information on TCP commitment delivery.** ***(Paragraph 137)***	**Significant**	**2018-2019**
Delivery of Trust Fund projects			
21	**Make certain the effective and efficient delivery through management of factors and project responsibilities that influence the timeliness, level**	**Significant**	**2018-2019**

Recommendations		Priority[2]	Timeline
	of delivery and information reliability of trust fund projects. ***(Paragraph 141)***		
Reporting to Donors			
22	**Ensure the delivery of timely, reliable and relevant donor reporting information through sustained monitoring efforts and control activities that exact and backstop performance of project reporting responsibilities.** ***(Paragraph 145.a)***	**Significant**	**2018**
23	**Incorporate, with the concurrence from funding partners, provisions in funding agreements detailing prescriptions on fund balances, fund charging and utilization of interest earned.** ***(Paragraph 145.b)***	**Significant**	**2018**
Procurement of goods and services			
24	**Strengthen its monitoring of the delivery of procurement responsibilities by all parties involved to ensure value adding results from the Organization's procurement process.** ***(Paragraph 149)***	**Significant**	**2018**
Human resource management			
25	**Reinforce monitoring activities of key human resource policies relating to performance evaluation, record keeping and documentation of activities to fully accrue the benefits and proactively handle concerns from these aspects of human resource management.** ***(Paragraph 153)***	**Significant**	**2018**
Cash management			
26	**Strengthen monitoring and supervisory controls over cash related processes to ensure that responsibilities are performed to guarantee the adequacy of safeguards and effectiveness of resource utilization.** ***(Paragraph 157)***	**Significant**	**2018**
Asset and inventory management			
27	**Ensure that activities, processes and responsibilities relating to asset and inventory are properly observed and undertaken through enhanced monitoring mechanisms to adequately safeguard and effectively utilize its resources.** ***(Paragraph 161)***	**Significant**	**2018**
Travel management			
28	**Reinforce monitoring measures to enhance the proper execution of travel processes and accountabilities to ensure compliance with existing travel policies and procedures for improved delivery of works.** ***(Paragraph 165)***	**Significant**	**2018**

Recommendations		Priority[2]	Timeline
Cases of fraud and presumptive fraud			
29	**Sustain its robust action against fraud and corrupt practices within all levels of the Organization through prompt action on reported fraud cases and strengthening of existing fraud mechanisms in line with its zero tolerance for fraud policy.** ***(Paragraph 175)***	**Significant**	**2018**

Implementation of prior years' audit recommendations

13. 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 (FC). At the date of preparing the current report, of the 19 recommendations in the Financial Year 2016, 13 (68 percent) were implemented and 6 (32 percent) are in the process of implementation. 18 (86 percent) out of 21 recommendations in the Financial Year 2015 were implemented and 3 (14 percent) are in the process of implementation. 20 (77 percent) out of 26 recommendations in the Financial Year 2014 were implemented while the remaining 6 (23 percent) were in the process of implementation. Of the 57 recommendations made for the Biennium 2012-2013, Management had already implemented 56 recommendations (98 percent), leaving 1 recommendation (2 percent) still in the process of implementation. We encourage Management to prioritize the implementation of the remaining recommendations.

A. MANDATE, SCOPE AND METHODOLOGY

1.Mandate

14. The Commission on Audit of the Republic of the Philippines was appointed by the 146th Session of the Council[3] as External Auditor of the Organization for a period of six years commencing with the year 2014.

15. As the External Auditor, we are mandated to issue a report on the audit of the financial statements for each calendar year, which shall include information necessary with regard to matters referred to in Financial Regulation 12.4 and in the Additional Terms of Reference. The report together with the audited financial statements is transmitted to the Council through the FC, including directions, if any, given by it. The Council shall examine the financial statements and audit reports and forwards them to the Conference with comments as it may deem prudent.

16. This is the fourth year of our new audit mandate and the fourth Report of the External Auditor to be issued on an annual basis since the adoption of IPSAS as the financial reporting framework of the Organization starting 2014.

2. Scope and objectives

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

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

a. the financial statements present fairly the financial position of FAO as at 31 December 2017, the results of its financial performance, the changes in its net assets/equity, the cash flows of the Organization and the comparison of its budget with actual amounts of expenditures for the financial year ended 31 December 2017 in accordance with IPSAS;

b. the 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

c. the transactions that have come to our notice or that we have tested as part of the audit, comply in all significant respects with the Financial Regulations and legislative authority.

19. The External Auditor likewise conducted a review of the Organization's operations pursuant to Financial Regulation 12.4 and made 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.

[3] Resolution 1/146 adopted on 26 April 2013

20. 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.

3. Methodology and auditor's responsibilities

21. We conducted our audit in accordance with the ISA. These standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatements. The audit includes examining evidence supporting the amounts and the disclosures in the financial statements on a 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. We adopted the Risk-based Audit Approach in the audit of the financial statements based on an understanding of the entity and its environment, which requires the conduct of risk assessment to identify all possible material misstatements in the financial statements and the assertions accompanying it.

22. The External Auditor's responsibility is to express an opinion on the financial statements based on an audit. An audit is performed to obtain reasonable assurance, not absolute assurance, as to whether the financial statements are free from material misstatements caused by either fraud or error.

23. We also reviewed the effectiveness of management controls in key areas of operations, risk management, operations of selected decentralized offices with a focus on the technical cooperation programme, project implementation, the country programming framework and the fraud risk response mechanism, in line with Financial Regulation 12.4.

24. For the financial year 2017, we conducted audits in the Headquarters (HQ), Shared Services Centre (SSC) and seven representation offices, namely, the FAO Representation Offices in Bangladesh (FABGD), Mongolia (FAMON), Nepal (FANEP), Sudan (FNSDN), Central African Republic (FRCAF), Democratic Republic of Congo (FRDRC) and Mali (FRMLI).

25. We also audited the financial statements of the FAO Credit Union for financial year 2017 and the terminal report of the FAO Staff Commissary. We issued separate reports on each. Further, we reviewed and certified the Status of Funds of the programmes implemented in cooperation with or on behalf of other agencies, namely the United Nations Development Programme (UNDP) and the Global Environment Facility (GEF).

26. We coordinated planned audit areas with the Office of the Inspector General (OIG) to avoid unnecessary duplication of efforts, and 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.

27. We reported the audit results to FAO Management in the form of management letters which contain detailed observations and recommendations. This practice provides a continuing dialogue with Management.

B. RESULTS OF AUDIT

28. This section presents the results of the audit for the financial year 2017, which covers matters that in the opinion of the External Auditor should be brought to the attention of the Governing Bodies. To ensure balanced reporting and to co-develop solutions, we afforded FAO Management the opportunity to comment on our audit observations. 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.

B.1 FINANCIAL MATTERS

B.1.1 Audit of financial statements

29. We concluded that the financial statements present fairly, in all material respects, the financial position of FAO for the financial year ended 31 December 2017, the results of its financial performance, the changes in net assets/equity, the cash flows, and the comparison of budget and actual amounts in accordance with IPSAS. As such, we issued an unmodified opinion on the FAO's financial statements. The statements audited were as follows:

a) Statement I. Statement of Financial Position;
b) Statement II. Statement of Financial Performance;
c) Statement III. Statement of Changes in Net Assets/Equity;
d) Statement IV. Statement of Cash Flow;
e) Statement V. Statement of Comparison of Budget and Actual Amounts; and
f) Statement VA. Statement of Comparison of Budget and Actual Amounts for the biennium ended 31 December 2017.

30. We appreciate the efforts taken by FAO Management to address a number of recommendations issued in the course of the year-end audit of the FAO 2017 financial statements in order to present fairly the balances of the affected accounts and improve the presentation and disclosures in compliance with IPSAS. The financial statements for the period ended 31 December 2017 reflect the adjustments on the balances of the accounts affected, as well as the corrections and additions to the note disclosures.

31. In addition, as required under FAO's Financial Regulations, we concluded that the accounting policies were applied on a basis consistent with that of the preceding year. Further, we concluded that the transactions of FAO that came to our notice during the audit or that were tested as part of the audit of the financial statements were in all significant respects, compliant with the Financial Regulations and legislative authority of FAO.

32. We however identified important issues that need to be addressed by Management to further improve recording, processing and reporting of financial transactions, and financial management. These include, among others, the long outstanding uncollected voluntary contributions receivables; the cleanup of long outstanding Accounts Payable; and the unresolved reconciling items on Prepayments and Accounts Payable. In addition, to improve financial management and operations, Management needs to address the unfunded employee benefit obligations and the low financial delivery of Technical Cooperation Programme. These matters are discussed in the succeeding paragraphs.

B.1.2 Funding of employee benefit obligations

33. The total non-current Employee Benefit Obligations (EBO) significantly increased by USD 208.0 million or 16 percent from USD 1 319.0 million in 2016 to USD 1 527.0 million in 2017. The increase was due to the excess of costs over benefit payments during the year, the effect of the strength of the euro currency, decreased mortality rates and a lower discount rate, partly offset by a decrease in medical trend rates and claims and administrative expenses experience. On the other hand, investments set aside to back up the non-current EBO increased by USD 91.0 million or 20 percent from USD 444.0 million in 2016 to USD 534.0 million in 2017. The increase was mainly due to interest and dividend income, positive performance in equity markets and rising strength of the euro currency.

34. Although the rate of increase of the earmarked long-term investments is notably high, the increase in the EBO is much higher. The result, in the final analysis, was an increase of USD 117.5 million or 13 percent in the unfunded EBO from USD 875.6 million in 2016 to USD 993.1 million in 2017. Long-term investments and any income, which they generate, were applied first to ensure the adequacy of funding of the Separation Payments Scheme (SPS) and Compensation Plan Reserve Fund (CPRF). This left the After Service Medical Coverage (ASMC) and Termination Payments Fund (TPF) with unfunded balances of USD 935.0 million and USD 58.1 million, respectively, in 2017.

