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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 2018**

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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 Financial 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 2018 and the observations with respect to the administration and management of the Organization as required under Financial Regulation 12.4.

2. This is the fifth 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 opinion¹ on the Organization's financial statements for the financial year ended 31 December 2018. We concluded that the financial statements present fairly, in all material respects: (a) the financial position of FAO for the year ended 31 December 2018; (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) corporate human resource management; and (c) operations of representation 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 current changes in the timing of payments by major contributors that requires FAO to be flexible and align its expenditure patterns with the cash inflows without sacrificing the achievement of its objectives. On employee benefits obligation, we raised the need to come up with updated and relevant

¹Unmodified 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”.

retirement and participation rates to be used for valuation and in future periods; regular audit and review on the performance of the Insurance Plan; develop written guidelines as regards the refund or profit share among the respective participating Rome-Based UN agencies (RBAs) and to the active and retired staff; and set up specific funding cost reduction (containment) arrangements within a determined time period to fund its end-of-service liabilities. Moreover, on investments, we highlighted the importance of formalizing a written policy on the present practice of procuring the services of Investment Managers and Custodian; and on the evaluation of the current performance of the emerging market portfolio and determining appropriate avenues where optimal returns are achievable while outperforming the benchmark to ensure that investments in emerging markets are protected against future losses.

7. For the SSC, we highlighted the need for action by SSC Management and other concerned FAO offices to enhance the controls in asset management, accounts payable, payroll, human resources, and travel processes and bring about operational efficiency and effective delivery of services. We also raised value adding recommendations towards SSC's continuous delivery of quality and efficient services to its customers and stakeholders by having a structured tool in providing proactive and quicker resolutions of each service request; implementing an international standard compliant quality system; and reporting on the compliance of service requests with existing policies and procedures.

8. For corporate human resource management, the results of our audit signaled opportunities for improvement that include among others' the streamlining of policies; performance management; organization-wide perspectives in career development; and improving views on risk management, human resources management risks. Viewing these standpoints at the strategic level, the Office of Human Resources' (OHR) role of providing the sense of direction and the feeling of purpose on how its human capital is to be managed requires a great deal of clarity of its policies and effectiveness of its processes within the area of governance where accountability, risk management and internal control are to be made effective.

9. Regarding the operations of representation offices, we observed several gaps or inefficiencies along operational processes which include: (a) low delivery rate in project implementation and delayed operational and financial closure; (b) delayed approval of requests for/and implementation of Technical Cooperation Programme (TCP) projects; (c) late or non-submission to donors of progress and terminal reports; (d) protractions in the delivery of procured goods and late execution of Letter Of Agreements (LOA); (e) petty cash funds were almost depleted upon replenishment and there were payments higher than the required limit; (f) incomplete and inaccurate asset information in the asset report and non-utilization of the required form upon removal or transfer of asset items; (g) incomplete records of consultants selection and incomplete or non-updated case folders; and (h) delayed or non-submission of Travel Expense Claims (TEC) and Back-to-Office Reports (BTOR) as well overdue travel advances.

Summary of recommendations

10. We made 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			
Liquidity of the Organization			
1.	Consider the changes in the timing of payments by major contributors in monitoring and forecasting its cash position and align expenditure patterns with the cash inflow to ensure that obligations to implement the approved Programme of Work are covered. <i>(Paragraph 43)</i>	Fundamental	2019
2.	Make more robust representations with member nations for the consistent and timely payment of their current assessed contributions and arrears to ensure the availability of sufficient funds for the operations of the Organization. <i>(Paragraph 44)</i>	Fundamental	2019
Employee Benefits Obligations (EBO)			
3.	Ensure a realistic and relevant valuation of post-EBO reported in the financial statements at year-end by coming up with updated and relevant retirement and participation rates to be used for December 2019 valuation and in future periods. <i>(Paragraph 49)</i>	Significant	2019-2020
4.	Institutionalize and perform as a regular exercise the conduct of audit on the performance of the Insurance Plans with results available at established times to ensure informed decisions and effective actions. <i>(Paragraph 54)</i>	Significant	2019-2020
5.	Develop written guidelines that will contain procedures, manner of allocation, and other appropriate conditions, to distribute the refund or profit share among the respective participating RBAs. <i>(Paragraph 58)</i>	Fundamental	2019 - 2020
6.	Review the balance of Medical Coverage Super (MCS) Numeraries (Account 3232) totaling USD 978,857 in coordination with the Office of Human Resource (OHR), and reallocate the surplus based on the 2019 revised MCS distribution percentage. <i>(Paragraph 62)</i>	Significant	2019-2020

²**Fundamental:** Action is considered imperative to ensure that the Organization is not exposed to high risks. Failure to act could result in serious financial consequences and major operational disruptions.

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

Recommendations		Priority ²	Timeline
7.	Set up specific funding and cost reduction (containment) arrangements within a determined period to address its end-of-service liabilities within the guidance provided by the FAO Governing Bodies. <i>(Paragraph 69)</i>	Fundamental	2019
Management of Investments			
8.	Formalize, circulate, and publish as a written policy the present practice of procuring the services of Investment Managers and Custodian. The policy to include: <ul style="list-style-type: none"> a. detailed activities to be performed in every stage of procurement, from the Initiation, Selection, Approval and Signing of the Financial Contracts; and b. defined criteria in the selection and eligibility requirements of Investment Managers and Custodians, the terms of reference, and other conditions that are deemed appropriate. <i>(Paragraph 73)</i> 	Fundamental	2019
9.	Evaluate with due diligence the current performance of emerging market portfolio and determine appropriate avenues where optimal returns are achievable while outperforming the benchmark to ensure that investments in emerging markets are protected against future losses. <i>(Paragraph 78)</i>	Fundamental	2019
Shared Services Centre (SSC)			
10.	Undertake the necessary action to enhance further the efficiency and effectiveness of management controls in the services delivered by SSC as well as improve compliance across the Organization with the existing policies, regulations and procedures concerning the SSC process delivery. <i>(Paragraph 83)</i>	Significant	2019-2020
11.	Fast track the negotiation and procurement of a structured tool for SSC to ensure that cases/requests for processing are properly managed, accurately tracked and monitored resulting in effective and efficient operations, reporting and compliance to better support FAO. <i>(Paragraph 87)</i>	Significant	2019-2020
12.	Craft a mechanism to prepare a periodic Report on Compliance with policies and procedures of service requests coming from FAO Offices which should be regularly communicated to them, and publish such	Significant	2019-2020

Recommendations		Priority ²	Timeline
	report in the SSC dedicated website or dashboard primarily to serve as valuable information that will assist FAO Offices and the SSC in proactively addressing the communicated opportunities in improving compliance of service requests and help in achieving efficient and effective process results. <i>(Paragraph 91)</i>		
13.	Utilize the Report on Compliance by SSC, to include error rate or non-compliance rate indicators when evaluating the performance of the Responsible Officer/Staff causing the non-compliance to further enhance accountability and effective delivery of their responsibilities. <i>(Paragraph 92)</i>	Significant	2019-2020
14.	Support the SSC Management to prepare a work plan that will include specific activities to implement an International Organization for Standardization (ISO) compliant quality system and have the work and resource plan approved and implemented in 2019 to ensure that SSC is offering its clients with high quality services compliant with an international quality management system standard. <i>(Paragraph 96)</i>	Significant	2019-2020
Statement of Internal Control (SIC)			
15.	Enhance the existing process and activities supporting the preparation of the SIC by formally documenting the assessment of all internal control principles under FAO Internal Control Framework (ICF), particularly Principles 1, 2, 8, 10, 13, and 17 which are not specifically included in the Internal Control Questionnaire (ICQ). <i>(Paragraph 102)</i>	Significant	2019-2020
16.	Ensure systematic documenting of the basis for the conclusion on the status of internal controls to support the assurances provided in the SIC, and to further promote accountability and transparency in the process. <i>(Paragraph 108)</i>	Fundamental	2019-2020
17.	Further define and provide additional guidance on the basis for Management's conclusion in the Representation Letter to streamline and harmonize the process and ensure consistency in drawing a conclusion on the real state of internal control within a region/department/office. <i>(Paragraph 113)</i>	Significant	2019-2020
18.	Initiate additional proactive measures to further ensure the accuracy of responses to the ICQ in view	Significant	2019-2020

Recommendations		Priority ²	Timeline
	of the importance of their confirmation therein to support the assurances of the Director-General in the Statement on Internal Control, and to enable informed action to address any weakness in internal controls within their respective area of responsibility. <i>(Paragraph 119)</i>		
19.	Strengthen the execution of the review and validation steps of the responses made in the ICQ, as required in the guidance note on internal controls reporting, to ensure that the real state of internal controls in the offices are reflected. <i>(Paragraph 120)</i>	Significant	2019-2020
Investigation of complaints on fraud and other misconduct			
20.	Address the challenges confronting the Office of the Inspector General (OIG) in its investigation work especially on constraints in resources, and put equal emphasis and strategize to take prompt and effective action on complaints relating to fraud or misconduct to sustain its strong message that the Organization is serious in combating fraud and misconduct and to better deter their occurrence hence, promoting better fraud controls within the Organization. <i>(Paragraph 128)</i>	Fundamental	2019
Governance			
Corporate Human Resource (HR) Management			
21.	HR business plans Prepare and update its human resource business plans that are reflected in formal and concrete Strategic and Action Plans covering a given period to establish clear roadmaps and milestones; corroborate monitoring of work deliveries; support reported methodologies, strategies and accomplishments to improve information integrity in its reports. <i>(Paragraph 133)</i>	Significant	2019-2020
22.	Workforce planning Ensure that the workforce planning exercise takes into consideration the staff feedbacks and the established timeframe for delivery; and supported by a good analysis framework to attain the value intended and promote operational efficiency. <i>(Paragraph 137)</i>	Significant	2019-2020
23.	Staff Mobility Enhance its mobility policy by ensuring that the HR strategic objective and the related action plan	Significant	2019-2020

Recommendations		Priority ²	Timeline
	are clearly articulated to facilitate effective implementation; by performing timely and regular evaluations through feedback from staff; and by strengthening further its communication with other offices. <i>(Paragraph 144)</i>		
24.	Recruitment policies Strengthen its existing recruitment and selection policies, design effective processes and mechanisms and ensure that clear efficiency parameters are included in the development of its recruitment process Key Performance Indicators to accurately measure performance of related activities by process owners and enable better performance monitoring of the whole recruitment and selection process. <i>(Paragraph 147)</i>	Significant	2019-2020
25.	Gender parity Continue to pursue efforts towards achieving the gender parity goals inter alia by articulating its target for each category of post with timelines; articulate with clarity, the guidelines and procedures on geographic diversity and to communicate the same to hiring managers to ensure better representation and transparency; and facilitate the timely monitoring of the progress made therein for the efficient achievement of expected results. <i>(Paragraph 150)</i>	Significant	2019-2020
26.	Hiring of consultants Reinforce its policy on the hiring and renewal of consultants/PSA subscribers with the inclusion of clear provisions on the grant of exceptions on the required contract breaks to better establish authority, clarify accountabilities and eliminate discretions. <i>(Paragraph 155)</i>	Significant	2019-2020
27.	Staff performance evaluation Enhance its institutional capacity in preparing and delivering its Performance Evaluation and Management System (PEMS) Objectives and Performance Indicators through robust monitoring and review built around well-defined and coherent performance yardsticks to support more accurate and meaningful assessment of staff performance and the associated programme results reporting. <i>(Paragraph 158)</i>	Significant	2019-2020

Recommendations		Priority ²	Timeline
28.	<p>Staff guidance and training</p> <p>Ensure that appropriate guidance and training are provided to both staff and supervisors in managing performance feedback and to document the same in the PEMS to better support future performance assessments and review existing rebuttal policies and their experience in other UN agencies and align itself with good practices in the UN system. <i>(Paragraph 159)</i></p>	Significant	2019-2020
29.	<p>Staff learning plans</p> <p>Monitor the delivery of staff learning plans more closely to ensure that these are prepared based on an inclusive analysis of the knowledge and skills needs of staff that are clearly linked to the organizational needs and priorities to optimize the use of staff development resources and efforts. <i>(Paragraph 163)</i></p>	Significant	2019-2020
30.	<p>Financial disclosure</p> <p>Initiate the crafting of the most appropriate strategy, in close coordination with the Legal Counsel, which will warrant full compliance by staff with the required financial disclosure statement within a specified period, including the imposition of disciplinary actions for non-compliance to promote better transparency and accountability within the Organization. <i>(Paragraph 166)</i></p>	Fundamental	2019-2020
31.	<p>Coordination between OHR and Ethics Office</p> <p>Establish a specific policy on mutual feedback between the OHR and the Ethics Office to allow for more efficient engagements and operational enhancements of human resource-related actions; and to include in the OHR action plan for 2017-2019, the conduct of mandatory training on ethics for all staff members and design a training course that includes a session targeting the ethical concerns of staff, done in close coordination with the Ombudsman and Ethics Office. <i>(Paragraph 167)</i></p>	Significant	2019-2020
32.	<p>Feedback exercise on HR matters</p> <p>Ensure that a formal feedback exercise involving the comprehensive management of the Organization's human resource is conducted on a regular interval basis to strengthen further its</p>	Significant	2019-2020