35. The Organization would need to contribute an additional USD 8.4 million per year (USD 16.8 million per biennium) to fully fund the TPF past service liability of USD 58.1 million (using a 15-year amortization period starting in 2010), as highlighted in the document presented to the Finance Committee Report on the 2017 Actuarial Valuation of Staff Related Liabilities (document FC 170/4). Moreover, in order to fully fund the US Dollar value of the unfunded ASMC past service liability of USD 935.0 million (using a 30-year amortization period beginning in 2010), a total of USD 28.1 million per year (USD 56.2 million per biennium) needs to be contributed. No funding was however approved by the Conference for 2018 and 2019.

36. The matter of funding the EBO has been brought to the attention of the Governing Bodies by the Management and previous audits. The delay in the funding of EBO is an operational risk and puts pressure and burden on the future programs of the Organization. The fund would only last a little more than 10 years without future funding, assuming actuarial assumptions would persist as at year-end taking into consideration potential income, in nominal terms, to be derived from earmarked long-term investments. Nevertheless, we note that FAO has implemented alternative measures to reduce the obligation for ASMC such as changes in the cost sharing provisions that would reduce the cost to the plan.

37. Reducing the unfunded liability requires that the levers of long-term investments, cost sharing provisions and benefit payments should work effectively in tandem. Management should continue to impress upon the Governing Bodies the risks of unfunded EBO. In addition to alternative measures implemented, we highlight that the Management and Governing Bodies have to commit in formulating a robust strategy with respect to the unfunded liability and to address it within a reasonable period.

38. **We recommended that FAO continues to encourage the Governing Bodies to consider a robust strategy to progressively fund the ASMC and TPF included within the EBO to address funding risks.**

B.1.3 Voluntary Contributions

Significant increase in voluntary contributions due to accounting treatment under IPSAS

39. FAO commenced to adopt IPSAS on 1 January 2014. In compliance with the transitional provision, which ran until 2017, FAO grouped its transactions into two major classes – Pre-2014 Class and Post-2013 Class. Pre-2014 Class refers to trust fund agreements that have been approved and entered into the system by 31 December 2013; while Post-2013 Class are those trust fund project agreements approved and entered into the system subsequent to 31 December 2013. The Pre-2014 Class was composed of project agreements that were scheduled for completion before 31 December 2016 and those scheduled for completion after 31 December 2016.

40. For the Pre-2014 Class projects scheduled for completion after 31 December 2016, adjustments have been made in their opening balances. Payments received in advance (deferred revenue) that were not recognized as revenue from 2013 to 2016 under the old accounting policy (UNSAS) were now recognized as revenue for the period ended 31 December 2017 in accordance with IPSAS. As a result, FAO has registered a total equity of USD 16.0 million as at 31 December 2017, from a negative balance of USD 104.0 million as at 31 December 2016. Revenues with a net amount of USD 120 million on projects under the Pre-2014 Class that were scheduled for completion after 31 December 2016 were ***recognized pursuant to the accounting treatment under IPSAS, not by new voluntary contributions in 2017.***

Uncollected voluntary contributions receivables

41. The allowance for doubtful accounts (ADA) (2813) on voluntary contributions receivable as at 31 December 2017 showed that out of the balance of USD 8.8 million, 88 percent or USD 7.8 million had been outstanding for five to 20 years. The ADA pertains to extra-budgetary funded projects already operationally closed with cash deficits of USD 5.3 million, and USD 3.5 million for UNDP funded projects since 2000.

42. The CSF informed that the ADA covering the UNDP projects primarily relates to old reconciling items for transactions performed between the UNDP and FAO, which is the subject of ongoing discussions between the two organizations. We view that the amounts owing to FAO are irrecoverable debt, which affects the faithful presentation of the reported voluntary contributions receivable, considering the lapse of time ranging from five to 20 years since the ADA on voluntary contributions receivables of USD 7.8 million was provided, and the reasons for its existence.

43. **We recommended that FAO review the provisions and initiate actions for write-off, where appropriate, considering the procedures set out in FAO Financial Rule 202.611 on project deficits and Rule 202.10.7.1 on authority to write-off bad debts.**

B.1.4 Financial implementation of TCP

44. The Statement of Comparison of Budget and Actual Amounts (SCBA) envisions to provide enhanced transparency in financial reporting leading to additional oversight by measuring actual financial performance against the FAO's budget. For the biennium 2016-17 results, the budget delivery represented by the total budget rate net expenditure amounted to USD 998.0 million or 99.6 percent of the revised budget of USD 1 001.0 million. In comparison

with the 2014-15 biennium, the budget delivery amounted to USD 981.0 million or 99.4 percent of the revised budget of USD 986.0 million.

Low financial delivery rate of TCP

45. Analysis of the above-mentioned budget implementation rates per biennium disclosed that it did not take into consideration the TCP unutilized balances at the end of each year of biennia 2016-17 and 2014-15, which became part of the current biennium and can be utilized up to the next biennium. Detailed analysis of the SCBA pertaining to TCP for the years 2014-2017 shows:

Statement V line item	*In thousands (USD)*			
	2014	**2015**	**2016**	**2017**
Calendarized budget	67 360	67 361	69 066	69 065
Amounts brought forward	76 769	85 187	79 462	81 506
Budget rate net expenditure	58 958	73 086	67 022	76 605
Amounts carried forward	85 171	79 462	81 506	73 966

46. We note in the above table that the excess of the calendarized budget and budgets brought forward less delivery, represented by the budget rate net expenditure, resulted in budget balances being carried forward to the next period. As presented in the table, amounts carried forward are significant and higher than the reported delivery, reflecting a low financial delivery rate. Further analysis of the projects delivered against the funding biennium for the years 2014-2017 shows:

Delivery Year / Funding Biennium	2014	2015	2016	2017
2012-2013	83 %	44%		
2014-2015	17%	56%	77%	40%
2016-2017			23%	60%

47. For 2014, 83 percent of budget delivery was charged against the 2012-2013 budget while only 17 percent came from the 2014-2015 budget. In 2015 and 2016, significant percentages of budget delivery were also sourced from the earlier budget periods. In comparison, for 2017, 40 percent of budget delivery was charged against the 2014-2015 budget while 60 percent came from the 2016-2017 budget. While the percentage of delivery against the current budget has increased compared to the previous years, the fact remains that a significant budget amount was not delivered at the end of 2017.

48. With the information presented above, it is evident that FAO did not deliver the TCP within the biennium it was budgeted, instead a substantial percentage was carried over in the next biennium. While the carry over practice is permissible under the Financial Regulations, and essential to allow programme delivery within the criteria set for the TCP (e.g. projects can extend up to 36 months duration), the data reflects delays in approval and implementation that deserve attention.

49. In addition, the percentage of TCP project requests approved within the first three months of the biennium have been noted to be consistently lower, as shown by the registered time lags in the table below. This matter also contributed to low financial delivery:

Biennium / Time-Lag	2008/2009	2010/2011	2012/2013	2014/2015	2016/2017
Up to 3 months	90%	87%	75%	75%	71%
3 to 6 months	6%	8%	8%	9%	12%
6 to 12 months	3%	3%	8%	10%	10%
Over 12 months	1%	3%	10%	6%	6%

50. While we recognize FAO's efforts to increase TCP expenditure level in recent years, we stress the need to further review the existing processes and procedures and determine the root causes that affect TCP delivery, moving forward.

51. **We recommended that FAO improve further overall TCP delivery by reviewing the related processes and procedures, and determine and address the root causes that contribute to implementation time lags.**

B.1.5 Long outstanding accounts

Policy to clean up long outstanding Accounts Payable

52. The Accounts Payable (AP) Trial Balance Report, which serves as the Subsidiary Ledger (SL) of the AP account (3200) had a USD 19.1 million balance, net of reconciling items aggregating USD 5.6 million as at 31 December 2017. Out of the net balance, 24 percent or USD 4.5 million represented payables that have been outstanding for more than two years covering invoices for the period 1999 to 2014. These outstanding payables primarily relate to travel advances, payroll payments including terminal emoluments and various claims.

53. The AP Services of the SSC explained that there is no written policy on how these items should be treated, but an AP Ageing Review and Clean-Up Exercise are being performed to clear old pending items with a significant balance.

54. Considering the prolonged period that these payables have been outstanding and consistent with the result of our negative confirmation from selected FAO staff with recorded claims on terminal emoluments, we viewed them to be already of doubtful validity. Leaving them unresolved may not only result in the accumulation of doubtful outstanding payables but more importantly impact the accuracy and correctness of the reported payables as of the reporting period due to their doubtful validity.

55. **We recommended that FAO prioritize the AP review process clean-up to address long outstanding payables, and consider crafting a policy to cover all long outstanding payables in the regular cleanup process, factoring in timelines for clearing and possible de-recognition and/or cancellation of outstanding payables following an appropriate review and follow-up.**

Unresolved reconciling items on Prepayments and Accounts Payable

56. The FAO Outstanding Advances Report and the AP Trial Balance Report serve as SLs for Prepayments (2800) and AP (3200) accounts balances, respectively. Related review of the said reports against the General Ledger (GL) balances as at 31 December 2017 showed various

reconciling items on Prepayments in the amount of USD 0.7 million and USD 5.6 million on Accounts Payable.

57. The AP Services of the SSC explained that the Information Technology Division (CIO) with the help of Oracle would fix the reconciling items relating to the system upgrade. The technical fix would involve correction of the “Payables Posted Invoice Register” and the “Payables Posted Payment Register” to correct the Oracle standard report, which is the AP Trial Balance Report. However, the same had not been considered a priority although the CIO had an open service request with Oracle.