Recommendations		Priority ²	Timeline
	human resource relations and the related strategies and to inform further its policy agenda, anchored on skills, knowledge and commitment. <i>(Paragraph 172)</i>		
Control environment in decentralized offices			
Project implementation and monitoring			
33.	Ensure effective and efficient project implementation and delivery through enhanced monitoring and supervisory controls over the project budget and in the achievement of project timelines and objectives, as well as in imposing accountability towards donors and other administrative project requirements. <i>(Paragraph 177)</i>	Significant	2019-2020
Technical Cooperation Programme (TCP)			
34.	Ensure overall efficiency and effectiveness in the delivery of TCP projects by revisiting and further improving its implementation strategy, closely engaging with all project stakeholders to reduce project time lags, and capacitating staff by providing trainings on formulation of the mechanics and preparation of project documents. <i>(Paragraph 181)</i>	Significant	2019-2020
Donor Reporting			
35.	Ensure timely and accurate delivery of relevant donor reports through sustained monitoring efforts and control activities; and take advantage of the usage of the Reports facility of FPMIS to provide the required reports and monitor submission of the progress and terminal reports. <i>(Paragraph 185)</i>	Significant	2019-2020
Procurement management			
36.	Strengthen monitoring and supervisory controls in procurement processes that drive effective procurement management to ensure timely acquisition of goods, works and services; the preparation of complete and updated procurement plan; and procurement compliance with policies, regulations and rules. <i>(Paragraph 189)</i>	Significant	2019-2020
Cash management			
37.	Strengthen compliance with the controls over cash related activities through close monitoring of bank balance as well as Operational Cash Advance (OCA) and Operational Petty Cash (OPC) utilization and replenishments, review of authorized level of OPC fund based on monthly	Significant	2019-2020

Recommendations		Priority ²	Timeline
	utilization, and continuous monitoring of the same to avoid multiple grants and non-settlement of advances beyond due date. (<i>Paragraph 193</i>)		
Asset Management			
38.	Ensure that activities, processes and responsibilities relating to asset management are properly observed and undertaken through enhanced controlling and monitoring mechanisms, updating of records, and filling up of necessary forms with relevant information to promote accountability and to adequately safeguard its assets. (<i>Paragraph 197</i>)	Significant	2019-2020
Human Resource Management in Decentralized Offices			
39.	Reinforce monitoring activities on record keeping and documentation of activities such as records of consultant's selection and notes explaining the choice of National Project Personnel (NPP) to assure efficiency and transparency in managing Human Resource-related activities; and ensure completeness of information in the terms of reference of Non-Staff Human Resources (NSHR) as basis for monitoring and evaluation of work delivery. (<i>Paragraph 201</i>)	Significant	2019-2020
Travel Management			
40.	Strengthen monitoring controls in the management of travels to ensure adherence with FAO's policies and procedures through compliance with the Quarterly Travel Plan (QTP) requirement, timely settlement of travel prepayments and submission of required post-travel documents such as Travel Expense Claims (TEC) and Back to Office Report (BTOR). (<i>Paragraph 205</i>)	Significant	2019-2020
Overall assessment of the control environment			
41.	Assess the level of operational risks of its decentralized offices and implement strategic solutions to strengthen their supervisory and monitoring controls over critical processes and decisions to ensure operational efficiency and effectiveness; and better support the certification made by the decentralized office directors of the state of their control environment. (<i>Paragraph 209</i>)	Significant	2019-2020

Implementation of prior years' audit recommendations

11. The status of implementation by Management of the 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 29 recommendations in the financial year 2017, 19 (66 percent) were implemented and 10 (34 percent) are in the process of implementation. Six remaining recommendations in the financial year 2016 are still in the process of implementation. All the three remaining recommendations in the financial year 2015 were implemented. Four (67 percent) out of six remaining recommendations in the financial year 2014 were implemented while the remaining two (33 percent) are in the process of implementation. For the biennium 2012-2013, the one remaining recommendation was implemented by the Management in the reporting period. We further encourage Management to prioritize the implementation of the remaining recommendations.

A. MANDATE, SCOPE AND METHODOLOGY

1. Mandate

12. The Commission on Audit of the Republic of the Philippines was appointed by the 146th Session of the Council³ as External Auditor of the Organization for a period of six years commencing with the year 2014.

13. As 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 regarding 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.

14. This is the fifth year of our new audit mandate and the fifth 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

15. 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.

16. 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 2018, 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 2018 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.

17. 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

18. 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

19. 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.

20. 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.

21. 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.

22. For the financial year 2018, we conducted audits in the Headquarters (HQ), Shared Services Centre (SSC), FAO Regional Office for Asia and the Pacific (FAORAP), FAO Regional Office for Near East and North Africa (FAORNE), FAO Representation Offices in Mozambique (FRMOZ), Nigeria (FRNIR), Vietnam (FAVIE), and Uganda (FRUGA).

23. We also audited the financial statements of the FAO Credit Union for financial year 2018 and on which we issued a separate report. 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).

24. We coordinated our 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.

25. 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

26. This section presents the results of the audit for the financial year 2018, 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

27. We concluded that the financial statements present fairly, in all material respects, the financial position of FAO for the financial year ended 31 December 2018, 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;

28. We appreciate the efforts taken by FAO Management to address several recommendations issued during the year-end audit of the FAO 2018 financial statements 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 2018 reflect the adjustments on the balances of the accounts affected, as well as the corrections and additions to the note disclosures.

29. 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.

30. 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 liquidity of the Organization; concerns about Organization's employee benefit obligations; and guidelines and performance of investments.

B.1.2 Liquidity of the Organization

31. Liquidity is the ability of the Organization to immediately convert any assets into cash to pay operating expenses when due. FAO measures its liquidity on available cash and cash

equivalents for Regular Programme. The liquidity position of the Organization is an on-going concern to ensure continuity of the Programme of Work (POW).

32. We noted that FAO has been monitoring its monthly cash position and cash flow forecast to ensure that it has sufficient cash requirements for its operations. In addition to its cash and cash equivalents, the Organization has established a Working Capital Fund (WCF) of USD 25.7 million and a Special Reserve Account (SRA) of USD 17.5 million to serve as a safety net to advance payments of expenses pending receipt of assessed contributions and provide protection against the effect of unbudgeted extra costs arising from adverse currency fluctuations and unbudgeted inflationary trends, respectively.

33. FAO's sources of cash inflows are receipts of assessed contributions both from current and prior years' assessments, project support cost income, jointly financed activities, government cash contributions, and other miscellaneous income.

34. Review of monthly receipts of assessed contributions and disbursements from contribution years (CYs) 2014 to 2018 disclosed that while the level of monthly disbursements remained within the range of USD 40 to 50 million, the receipt of assessed contributions were fluctuating and unpredictable.

35. For CYs 2014 to 2016, receipt of large sums of assessed contributions was consistently made during January, summer, and the last quarter of the year. This trend changed in CY 2017 where contributions received were in the monthly average of USD 32 million. However, in CY 2018, receipt of assessed contributions dramatically changed to receiving large sums of payments in January, April, and November, totaling USD 115.2 million, USD 81.2 million, and USD 83.0 million, respectively. Most of such payments were received from the following Member Nations (MN):

Months	Member Nation	Total USD Amount (in Millions)
January	United States of America (USA)	52.0
	Canada	21.0
	Russia	15.3
	France	10.9
April	Japan	48.0
	France	13.2
	Italy	8.4
November	USA	32.2
	United Kingdom (UK)	22.1
	Germany	14.4
	France	13.2
	Korea	10.0

36. Comparison of the cash balance against total receipts and total operating expenses (including purchase of assets) on a quarterly basis show that FAO had sufficient cash balance to meet its obligations for a period of three to five months except in the months of November to December 2017 where its cash balance went below USD 100 million.

37. We noted that the Council and the Finance Committee (FC) have frequently examined the management of arrears as part of the regular review of the financial position of the Organization given the changes in the timing of receipts of assessed contributions from MNs

especially from the major contributors. Various studies were conducted aimed at finding ways to improve the rate of receipt of contributions (document FC 175/6 Rev.1 refers). The access to external borrowing was also considered but banks expressed restraint due to the unpredictability of cash flows from assessed contributions (FC173-3Rev.1-MY071e refers). Management has also made recommendations to revise FAO's Basic Texts to further strengthen the measures applicable to defaulting MNs with the overall objective of improving timely payment of assessed contributions to be submitted for approval by the Conference in June 2019 (FC175-6-Rev1 refers).

38. Further analysis of the relationship of cash and cash equivalents against current liabilities (quick ratio) for the past four years would show that FAO's cash balance can only meet at most two months of its current liabilities, but went positively higher at year-end of 2018, as shown below:

Year	Amount in Millions of USD	Increase/ (Decrease)	Quick Ratio
2014	189.0	86.9	2.36
2015	204.4	15.4	1.92
2016	179.8	(24.6)	1.78
2017	227.5	47.7	1.80
2018	293.9*	66.4	3.45

*Net of restriction

39. The Treasury Operations (CSFT) commented that payment of assessed contributions by the MNs depends on annual national budget cycles, thus, summer and fourth quarter of the year are usually the peak periods of receiving large sums of assessed contributions from the MNs. Management continuously implements several measures in urging MNs especially the major contributors to make timely payment of their current assessed contributions and settle the amounts in arrears. In 2018, Management considered to have access to external borrowing and started negotiating with partner banks to cover at least two weeks of its operating expenses however, it was not formalized. Further, to ensure that the cash balance was above the critical level, Management suspended expenditure and commitments relating to non-essential activities towards the last quarter of 2018. Proposals to increase the WCF have until now been deferred by the Governing Bodies, and this may be due to cash balances having been sufficient to meet expenditure needs.

40. On 15 October 2018, the Director General (DG) wrote a letter to all staff updating them on the implications of the difficult financial situation facing FAO consistent with that of the United Nations system in general. The Secretary-General in his letter to the employees in July, referred to the negative effects on consultants. The Director-General stated that "just as in the case of the UN, we are now during a cash crisis at FAO due to delayed payment of Regular Programme contributions by member countries. As of today, member countries owe us a total of USD 283 million, with 77 percent of this due from the top five debtor members. Our cash flow projections indicate that, as things stand, we will need to resort to external borrowing by year-end, or early in 2019, to sustain our minimum monthly operating expenses of USD 45 million, including for payment of salaries."

41. The DG further stated "Worse still, and in a manner unprecedented in recent years, some major contributors have changed their normal pattern of payment, leading to uncertainty in when significant payments may be expected. This in turn makes it harder to borrow from external lenders, who require guarantees for lending in the form of predictable future cash

receipts. We have appealed for all Member Nations to meet their obligations in full and on time, something acknowledged by Governing Bodies of FAO, most recently at the 159th session of the Council in June this year. I have written to member countries that have outstanding contributions and arrears in this regard; and requested those members who have paid their 2018 dues in full and on time, to pay their 2019 contributions as early as possible in the new year.”

42. Despite the unpredictability in the timing of receipt of assessed contributions, FAO is still liquid and has sufficient cash balance to cover its operational requirements. FAO was able to balance its cash requirements even during critical months. CSFT’s continuous monitoring of cash balances contributed to the continuity and uninterrupted operations for the Programme of Work such that it was able to forecast cash balances based on historical incurred expenses and determine appropriate and effective measures to maximizing payment terms, postponement of non-essential activities and large payments, and considered measures to improve timely payment of assessed contributions (CCLM 108/2 Rev.2 refers). Given the current changes in the timing of payments by major contributors, FAO needs to be flexible and align its expenditure patterns with the cash inflow without sacrificing the achievement of its objectives.

43. **We recommended that FAO consider the changes in the timing of payments by major contributors in monitoring and forecasting its cash position and align expenditure patterns with the cash inflow to ensure that obligations to implement the approved Programme of Work are covered.**

44. **In addition, we recommended that FAO make more robust representations with member nations for the consistent and timely payment of their current assessed contributions and arrears to ensure the availability of sufficient funds for the operations of the Organization.**

B.1.3 Accounting and management of Employee Benefits Obligations (EBO)

45. Employee benefit obligations for post-employment and other non-current employee benefit obligations are determined by independent professional actuaries. Current employee benefit obligations are calculated by FAO based on personnel data and past payment experience. As at 31 December 2018, total employee benefit obligations amounted to USD 1,382.9 million (USD 1,545.0 million in 2017), of which USD 1,364.5 million (1,527.4 million in 2017) were calculated by the actuaries and USD 18.4 million (17.6 million in 2017) were calculated by FAO. FAO has elected to report all the actuarially valued employee benefit obligations within non-current liabilities due to the impracticality of allocating these using an alternative method.

B.1.3.1 Actuarial assumptions on retirement and participation rates used for 2018 valuation

46. We noted the use of past studies on retirement and withdrawal rates, and participation and lapse rates for the 2018 year-end valuation of the EBO which may no longer be relevant to the recent experience of FAO, thus, affecting the accuracy of the valuation.

47. Management commented that the Organization is preparing a report on retirement and withdrawal rates, taking into consideration the new Mandatory Age of Separation from 1 July 2019 and a lapse rate study in which it is reporting the number of staff retiring and eligible to

After Service Medical Coverage (ASMC) for the years 2016-2018. We were informed that this report will be available in September 2019. The report includes withdrawals from the ASMC for any reason other than death or the one contemplated in Manual Section 343.3.4 - Cessation of Coverage.

48. Actuarial assumptions on retirement and withdrawal rates, and participation and lapse rates materially influence the valuation of EBO. Trends of FAO experience on retirement and participation of staff to post-EBO may have substantially changed from the last study to present. It is emphasized that IPSAS 39 requires an entity to determine the liability with sufficient regularity, thus, it is appropriate that FAO uses current and updated census data as basis for its valuation.

49. **We recommended that FAO ensure a realistic and relevant valuation of post-EBO reported in the financial statements at year-end by coming up with updated and relevant retirement and participation rates to be used for December 2019 valuation and in future periods.**

B.1.3.2 Regular audit and review on the performance of the Insurance Plan with the Insurer not conducted

50. FAO, together with other RBAs contracted Allianz Worldwide Care S.A, the Insurer to manage the Insurance Plans of FAO, the Policyholder, for the duration of 2015 to 2017. The contract was extended in December 2017 for Calendar Years 2018 to 2019.

51. From the effective date of the contract with the Insurer until 2018, there was no conduct of audit on the performance of the Insurance Plans despite the existence of the provision in the contract under Article 18 which states that “The Policyholder shall have the right at any time during the course of the contract to audit, review and investigate the records of the Insurer concerning the administration of the Plans and the claims settled or pending by its own designated staff members or by a designated duly qualified third party.”

52. Management commented that it is currently conducting an audit and review on the performance of the Insurance Plan with the current insurer for the contract 2015-2017 and its related extension for the years 2018-2019.

53. Regular conduct of audit on the performance of the Insurance Plan provides assurance to FAO that the reported claims filed and settled are complete, accurate and documented, resulting in the reliable computation of profit share expected by FAO in the future.

54. **We recommended that FAO institutionalize and perform as a regular exercise the conduct of audit on the performance of the Insurance Plans with results available at established times to ensure informed decisions and effective actions.**

B.1.3.3 Long outstanding refund or profit share received from the prior Insurers totalling USD 15.9 million reclassified to Other Liabilities has not been distributed among the participating Rome-Based UN agencies (RBAs)

55. Account 3400-Other Liabilities (non-current) with a total amount of USD 15.9 million was reclassified to other liabilities at year-end and reversed at the beginning of the following

year. The account is composed of refund or profit share received from previous Insurers dating back to 2002.

56. Management commented that FAO is liaising with the World Food Program (WFP) and the International Fund for Agricultural Development (IFAD) in the context of the Joint Advisory Committee on Medical Coverage (JACMC) regarding the study of the apportionment of the balance of profit sharing among the RBAs. This is particularly timely, as starting January 2020, WFP will no longer be part of the RBA medical insurance contract.

57. It is imperative that the guidelines for distribution of the profit share among participating RBAs is in place to eliminate long outstanding payables of this nature and to avoid the continuous reclassification and reversal of the payables in the books.

58. We recommended that FAO develop written guidelines that will contain procedures, manner of allocation, and other appropriate conditions, to distribute the refund or profit share among the respective participating RBAs.

B.1.3.4 Medical Coverage Super (MCS) Numeraries (account 3232) totalling USD 978,857 was not cleared on a periodic basis

59. The account 3232 is a General Ledger (GL) Liability account to record payroll deductions and FAO contributions for medical insurance coverage that includes different benefits (accidental death, disablement and/or medical) from various employment categories which are then required to be paid to the relevant organizations.

60. As at year-end of 2018, the account 3232 has an uncleared balance of USD 978,856.98 aged beyond one year. This condition is not consistent with the provisions in the Chart of Accounts for accounts 3220-3233 which provides that the Accounting, Reporting and Analysis Group (ARAG) Supervisor is responsible in monitoring the transactions and balances of these accounts on a periodic basis (at least monthly); in preparing requests for payments to be forwarded to the Accounts Payable (AP) Unit to ensure that balances and related transactions are cleared within the timeframe expected; and in following up any old balances and taking relevant action to clear the related transactions.

61. Management commented that the account 3232 has been reconciled monthly, that the accounting for deductions is based on the percentages provided by the OHR and that the payment of handling fees to the Insurance Company are prepared as a lump sum amount by OHR and paid yearly. Subsequently, in the second semester of 2019, the OHR will revise and issue distribution percentage of the MCS based on the contract with the new Insurer.

62. We recommended that FAO through CSF-GL review the balance of Medical Coverage Super Numeraries (MCS) (Account 3232) totaling USD 978,857 in coordination with OHR, and reallocate the surplus based on the 2019 revised MCS distribution percentage.

B.1.3.5 After Service Medical Coverage (ASMC) and Termination Payments Fund (TPF) components of EBO remain unfunded totalling USD 875 903 000 as at December 31, 2018

63. The EBO is composed of current employee benefit obligations relating to wages, salaries, allowances, paid annual leave and paid sick leave; and post-employment benefit obligations relating to Compensation Payment Fund (CPF), Separation Payment Scheme (SPC), ASMC and TPF.

64. The EBO is partially funded thru earmarked long-term investments (LTI) managed by External Investment Managers. As at 31 December 2018, the market value of the LTI is USD 488.6 million, while the EBO is valued at USD 1,382.9 million. While there is a decrease in the value of the EBO by USD 162.1 million or 10.5 percent from the 2017 balance of USD 1,545.1 million, the unfunded amount stood significant at USD 875.9 million for ASMC and TPF, amounting to USD 820.3 million and USD 55.6 million respectively.

65. The decrease in the EBO by USD 162.1 million was primarily due to changes in actuarial assumptions such as increase in the discount rates applied, the movement in the year-end Euro-United States Dollar exchange rate and change in the claims and administrative expenses. Based on the actuarial calculation, FAO would require contributing the amount of USD 15.5 million to TPF and USD 69.8 million to ASMC per year to fully fund the liabilities by 2024 and 2039, however, no additional funding was approved by the Conference for Biennium 2018-2019.

66. Review of the claims statistics with the Insurer Allianz disclosed that payments of premiums and administrative fees increased, corresponding increases in claims were noted with almost 63 percent of the claimants being retirees. Analysis showed 85 percent of the total claims paid since 2015 were attributed to retirees, and among the top benefits availed of were hospitalization, pharmacy, and laboratory procedures contributing to 54 percent, 15 percent, and 10 percent respectively.

67. Management commented that discussions for cost containment measures are ongoing. There have been negotiations with the insurer's network to provide pharmacy discounts. Studies to participate in national health insurance schemes and change in the eligibility requirement to ASMC are also being considered. The FAO Council in April 2019 deferred the replenishment of the WCF, as well as the incremental funding of the ASMC past service liability to future biennia regarding the proposals to improve FAO's financial health, liquidity and reserves. Similarly, the Finance Committee, in November 2018, emphasized the importance of adopting a common approach amongst the members of the United Nations Common System on this matter and encouraged FAO's participation in the UN Common System's search for a solution to this issue.

68. Moreover, at the UN system, the issue of the level of significance of the After-Service Health Insurance (ASHI) liabilities and the related funding was recognized. Pursuant to the General Assembly (GA) Resolution (68/244), upon the GA's request for the Secretary General (SG) to undertake a survey of current health-care plans for active and retired staff in the UN system, the SG submitted a report on managing ASHI (A/73/662) to the GA. The report was largely informed by the work of a UN inter-agency working group on ASHI, of which FAO is an active member. It explored options to increase the efficiency of the health insurance plans

including the related costs, proposing prudential funding of the liability as the financial pressure that the unfunded liability will exert on future budgets is of growing concern.

69. We recommended that FAO set up specific funding and cost reduction (containment) arrangements within a determined period to address its end-of-service liabilities within the guidance provided by the FAO Governing Bodies.

B.1.4 Management of Investments

B.1.4.1 Procurement of the services of Investment Managers and Custodian

70. Manual Section 202.9.2 provides that management of assets in the equity and fixed income markets shall be carried out by specialized external asset managers in accordance with detailed written guidelines. These managers shall be selected in accordance with FAO procurement rules.

71. The actual processes and present practice in selecting Investment Managers and Custodian as outlined below are not documented and institutionalized as a procurement policy: a) CSFT prepares Request for Proposal (RFP) with the support of FAO's Investment Advisor, the World Bank (WB); b) the WB performs initial review of managers that offer the type of investment mandate needed; c) RFPs will be sent to the long list established by the WB; d) CSFT reviews the technical and financial responses with the support of the WB; e) CSFT presents the reviewed RFP to the Investment Committee for official selection; and f) Investment Mandate/Contract signed by the Director, Finance Division. Renewal of contracts with Investment Managers is based on the results of the performance review and/or changes in Asset Allocation Strategy.

72. The foregoing undocumented processes may have an impact on the transparency, accountability, monitoring, assessment and evaluation for its consistent application, compliance and implementation relative to FAO's investment operations.

73. We recommended that FAO formalize, circulate, and publish as a written policy the present practice of procuring the services of Investment Managers and Custodian. The policy to include:

- a. detailed activities to be performed in every stage of procurement, from the Initiation, Selection, Approval and Signing of the Financial Contracts; and**
- b. defined criteria in the selection and eligibility requirements of Investment Managers and Custodians, the terms of reference, and other conditions that are deemed appropriate.**

B.1.4.2 Portfolio performance on Emerging Markets Equity ex Taiwan for years 2016 to 2018 was below benchmark showing significant negative returns of 2.58 from inception

74. The FAO Long term investment (L-T Portfolio) policy provides that the overall objective of the investment program is to be able to provide, over the long term, adequate resources to finance the funded liabilities and pay the long-term employee benefit obligations. The contract with any investment manager may be terminated for failure to meet the performance objectives specified in the contract. The investment objective of the Emerging

Markets Portfolio is to generate attractive risk-adjusted returns over time and is expected to generate more stable returns. It seeks to outperform the benchmark with an expected annualized excess return of 100 to 300 bps over time.

75. The Emerging Markets Equity Portfolio with market value of USD 44.9 million as at 31 December 2018 was an underperformance against the expected benchmark for the past three years showing significant negative returns of 2.58 from inception.

76. CSFT has submitted negative excess performance issues to the Advisory Committee on Investments which has also expressed concern with the mandate and suggested its termination. This advice will need to be endorsed by the Investment Committee (IC) before any action can be taken. As expressed in FAO's L-T policy, the IC has been delegated the authority to decide on the termination of the portfolio. The CSFT will act once this decision has been taken. However, Management noted that Investments in any market will follow the market performance and FAO aims to outperform the result, i.e. the Organization expects the active manager to provide excess returns to the market benchmark.

77. Failure of the Investment Manager to achieve investment objective is not a breach of contract, but management on emerging market portfolio has not been performing above benchmark for the past few years, which significantly affected FAO's portfolio. Be it emphasized that the purpose of L-T Investments is to achieve returns to support FAO in funding staff related liabilities.

78. **We recommended that FAO evaluate with due diligence the current performance of emerging market portfolio and determine appropriate avenues where optimal returns are achievable while outperforming the benchmark to ensure that investments in emerging markets are protected against future losses.**

B.1.5 Shared Services Centre (SSC)

79. The 2018 audit of SSC disclosed improvement opportunities to enhance the management and control of its key processes and ensure that the policies, regulations and rules are in place and effectively working.

80. SSC is a centre of excellence focused on the delivery of high quality and cost effective administrative services for FAO globally. Its mission is to continuously improve the satisfaction of its customers, internal or external, through a continuous improvement agenda that drives service excellence using a cost-effective service delivery model. Its strategy is to drive performance through process simplification, standardization, automation and self-service capabilities while increasing service quality through improved communications.

B.1.5.1 Improvement opportunities for efficient and effective SSC processes

81. We communicated the following issues to SSC Management as an added value to enhance management controls in its functional processes such as asset management services, accounts payable services, payroll services, human resources services, and travel services:

- a. *Asset management services.* There is a need to enhance the process in asset additions to avoid reporting as Construction In-Progress (CIP) assets below the threshold amount, and the mapping of CIP invoice items to various asset numbers. In

addition, non-trackable expendable goods costing below USD 1,500 and expendable goods costing below USD 500 were reflected in the Asset Register, thus, we emphasized that only those assets that meet the capitalization threshold are recognized in the Asset Register. We also pointed out the need to improve on the completeness and timeliness of asset documents submitted by the asset custodians and the importance of performing periodic review of the Asset Register to produce an accurate asset data and ensure completeness of asset information.

b. *Accounts payable services.* We highlighted the opportunity to implement a centralized invoice processing within the SSC to achieve a streamlined and standardized process considering the amount and magnitude of transactions that FAO currently handles. Also, we noted that there is a need to ensure effective delivery of responsibilities by the Budget Holders and/or Responsible Officers in inserting the receipt of goods in the receiving module as well as to timely submit requests for invoice adjustments to Finance Division (CSF) for approval and SSC for processing, as the fair presentation of affected accounts in the financial statements is impacted.

c. *Payroll services.* The payroll register includes cases of withheld salaries or honoraria due to lack of Payroll Payment Method (PPM) and/or Banking Instructions (BI) from the employee and instances of Personal Service Agreements (PSAs) under contractual agreement with a lending employer. In addition, we highlighted the importance of documenting the results of review being performed in the payroll process to determine potential areas for improvement as well as the need to strengthen supervisory controls on changes performed by processors with super user responsibilities in Global Resource Management System (GRMS) to minimize the risk of errors or intentional data inputs. The need to be more cautious in reviewing timecards to ensure that only actual days worked are submitted and approved in the GRMS for processing of the payroll was raised. Further, as the existing provisions are unclear, to revisit the policy whether the Organization can contribute to the United Nations Joint Staff Pension Fund (UNJSPF) for staff member on special Leave Without Pay (LWOP).

d. *Human resources services.* There was system limitation that hinders the ability of staff members to enter and submit documents to support the updates or changes to their family status, which creates inefficiency in the process done by the Human Resources (HR) Unit because of the extra work they need to do on behalf of staff members, thus, impacts on the immediate processing of requests for dependency allowance. To highlight the importance of the responsibility and accountability of Responsible Officials in certifying the reasonableness of the rental advance or subsidy, we raised the need to update the “How to” guide on how to request rental subsidy and rental advance and revise Form AFH 75.

e. *Travel services.* An update on travel policy by incorporating the guidelines on Post Factum Travels to have clear-cut regulations and rules to support the currently existing procedures in the processing of Post Factum Travel Authorization and Travel Expense Claims needs to be pursued. We also emphasized the value of formulating a “How to” guide for Medical Evacuation Travels to formalize the procedures involved.

82. The foregoing control deficiencies highlight the need for action by SSC Management and other concerned FAO offices to enhance the controls in functional processes and bring about operational efficiency and effective delivery of services.

83. **We recommended that FAO undertake the necessary action to enhance further the efficiency and effectiveness of management controls in the services delivered by SSC as well as improve compliance across the Organization with the existing policies, regulations and procedures concerning the SSC process delivery.**

B.1.5.2 Structured tool to support SSC services delivery

84. The present functionality of the customized Microsoft Outlook used as shared mailboxes tool cannot provide the customers' request for efficient and productive process due to its limitation in monitoring the progress of requests, not being capable of automatic tracking and requires manual preparation of monthly reports that escalates lag time in processing.

85. SSC Management pointed out that they have done a lot of creative processes in Outlook to support their reporting and compliance. Unfortunately, request in Outlook is fragmented and not very transparent because their customers cannot see the status of their requests in terms of progress or escalations. Consequently, results of the progress of requests are evaluated reactively rather than proactively.