58. Notwithstanding the comments advanced by FAO, the accuracy, completeness and reliability of the generated FAO Outstanding Advances Report and AP Trial Balance Report vis-a-vis the respective GL balances is impacted by the existence of these significant reconciling items that have not been cleared for at least five years.

59. **We recommended that FAO continue the ongoing work undertaken by the business unit, CIO and Oracle to prioritize the solution of the identified system errors, other reporting issues and reconciling items to ensure that generated reports are complete, accurate and reliable.**

B.1.6 Shared Service Centre (SSC)

60. Our 2017 audit of the SSC identified improvement opportunities to enhance the management and control of its processes and ensure that the policies and procedures are in place, effectively working and in line with its actual processing reality.

Enhancement of controls in functional processes

61. We communicated the following issues to SSC Management as an added value to enhance management controls in its functional processes such as asset and vendor management, travel advance recovery, granting of education grants and dependency allowances:

a. ***Timing issue in the recognition of fixed asset items in the IPSAS book***. There were 126 fixed asset items with a total cost of USD 1.9 million which were placed in service in 2016, however, recorded in the asset register (Fixed Asset module) only in 2017. This timing problem, if not appropriately addressed, will continuously result in the understatement and overstatement of PP&E account in the preceding and current reporting periods, respectively, with the corresponding understatement and overstatement in depreciation expense that also affects the preceding and current reporting periods;

b. ***Late reporting of lost and stolen assets***. There were lost and stolen assets in 2016 but reported and retired only during the tagging of assets in October 2017, thus, affecting the timely retirement of recorded assets in the asset register, which is not in accordance with Financial Regulation and Rule No. 202.10.4;

c. ***Need to establish appropriate timing on the conduct of physical verifications of assets (PVAs)***. The practice of timing and selection procedures in the conduct of PVAs for each country office was not defined in any formal document, and the current procedure on a cyclical basis is not effective in reporting and correcting assets in the asset register on a timely basis;

d. ***Need to enhance the procedures in the coordination and monitoring of PVAs.*** The 2017 PVA Tracking Log as at 30 October 2017 disclosed that only 66 out of 146 or 44 percent of FAO offices submitted and completed their PVAs. Non-compliance on the timely submission of PVA will result in non-verification of the existence and accuracy of recorded assets in the asset register, and SSC may not be able to perform its responsibility to maintain accurate and current property records of the Organization;

e. ***Need for formal policy and enhanced processes on vendor data maintenance.*** Regular maintenance of the vendor database was not performed, there being no existing policy on database maintenance, thus, there is no assurance that no unqualified vendors are transacting with FAO and no FAO resources may be diverted to ineligible vendors;

f. ***Need to establish formal document describing the procedures for actions to be taken on outstanding travel advances.*** From 53 selected samples, there were outstanding travel advances amounting to USD 16 810 which were due for recovery on October 2017 but failed to clear during the payroll run in the said month. The absence of a concrete guide for recovery of travel advances runs the risk of non-recovery of outstanding travel advances;

g. ***Not timely implementation of the policy on recovery of education grant advances for final claims.*** There were education grant claims submitted from 46 to 313 days, which were way beyond the 90-day time frame on which to submit the final claim yet the related advances were not immediately recovered from the staff members' salaries when the 90-day period had lapsed. The non-recovery of outstanding advances reflects not only non-compliance with the established policy but also a weakness in internal controls;

h. ***Granting of additional education grant advances despite existence of outstanding advances.*** There were staff members that received education grant advances for the next scholastic year without liquidating the previous education grant, resulting in two outstanding advances. While we note that this is allowed as per existing policies, such practice may lead to financial exposure and should be revised;

i. ***Processing of education grant claims (EGCs) beyond the SLA of 15 days processing time.*** There were education grant claims that were processed between 170 to 527 days from the date the staff members sent their claims to the Human Resources Unit, which were way beyond the SLA of 15 days for processing the claims; and

j. ***Grant of dependency allowances not supported by complete documentation.*** Dependency allowances were granted even when not completely supported by required documentation prescribed by MS 318 to substantiate the request and eligibility for the entitlement.

62. The foregoing control weaknesses highlight the need for action by SSC Management to enhance the controls in functional processes to ensure operational efficiency.

63. **We recommended that FAO undertake the necessary action to enhance further the efficiency and effectiveness of management controls within the functional processes**

of SSC as well as improve compliance with existing and applicable policies, regulations and rules relating to the deficiencies noted.

Update of written policies and procedures

64. In performing its functions, the SSC was guided by regulations and rules provided in the *FAO Manual*. To implement and support the Manual, *"How to" guides* were established detailing the workflow of transactions with indicated roles and responsibilities. Moreover, each functional unit at SSC was guided with its own *internal procedures* as a processing reference.

65. In our review of relevant records and inquiry with Management, we found the need to update the: (a) Manual Section (MS) No. 503.3.4(c) to reflect the current practice of ex-ante validation of asset transactions; (b) MS No. 503.7 to reflect the current practice of approval on disposal or write-off of assets with zero book value; and, (c) "How to" guides and internal procedures to reflect the actual processing activities in the areas of asset management services, accounts payable services, and human resources units.

66. In a related review, we identified the need to complete the offshoring of asset functions and processing from CSF to SSC and to update its related MS. We noted inconsistencies in the existing service level agreement (SLA) between CSF and SSC vis-à-vis the "How to" guides as regards some of the procedures on asset functions. The SLA clearly indicates that all asset functions requested by Decentralized Offices (DOs) and HQ Offices are to be processed at SSC, however, in a number of "How to" guides we found otherwise, such as FAP002, FAP020, FAP003, FAP004, FAP012, and FAP016.

67. SSC Management agreed on the necessity and appropriateness to update MS No. 503.7, MS No. 503.3.4(c) and the "How to" guides vis-à-vis its internal procedures considering the offshored asset responsibilities and the present practice of processing asset transactions at SSC. Likewise, SSC Management confirmed that the reference in MS No. 503.3.4 to them being responsible to perform post-factum audits of transactions in the DOs should be updated as all transactions are validated ex-ante.

68. **We recommended that FAO update the relevant Manual Sections, "How to" guides, and internal procedures including maintaining business process documentation of all administrative processes under the SSC responsibilities to reflect its actual processing activities using a process map such as e-Guide or equivalent.**

69. **Further, we recommended that FAO fast track the transfer of responsibilities for asset functions and processes aligned with the current practice and SLA between CSF and SSC, resulting in a defined and transparent governance, accountability, and responsibility over asset functions.**

Risk assessment in the SSC

70. We determined that previously, the SSC has established a high-level risk log, which feeds into the FAO corporate risk log. It is recommended, however, that the SSC ensures significant risks are identified, assessed, controlled and reported also at the functional unit level in a way that enhances its ability to meet its objectives and deliver the benefits and purpose expected from the Centre. In doing so, it helps managers make sure their strategies are more robust and that they spot weak points where the controls they have in place may not be up to the challenge of managing operations well. It also reinforces accountability between team

members and supervisors by getting them to agree on the problems and challenges expected and the measures to address them.

71. SSC Management confirmed that although there was a high-level risk assessment that had been carried out, *no formal risk assessment exercise was conducted at the level of its functional units.* The value of an adequately established risk assessment runs in fluidity from the top level and threads down the functional units to make it work with unity and continuity. SSC Management agreed with the observation and they demonstrated to us their positive support of putting in place the opportunities raised.

72. **We recommended that FAO initiate a robust risk assessment exercise within the SSC functional unit level in coordination with the Office of Strategy, Planning and Resources Management responsible for assisting FAO offices in understanding and applying good risk management practices.**

B.2 GOVERNANCE MATTERS

73. During 2017, we reviewed the critical areas of Reporting of Programme Results, the FAO's Statement on Internal Control, Corporate Travel Management and several Country Operations with the end-view of assessing how the risk control mechanisms that are put in place through policies and procedures, are influenced by the overall governance arrangements within a given office or the Organization itself. Such review is aligned with our mandate under Regulation 12.4 of FAO Financial Regulations. The succeeding discussions highlight the results of our review.

B.2.1 Statement on Internal Control

74. The review involved the evaluation of the policy framework of the Organization supporting the issuance of the Statement on Internal Control (SIC); assessment of whether processes and governance arrangements leading to the issuance of the SIC enable an informed and contextually appropriate accountability representation; and appraisal of whether the contents of the SIC contain sufficient representations to accomplish its purpose.

75. The issuance by FAO of its first SIC, intended as an appendage to its 2017 Financial Statements, marks an accountability milestone for the Organization and highlights its commitment to effective governance. Likewise, with the SIC, FAO affirms its commitment to pursue its mandate along the path of good governance with internal control taking the core, for more effective and efficient delivery of services. Our review of the Organization's SIC focussed primarily on two aspects: the enabling policy framework and the process and tools used in its production and its content. The results of our review are discussed in the following paragraphs.

SIC Policy Framework

76. The SIC of the Organization, as an assurance statement, depends primarily on the instituted Internal Control Framework (ICF) that should substantially capture and convey the essence of the internal control standards from which it is anchored. This underlines the establishment of a framework that encapsulates the components and principles; and, operationalizes the internal control on all levels of management. In essence, ICF as a policy,

where assertions from standards and best practices are substantially followed, should cautiously handle the adoption and translation of ideas.

Alignment of FAO ICF with the COSO Internal Control-Integrated Framework

77. The ICF of the Organization is based on the COSO Framework[4], which provides for three categories of objectives that allow any organization to focus on three dimensions of internal controls: *operations, reporting and compliance objectives*. The Framework also postulates that *control environment*, *risk assessment*, *control activities*, *information and communication*, and *monitoring* are the five integrated components of internal controls. The COSO Framework further sets out 17 principles representing the fundamental concepts associated with each component. Based on these elements, we observed that the principles associated with the risk assessment component of the FAO ICF, namely: *risk identification*, *risk assessment* and *risk mitigation*, are considered in a single statement and does not provide detailed information on the three principles as set out in the COSO Framework. These need further elaboration on objectives and tolerances, risk assessments and risk responses including fraud risks and the overall assessment to changes that could affect FAO's system of internal control.