86. We emphasized that since the offshoring of major activities from FAO Headquarters to SSC which completely took off in 2017, SSC's responsibilities, customers' demands and needs, and the volume of transactions all considerably increased. Hence, it is essential that a structured tool be able to support SSC in providing proactive and quicker resolution of each service request as it is dealing with thousands of customers and has numerous requests to process every day.

87. **We recommended that FAO fast track the negotiation and procurement of a structured tool for SSC to ensure that cases/requests for processing are properly managed, accurately tracked and monitored resulting in effective and efficient operations, reporting and compliance to better support FAO.**

B.1.5.3 Reporting on the compliance of service requests with existing policies and procedures

88. We determined that while SSC was in the best position to become provider of information because of its knowledge and competence in the application of FAO policies, procedures, and systems, it has currently no existing reporting mechanism that will consolidate the transactional requests from FAO Offices that were either compliant or non-compliant with established policies and procedures.

89. SSC Management commented that improvement in the process is a goal. When gaps are seen, they design a process to bridge the gaps. In 2018, they have developed e-claims process, improved self-service banking process, and rolled out National Project Personnel (NPP) e-filing of supporting documents using the Taleo tool. A customer satisfaction meter was also introduced as a feedback mechanism to determine the quality of service they provide to their customers. Service Level Agreements (SLAs) is used to measure SSC's performance and is the tool used to identify solutions to improve processes and be able to address delays.

90. We recognize the current and ongoing efforts initiated by the SSC to continuously improve in its processes. However, we highlighted that communicating to and involving FAO Offices and partners on the results of its processes and gaps identified in the processing of

service requests will not only result in an efficient and effective process but will increase their compliance with policies and procedures. In addition, reporting this information to Senior Management engages them to provide proactive solutions that respond to reported gaps, reinforcing delivery of quality services, customer satisfaction and enhances sound decision making.

91. **We recommended that FAO, through SSC, craft a mechanism to prepare a periodic Report on Compliance with policies and procedures of service requests coming from FAO Offices which should be regularly communicated to them, and publish such report in the SSC dedicated website or dashboard primarily to serve as valuable information that will assist FAO Offices and the SSC in proactively addressing the communicated opportunities in improving compliance of service requests and help in achieving efficient and effective process results.**

92. **Further, we recommended that FAO utilize the Report on Compliance by SSC, to include error rate or non-compliance rate indicators when evaluating the performance of the Responsible Officer/Staff causing the non-compliance to further enhance accountability and effective delivery of their responsibilities.**

B.1.5.4 Initiative on international standard compliant quality system

93. As the Organization is growing, continuously innovating, and streamlining its operations, an increased volume of transactions to process and report to clients whether internal or external is expected. Thus, to confirm that every principle built in its service delivery model are implemented in the right perspective, SSC needs to ensure compliance with a quality system, such as an International Organization for Standardization (ISO) certification. As a result, the right component of success through established robust quality management system and customer satisfaction is achieved.

94. We inquired, and FAO SSC Management informed that ISO is part of their initiatives for 2019.

95. We pointed out that a certified quality system such as ISO will increase clients' confidence level and reliability of the services rendered as compliance with established quality standards to achieve defined results for the service centre is necessary. A standardized working environment results in consistent delivery of service and customer satisfaction. Preventive, mitigating, and corrective measures executed from the time requests are received, processed, disposed, reported, until lessons are learned to continuously improve services offered to clients on a timely basis and in accordance with the international standards, lead to the attainment of the vision of FAO SSC.

96. **We recommended that FAO support the SSC Management to prepare a work plan that will include specific activities to implement an ISO compliant quality system and have the work and resource plan approved and implemented in 2019 to ensure that SSC is offering its clients with high quality services compliant with an international quality management system standard.**

B.1.6 Statement on Internal Control (SIC)

97. In FAO, the review of the overall effectiveness of the system of internal control is informed by the following: (a) Letters of Representation from the Deputy Directors-General, Assistant Directors-General and Directeur de Cabinet, in which they provide assurance that FAO's management and control systems are being applied methodically and effectively across the organizational units under their command; (b) Analysis of the Internal Control Questionnaires (ICQs) completed by offices and divisions throughout FAO, and the resulting control improvement plans; (c) Conclusions and recommendations in the Annual Reports of the Inspector-General, the Audit Committee, the Ethics Officer and Ombudsperson and the Office of Evaluation; (d) Observations, conclusions and recommendations made by the External Auditor in their long form report, management letters and other reports; and (e) Other matters that have come to the attention of the Management during the year.

B.1.6.1 Principles of internal control need to be fully integrated in the process supporting the preparation of the SIC

98. Pursuing to correctly assess the overall effectiveness of internal control, it is highly imperative that the five components and 18 principles of internal control under FAO Internal Control Framework (ICF) must be fully covered in the process supporting the SIC preparation. Consistent with the principles of the Committee of Sponsoring Organization of the Treadway Commission (COSO), the SIC shall assert whether each of the five components of internal control, namely: (a) control environment, (b) risk assessment, (c) control activities, (d) information and communication, and (e) monitoring activities, including controls to effect the principles within each component, is present and functioning.

99. Because of our review of the ICQs (for HQ and Decentralized Offices) and Representation Letter (RL), we found out that the five components of internal control were entrenched in the control points to be considered. However, a circumspect evaluation of these documents disclosed that there were no specific key control points in the ICQ that relate to the following FAO ICF Principles of internal control:

Principle	Description
Principle 1	Integrity and ethical values
Principle 2	Board oversight
Principle 8	Risk identification, assessment, and mitigation
Principle 10	Assessment of changes
Principle 13	Policies and procedures
Principle 17	Monitoring

100. Management agreed that there was scope to enhance the process to further align it with the COSO framework. Nonetheless, Management emphasized that the above noted Principles of internal control were not included in the ICQs and Representation Letter because these were not suitable for assessment at single entity level when completing and analyzing the ICQs and Representation Letter but could be better analyzed and assessed at senior management level, before drafting or preparing the Statement on Internal Control. In addition, Management pointed out that while the FAO ICF is based on COSO and the COSO framework is the guiding principle for the internal control reporting process, the intention has not been to follow it line by line in the design and implementation of the ICQ as these questionnaires were only a part of the internal control reporting exercise, as described in paragraph 97 above. In this regard, it

is important to note that the ICQ targeted many officers throughout the organization and hence all the questions in the ICQ need to be of such nature that they can meaningfully answer them.

101. In addition, Management concurred that under COSO, it is important to document the assessment of all components of internal control and supporting principles that constitute the criteria that assist management in assessing whether the components of internal control are present, functioning and operating together within the Organization. We are concerned that assessment of the effectiveness of internal control without fully documenting the review of all key control points under the observed principles of internal control may not be reflective of the overall current condition. There will be risk that the Management may conclude having adequate internal control activities in place, without adequate documentation of an underlying assessment.

102. **We recommended that FAO Management enhance the existing process and activities supporting the preparation of the SIC by formally documenting the assessment of all internal control principles under FAO ICF, particularly Principles 1, 2, 8, 10, 13, and 17 which are not specifically included in the ICQ.**

B.1.6.2 Basis for management's conclusion regarding the status of internal control

a. Basis for conclusion provided in the SIC

103. Considering the value that the SIC hopes to bring on and achieve within the Organization, we have pursued the review of the FAO issued Internal Controls Reporting – Guidance Note to ensure that the Organization has the existing policies and the right processes to produce the SIC that is reflective of current situation and reality and not just a mere form-over-substance document that undermines accountability and transparency.

104. As a result, we determined that in general, the scope of SIC was clearly defined; the internal control objectives that are covered by the SIC (i.e., efficiency and effectiveness of operations, compliance with regulations and rules, reliability of financial reporting) are clearly identified to support its preparation and issuance; and there are existing policies and processes as well as evidence to support such production. However, we noted in our review that there are still opportunities to promote further transparency and accountability in the process by defining and providing the basis for management's conclusion regarding the status of internal control which is not contained in the existing guidance note.

105. Management explained that the guidance note on internal controls reporting has been prepared to guide the large number of staff participating in the internal controls reporting process throughout FAO – completing ICQs, validating ICQs and preparing Representation Letters. In addition, it was highlighted that the process of preparing the draft SIC (based on issues raised in sectoral Representation Letters, ICQs and annual audit reports – EAUD, OIG, Audit Committee) is managed by the Office of Strategy, Planning and Resource Management (OSP). Further, we were informed that the SIC preparation was carried out as follows: (a) the Representation Letters were carefully reviewed, with emphasis on those prepared by the Deputy Director-Generals (DDGs) (which include issues raised by regional offices and departments), Economic and Social Development Department (ES) and the Cabinet; (b) key issues identified were included in the draft SIC; (c) Inspector General Annual Report, Audit Committee Annual Report, External Auditor's Long Form Report were reviewed to ensure that key internal control issues raised in these were adequately covered in the SIC; and (d)

summaries of the ICQs were reviewed to ensure that main concerns arising from there were included in the SIC.

106. We were further informed that following the drafting of the SIC, this was reviewed by the Internal Controls Board, the Executive Management Monitoring Team (EMMT) and the Director General before submission for review by EAUD. Management stressed that all the processes and bases were existing, however, these were not formally documented and published.

107. With the growing interest that the FAO stakeholders placed upon accountability and internal control, we submit that not documenting the basis for any conclusion can create miscommunication and inefficiency and *would not promote accountability and transparency*. Clarity on the identification of the basis for conclusion on the effectiveness of internal controls is imperative in the production of SIC and ultimately in the achievement of its purpose. In its absence to support the assurances in the SIC, there can also be risks of inaccurate assessment results.

108. We recommended that FAO ensure systematic documenting of the basis for the conclusion on the status of internal controls to support the assurances provided in the SIC, and to further promote accountability and transparency in the process.

b. Basis for conclusion provided in the Representation Letter

109. Representation Letters are among the documents taken into consideration in the assessment of the effectiveness of the Organization's system of internal control leading to the issuance of the SIC. The reliability of these Letters is therefore important for the reliability of the SIC.

110. We determined that the guidance note on internal controls reporting for FAO provided the mechanism and processes supporting the preparation of the Representation Letter. The Assistant Director-Generals of Regional Offices and HQ Departments are required to prepare Representation Letters attesting the status of internal controls in the region/department under their responsibility. In addition to the attestation, the representation will raise any significant internal control weaknesses and will provide information on the action plans to address the identified control weaknesses. Based on the submitted Representation Letters, the Director-General will sign a Statement on Internal Control for the Organization, identifying areas for improvement and action.

111. Similarly, we noted that there are opportunities to further define and provide the basis for management's conclusion regarding the status of internal control in the region/department which is not currently specified in the existing guidance on internal controls reporting. It will serve as a common frame of reference in the discharge of roles, responsibilities and accountabilities as well as in coordinating all the activities leading to the preparation of the Representation Letter.

112. Concrete and documented guidance on how to prepare the conclusion on internal controls in the Representation Letters will ensure a higher level of assurance on the Representation Letter, and ultimately on the Statement on Internal Control; provide an improved audit trail for review purposes; result in providing an effective basis for management

conclusions; and address the risk of possible misalignment of the conclusion with the results of oversight works of the Audit Committee, OIG and External Audit.

113. We recommended that FAO further define and provide additional guidance on the basis for Management’s conclusion in the Representation Letter to streamline and harmonize the process and ensure consistency in drawing a conclusion on the real state of internal control within a region/department/office.

B.1.6.3 Inconsistent responses in the ICQ vis-à-vis the result of External Audit

114. FAO Representatives, Sub regional Representatives, Regional Representatives, Division Directors and Heads of independent offices, SP Leaders, Heads of Liaison Offices are requested to complete an online questionnaire (the ICQ) in a dedicated SharePoint tool, covering the four main areas of risk: (a) Design of programmes and projects; (b) Resource mobilization and partnerships; (c) Management and monitoring of programme implementation; and (d) Efficiency and controls in administration. Each area includes several key control points, where confirmation must be provided that the control is fully implemented, partially implemented, not implemented, or not applicable. Explanatory comments are required, where a control is not fully implemented, to allow for full understanding and action to address any issues detected.

115. The dependency of the SIC on the self-assessment document such as the ICQ makes it evident that the reliability of the responses to the questionnaire has correlation on the reliability of the assurances in the SIC. Therefore, it is highly imperative that the review and validation mechanisms are in place and effective to ensure consistency and truthfulness of the responses made in the ICQ. Because it is very important that the responses are carefully considered and truthful so that action can be taken to address any shortfalls, this representation was highlighted in the guidance note on internal controls reporting.

116. We compared and analyzed the responses in the ICQ with the External Audit (EAUD) Reports, particularly the issued Management Letters for five FAO offices which we audited in 2018, namely: (a) Shared Services Centre; (b) Office of Human Resource; and (c) Representation Offices in Asia and the Pacific, Mozambique, Nigeria, Vietnam, and Uganda. As a result, we noted certain inconsistent responses and confirmations provided in the ICQ by the Representation Offices in Asia and the Pacific, Mozambique, Nigeria, Vietnam, and Uganda compared with the result of our audit. We presented the Management with the details of our comparison and analysis on the noted inconsistent responses. While some were dismissed following clarifications provided by Management, several inconsistent responses were retained and acknowledged by the Management.

117. In addition, Management explained that the validity of the answers in the ICQ is very important and the importance of careful consideration in providing the self-evaluation and performing the validation have been emphasized in the guidance on internal controls reporting. Accordingly, while internal control reporting is still new to FAO the result of the last exercise demonstrated that a very good quality process has been established since its introduction in 2017 because FAO offices are better informed and more detailed guidance was available. Nonetheless, it was mentioned that Management is fully aware that further improvements are possible, both in supporting the self-evaluation and the validation for future years.

118. In view hereof, the establishment of mechanism that shall minimize the inherent nature of subjectivity of the self-assessment questionnaire and ensuring that the mechanism is effective cannot be ignored. Effective review and validation mechanisms are essential for increasing the reliability of the assurances placed in a self-assessment tool such as ICQ.

119. **We recommended that FAO Representatives/Directors/Heads of Office initiate additional proactive measures to further ensure the accuracy of responses to the ICQ in view of the importance of their confirmation therein to support the assurances of the Director-General in the Statement on Internal Control, and to enable informed action to address any weakness in internal controls within their respective area of responsibility.**

120. **Further, we recommended that the Regional Offices/Offices of the ADGs/DDGs further strengthen the execution of the review and validation steps of the responses made in the ICQ, as required in the guidance note on internal controls reporting to ensure that the real state of internal controls in the offices are reflected.**

B.1.7 Investigation of complaints on fraud and other misconduct

121. FAO is committed to ensuring that its resources are used solely for their intended purposes, that all operations are free from fraud and other corrupt practices, and to be held accountable to donors and beneficiaries for the implementation of its programmes. The FAO policy against fraud and other corrupt practices first introduced in 2004 and last updated on 12 March 2015 emphasizes that the Organization has zero-tolerance policy relating to fraud and other corrupt practices in all their manifestations. Under the policy, the OIG was given the authority to receive complaints and investigate allegations of unsatisfactory conduct, including fraud and other corrupt practices, or activity in breach of the Organization's regulations, rules, policies and procedures.

122. We noted in the 2018 Annual Report of the Inspector General that the OIG began in 2018 with a carry-over workload of 73 matters including cases (comprising 140 allegations), consultations and advisory services. In addition, during the year, OIG received 112 new complaints (comprising 141 allegations) and 46 requests for consultations or advisory services. Accordingly, an individual complaint received by OIG may include multiple allegations. OIG was able to close 55 complaints (comprising 104 allegations) and 27 consultations/advisory requests, including those carried over from the previous year(s). Table 1 below provides an overall view of matters during the year and comparison with the four previous years:

Table 1. OIG's Workload Result for 2018

Case Load	2014	2015	2016	2017	2018
Matters carried over from previous years	27	35	35	48	73
New complaints	64	81	103	76	112
New consultations/advisory services	27	16	9	45	46
Total matters received in 2018	118	132	147	169	231
Complaints closed	53	79	91	69	55
Consultations/advisory services closed	30	16	8	27	39
Adjustment: Two cases were merged with during the year	-	2	-	-	-
Total matters received and outstanding as at December 2018	35	35	48	73	137
<i>Note: Matters refer to both complaints and consultations/advisory services</i>					

123. We take attention to cases of fraud and presumptive fraud which the FAO Financial Regulations require the External Auditor to report with. During 2018, we noted that the 112 new complaints received comprise of 141 allegations which are classified as: (a) fraud and corruption – 44 percent; (b) harassment and sexual harassment – 9 percent; (c) sexual abuse and exploitation – 1 percent; (d) retaliation – 7 percent; (e) prohibited practices by third parties – 9 percent; and (f) abuse of authority, conflict of interest and other violations of the Standards of Conduct for International Civil Servants – 30 percent. The initial classification of allegations is based on the preliminary information that OIG receives. Over the course of an investigation, OIG may modify the classification as more information becomes available.

124. Evidently, the OIG's workload represents a continued upward trend in the number of complaints received, increasing by 47 percent between 2017 and 2018. The result was 87 percent increase in the number of open matters at the end of 2018 (137 open matters) from those open at the end of 2017 (73 open matters).

125. OIG, in its 2018 report, highlighted that constraint on resources will remain strong in 2019 to address the increased caseload, the carryover included, with an associated impact on OIG's ability to resolve the increasing number of cases under review. Currently, each investigator carried an average of 34 cases, representing an increase of 36 percent in the caseload per individual investigations professional staff resource from 2017, and an 88 percent increase since 2014. Accordingly, OIG's target is to close complaints within six months of receipt, however in 2018, the average number of days between receipt and closure of complaints was 270 days or nine months. The average time to finalize the review of complaints has increased compared to 2017 due to the increase in matters under review, some of which are complex by the type of allegation and related policy requirements (harassment, sexual harassment, sexual exploitation and abuse (SEA), retaliation).

126. According to OIG, the Investigation unit's growing workload (case and non-case related) further contributed to the time taken to close complaints. Substantial investigative resources were allocated to matters falling outside OIG's usual workload. For example, OIG handled the review of six external investigative matters referred to OIG by sister agencies; the development of e-learning activities in which OIG played a key role as subject matter expert; and actively participated in the Organization's sexual harassment/SEA initiatives in the context of the FAO Action Plan. It was stressed that additional mandate was received yet no additional resources were provided to support the implementation of the additions to the mandate.

127. We underscore that one of the best strategies in a commitment to zero tolerance of fraud is that vigorous and prompt investigation takes place without regard to affiliation to the FAO, position held, length of service, or relationship to officials or third-party entities. Employment of a coordinated approach to investigation and corrective action to promptly address fraud and other misconduct is necessary. More importantly, a system for competent and confidential review, prompt investigation, and resolution of instances of non-compliance and allegations involving fraud and misconduct need to be in place. Hence, it is emphasized that to implement an effective fight against fraud and misconduct, the Organization should ensure that all investigative activities are immediately completed considering circumstances, such as the complexity of the case, OIG workload and priorities, and/or other compelling reasons.

128. **We recommended that FAO address the challenges confronting OIG in its investigation work especially on constraints in resources and put equal emphasis on and strategize to take prompt and effective action on complaints relating to fraud or**

misconduct to sustain its strong message that the Organization is serious in combating fraud and misconduct and to better deter their occurrence hence, promoting better fraud controls within the Organization.

B.2 GOVERNANCE MATTERS

B.2.1 Corporate Human Resource Management

129. Human resource management encompasses a process from employment induction to separation. It is influenced by internal and external factors that define and shape the policies employed by an organization with all the staff involved as embraced by the International Civil Service Commission (ICSC) when it re-focused its human resource management framework to a more strategic perspective by placing the staff at the core of organizations. The philosophy in managing human resources remained relevant despite the change in perspective which includes the cultivation of an organizational culture with the highest standards of efficiency, competency and integrity for recruiting staff; the unique legal status of the organization; and the emphasis on good governance where accountability by the organization to its member states is made more pronounced. With this backdrop, we have conducted our audit of the human resource management of FAO and noted opportunities for further improvement.

B.2.1.1 Human resource strategic and action plans

130. With FAO's robust mission, it is vital that all its resources including human resources are managed and utilized toward the attainment of its mission. To make this work, the Organization must draw its strategic trajectory towards managing its human resources. At the corporate level, the strategic objectives of the Organization and the desired outcomes and outputs that Member States seek to achieve are expounded in FAO's Medium-Term Plan (MTP) for 2018-21. Programme priorities and interventions that will translate forethoughts to reality are likewise manifested in the Programme of Work and Budget (PWB) for 2018-19. To deliver these, the Departments and Offices of the Organization are directed to align their business decisions and processes to the strategic framework of FAO.

i. Preparation and update of human resource strategic and action plans

131. We have noted that while HR strategic priorities are aligned with FAO's MTP, these were not found in an updated HR Strategic Framework and Action Plan and it was only—during this audit, that the OHR had further updated its 2017-2019 Strategic and Action Plans. Clear alignment of strategic priorities for HR management with FAO's strategic priorities will build an effective pathway to change. Along this line, the OHR was encouraged to consider the importance of maintaining an updated strategy and action plan. More than an internal document, a strategic plan is imbued with transparency and accountability, and accountability traps can set in if work deliveries could not be attributed to what was planned.

ii. Reconciliation of the 2017-2019 OHR strategy and action plans with the Finance Committee report 173/8

132. Relatedly, we noted that there were ten HR methodologies or approaches and reported accomplishments by OHR indicated in FC Document 173/8 that have no specific counterpart initiatives and activities in the Strategy Plan and Action Plan. The non-inclusion of the

information and methodologies in the Action Plan is a manifestation of disintegrated data in the OHR documents, needing further clarity to enhance the reliability of information contained in the official documents.

133. We recommended that FAO prepare and update its human resource business plans that are reflected in formal and concrete Strategic and Action Plans covering a given period to establish clear roadmaps and milestones; corroborate monitoring of work deliveries; support reported methodologies, strategies and accomplishments to improve information integrity in its reports.

134. Management recognized the importance of formulating and updating a well thought strategy and action plan. As these planning documents are a living document, FAO, through OHR, will update and fine-tune the current HR Strategy and Action Plan, reflecting the high-level guidance provided by the Finance Committee (FC) held in November 2018 as well as the Council held in December 2018. Management also acknowledged the information discrepancies and disintegration noted and recognized the importance of ensuring the integrity and consistency of all the planning and monitoring tools as well as reporting of evidence-based accomplishments. Management further emphasized that the OHR continues to reconcile the contents provided in the HR Strategy, Action Plan and the reporting, especially to governing bodies. This will strengthen the linkages and associations between the strategies, initiatives, approaches, methodologies, different levels of activities as well as the respective results achieved, resulting in a higher level of reliability of information.

B.2.1.2 Workforce planning delivery

135. Complementing the human resource strategic plan is workforce planning, the principle of which deals with getting the right number of people with the right skills employed at the right time to deliver an organization's short and long-term objectives. In 2014, we noted that the OHR had recognized the need to align its workforce to the priorities of the Organization to ensure that it can meet the organizational objectives and requirements. However, the efforts of the OHR to develop and implement guidelines for workforce planning in FAO are not yet finalized. To address this, the OHR informed us that an Integrated Workforce Management Plan was formulated which will emphasize a holistic approach, encompassing all types of personnel at both the headquarters and decentralized offices. The goal of the plan is to better connect the workforce to the Organization's results delivery by getting the right person to the right job at the right time.

136. We were informed that the soon-to-be finalized FAO workforce plan is inclusive and comprehensive with significant elements of workforce planning such as recruitment, career development, mobility, skills-mix, needs analysis, retention, and succession planning. However, these representations have yet to be concretized and tested first to demonstrate the achievement of the value intended. On this note, we reminded the OHR to consider in their plan some basic practices in developing an effective workforce plan. Likewise, we shared feedbacks gathered from our survey across all offices anticipating that these will be addressed in the workforce plan. In response, the OHR acknowledged the feedback from a survey we have conducted adding that FAO needs to manage its people and to maintain an ongoing review of how to make the best use of current and future human resources.

137. We recommended that FAO ensure that the workforce planning exercise takes into consideration the staff feedbacks and the established timeframe for delivery; and

supported by a good analysis framework to attain the value intended and promote operational efficiency.

138. The OHR took note of the need for human resources managers to assess how a well-trained and flexible workforce can best be maintained to meet the organizations changing and, at times, uncertain needs. Toward this end, the OHR is determined to roll out the Integrated Workforce Management Plan in 2019 in view of the timeline of the PWB progress review, which has the direct implications in this regard.

B.2.1.3 Staff mobility

139. Staff mobility which includes movement within and across the organizations, occupations, and geographic locations, should be clear and transparent. It is linked towards staffing and promotion decisions, hence, a critical component of career development, and a key element in advancing the staff member's skills and abilities. A formal global mobility strategy is required to collectively and holistically articulate the organizational and talent management goals, and then to tailor the use of organization's resource in each assignment to achieve the objectives set.

i. Articulation of the HR strategic objective on staff mobility

140. We noted that the current initiative of the OHR in relation to staff mobility is to develop, implement and manage a Geographic Mobility Programme, for sharing knowledge and experience across the Organization and to provide opportunities for varied experience, career development and professional advancement. Our review revealed that the Strategy lacks the quantifiable objectives that identify the geographical locations targeted; the classification or type and volume of workforce movement; the coherent and comprehensive action plan that should detail what activities are to be undertaken in a given timeframe; and the associated comprehensive indicators within which progress in implementation will be measured. The OHR communicated that it will review the formulation of the objective in the HR Strategy and Action Plan to make it clearer, specific details will be added, and the yearly action planning conducted by OHR to support the departments in this process will be included as part of the strategy.

ii. Implementation of the mobility programme

141. Feedback from staff that we contacted who had been subject to mobility schemes for the year 2017 and 2018 indicated common issues on the level of consultation during the process and the impact on personal financial conditions, families and health following transfer. The Staff Representative Bodies (SRBs) considered the mobility programme as one of the pressing issues that FAO must address considering that some employees have thought of leaving the Organization rather than getting burdened with the reassignment.

142. The OHR expressed that, while there may be things that they need to do to improve on the organization's mobility policy, the programme itself must be fully embedded in the culture of the Organization, accepted by the employees, and taking responsibility in partaking in the delivery of the organizational goals. We also gathered from the OHR that while it performs needs analysis, the responsibility of identifying needs and technical gaps rests with the heads of the departments in strong and proactive coordination with the heads of the Regional Offices.

143. While the pronouncements are generally founded upon the procedures contained in the policy as represented by OHR, it is essential that for the Organization to ensure the upkeep of more strategic plans, the OHR has the necessary responsibility to provide support to managers in the preparation of their respective mobility plan.

144. **We recommended that FAO enhance its mobility policy by ensuring that the HR strategic objective and the related action plan are clearly articulated to facilitate effective implementation; by performing timely and regular evaluations through feedback from staff; and by strengthening further its communication with other offices.**

B.2.1.4 Recruitment and selection of professional staff

145. FAO's vision for human resources management and major initiatives aimed at achieving HR objectives are described in the 2017-19 Human Resources Strategy. Parallel to this, three major goals have been set by the OHR, the first of which envisages HR policies and procedures that ensure recruitment of a diverse, skilled workforce and their effective deployment in line with the changing strategic priorities. The focus of this goal is to ensure that managers are equipped and supported by OHR to attract, nurture and retain high quality staff committed to FAO's work and effectively deployed according to their knowledge and skills. Among the major initiatives under this goal is the implementation of selection process for Professional Staff.