78. Moreover, we noted that the underlying principles in the fourth component of FAO ICF should be more clearly defined to directly reflect the principles in the COSO Framework. The FAO ICF should note that the purpose of the principles of information, internal communication and external communication is to support the functioning of the Organization's internal controls. Absence of such express mention may lead to the possibility of misinterpretation that may eventually affect the policy's proper implementation.

79. **We recommended that FAO enhance the descriptions of risk assessment, and information and communication components in its ICF to more closely reflect the adopted COSO Framework principles and support the clear communication of such adopted internal control principles.**

Process guidance in the production of the FAO SIC

80. The Organization needs to reasonably ensure that the related dependencies are in the appropriate position to support the issuance of the SIC, as the SIC provides assurance on and complements the financial statements of the Organization. Management explained that the main policy basis for internal control reporting is the current FAO ICF, with additional instruments supporting the implementation. We are pleased to note that given the intricacies associated with the preparation of the FAO's SIC and its enabling policies as well as limited resources and timeframe, the policy development process undertaken by the Organization was delivered. As indicated by senior managers, the existing policy document, *FAO ICF* and guidance *Overview of Internal Controls Reporting Process*, were deemed as sufficient in aiding the accomplishment of reporting responsibilities.

81. The majority of the senior managers we inquired of indicated that they were in favour of the issuance of an additional guidance document in the future. Such guidance as suggested by some senior managers should provide for the roles to be performed including the

[4] Internal Control - Integrated Framework; The Committee of Sponsoring Organizations of the Treadway Commission (COSO); 2013 - modified by Guidance on Monitoring Systems; The Committee of Sponsoring Organizations of the Treadway Commission; 2009

responsibilities and accountability of different categories of managers to ensure accountability for and effectiveness of controls.

82. Essentially, it is paramount for FAO to formally document the process for the production of the SIC, as regards scope, objectives, prescription on the contents, articulation of the basis for management conclusion on control effectiveness, and provisions on the roles of external and internal audits, to reduce the requirement for ad hoc support and the risk of misinterpretation. Moreover, we emphasize that an inclusive and specific policy on the basis for management conclusion on control effectiveness and the roles of external and internal audits, among others, will strengthen accountability and transparency.

83. **We recommended that FAO improve its corporate guidance on internal control reporting, moving forward, to integrate a more detailed workflow and basis for the production of the SIC, built upon its first year of reporting experience.**

Processes and tools supporting the issuance of FAO's SIC

84. The establishment of appropriate reporting arrangements that support the issuance of the SIC is vital for any organization adopting the practice. Processes and arrangements supporting the production of the SIC are not only essential to the representation exercise but also in upholding the Organization's commitment to accountability. Our review noted that the reporting mechanism for FAO's internal control reporting includes several steps, starting with heads of divisions and offices at headquarters and country representatives assessing the internal controls in their respective units using the Internal Control Questionnaires(ICQs), Assistant Directors-General and Deputy Directors-General providing representation letters on the quality of internal controls in their area of responsibility and, finally, a Statement on Internal Control, signed by the Director-General and presented with the financial statements. We share the views of the Organization's managers on the use of the ICQ's as a positive, inclusive and enabling activity.

85. To ensure the continuous improvement of the internal control reporting process and guarantee its maturity, we recommend that FAO consider implementing the following: a) create a lessons-learned mechanism; b) adjust ICQs to align more closely with key controls of support functions that have certain different objectives; c) provide additional support to the assessment of controls relative to the operational contexts of units and offices within the Organizational household, by adding tools such as checklists that use rating scales to support quantitative dispositions on the ICQs; and, d) clearer documentation of the review of the ICQs and the corresponding revisions made that reflect truthful and evidence-based representations, which will emphasize the mindful delivery of internal control responsibilities and magnify the importance of high level control awareness.

86. We also advance the need to, as far as practicable, have the processes and arrangements supporting the issuance of the SIC, as well as the related results, formally documented. Documentation affords the building of institutional knowledge from the exercise through lessons learned and feedback in the iterative internal control reporting process.

87. **We recommended that FAO enhance its SIC production process by formally documenting the process, adding more specificities in the ICQs in relation to the operational contexts of its offices, and, through a robust lessons-learning mechanism.**

B.2.2 Corporate Travel Management

88. FAO's travel expenditures reached USD 114.3 million or 8 percent of the total expenditure for 2017. The figure represented a 21.2 percent increase from the previous year's level of travel expenditure although the total for the biennium 2016-17 decreased by USD 1.6 million compared to the 2014-2015 biennium. Finding efficiencies in travel management is a constant challenge for every organization, and even more magnified when costs are high and resources are scarce. While we recognize the efforts of the Organization and the progress it has made in incorporating improvements, our review has signaled opportunities for advancement that provide FAO with an external view on how travel management within the Organization can be better optimized.

Travel Planning

89. Travel planning is a vital component of the travel management process and an indispensable management tool used to achieve the intended benefits. However, results of our previous years' audits in various FAO decentralized offices demonstrated that travel planning had not been made a regular exercise.

90. We observed that the 2017 FAO travel statistics showed that travel planning has become less practiced. Out of 37 038 travels for the year with a cost of USD 68.4 million, only 254 were included in the QTP in GRMS. The existing QTP functionality is designed for use at a departmental and regional office level, enabling one quarterly travel plan per department or region, including all the travels of the country offices in the Regional travel plan. Only one or two Headquarter divisions and one Regional office are currently using the QTP functionality in GRMS. For the most part, travel planning is done offline using spreadsheets and other planning tools not integrated with GRMS. Management also noted that at the moment, QTPs are created and are required only for International Duty Travels. Management also highlighted that almost 80 percent of the overall travel expenditure is related to travel for projects and other extra-budgetary funded travel and by their very nature may not always be able to be planned, as they are dependent on evolving project needs. Further, over 30 percent of the total travel expenditure is related to the travel of non-FAO personnel, who are not included in the QTP functionality and whose travel cannot be planned as it relates to external factors such as designation of a traveler by an external organization or government. We cannot however see any apparent reason that would hinder the preparation of travel plans since planned travel expenditures are supposed to have been identified as early as the budget preparation phase.

91. Our analysis has indicated that there is a high degree of correlation between travel planning and cost efficiency due to advance booking and purchase of tickets. Given the nature and patterns of FAO's travel expenditure and based on the analysis of the Organization's travel expenditure out of Headquarters, management considered that the savings from knowing and/or projecting in advance the travels may not be that significant. Based on the data provided by Management on travel undertaken from a sample of selected cities en route to Rome and vice versa for the financial year 2017, we determined that of 1 772 recorded travel bookings, 642 or approximately 36 percent were booked less than seven (7) days from departure dates, while 1 130 or 64 percent represent those purchased in the earlier periods. Airfares in the given routes were noticeably higher for bookings and/or purchases drawn on later dates and close to the scheduled travels.

92. Although the information provided was confined to those bookings made through the Headquarters travel agency, the volume of tickets booked and/or purchased shortly before the

actual travel dates can already be significant enough to influence the Organization-wide management decisions on travels, more so if the information from the field offices were obtained and considered. At the present, we noted that there are no guidelines requiring or encouraging travelers to book airline travel in advance. Information elicited from the experiences of the field offices through the previous years' audits have manifested several challenges to travel planning and advance booking with respect to certain types of travel for varied reasons including time and administrative concerns.

93. Further, the JIU Inspectors, in its JIU/REP2010/2 report, noted that there is *ample evidence to show that booking in advance results in significantly lower fares*. The Inspectors also cited that with advance travel planning, it is possible to bundle missions together in one trip and further emphasized that *advance travel planning facilitates the tasks of all those involved in the travel process.* As we align to the Inspectors' pronouncements and based on what we have observed, we see the need for FAO to improve in the area of travel planning.

94. **We recommended that FAO improve its travel planning arrangements by clarifying and strengthening its travel planning policy and related processes, ably supported by its information management system and an effective oversight and monitoring mechanism to exact better accountabilities, improve cost efficiency controls and achieve full compliance.**

Air Travel Management and Best Practices in the UN System

95. In its comprehensive review of travel policies across 26 UN agencies including FAO, the Joint Inspection Union (JIU) submitted nine formal recommendations and 34 suggestions to improve travel management practices within the UN system. Discussed in the succeeding texts are the recommendations of the JIU that we wish to highlight with our corresponding observations.

Use of premium economy class instead of business class to reduce travel cost

96. We noted that the FAO Manual provides that the standard travel accommodation is business class for travel time of 12 hours and beyond. With a business class threshold of 12 hours, FAO currently has one of the most stringent travel policies in the UN common system of funds, programmes and specialized agencies, However, the JIU, based on the experiences of UN Organizations that have already initiated the practice of utilizing premium economy, suggested that *given the potential cost savings that can be realized through the utilization of premium economy, organizations should seriously consider exploring the use of premium economy over business class*. Our analysis indicates that the Organization could save as much as 50 percent on air tickets for business class if travel is made on premium economy class.

97. Management explained that premium economy class is in *no way comparable to a full business class service* and added that *with a 12-hour threshold for business class, FAO already has the most stringent travel policy within the UN system and that cost must be balanced with the productivity and monetary cost related to conditions of travel*. Further, management emphasized that *there is a significant difference in the seats, cabins and services associated with business class vs. premium economy class and that there is absolutely no proven data that demonstrates that premium economy class brings better value for money than full business class. In addition, this class of service is available only on specific airlines and within the airlines that offer the premium economy service, it is available only on specific routes. Therefore its inclusion in a travel policy as a comparative alternative to business class is not*

considered to be a feasible option as it would create a misalignment of standards of accommodation based on the destination as well as an unbalanced use of specific airlines that offer premium economy as it is self-evident that a lower class of travel will have a lower cost.