146. The results of our examination yielded the need to strengthen recruitment and selection policies and processes identified in the succeeding paragraphs:

- a. *Information in Vacancy Announcements (VA) on the assessment method to be used.*** We stressed that VAs reflect an operational procedure and policy of the Organization. When the information contained in the VAs are not complete as found in some of the VAs examined, it does not support transparency, and the applicants' expectations will not be managed and may create internal operational inefficiency. There is therefore a need to strengthen quality monitoring of the vacancy announcements before these are advertised to ensure that these are replete with the required information as specified in JIU/REP/2012/4, for an effective and transparent communication of vacancies.
- b. *Lag times before approval of vacancy announcement for publication.*** We observed that the different levels of internal clearances, which can come at different times before a VA is raised for publication, negatively impacts the performance of the Organization in general, and the hiring unit. This observation was evident in at least 21 VAs for Professional Staff positions that we examined where the gap in terms of number of days between the requests for VA is filed by the hiring unit and the publication of the VA ranged between 15 to 154 days. We were informed that the OHR is already developing key performance indicators to analyze trends and develop actions to improve the process for the initiation of a recruitment process for PWB positions through the e-PM workflow. However, performance indicators can only be effective if these could improve process efficiency and a robust monitoring of compliance is installed by concerned process owners over the required activities. We emphasized that effective vacancy announcement compliance mechanisms be designed including the delivery of internal clearances at the department level to facilitate the identification and immediate resolution of

vacancy announcement publication impediments for more efficient recruitment process.

- c. Shortlisting, assessment and selection process.* We noted that while FAO's Professional Staff Recruitment Guidelines (PSRG) mentioned that the Division/Regional Professional Staff Selection Committee (PSSC) will conduct interviews to comparatively evaluate candidates against the requirements specified in the vacancy announcement as the objective, there was no specific reference as to how the interview is to be conducted or the candidates be rated. The OHR shared that the existing procedures in the conduct of interview and assessment are not incorporated in the PSRG but are culled from internal procedures of OHR. Further, OHR represented that the same procedures are consistently applied by the Panel however, we are unable to confirm it since the "interview rating sheet" documenting the result of the interview and assessment exercise was not kept on file.
- d. Overall Recruitment Process Efficiency.* We noted that while FAO's policy was compliant with the best practice in the UN system such that recruitment time from vacancy posting to selection should not exceed 120 days, there were seven VAs examined that exceeded the target number of 120 days, ranging from 124 to 210 days. We also observed that the PSRG did not provide the timeline for each stage of the recruitment process and there are also no monitoring activities done by OHR to determine what stages of the recruitment process consumed prolonged period. Hence, controlling a process through effective monitoring will still be ineffective, as there are no existing standards and parameters to determine which activities are delivered on time. The development by OHR of the recruitment process Key Performance Indicators (KPIs) provides corporate targets to exact accountabilities and appropriately control every related activity along the recruitment continuum. However, these hinge primarily on how timelines are defined and how enabling policies are crafted to support performance parameters. It is thus imperative upon the Office to immediately implement improvements to recruitment process efficiency controls since recruitment is one core business of the OHR.

147. We recommended that FAO strengthen its existing recruitment and selection policies, design effective processes and mechanisms and ensure that clear efficiency parameters are included in the development of its recruitment process Key Performance Indicators to accurately measure performance of related activities by process owners and enable better performance monitoring of the whole recruitment and selection process.

148. The OHR commented that while it welcomed the audit observation, FAO will start monitoring all the different phases of the recruitment process using the additional functionalities of the new recruitment platform to allow the Organization to identify potential bottlenecks and areas for improvement. We nevertheless underline that adopting a new platform for the recruitment process will not offer full guarantee on efficiency if its design is not attuned to the policy and parameters adopted for the purpose and that the development of the recruitment platform includes the required recruitment efficiency metrics in accordance with best practices.

B.2.1.5 Gender Parity and Geographical Diversity

149. We observed that FAO recognized that achieving equal gender representation amongst the workforce was a fundamental goal and a necessary condition for the achievement of UN objectives as manifested in the 139th session of the Council in May 2010, with the endorsement of the UN-wide 50 percent female representation at professional and higher level in FAO. The Joint Inspection Unit (JIU) recommended principle of equitable geographical distribution was also embraced by FAO in Manual Section 301.4.2 and due regard is given to the importance of recruiting the staff on as wide as geographical basis as possible. Our audit of the application of these human resource management themes are also aligned to the principles on gender parity and geographical diversity, the results of which are discussed below:

- a. ***Progress towards gender parity targets.*** We observed that while P1 to P3 positions have exceeded the 50/50 targets most of the other post levels have either a static or declining trend. It appeared that women were under-represented in posts involving *management, governance and decision making*; and that instead of increasing their representation in those managerial posts, a sliding trend is rather observed. This instance may deter FAO in transforming its workplace into a more gender-sensitive one. We noted that FAO has initiated a discussion with the other RBAs to review the current situation and create a database and pipeline of qualified female candidates. Along this line, FAO has already considered special measures such as the inclusion of women contenders in the shortlists although this needs further management actions. On this, we emphasized that FAO should go further with the concrete initiative with established timelines to prove the Organization's commitment. Adherence to the gender parity principle of the UN starts at the point where recruitment policies as well as specific activity of shortlisting are crafted.
- b. ***Application of Geographical Diversity Parameter in Recruitment.*** We noted that FAO had introduced decentralized PSSC and revision of the Professional Staff Recruitment Guidelines, in which the candidates were presented in the first page of the reports in alphabetical order as opposed to the previous practice where candidates were listed in order of preference. However, the guidelines did not provide exactly how, and at which point in the selection process the geographical distribution should be taken into consideration. The summary of selection reports we examined have neither shown the criteria or remarks that would have been valuable for the DG to refer to should the selection be made such as those candidates coming from under-represented or unrepresented countries. The OHR explained that from vacancy announcement to appointment, geographical representation is considered pursuant to the guiding principle of Staff Regulation 301.4.2 and the Director-General receives regular reports of the status of the Geographic Representation, including future projections as it continuously evolves. However, based on what we observed, we determined that the guiding principles cannot be clearly applied without a specific provision or procedure that supports the actual application of geographical distribution principle in the recruitment process. While discretion is given to the Director-General in Conference Resolution 1/99, the parameter with respect to geographical representation apparently have not been made manifest. Clarity of the application of the principle thus needs to be done.

150. **We recommended that FAO continue to pursue efforts towards achieving the gender parity goals inter alia by articulating its target for each category of post with**

timelines; articulate with clarity, the guidelines and procedures on geographic diversity and to communicate the same to hiring managers to ensure better representation and transparency; and facilitate the timely monitoring of the progress made therein for the efficient achievement of expected results.

151. The OHR commented that it recognizes the importance of monitoring its gender parity targets and periodically reports on progress made for each level of post during the Finance Committee and FAO Council sessions. To support this, we were informed that FAO had already developed a customized implementation plan for making the Divisions accountable of their gender parity goals for reaching the parity at professional level by 2022 and for senior positions by 2024.

B.2.1.6 Consultants and PSA Subscribers Arrangements

152. Contractual arrangements covering all types of appointments are mechanisms used by entities to employ staff for a specific period. In FAO, we noted that the two major contractual arrangements for temporary personal services are the consultants and subscribers to PSAs or independent contractors. The guidelines on the employment of consultants and PSAs subscribers that are respectively provided under Manual Section (MS) 317 and MS 319, were revised on 15 February 2018. The aim of this policy framework is to ensure consistency in approach and in the selection and remuneration packages of the consultants and PSAs, as well as the final evaluation of their performance. Under MS 317 and MS 319, we took interest on the provision for duration of contracts for consultants and subscribers to PSA, introduced in August 2017, which said that *“consultants and subscribers to PSAs may not work, nor may contracts be issued for a period exceeding 11 months in any 12-month period. Contract breaks are mandatory, amounting to at least one month in any 12-month period, and at least 6 months after reaching 33 months in any 36-month period.”*

153. We gathered that as at 31 October 2018, there were 9 consultants and PSA subscribers whose employment with FAO were extended continuously beyond 11 months in any 12-month period without contract break. Management informed us that out of these 9 cases, 4 consultants were employed in L3 countries, where the Operational Guidelines for Level 3 Emergency Preparedness and Response apply. The Guidelines clearly state that the “Director, Office of Human Resources (OHR) will issue waivers for mandatory contract breaks for personnel involved in Level 3 Emergency Response activities within 24 hours of receipt of the names of individuals involved in the response”. The other 5 cases required specific authorization from the OHR Director for extraordinary purposes and the approvals have been provided explicitly in the interest of the Organization.

154. Overall, while we recognize the wisdom behind the decision of the senior management to renew the contract of consultants/PSA subscribers resulting to uninterrupted employment and the relaxing of the rule on mandatory contract break, same must be within the context of effective accountability and strong internal control. Organizational policies, by its very nature including human resource management policies are controls by themselves as they help reinforce and clarify standards expected of the staff and the management and define the boundaries for action. In the case at hand, if “exceptional circumstances” are cited to deviate from a well-established policy on the hiring of consultants and PSA subscribers, such cannot be discretionary and arbitrary. Clear and concrete policy is necessary as basis.

155. We recommended that FAO reinforce its policy on the hiring and renewal of consultants/PSA subscribers with the inclusion of clear provisions on the grant of exceptions on the required contract breaks to better establish authority, clarify accountabilities and eliminate discretions.

156. The OHR also informed us that the relevant Manual Section 317.8.3 will include a text *“Unless approved by the Director, OHR, on exceptional circumstances, Consultants may not work, nor may contracts be issued, for a period exceeding 11 months in any 12-month period. Contract breaks are mandatory, amounting to at least one month in any 12-month period, and at least 6 months after reaching 33 months in any 36-month period.”* However, we view the planned policy enhancement of MS 317 to be one that still offers wide discretion to the OHR Director in the absence of clear definition of “exceptional circumstances” that could open the policy to conjecture and abuse. Clarity is thus needed in this instance.

B.2.1.7 Performance Management

157. Performance management is a cohesive system that comprises organizational design, workforce planning, assessments, and feedback mechanisms designed to elicit the best out of the employee, and to capitalize on performance at the individual, team, unit and organizational levels to motivate and to develop staff. Similarly, performance management is critical to the overall functioning of the organization as it provides several linkages throughout the human resource domain. As such, it must be responsive to the needs of the organization to be effective. Along these lines, and in the delivery of its mandate, FAO needs to ensure that the human resource is steered towards the direction intended. Our review zeroed in on the three (3) phases of performance management as identified by FAO namely: (1) *Performance Planning*; (2) *Mid-Year Progress Review*; and (3) *Year-End Appraisal*. The results of our review are presented in the succeeding paragraphs.

- a. ***Clarity of Work Plan Objectives and Performance Indicators in Performance Evaluation and Management System (PEMS)***. We underscored the significance of having the right performance objectives and indicators that goes beyond the individual staff. Of the sampled duly-accomplished PEMS for the 2017 rating period, we observed instances showing gaps in the preparation of the work plans and the corresponding performance indicators. We ascertained that majority of the objectives were either stated in general terms or a little less specific and were not using the SMART criteria. We also noted that the tasks and/or activities specified in the work plans were mostly confused with performance indicators and that progress with respect to the accomplishment of the articulated performance indicators were mostly not quantified. We likewise noted that several staff had manifested that work planning became a mere routine activity and accomplished for the sake of compliance as not much time was spent in the activity. A considerable number of the respondents expressed that they were still having difficulties in ascertaining the differences among the objectives, performance indicators, and the activities. The OHR informed us that there are on-going efforts made to address these gaps through training. However, given the observations, FAO must make clear the purpose of its performance management system to enable them to assess how individual staff objectives and performance indicators are crafted, managed, and sustained, apart from building the staff’s capacity. It must be emphasized that the PEMS is always viewed in two perspectives, i.e., first to serve as a tool to manage a staff performance; and secondly, to provide clear

accountability and transparency as to how programme management objectives are achieved at the individual level. Since an individual PEMS is always anchored on the planned or expected programme results, such must always be attuned to what FAO aims to achieve and must not be viewed in isolation.

- b. ***Staff Performance Feedback Mechanism in PEMS.*** We noted the inadequacy in the formal and substantial documentation of progressive discussions and/or indications of any follow-up made with respect to the periodic progression of performances before the year-end appraisal takes place. We have also observed the absence of comments from the supervisors or where supervisors' comments were stated generally without mention of the underlying reasons that deterred the delivery of the expected outputs, the weakness that could have been addressed, and the specific area or competency to be developed or improved. To address the same, we were informed that the OHR is working with an external service provider to create interactive and animated e-learning initiatives before opening of the next mid-year phase, partaking on the importance of giving and receiving timely and accurate feedback. The whole feedbacking exercise thus needs to be examined closely from the viewpoint of competency and commitment, both of which can be addressed through better guidance and training.
- c. ***Formalization of the Rebuttal Process.*** Results of our inquiry surfaced that at present, FAO does not have a formal rebuttal procedure, but we were informed that the process of dealing with disagreements within the Organization was partially indicated in the *PEMS policy number 3.7 (iii–v)*. Referring to the policy mentioned, we assessed that the items referred to are viewed to be guidance notes that generally presented the hierarchy of where the disagreements should be escalated. Unlike the rewards and recognition policy where a draft policy has already been prepared, the rebuttal procedures have not been a priority initiative yet. In the absence of a formalized policy, management stated that about the ones mentioned in the PEMS guidance notes/policy, at the first level, disputes and/or conflicts are dealt with by the immediate supervisor through dialogues and when it does not get fixed, the second level supervisor takes cognizance, and eventually the OHR intervenes should it further escalates. Viewing the rebuttal process as a formal mechanism, there is the need to establish a policy to support the process and to articulate procedures to be known by everyone. This will greatly enhance accountabilities for both the staff and the supervisor and accord transparency to the performance assessment exercise as a whole

158. We recommended that FAO enhance its institutional capacity in preparing and delivering its PEMS Objectives and Performance Indicators through robust monitoring and review built around well-defined and coherent performance yardsticks to support more accurate and meaningful assessment of staff performance and the associated programme results reporting.

159. Further, we recommended that FAO ensure that appropriate guidance and training are provided to both staff and supervisors in managing performance feedback and to document the same in the PEMS to better support future performance assessments and review existing rebuttal policies and their experience in other UN agencies and align itself with good practices in the UN system.