98. We however still highlight that the potential cost savings tied to premium economy class over business class cannot be discounted and that a balance also needs to be struck by analyzing priorities, including on the commitment of the United Nations to contribute to the reduction of carbon emission where the option of taking the premium economy class for air travel as opposed to business class can contribute to this commitment. We likewise highlight that while the Organization possesses one of the most stringent travel policies amongst UN agencies, this must not preclude it from improving further on cost efficiency and on its commitment to a sustainable travel policy of the UN and reducing its carbon footprint. To this end, we align to the recommendation of the JIU to consider the suggestion, evaluate the opportunities and challenges encountered in the process, and from there, decide on what is beneficial to both FAO and its travelers.

Abolishing stopovers as a standard entitlement by all UN system organizations and guaranteeing enough rest period upon arrival to travelers instead

99. We reiterate the JIU's recommendation of more than two decades ago to abolish stopovers and replace these with more rest time at the final destination given that the rationale for stopovers had disappeared over time and constituted *an obsolete and costly way of travel.* The JIU added that stopovers can expose the traveler to increased security risks as well as cumbersome and time-consuming immigration and customs checks, which have become the norm in airports worldwide due to heightened security concerns. The JIU report also disclosed that despite the recommendation made more than 22 years ago, 12 United Nations system organizations, including FAO, continue to allow provisions for either one or two stopovers. On these, management informed us that efforts are underway to align FAO's travel policy on stopovers and rest periods in accordance with the JIU suggestion by rationalizing its present standards in such a way as entitlement for stopover, when not practical, as in the case when final leg of the journey will last for few hours, will be streamlined.

100. The creation of an overall air travel environment, which ensures that processes and activities are executed and controlled, is deeply-rooted on the nature of the enabling policies and guidance. As control mechanisms themselves, policies and guidance bring with them the risk control objectives, authorities and limits, and changes to processes, people or systems. Crafting and communicating these policies and causing them to work effectively therefore become a necessity. The Organization's policy and guidance on travel management was described by management as already strict and containing some of the best practices in the UN system. However, given the nature of the policy and guidance as instruments that regulate, provide performance standards and benchmarks, and fiscal benchmarks for cost management, the policy package can be exposed to challenges brought about by instability of factors external to an entity and changes in internal priorities. With these challenges and since policies are also about choices, it is vital for organizations to design and update their air travel policies to meet the current demands and needs. The JIU Inspectors had presented these demands and needs, and FAO has to see more opportunities presented in the Inspectors' report to further the effectiveness of its air travel policies.

101. **We recommended that FAO consider the use of premium economy class for air travel giving due consideration to cost savings and FAO's commitment to sustainable**

travel and that FAO prepares a roadmap for adoption of the travel policy parameter on stop-overs within 2018.

Overall Travel Policy Management

102. The main travel policies of FAO are summarized in FAO Manual Section 400. Related guidelines such as Director General's Bulletin (DGB) 2013/54 issued on 19 September 2013 for Official Travel of FAO Staff and Policy Directive (PD) 2016/05 released on 7 October 2016 for Commuting Distance are also published in the relevant page of the FAO Manual Section including other travel regulations. We have reviewed the existing travel policies and guidelines to determine their synchronicity, alignment and efficacy and how are these communicated. We also conducted limited surveys to support our observations. The related observations we have raised are presented in the succeeding paragraphs.

Consistency of travel policies

103. We noted instances when FAO demonstrated conflicting priorities when it adopted measures that were for cost efficiency on one side and for staff member's welfare on the other side. We also noticed that some travel policies were inconsistently, and to a certain extent, irrationally applied. For instance, FAO allows business class travel for duty travels with flight time 12 hours and beyond but not to travels where the purpose of staff member is to attend training, seminar, and similar meetings. Under FAO rules, if the purpose of travel is to attend trainings, seminars and the like, the standard of accommodation is economy class regardless of flying time.

Defined roles, deliverables and accountabilities in travel policy-making process

104. We observed that the overall management of travel policies rests with the finance division. However, we noted that there is no accountability document that assigns to a particular individual the task of initiating policy design or policy change. There is neither a directive that specifically delegates to a single office nor is there an officer that will assess the effectiveness and efficiency of travel policies and when said assessment or under what circumstances must the assessment be undertaken. Management informed us that a proposal for policy or enhancement thereof can originate from any office that has a need for it, or from the Travel Unit itself based on an analysis of FAO's travel data.

Training and communication strategies related to travel policies and staffs' level of awareness of the policies

105. Of the 21 survey responses we received, 13 replied that they are aware of FAO travel policies, two said they are familiar with travel policies but not all travel policies and its details, and one respondent said he has little knowledge and understanding of FAO travel policies. One senior manager shared that he was not familiar with FAO's policy on submission of report of travel completed for the quarter, normal and alternative mode of travel, rest periods and stopovers, and reducing amount of travel. With regard to how our respondents came to know about FAO's travel policies, 11 answered that it is through the FAO intranet and sharing with colleagues in the office, five replied that they accessed FAO Handbook by themselves, two said their colleagues informed them about these travel policies, and three informed they learned about travel policies through the manual on COIN and through actual use.

106. Management informed us that FAO is currently working on the creation of a travel initiator training and certification course to provide training, information and ascertain that persons involved in the travel administration function to be properly trained and knowledgeable on travel rules, regulations and processes. The course, which is expected to be ready for roll out by the end of 2018, targets not only those who are involved in the travel administrative function but also intends to cover all FAO staff members.

Level of staff compliance with FAO travel policies

107. On the required *schedule on travel completed for the previous three months,* we determined that two FAORs do not submit the documents explaining that they are not aware that the policy exists. For the requirement relating to FAO Manual Section 401.8.12-15 that requires for a *brief BTOR to be submitted, within one week of return to the duty station, for missions limited to the attendance of meetings and a detailed report for other missions,* we gathered differing responses. Some respondents said that they submitted BTOR one day after arriving at duty stations. Others, one week of return to duty station; 10-14 days; within one month, within two months, and one said there is no deadline. Meanwhile, two respondents acknowledged that they are not aware of any standard deadline of submission of BTORs.

108. Management noted that when travel policies are announced, the duty to ensure that these are implemented is by staff members across the organization and lies principally with the Director, Chief or head of an office. The responsibility of staff members is to observe the policies in accordance with approved guidelines. It is our view, however, that being the over-all in-charge of travel management programme of the Organization, the Travel Unit in close coordination with Budget Holders and senior management, must take the lead and the initiative to act on the gaps presented as they open up several operational risks.

Travel policy feedback and evaluation mechanism

109. We noted that compliments, complaints, comments and overall feedback on travel policies are sent either directly to responsible offices or through the "Have your Say" platform in the FAO intranet. Complaints or negative feedback on travel policies particularly those originating from decentralized offices are addressed on a case-by-case basis. However, nine of our survey respondents revealed that they are not aware of processes and procedures in place with respect to how the Travel Unit manages complaints and feedbacks.

Preferred Hotel Programme (PHP)

110. We observed that under the PHP, FAO officially provides hotel accommodation in select cities using the negotiated hotel rates with a number of hotels in the identified PHP locations. The PHP is a mandatory programme and applies to everyone traveling to the select PHP cities on behalf of FAO who receives a subsistence allowance. Taking note of the main advantages for duty travelers in the use of the PHP, we inquired on how the performance of PHP is monitored and were informed that the Travel Unit receives the PHP activity report on a bi-monthly basis from the Headquarters travel agency, which they then use for internal programme consolidation on a real-time basis. Further, it was manifested that it is more useful to receive more frequent updates so that they can monitor PHP usage, performance and savings generated on an-ongoing basis.

111. Some respondents to a limited survey of the PHP indicated several disadvantages of the Programme including the location and quality of hotels and the administrative process.

Management commented that the PHP hotels are selected based on a list of established criteria such as room size, hotel category and services, distance from the office, UNDSS safety and security clearance requirements. In addition, extensive consultations are carried out with all country offices for suitability of hotels and to obtain their approval before hotels are included in the PHP. There is also an ongoing mechanism to receive feedback and evaluate customer feedback on the PHP and remove hotels that are not up to the required standards. We highlight that the Programme had the objective of offering two main advantages to FAO duty travelers, security and safety and selection of value-added services that are already included in the room rate. In this regard, we emphasize the importance of ensuring that feedback from users of the PHP is considered when formulating policies and processes to improve its usability and consequently achieve its objectives.

112. Given the complexity and dynamism of travel management particularly in FAO, we are of the view that the enabling travel policies put in place must be encapsulated in an implementation scenario where these are communicated and understood by all concerned, these are made stable and consistent amidst a dynamic environment and within the totality of the entire system, values and goals are communicated, these are rendered realistic and with good controlling characteristics and are outcome-oriented. What we have put forward in the preceding discussions primarily relate to policy-agenda building; adoption; implementation; evaluation; and, maintenance, succession or termination. We determined that FAO needs to progress along the areas of travel policy consistency, policy agenda-setting, defining roles and responsibilities of travel policy makers and managers, staff awareness of and compliance with its travel policies and travel policy feed-backing.

113. **We recommended that FAO undertake a comprehensive review of its corporate travel policies with the end-view of enhancing their contents and processes to ensure consistency, establish clear accountabilities and policy ownership; ensure they are properly monitored with a concrete feedback mechanism; are supported by a high level of staff awareness of the policies; and provide effective policy implementation oversight.**

Travel Risk Data and Assessment

114. The CSF Travel Unit provides inputs to the Organization's risk management system on travel matters, works with the CS management team to list the risks associated with travel management and eventually provides agreement to the identified corporate risks. With these, we tested the risk data quality of the Unit's Risk Log to determine the level of application of the risk management procedures within the Unit and at the corporate level. The observations that we made thereon are discussed in the succeeding paragraphs.