160. The OHR commented that it recognizes the value of on-going feedbacks and emphasized that this is in its PEMS policy. Further, the Office acknowledged that documenting staff performance with substantive comments is critical to ensuring the effectiveness of FAO's performance management system.

B.2.1.8 Staff Learning Plans

161. Essentially, learning and development encompass all forms of training and are vital management components of a knowledge-based organization such as FAO. We observed that FAO annually carried out a staff development planning exercise where divisions/offices specified their training needs duly reviewed/approved by the respective divisions or office directors and accordingly documented in the staff development training plan. We were told that these plans were reviewed by the OHR in accordance with established guidelines, the training requests are reflected in the PEMS and the completed trainings are recorded in *you@fao* platform. The OHR added that staff training needs are also identified through audit recommendations, organizational priorities, plans and strategies and inputs from technical divisions. However, our review of the training strategy and relevant information obtained, has produced a different impression. The sampled PEMS showed that the development objectives, while they should be articulating the skills gap and the needed interventions, have not been given equal importance. Likewise, we observed instances of poor performances as indicated in the PEMS that needed interventions starting with the articulation of development objectives. However, we have seen generic statements that did not point out deterrents from meeting expected staff performance arising from skills gap. It is worthy to note that during our engagements with FAO, responses of staff in the survey showed that much is needed to be done.

162. The training programmes that address the needs identified by the staff or any entity are always viewed to be the catalyst for actualizing the need for competencies. With this, the need for the OHR to live up to its pivotal role in facilitating learning in the organizational context by directing efforts towards ensuring that employees' interest is stimulated for learning, which likewise is believed to advance organizational interest. If valuable feedbacks are absent and without taking attention in the articulation of staff development objectives, there can be incoherent training plans. A more comprehensive analysis of training needs of FAO staff must be anchored on the staff actual performance and experiences. The gap between the operating reality and what-should-be-done has to be identified starting from individual staff and the staff learning plans provide the primary information needs.

163. We recommended that FAO monitor the delivery of staff learning plans more closely to ensure that these are prepared based on an inclusive analysis of the knowledge and skills needs of staff that are clearly linked to the organizational needs and priorities to optimize the use of staff development resources and efforts.

164. The OHR commented that it recognized its role in identifying global learning needs and priorities and implementing corporate solutions to close these gaps. The OHR further emphasized that it could undertake deeper analysis of learning needs identified through the staff development plans.

B.2.1.9 Ethics and Standard of Conduct

165. For an international agency like FAO, ensuring its contribution in fostering a culture of ethics as an established norm within its ground is a task crucial in the light of diverse morals, principles, cultures, beliefs and upbringing of the people comprising it. In December 2009, FAO had established its Ethics Office to promote high standards of ethical conduct, integrity, transparency and accountability and in 2014, the Ombudsman role was introduced in FAO and merged with the Ethics Office to create the first Ombudsman and Ethics Office in the UN system. The Office operates under the general supervision of the Director General and within the administrative framework of the Legal Office. The four core functions of the Office include a) management of staff financial disclosure; b) ethics-related education and awareness raising; c) advisory services; and d) ethics programme development. Against this backdrop, we examined the upkeep of ethics within FAO, the results of which are discussed in the succeeding paragraphs.

- a. ***Deadline for filing of financial disclosure statements.*** We learned that the deadline for the filing of annual financial disclosure statements stipulated in FAO Administrative Circular No. 2015/18 dated 31 July 2015, otherwise known as Policy Guidelines on Financial Disclosure Programme, is often-times stretched to a certain extent. This was noted in the invitations to complete the disclosure statements and reminders issued by the Ethics Office extending the deadline beyond the 30th of April in reporting years 2015, 2016, 2017 and 2018. The Ombudsman and Ethics Officer explained that extending the deadline to a later date would facilitate meeting the target number of staff members required to tender their disclosure statements. We emphasized that timely submission of financial disclosure statements enables the Ethics Office an ample time to review the submitted Statements as the exercise is beyond mere compliance and to better manage potential conflicts of interests and other related concerns that may arise based on the Statements.
- b. ***Disciplinary actions for non-compliance with financial disclosure statements.*** We gathered that for reporting year 2015, at least 57 staff members did not file their financial disclosure statements despite series of follow ups. The Ombudsman and Ethics Officer informed that out of the 57 names initially forwarded to the OHR, 48 staff members were able to prove their compliance. The other nine staff members who did not file their disclosure statements should have been imposed proper disciplinary action in accordance with Manual Section 330, but we were informed by the OHR that they did not have information on what happened to these nine staff members. We highlighted that an administrative policy is punitive, and for good reason. FAO staff members are international civil servants and, as such, are under obligation to observe the standards of conduct for the international civil service. They should perform their official duties and conduct their personal affairs in a manner that preserves and enhances public confidence in their own integrity and that of the organization.
- c. ***Engagement of OHR with Ombudsman and Ethics Office.*** We observed that there was an unclear line of communication between the OHR and the Ombudsman and Ethics Office insofar as updating each other on the status of disciplinary actions against non-compliant members is concerned. Referring to the case of non-compliant members discussed in the foregoing paragraphs, we learned that as soon

as the names of non-compliant staff members were forwarded to the OHR for its appropriate action, no feedback from OHR was received by the Ethics Office. We were also informed by the Ethics Office that the OHR is not obliged to send feedback for its action on the submitted list of non-compliant staff members, in the same way that the Ethics Office is not under obligation to make a follow up on OHR's action regarding the matter. Nevertheless, while there may be no written guidelines clarifying the roles of both offices on feedbacking or follow-ups, doing so enhances the monitoring of the progress of action that should be undertaken by both the OHR and the Ethics Office thereby reducing the probability of omitting necessary procedures, such as the imposition of disciplinary measures against non-compliant members.

- d. Staff Training on Ethics.* Based on the 2014 and 2016 data, we determined increasing number of cases involving ethics dilemma and workplace conflicts like harassment, disrespect of the diversity rule, allegation of abuse of resources, and retaliation brought to the Ombudsman and Ethics Office for guidance and advice. On the other hand, the cases brought for intervention of the Ombudsman involved supervisory relationship, interpersonal conflicts, contract management, recruitment, lies and gossip, security, staff relocation, personal life, authorship disputes, and requests for information. While the rise in the number of ethics cases may not be exclusively attributed to the absence of mandatory training on ethics for all FAO staff, the conduct of the training will enable the staff members to re-assess their values and to re-focus.

166. We recommended that FAO initiate the crafting of the most appropriate strategy, in close coordination with the Legal Counsel, which will warrant full compliance by staff with the required financial disclosure statement within a specified period, including the imposition of disciplinary actions for non-compliance to promote better transparency and accountability within the Organization.

167. Further, we recommended that FAO establish a specific policy on mutual feedbacking between the OHR and the Ethics Office to allow for more efficient engagements and operational enhancements of human resource-related actions; and to include in the OHR action plan for 2017-2019, the conduct of mandatory training on ethics for all staff members and design a training course that includes a session targeting the ethical concerns of staff, done in close coordination with the Ombudsman and Ethics Office.

168. The OHR commented that while the ethics training course for the United Nations is already available for FAO staff through the learning platform, it will implement the recommendation through the incorporation of the course “Ethics and Integrity at the United Nations” as mandatory in early 2019. The activity will also be documented in the HR Action Plan for 2017-2019.

B.2.1.10 Feedback exercise on HR matters

169. One of the approaches to install an effective change within the human resource management continuum is through feedbacks. Through feedbacking, better policies and processes are produced at minimum cost. The importance of staff feedbacking had been recognized by the JIU Inspectors such that in their report JIU/REP/2012/10, they recommended

that *the Executive Heads of the organizations should undertake staff satisfaction surveys, incorporating questions that are comparable over time, at a regular, two-to-four-year intervals (when feasible), to be conducted in a framework of objectivity, in particular through the participation of both staff and management representatives in the survey development process, its operation and its interpretation.* Parallel to this, we were informed by the OHR that two global staff perception surveys were conducted in 2018, one in April for the Performance Management Process, and another one in November for Sexual Harassment in the work place. However, we were also told that there was no survey launched to measure the level of staff satisfaction concerning the HR processes in general. The last staff satisfaction survey, we were further informed, was conducted in 2011 and FAO intends to launch a similar survey in the second half of 2019.

170. Acknowledging the value that the staff feedbacking brings into the decision table, we conducted a limited survey covering 100 Professional Level Staff assigned to various decentralized offices, 21 of whom had responded. The survey focused on fourteen areas that influence human resources behaviour in the workplace that include recruitment and selection; contractual arrangements; ethics and standards of conduct; performance management; staff mobility; staff development and learning; and staff representation and staff management relations, among others. Given the survey turnout, as it was limited, effective conclusions could not be made thereon although the survey results established patterns and trends that provided us valuable information to consider. For one, several of the respondents had meagre perception over career advancement that included opportunities for trainings, promotion and effectiveness of the mobility programme. Further, employees looking to advance their careers into supervisory or management roles were universally the least satisfied with respect to career satisfaction and development. As part of our perception study, we engaged closely with the SRBs and were informed that they had recently concluded a survey, the results of which pointed toward the conclusion that the employees have generally not been satisfied at all. We have referred the SRM survey results to the OHR and were informed that the perception of the SRBs does not necessarily reflect the overall perception of the staff personnel because not all members have similar views. The OHR also commented that while there are some who may be unhappy on new HR initiatives, there are also those who support its advocacies.

171. Based on the foregoing, it had thus become clear that the value and full potential of staff surveys and feedback within FAO had not been harnessed effectively. For one, a balanced view on how human resource management is delivered within the Organization was not achieved as two parties had strong opposing views putting FAO at a critical crossroad which should not be the case. If FAO intends to further strengthen its human resource management, it is necessary that it must have the most optimal human resource management practices that include close engagement with its staff, being its most important asset. Creating change in an organization must always point towards creating positive results. This is particularly critical when the change made is normative in nature and requires changes in managing the human capital. Obviously, there were challenges within the human resource management initiatives which needed a closer look by OHR. Overall, it is always expected that to pursue its strategies, any entity needs to have a well-defined roadmap and an effective and efficient set of activities that fit well into the roadmap. An effective human resource management therefore hinges on how engaged the organization is with its staff and one way to achieve close engagement is through effective feedbacking.

172. We recommended that FAO ensure that a formal feedback exercise involving the comprehensive management of the Organization's human resource is conducted on a

regular interval basis to strengthen further its human resource relations and the related strategies and to inform further its policy agenda, anchored on skills, knowledge and commitment.

B.2.2 Control environment in decentralized offices

173. The review of FAO decentralized offices was carried out primarily to determine the sufficiency of the delivery of front-line controls, also known as management controls, within key business processes of the Organization, how these impact operational efficiency and effectiveness; and how policies and procedures are adhered to. The delivery of these front-line controls reflects the effectiveness level of the control environment pervading within the offices. These control activities are designed within the key business processes of the Organization such as for project implementation and monitoring, donor reporting, procurement management, cash management, asset management, human resource management, and travel management. The functional efficacy of these key business process controls is vital to the delivery and achievement of objectives by the Organization.

174. In this regard, we reviewed the design and operating effectiveness of embedded controls across critical processes in FAORAP, FAORNE, FRMOZ, FRNIR, FAVIE, and FRUGA. The results of our examination of controls over various critical processes within these offices, as discussed below, presented areas for improvements where corresponding co-developed recommendations were made.

B.2.2.1 Project implementation and monitoring

175. In FAO project management cycle, the implementation and monitoring phase starts when the project is declared operationally active and ends when the necessary closure procedures are concluded. In our assessment, we considered accountability and control parameters and determined if the prescribed guidelines were duly observed. Our evaluation focused on effective and efficient project implementation and monitoring which include timely project delivery, adequacy of monitoring and the utilization of FAO system for information availability.

176. As a result, we observed in all representation offices that there were deliveries beyond the budget or more than the available cash received, while in FRUGA, we noted that regular budget revisions were not conducted. In FRNIR, FAVIE, FRUGA, and FAORAP delays in the operational and financial closures were apparent. TCP projects with financial closure ahead of operational closure as well as non-uploading of Financial Closure Forms (FCF) in the Field Project Management Information System (FPMIS) were observed in FRMOZ. In addition, in all representation offices there were either operationally active projects with incomplete or not updated Logical Framework Matrix (LFM) Status in Quality Assurance (QA) Functionality; operationally active projects without entry in the QA link of FPMIS; or mandatory project documents or reports were not uploaded in FPMIS. Further, we noted that there were projects nearing Not To Exceed (NTE) dates yet with low delivery as well as projects which were completed beyond NTE dates in FRMOZ, FAVIE, and FAORAP. Moreover, we observed that a project in FRMOZ remained in the active pipeline since 20 January 2016 and in FRNIR, there was significant delay in the project inception period.

177. We recommend that FAO ensure effective and efficient project implementation and delivery through enhanced monitoring and supervisory controls over the project

budget and in the achievement of project timelines and objectives, as well as in imposing accountability towards donors and other administrative project requirements.

B.2.2.2 Technical Cooperation Programme

178. Technical Cooperation Programme (TCP) is part of FAO's regular programme and is financed from the assessed contributions of its members. It aims to provide and share FAO's technical expertise to its member countries through targeted, short term, catalytic and sustainable projects. In our evaluation, we determined whether TCP project implementation complied with the relevant policies, regulations and rules.

179. In our review of FRNIR, FRMOZ, FRUGA, and FAORAP we noted significant delays in the approval of government requests for TCP. We also noted that there were TCP national development initiatives in FAVIE that remained in the pipeline for 22 to 24 weeks thus, already beyond the prescribed formulation period of four to six weeks. In addition, there was low rate of commitment in FAORAP and its actual allocations were more than the indicative allocations.

180. The delays encountered in the approval of the project runs counter with the purpose and objective of TCP to respond to urgent or critical needs of its member countries. Hence, the expected benefits may not be availed of by the recipient government in a timely manner and the technical assistance may not be of the same value and relevance if the same was provided on later dates.