115. We observed that the identified risk of *failure to monitor travel activities at an Organizational level* is a risk that is part of travel management but resides towards the end of the implementation of the process. Risks of not achieving cost efficiency, ineffective policy design and information systems not supportive of travel planning noted in our audit are expected to be identified during the risk identification phase if proper risk contextualization was undertaken. These risks have far more weight than not being able to perform monitoring activities. The essence pointed out in this case is how risks are identified within a defined context.

116. We also observed that the recognized risk impacts indicated in the Travel Unit's Risk Log generally represent compliance with policies that are to be taken independent of the adequacy of monitoring activities. This is primarily due to the fact that policies, by their very

nature, represent the backbone of core systems and processes and are controls by themselves. Therefore, before considering a risk of failure in instituting monitoring controls over a process, a more pervasive control of effective policies must be dealt with first. This is particularly vital because even if monitoring is effective but an enabling policy is not effective as to its design, then risks of process inefficiency and unmanaged cost can still be present. We further noted that the mitigating actions identified cannot be directly attributed to the identified risk. As such, the mitigating actions must actually depend on which risk indicator or factor the mitigating action is addressing. A mitigating action to be effective has to address the identified risk by way of addressing the causes of the risk event.

117. While the above observations are raised to further risk management maturity within the Travel Unit, we recognize that FAO has put in place several risk management infrastructures for emergencies and crisis situations. While the Organization is replete with policies and/or measures with respect to risk, such tools will remain just like that if risk management is not allowed to grow and mature. A better corporate-level view of travel management risk information means that an enterprise-wide activity as to risk escalation and reporting have to be brought to the fore. But even if the right infrastructure is in place to escalate and report on risk, more maturity in the area of risk data quality and the process by which this is maintained is much needed.

118. **We recommended that FAO improve its travel risk data and assessment by providing a clearer and more accurate risk management context for risk identification and assessment and adequately document the activities to support risk monitoring and decisions.**

B.2.3 Reporting of programme results

119. FAO views results reporting as a vessel that supports the building of a stronger, more focused, more responsive, and more credible FAO. We observed that, as a matter of prescribed procedures, layers of programme results review were put in place by the Organization in the lead up to the preparation of the 2016 MTR, and eventually the PIR for the biennium 2016-2017. The Regional Strategic Programme Coordinators (RSPCs) that reviewed all the reported country level results in consultation with their respective support teams, the Sub-regional coordinators (SRCs), the Strategic Programme Leaders (SPLs) and the Regional Directors and Assistant Directors-General (ADGs) were noted as the main actors in the process.

120. The conduct of results review was supported by the Guidance on the Output Reporting of the MTR for 2016. Our review considered the results for SOs 1, 2 and 5 as case studies, and in the process, we have interacted with 10 Regional SP Team Members, 17 FAORs and the SPLs. We also undertook an analysis of results data recorded in PIRES and FPMIS and those in the MTR 2016 document.

Mid-term programme results review process

121. In the activity involving ***regional-level review of country-level accomplishments,*** we determined that six out of 10 Regional SP Team members did not review all of the 2016 country-level results covered by their respective regional offices. At the level of the SPL review for SP 5 accomplishments, we noted that accomplishments covering 29 countries were excluded due to: a) results which did not pertain to 2016 accomplishments; b) irrelevant results; c) still on-going activities; and, d) no specific results, among others. The Office of Strategy, Planning and Resources Management (OSP) commented that the RSPC-level review

is critical for the quality of results reporting from the country and regional level. Essentially, the SP Teams' validation of results complements the regional-level review with an increased focus on results as regions are better-placed in ensuring that there are no major omissions and inaccuracies.

122. As to the ***validation of interim programme performance information*** at the level of the SPLs, our examination of the activity yielded that there were 80 results from 50 countries labelled as "unknown" in PIRES that led to non-inclusion of these in the MTR. We were informed by the SPLs of SP1 and SP2 that such exclusions were either due to duplication of results, no results having been entered, the narrative indicating that no results were achieved or that the narratives did not allow for validation at the output level. OSP informed us that the explicit exclusion of results was introduced partway into the process.

123. As regards the ***exclusions of the results accomplishments,*** our examination disclosed that the reasons for exclusions could not be corroborated as PIRES was being updated to the new biennium at the time of audit. We also determined that nine out of the 17 FAORs indicated that they were not informed of the reasons for the exclusion of their accomplishments from the 2016 MTR. OSP explained that there is no explicit workflow step after the SPLs rejected the results which would automatically notify FAORs that something had been rejected; such communication was done outside the system in 2016.

124. We further observed in the ***Monitoring Section of the PIRES*** that out of 1 971 accomplishments submitted during 2016 for SO1, SO2 and SO5, 989 or 50 percent were not included for reporting in the 2016 MTR. According to our survey, the exclusions were due to: a) results that were inaccurately matched with the Corporate Output Indicators or not aligned with the Organizational outputs chosen for the countries; b) the country context was too complicated to apply the same indicators for all; c) the SO Teams not fully understanding the multiple aspects of projects achievement; d) results were not of sufficient impact to report globally; e) outputs were not completed at the time of reporting; and, f) deviations from the Guidance such as lack of supporting documentation and weak justifications for non-accomplishments, among others.

125. The programme results review process is primarily intended to bring the results information into meaningful and useful data while ensuring data integrity which is inherently challenging. This is particularly vital when done in the mid-term to ensure that adjustments are effected and lessons learned are applied to support end-of-biennium reporting. It is thus imperative upon FAO to ensure that information integrity is upheld in reporting its accomplishments during this exercise. The issues that we presented in the preceding were either triggered by processes that diminish accuracy of reported results information or by uncoordinated functions. Either way, these need to be addressed for more meaningful reports and related management decisions and learnings.

126. **We recommended that FAO enhance its mid-term programme results reporting process, moving forward, through:**

a. **inclusion of an explicit workflow step in PIRES that covers actions on rejected programme results and closer monitoring of the reported accomplishments to ensure the completeness of information reported in future MTRs; and**

b. **better coordination during regional-level reviews of programme results to improve the quality of reported accomplishments; and, identification and**

mitigation of the common root causes of output exclusions to address the risk of inaccurate programme results.

Midterm Synthesis Report

127. The preparation of the MTR for 2016 placed particular importance on the *programmatic emphasis and de-emphasis* made during the biennium to improve delivery as indicated in the Organization's Programme of Work and Budget (PWB). These programmatic changes necessitated closer attention to results achieved since efficiency gains and savings have remained a high priority of FAO. The 2016 MTR reported that 86 percent (43) of the Strategic Objective (SO) Output targets for the year were fully achieved. The Report also indicated that *although the targets were generally skewed towards 2017 compared to the 2016 achievements, progress is well advanced with 64 percent (32) indicators showing at least 50 percent achievement against 2017 targets*. The results of our review of FAO's MTR for 2016 are discussed in the succeeding paragraphs.

128. As to ***Output indicators' achievements,*** we noted in MTR Annex 2 – *Progress against Strategic Objective Output Indicators 2016-17*, that four out of 13 Output Indicators under SO2 did not achieve their end 2016 targets - Indicators 211, 212, 213 and 223 which showed progress percentages against 2016 targets of 92, 76, 79, and 79, respectively. We also noted that no explanation was provided for the causes of the underachieved ones and only the reasons for the overachievement of targets are discussed in the Progress Achievement portion of the MTR. We were informed that the cases for Indicators 211, 212 and 213 were due to the insufficiency of time to provide feedback to country offices considering the number of countries reporting, and the difficulties in the comprehension of Indicator 223 that resulted in a 50 percent rejection rate. Further, we were informed that many 2016 achievements were not validated within the timeline set by FAO due to the lack of capacities of some personnel and the insufficiency of the review timeframe, and, hence, were excluded.

129. For ***lessons learning from the MTR 2016 exercise,*** the MTR for 2016 made mention of the lessons learned during the 2014-2015 biennium that were instrumental in the Strategic Objective work plans for 2016-2017 biennium. A lessons learning exercise was not specifically undertaken for the MTR 2016 process.

130. The emphasis on monitoring and evaluation is further strengthened when learnings from the previous exercise are used to improve future achievements. This is particularly vital when done at the interim to ensure better information quality at the end-of-period reporting. It is therefore vital for any programme performance report to reflect on lessons learned to support organizational guidance and decisions.

131. **We recommended that FAO, moving forward, improve its mid-term results reporting mechanism through the adoption of a more optimal review timeframe; institution of better monitoring capabilities of its managers; building of capability of its regional monitoring and evaluation competencies; and reference to organizational learning in succeeding MTRs to support transparency in results reporting and coordination towards overall reporting improvement opportunity.**

B.2.4 Operations of Representation offices

132. The delivery of results by the Organization depends largely on the effective functioning of control activities over Representation Offices that are in the frontlines. These control

activities are designed within the key business processes of the Organization for procurement, human resource management, cash management, asset and inventory management, and travel management. The functional efficacy of these key business process controls is vital to project delivery and donor reporting responsibilities of the Organization.

133. In this regard, audits were undertaken to assess the functional efficacy of controls in key business processes and the management of risks in representation offices. We evaluated the operations of FABGD, FAMON, FANEP, FNSDN, FRCAF, FRDRC, and FRMLI**.** The results of our examination of controls over various critical processes within these offices, as discussed below, presented areas for improvement where corresponding co-developed recommendations were made.

B.2.4.1 Delivery of Technical Cooperation Programme

134. Championing its technical expertise, FAO's TCP aims to provide targeted, short-term, catalytic projects to address challenges in the field of agriculture, fisheries, forestry and rural livelihood that prevent Member countries, either individually or collectively, from implementing their development programmes. To deliver this purpose, the TCP Manual and related guidance prescribe measures to make certain the timeliness, level and reliability of information in the delivery of TCP projects. The review has used the parameters to gauge the efficiency and efficacy of the Organization's delivery of TCP.

135. For the biennium 2016-2017, the adjusted net appropriation for TCP was USD 132.9 million. Total TCP approval for the biennium amounted to USD 146.2 million while total expenditures amounted to USD 83.8 million. Gleaned from relevant documents, there were 110.0 percent approvals based on net appropriation. However, delivery only amounted to 63 percent based on net appropriation and 57 percent based on approvals. This concern on the level of project delivery which is normally correlated to project time-lags were noted in FABGD, FAMON, FANEP, FRCAF, FRDRC and FRMLI. Moreover, the issues affecting the reliability of information on the delivery of TCP projects were identified in FABGD, FAMON and FRCAF.

136. We took note that the time lags were brought about by the slow project clearance and approval processes. The effects of time lags, compounded by extensions during activities implementation, were identified as causes of low-level project delivery of TCP. The challenges in information reliability sprung from non-performance of responsibilities that affects project data reporting and monitoring.

137. **We recommended that FAO ensure the overall efficiency and effectiveness of the delivery of TCP projects through mechanisms that properly manage events or instances and ensure the performance of responsibilities that affect the promptness, level, adequacy and reliability of information on TCP commitment delivery.**

B.2.4.2 Delivery of Trust Fund projects

138. Similar to TCP project delivery, the review considered how the Organization manages events, instances and responsibilities that influence the timeliness, level of delivery, and availability and maintenance of reliable project information. This accountability of FAO is highlighted by the fact that the realization of its mandate largely depends on the delivery of trust fund projects. Resources from voluntary contributions accounted for 64 percent or USD

1 954.6 million of the Organization’s total revenue of USD 3 067.5 million for the 2016-2017 biennium.

139. In the audits, we have observed project time lags in FABGD, FANEP, FNSDN and FRDRC caused by events affecting project processes such as political instability. We noted delayed project closures in FABGD, FAMON, FRCAF, FRDRC, FNSDN and FRMLI resulting from late report submissions and giving of necessary clearances. We also identified challenges related to project information reliability in FABGD, FRCAF and FRDRC emanating from the absence and/or non-updating of the work plan, project result matrix and risk log in FAO support systems.

140. The delays in project deliveries can have material effects in the achievement of the Representation’s objectives and the expected programme results. More importantly, with the noted shortfall on deliveries, the operating and managerial responsibilities have to be delivered more effectively and risk management strategies need to be applied along this area.

141. **We recommended that FAO make certain the effective and efficient delivery through management of factors and project responsibilities that influence the timeliness, level of delivery and information reliability of trust fund projects.**

B.2.4.3 Reporting to Donors

142. The responsibility of the Organization to implement trust fund projects is as important as its accountability for donor reporting. The capacity to provide donor reports containing fair, relevant and reliable financial and non-financial information increase~~s~~ the trust of external partners and stakeholders towards the Organization and catalyses inflows of resources needed for FAO’s programmatic work. Inversely, challenges in donor reporting may affect extra-budgetary resource availability that may prove disabling to the Organization given the fact that its work relies heavily on voluntary contributions.

143. The review identified challenges in donor reporting in FABGD, FAMON, FANEP, FRCAF, FRDRC, FNSDN and FRMLI. These challenges were in the form of delayed or non-submission of progress or terminal reports caused by late or non-performance of reporting responsibilities and long report clearance related processes. The work also took note of the unreturned project fund balance, utilization of interest earned from the project fund, and charging of expenditure from one project fund to another. Actions on these amounts should, if possible, be detailed in the agreement or, at the very least, discussed with the funding donor beforehand to avoid negative perceptions of the Organization.

144. We emphasize that project periodic and terminal reports are the main vessels for communicating to donors and stakeholders and are essential in effectiveness and sustainability appraisal. They also provide sound bases for managerial decisions and thus should be integrated into the monitoring activities of the Representation.

145. **We recommended that FAO:**

a. **ensure the delivery of timely, reliable and relevant donor reporting information through sustained monitoring efforts and control activities that exact and backstop performance of project reporting responsibilities; and**

b. **incorporate, with the concurrence from funding partners, provisions in funding agreements detailing prescriptions on fund balances, fund charging and utilization of interest earned.**

B.2.4.4 Procurement of goods and services

146. Being a corporate process, the Organization's procurement should be for the "Best Value for Money". The provisions of MS 502 and 507 require appropriate performance of responsibilities covering procurement planning, execution, and documentation requirements to ensure acquisition of goods, works and services in a timely, competitive and transparent manner that best provides the combination of benefits and costs. These are the fundamentals of sound procurement management considering the total value of purchase orders (POs) invoiced by FAO for goods and services for the biennium 2016-2017 amounted to USD 852.9 million.

147. In the audits, we have observed challenges in procurement planning in FABGD, FAMON, FANEP, FRCAF, FRDRC and FRMLI stemming primarily from capacity limitations, The required planning was either not fully observed or the resulting plans contained insufficient information. Regarding procurement execution, it was noted that FAMON, FNSDN and FRMLI have procurement personnel performing incompatible functions. Other noted gaps in the procurement activities include: the absence of LPC review on direct procurement for acquisitions of more than USD 5 000 in FANEP; deliveries of goods and services not within the scheduled dates in FAMON and FNSDN; and inadequate documentation on direct selection in FNSDN.

148. FAO's procurement planning process focuses on analysis of needs and constraints, including forecast of the reasonable time frame required to execute the procurement process. Without a complete Procurement Plan, acquisition of the procurement requirements of the Representations may not be effectively managed and the attainment of its mandate not ably supported. In a strict sense, the Representations will benefit most from undertaking procurement activities which are appropriately and concretely planned.

149. **We recommended that FAO strengthen its monitoring of the delivery of procurement responsibilities by all parties involved to ensure value adding results from the Organization's procurement process.**

B.2.4.5 Human resource management

150. Being the most valued asset of the Organization, FAO expended USD 792.3 million for employee benefits and other personnel costs and USD 490.7 million for consultant expenses for the biennium. The aggregated amount of USD 1 279 million for human resources accounted for 49 percent of the Organization's total expenditures for the biennium. Thus, it is incumbent upon the Organization to effectively and efficiently manage its human resource through reinforcing monitoring activities regarding transparent and competitive personnel selection; quality assessment or evaluation of performance; and adequate and systematic documentation and recordkeeping of personnel information.

151. The reviews in FRDRC and FRMLI highlighted matters affecting lack of comparative selection. Concerns were noted on records of performance evaluation of personnel in FAMON, FRCAF, FRDRC, FNSDN and FRMLI. Furthermore, issues of systematic documentation and

recordkeeping of relevant personnel information were observed in FAMON, FANEP, FNSDN and FRMLI.

152. These requirements aim to promote transparency and efficiency in managing personnel. Moreover, this control activity is necessary to assure quality and accountability in the Organization's human resource performance.

153. **We recommended that FAO reinforce monitoring activities over key human resource policies such as the selection process, performance evaluation, record keeping and documentation of activities to fully accrue the benefits and proactively handle concerns from these aspects of human resource management.**

B.2.4.6 Cash management

154. Sound cash management ensures that cash resources are adequately safeguarded and effectively utilized. The Financial Rules of the Organization include instructions relating to the authorization, utilization, recording, custody, and reporting of cash. This guidance impresses stewardship responsibility to all in the Organization to reduce losses and waste of assets and resources, whether through misguided effort, avoidable errors, mismanagement, abuse or fraud. As earlier stated, we looked into the cash management practices of country representations and assessed whether there is compliance with existing financial rules. We assessed whether prescribed controls were in place and operating effectively for Cash in Banks, Regular Petty Cash Fund (PCF), Out-posted Petty Cash (OPC), Operational Cash Account (OCA), other Imprest Accounts, and cash-based transfers (CTs).

155. Audits in FANEP and FRDRC revealed non-performance of surprise cash counts of petty cash, while in FRCAF, there was no cash report prepared although cash counts were conducted. Also, it was noted in FANEP that some expenditures incurred were not within the purpose for which the PCF was established. Further, there were disbursements above the ceiling for the payment of a single transaction from OPC in FAMON and FRDRC. Some functions were observed as not sufficiently segregated, such that the custodian of checks also signed the same and initiated bank transfers in FANEP and FRMLI. Lastly, in FNSDN, we noted that some personnel with outstanding cash advances were granted subsequent cash advances. These matters were due to concerned personnel not adequately performing their cash related responsibilities compounded by capacity issues.

156. Any deviation from the Financial Rules of the Organization weakens the necessary safeguards established for the purpose of safeguarding cash and the corresponding disbursements.

157. **We recommended that FAO strengthen monitoring and supervisory controls over cash related processes to ensure that responsibilities are performed to guarantee the adequacy of safeguards and effectiveness of resource utilization.**

B.2.4.7 Asset and inventory management

158. For the biennium ending 31 December 2017, FAO reported inventories amounting to USD 7.9 million, of which USD 7.2 million (91 percent) related to project inputs typically found in country representations, who are the frontline of the Organization's programmatic work. In this regard, Sections 202.10.4 and 503 of the FAO Manual have prescribed the processes and controls for the maintenance of records, custody and safekeeping, conduct of

physical verification, transfers, and disposal for these assets. Hence, reasonable compliance with these prescriptions is essential to afford effective management of assets. In cases of non-compliance, the Organization will expose itself to unnecessary losses if responsibilities to manage risks relating to misuse, pilferage, damage and obsolescence, are not effectively delivered.

159. Reviews in FABGD, FANEP, FRCAF and FRDRC noted concerns on records relative to custody of assets as a number of items of office equipment were still under the accountability of persons who were already separated from the said offices. Also, in FAMON and FRCAF, the prescribed Property Loan Form was not used in all cases to record custody of assets. As regards inventory records in the information system, we have noted assets information needing updates in the Physical Verification Asset Report (PVAR). Likewise, we noted in FANEP and FNSDN that the locations of some assets are not indicated and that disposed assets are still included in the PVAR. In FABGD, FAMON, FRCAF, FNSDN and FRMLI, assets do not have property tags and serial numbers in the PVAR. In FRCAF, assets with unit cost below USD 500 are still included in the PVAR.

160. To afford effective accountability and responsibility in safeguarding the entity's assets, it is vital that asset information is properly recorded. With incomplete and non-updated asset information, asset custodians are denied the opportunity to properly identify and account for these assets. In effect, risk of asset loss, damage and obsolescence are not effectively managed exposing the Organization to potential loss.

161. **We recommended that FAO ensure that activities, processes and responsibilities relating to asset and inventory are properly observed and undertaken through enhanced monitoring mechanisms to adequately safeguard and effectively utilize its resources.**

B.2.4.8 Travel management

162. For the biennium, the Organization's travel expenses amounted to USD 208.5 million and have accounted for 7.91 percent of the Organization's total biennium expenses. The necessity of managing travel undertaken in the performance of functions and the delivery of commitments by business units of FAO is crucial, including in country offices in relation to programme delivery. The Rules for official travel are outlined under MS 401, 406 and 450, along with Director-General Bulletin (DGB) No. 2013/54. The guidance emphasizes travel planning, execution, reporting and recovery of advances.

163. In our audits of travel management at country representations, we noted that the basic requirement for the preparation of a quarterly travel plan was not complied with by FABGD, FANEP, FAMON, FRCAF, FNSDN and FRMLI. As regards the reporting requirement related to travel, issues on Back to Office Reports (BTORs) were noted in FRCAF and FRDRC. We likewise noted concerns on travel advances recovery in FABGD, FAMON, FRDRC, FNSDN and FRMLI.

164. Travel planning, aside from being a requirement, is a control mechanism in which seeks to avoid uneconomical and inefficient use of the travel funds.

165. **We recommended that FAO reinforce monitoring measures to ensure proper execution of travel processes and accountabilities to ensure compliance with existing travel policies and procedures for improved delivery of works.**

C. DISCLOSURES BY MANAGEMENT

166. The terms of reference on External Audit require the disclosures of important information. In this section, Management provided disclosures on write-off losses, ex-gratia payments and cases of fraud and presumptive fraud.

C.1 Write-off of losses of cash and receivables

167. In 2017, write-offs amounting to USD 34,162 and Euros 2,443 for receivables from exchange transactions were made. Review of these write-offs were made and found to be in accordance with regulations and were authorized by the Director of Finance and the Assistant Director-General for Corporate Services within their respective authority pursuant to MS 202.10.6 and 202.10.7.

C.2 Ex-gratia payments

168. Management reported that there were no ex-gratia payments made by the Organization in financial year 2017.

C.3 Cases of fraud and presumptive fraud

169. Management reported cases of fraud and presumptive fraud that are required to be brought to the attention of the FC pursuant to paragraph 6(c)(i) of the Additional Terms of Reference Governing External Audit (202 Annex 1 to the Financial Regulations). Management disclosures on fraud are made in line with the Organization's *Policy against Fraud and Other Corrupt Practices* (Administrative Circular No. 2015/08). Regarding presumptive fraud, the disclosure has been prepared in light of the definition of presumptive fraud recommended by the UN Joint Inspection Unit in its Report No. JIU/REP/2016/4**,** paragraph 34.

Cases under review in 2016

170. Management informed us that there were five cases under review in 2016 which were pending and closed in 2017. These cases included:

a. false claims submitted by a staff member in a decentralized office for reimbursement of medical expenses from the Organization's insurance provider. The staff member resigned before the completion of the disciplinary proceedings and action was taken to recover from the staff member the amount of USD 972;

b. fraudulent documentation allegedly submitted by two vendors and who may have colluded in the context of a tender for seeds valued at approximately USD 1 million. Neither vendor was awarded the purchase order, hence there was no financial loss for the Organization and the related report is being finalized for submission to the Vendor Sanctions Committee;

c. fraudulent invoices produced by a staff member in a decentralized office for reimbursement and other sums in relation to the administration of the office and project implementation. The disciplinary measure of dismissal for misconduct was imposed upon the staff member effective 18 December 2017 and action is being taken to recover monies from the staff member's terminal emoluments in the amount of USD 20 848;

d. collusion of a vendor with a staff member that included producing false bids for fictitious companies, so that the vendor would be the lowest responsive bidder for a value of approximately USD 5 400 to obtain contracts from a decentralized office, and providing false or misleading information about the relationship between the staff member and the vendor in order to hide their prior existing relationship. The disciplinary measure of dismissal for misconduct was imposed on the staff member on 26 September 2016 and the vendor related matter was referred to the Procurement Service for information purposes; and

e. fraudulent documentation provided by a vendor in a decentralized office to attest the quality of its goods in order to induce the office to disburse USD 96 607 for the same. The matter was submitted to the Vendor Sanctions Committee which has sent to the vendor a Notice of Sanctions Proceedings, which is an ongoing proceeding.

Cases dealt with in 2017

171. For 2017, the reported cases included the following: 1) a staff member created false invoices for a vendor in order to fraudulently induce the office to pay for goods that the staff member would resell on the local market for a value of approximately USD 1 052. The disciplinary measure of dismissal for misconduct was imposed upon the staff member effective 9 January 2018. The case is closed and action was taken to recover monies from the staff member's terminal emoluments in the amount of USD 1 052; 2) the Head of a decentralized office instructed the issuance of a false local travel authorization to enable a subordinate to receive payment for travel abroad and also authorized payments to a vendor based on misleading information for a total value of approximately USD 675. The disciplinary measure of summary dismissal for serious misconduct was imposed upon the staff member on 2 June 2017. The case is closed and action was taken to recover monies from the staff member's terminal emoluments in the amount of USD 675; 3) a staff member in a decentralized office forged a colleague's signature in support of a personal bank loan application. The case is closed and a disciplinary measure of dismissal for misconduct was imposed upon the staff member effective 30 May 2017.

Ongoing and closed matters of presumptive fraud as of January 2018

172. Management reported that: 1) a staff member in a decentralized office had submitted a claim for reimbursement of medical expenses enclosing an altered invoice with a view to increasing the amount of the claim by Euro 500; 2) a consultant submitted fraudulent time cards was investigated and a staff member, Head of a Service, who knowingly approved the time cards was imposed with the disciplinary measure of dismissal for misconduct; and 3) an implementing partner that allegedly misappropriated project funds and produced fraudulent documentation to obtain a credit loan is under investigation.

173. We noted that the three cases of fraud for 2017 were two cases less than the five cases in 2016. All three cases involved staff members who were imposed the disciplinary measure of dismissal and were closed in 2017.

174. The existence of actual fraud and presumptive fraud cases in the preceding periods demonstrates the Organization is right to continue its efforts in fraud risk governance in the entire FAO Organization particularly on the Representation offices which have high vulnerability on this matter. The presence of fraud within FAO may create a reputational risk.

175. **We recommended that FAO sustain its robust action against fraud and corrupt practices within all levels of the Organization through prompt action on reported fraud cases and strengthening of existing fraud mechanisms in line with its zero tolerance for fraud policy.**

D. ACKNOWLEDGEMENT

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

Michael G. Aguinaldo
Chairperson
Commission on Audit, Republic of the Philippines
External Auditor

Quezon City, Philippines
12 July 2018

List of Acronyms

Acronym	Description
ADA	Allowance for Doubtful Accounts
ADG	Assistant Directors-General
AP	Accounts Payable
ASMC	After Service Medical Coverage
BTOR	Back to Office Report
CIO	Information Technology Division
COSO	Committee of Sponsoring Organization of the Treadway Commission
CPRF	Compensation Plan Reserve Fund
CSF	Finance Division
CT	Cash-based Transfer
DGB	Director-General Bulletin
DO	Decentralized Office
EBO	Employee Benefit Obligation
EGC	Educational Grant Claim
FABGD	FAO Country Representation in Bangladesh
FAMON	FAO Country Representation in Mongolia
FANEP	FAO Country Representation in Nepal
FAO	Food and Agriculture Organization
FNSDN	FAO Country Representation in Sudan
FC	Finance Committee
FCP	Fraud Control Plan
FRCAF	FAO Country Representation in Central African Republic
FRDRC	FAO Country Representation in Democratic Republic of Congo
FRMLI	FAO Country Representation in Mali
GEF	Global Environment Facility
GL	General Ledger
GRMS	Global Resource Management System
HQ	FAO Headquarters
ICF	Internal Control Framework
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
MS	Manual Section
OCA	Operational Cash Account
OIG	Office of the Inspector General
OPC	Out-posted Petty Cash
PCF	Petty Cash Fund
PHP	Preferred Hotel Programme
PO	Purchase Order
PVA	Physical Verification of Asset
PVAR	Physical Verification Asset Report
QTP	Quarterly Travel Planning

RL	Representation Letter
RSPC	Regional Strategic Programme Coordinators
SCBA	Statement of Comparison of Budget and Actual Amounts
SIC	Statement of Internal Control
SL	Subsidiary Ledger
SLA	Service Level Agreement
SPL	Strategic Programme Leaders
SPS	Separation Payments Scheme
SRC	Sub-regional coordinators
SSC	Shared Services Centre
TCP	Technical Cooperation Programme
TPF	Terminal Payment Fund
UN	United Nations
UNDP	United Nations Development Programme