181. We recommended that FAO ensure overall efficiency and effectiveness in the delivery of TCP projects by revisiting and further improving its implementation strategy, closely engaging with all project stakeholders to reduce project time lags, and capacitating staff by providing trainings on formulation of mechanics and preparation of project documents.

B.2.2.3 Donor Reporting

182. Donor reporting is a mechanism that generally outlines the progress and/or the results of the implementation of its programmes, highlighting the issues that have deterred the delivery, deviations from the initially developed work plan and identification of the backstopping requirements.

183. We determined during our review that in FRNIR, FMOZ, and FAORAP there were either late or non-submission of 19 progress and 21 terminal reports. In addition, we noted in FRNIR that all operationally active projects in FPMIS did not contain information regarding the reports to be submitted and their due dates.

184. Timely and adequate project reporting and correct information are vital to donor reporting. As contained in FAO's Internal Control Framework, managers and staff throughout the Organization are required to ensure the reliability and timeliness of financial and non-financial information and to sustain and increase confidence of stakeholders in the reliability and efficiency of FAO's management systems.

185. We recommended that FAO ensure timely and accurate delivery of relevant donor reports through sustained monitoring efforts and control activities; and take advantage

of the usage of the Reports facility of FPMIS to provide the required reports and monitor submission of the progress and terminal reports.

B.2.2.4 Procurement management

186. Procurement activity connotes a series of specific tasks that must be completed as planned. Its principal objective is the timely acquisition of goods, works and services in a competitive, transparent and impartial manner, while ensuring fitness for purpose to meet the user's requirements, as well as taking into consideration economy and efficiency to achieve an optimum combination of expected whole life benefit versus costs and benefits.

187. As a result, we noted protractions in the deliveries of goods in our review of purchase orders (POs) raised in FAVIE, FMOZ, and FRUGA. We also observed that the procurement plan prepared by FAVIE was incomplete and not updated. Further, in FRUGA we noted that a procurement personnel was performing incompatible functions as well as cases where procurement documents are not uploaded in the GRMS, which we also observed in FAORAP. In addition to FAORAP, we observed inconsistent application of UN awards for procurement activities, inaccurate delivery status of suppliers reported in the procurement functionality of the GRMS, lack of justification for LOA late performance, and majority of the LOAs are awarded through direct selection. Moreover, we noted late execution of LOA in FRNIR which impacts in the timely completion of projects.

188. In this regard, we emphasize the importance of procurement planning as it sets the stage for the entire procurement process. Lack of planning can result in exceptional awards, unnecessary direct procurement, lack of transparency, substandard quality and late or no delivery of inputs/services/works. Equally important is for the Management to ensure that procurement policies, regulations and rules are complied with.

189. We recommended that FAO strengthen monitoring and supervisory controls in procurement processes that drive effective procurement management to ensure timely acquisition of goods, works and services; the preparation of complete and updated procurement plan; and procurement compliance with policies, regulations and rules.

B.2.2.5 Cash management

190. Manual Sections 202.8 and 202.10.3, among others, contain the FAO regulations and rules about the authorization, utilization, recording, custody and reporting of cash. These regulations and rules ensure that all actions of FAO managers and staff that translate to costs are indeed for the best value and furtherance of the Organization's mission. Our review of this area was aimed to determine whether relevant controls are operating effectively.

191. We noted in FRMOZ, FRNIR, and FAORAP that the petty cash funds were almost depleted upon replenishment. Likewise, the petty cash (PC) registers of FRMOZ disclosed single payments higher than the prescribed limit. In addition, we noted multiple operational cash advances (OCAs) for FRNIR, beyond normal peak requirements for authorized level of operational petty cash (OPC) for FAVIE, and OCAs that remained outstanding beyond due date for FRUGA. Moreover, the imprest account manager balance in FAORAP was relatively high.

192. We highlighted the importance of compliance with the provisions of MS 202.8 and 202.10.3 in relation to cash management within FAO because these set out the relevant controls on cash and financial management which need to be in place and effectively implemented.

193. **We recommended that FAO strengthen compliance with the controls over cash related activities through close monitoring of bank balance as well as OCA and OPC utilization and replenishments, review of authorized level of OPC fund based on monthly utilization, and continuous monitoring of the same to avoid multiple grants and non-settlement of advances beyond due date.**

B.2.2.6 Asset management

194. Manual Sections 202.10.4 and 503 provides the guidelines for asset management which prescribed the processes and controls for the maintenance of records, custody and safekeeping, conduct of physical verification, transfers, and disposal of assets. Weakness in any of these processes may result in asset loss or wastage which can impact the operations and delivery of commitments by the Organization. In this regard, we ascertained whether financial and administrative controls are in place in accordance with the FAO guidelines including the effective use of asset-related GRMS functionalities.

195. In the examination of the Physical Verification Asset Report (PVAR) for FRMOZ, FRNIR, and FRUGA we noted that some asset records and information such as tag number, serial number, vendor name, and location were not provided, and the asset custodian needs to be updated. Further, we also noted that a Property Loan Forms were not accomplished upon removal of the asset items from FAO premises for FRNIR and FAVIE. In the same manner, review of asset registers for FAVIE disclosed that assets assigned to the new custodian were not supported by Internal Asset Transfer Request while for FRMOZ and FRUGA there were inclusion of assets with unit cost below USD 500 and there were asset items assigned to custodians who are no longer with the representation office. In addition, for FRNIR, we noted assets which were physically non-existing yet reported in the PVAR and non-disposal of surplus property in FAORAP.

196. Completeness of current asset information is important to keep track of the existence, condition and location of the asset items. In addition, inaccurate and non-utilization of the prescribed asset forms will hinder the establishment of proper accountability and safeguarding of assets. Further, inclusion of assets which do not physically exist or due for disposal defeats the purpose of the PVAR as a control measure and thus may affect its reliability.

197. **We recommended that FAO ensure that activities, processes and responsibilities relating to asset management are properly observed and undertaken through enhanced controlling and monitoring mechanisms, updating of records, and filling up of necessary forms with relevant information to promote accountability and to adequately safeguard its assets.**

B.2.2.7 Human Resource Management in decentralized offices

198. FAO can only achieve its mandate through its human resources. The Organization recognizes that the key in attaining its Strategic Objectives and delivering FAO's mandate is an effective and efficient human resource management. FAO employment category comprises of staff personnel and non-staff personnel. Staff personnel are those employed to perform

regular duties of a long term/continuous nature, while non-staff personnel are individuals recruited to perform specific temporary assignments, as detailed in their terms of reference. Non-staff personnel or Non-Staff Human Resources (NSHR) includes Consultants, Personal Service Agreement (PSA) Subscribers, National Project Personnel (NPP) and other non-staff personnel.

199. Our review of the sampled personal files for NSHR particularly NPPs and Consultants in the audited representation offices revealed either incomplete or un-updated case folders on file as well as incomplete records of consultants' selection and notes explaining the choice of NPP. In addition, we noted in FAORAP that the terms of reference of NSHR had incomplete key performance indicators.

200. Updated and complete relevant human resources files provide the management a reliable reference in determining the present condition and status of personnel. Relevant human resources files are also required to be kept at the HR office to ascertain that the recruitment process was undertaken in accordance with FAO policy. Further, key performance indicators are required to serve as basis of personnel accomplishment based on the approved terms of reference.

201. We recommended that FAO reinforce monitoring activities on record keeping and documentation of activities such as records of consultant's selection and notes explaining the choice of NPP to assure efficiency and transparency in managing HR-related activities; and ensure completeness of information in the terms of reference of NSHR as basis for monitoring and evaluation of work delivery.

B.2.2.8 Travel Management

202. Travel represents one of the major parts of FAO's budget as it is necessary in the performance of functions and the delivery of commitments by the business units of FAO, especially representation offices in relation to the thrusts of the Organization to decentralized operations.

203. Verification of travel transactions in FRMOZ, FRNIR, and FAORAP disclosed delayed or non-submission of Travel Expense Claims (TEC) and Back to Office Report (BTOR). Further, review of the Advances Report for FAVIE, FRUGA, and FAORAP disclosed outstanding travel advances due for settlement and outstanding travel advances for either active staff or those no longer connected with FAO. We also noted in FAORAP the limited use of embedded Quarterly Travel Plan (QTP) functionalities in the GRMS as well as low compliance with QTP preparation.

204. We highlighted the importance of compliance with existing travel policies to ensure that travel transactions were aimed to support the delivery of the mandate and achievement of Organization's objectives.

205. We recommended that FAO strengthen monitoring controls in the management of travels to ensure adherence with FAO's policies and procedures through compliance with the QTP requirement, timely settlement of travel prepayments and submission of required post-travel documents such as TEC and BTOR.

B.2.2.9 Overall assessment of the control environment

206. For the financial year 2018, we reviewed the design and operating effectiveness of embedded controls across critical processes in the abovementioned decentralized offices. The review was carried out primarily to determine the sufficiency of the delivery of front-line controls within these processes, how these impacted operational efficiency and effectiveness; and how policies and procedures were adhered to.

207. The delivery of the front-line controls, also known as management controls, reflects the effectiveness level of the control environment within the offices in relation to managing its programme implementation, technical cooperation projects, donor reporting, procurement, assets, human resource, cash and travel. The offices' representations on the state of their internal controls is reflected in an annual representation document that comes in the form of a self-assessment internal control questionnaire. Thus, pivotal to the representations is the ability of the regional and country offices to ensure that what was reported was aligned to their internal control operating realities.

208. Based on the results of our audits of critical operational processes in the regional and country offices which are discussed in the preceding paragraphs, we deemed it vital to highlight the importance of controlling as a management function. Specifically, the controls that we have tested as part of our audits were all management controls or controls that occupy the first line of defence against the offices' business risks. The efficacy of treating these risks at source relies mainly on the design and operating effectiveness of the controls that were in place. While we have seen controls that were compliant in several processes undertaken by the offices, we considered it critical for these offices to strengthen compliance further and attain the objectives for which these controls were designed and installed. Essentially, what we have noted related to the need for the FAO to make its oversight or monitoring controls work more effectively. In some observed instances, we noted a need to reinforce supervisory controls. Making the controls work more effectively also requires sustained assessment at all levels of the FAO management, not just the regional and country offices.

209. **We recommended that the FAO assess the level of operational risks of its decentralized offices and implement strategic solutions to strengthen their supervisory and monitoring controls over critical processes and decisions to ensure operational efficiency and effectiveness; and better support the certification made by the decentralized office directors of the state of their control environment.**

C. DISCLOSURES BY MANAGEMENT

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

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

211. In 2018, Management reported that there were no write-offs made for losses of cash and receivables.

C.2 Ex-gratia payments

212. Management disclosed that there were no ex-gratia payments made in financial year 2018.

C.3 Cases of fraud and presumptive fraud

213. Management reported cases of fraud, presumptive fraud or theft known to the Organization that are required to be brought to the attention of the Finance Committee pursuant to paragraph 6(c)(i) of the Additional Terms of Reference Governing External Audit (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 considering the definition of presumptive fraud recommended by the UN Joint Inspection Unit in its Report No. JIU/REP/2016/4, paragraph 34.

i. Cases reviewed in 2017

214. Management informed us that there were three cases that have been investigated in 2017 which were either pending or closed in 2018. These cases included:

- a. 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 matter is currently pending with the Vendor Sanctions Committee;
- b. 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 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 case is closed; and
- c. fraudulent documentation provided by a vendor in a decentralized office to attest the quality of its goods 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. The vendor did not reply within the time

laid down and the VSC will prepare the proposal of sanction for submission to the Assistant-Director General, Corporate Services Department.

i. Cases dealt with in 2018

215. For 2018, the reported cases included the following: (a) staff member in a decentralized office submitted a claim for reimbursement of medical expenses enclosing an altered invoice to fraudulently increasing the amount of claim by Euro 500. The attempted fraud was detected before the claim was paid and so there was no loss. The case is closed and disciplinary measure of dismissal for misconduct was imposed upon the staff member effective 14 May 2018; (b) implementing partner allegedly misappropriated project funds and produced fraudulent documentation to obtain a credit loan. The case is closed because the matter was concluded as unsubstantiated; (c) NPP subscriber altered invoices and electronic tickets issued by a vendor/travel agency to increase the amounts to facilitate payment of air travel for others at the expense of the Organization. OIG identified an overpayment in a total amount of approximately USD 3,396. The NPP contract was let to expire on 31 December 2018. The case is closed, and action has been taken to recover monies from the NPP subscriber's emoluments; and (d) NPP subscriber knowingly assisted an NPP colleague in the creation and verification of falsified invoices with increased costs to cover air travel for the benefit of others at the expense of the Organization. The case is closed and the NPP contract was terminated effective 27 December 2018.

i. Ongoing matters of presumptive fraud as of March 2019

216. Management reported that: (a) a prospective vendor submitted fraudulent documentation regarding past UN contracts as part of its response to an Invitation to Bid for goods to be supplied to a Country Office. The contract was not to the vendor in question and no loss has been identified; and (b) a possible fraudulent term of reference (containing tasks that were not intended to be carried out) and timecards (indicating days not actually worked) in relation to an Editorial PSA Subscriber contract.

217. While we note the action being taken by Management on cases of fraud and misconduct, we are concerned on the speed with which the cases are acted upon as evidently there are substantial number of cases not yet investigated as discussed in paragraphs 120 to 127.

D. ACKNOWLEDGEMENT

218. 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
8 July 2019

List of Acronyms

Acronyms	Description
ADG	Assistant Director-General
AP	Accounts Payable
ASHI	After-Service Health Insurance
ASMC	After Service Medical Coverage
BI	Banking Instructions
BTOR	Back-to-Office Reports
CIP	Construction In-Progress
COSO	Committee of Sponsoring Organization of the Treadway Commission
CPF	Compensation Payment Fund
CSF	Finance Division
CSFT	Treasury Operations
DDG	Deputy Director-General
DG	Director General
EBO	Employee Benefits Obligations
EMMT	Executive Management Monitoring Team
ES	Economic and Social Development Department
FAO	Food and Agriculture Organization
FAVIE	FAO Representation in Vietnam
FC	Finance Committee
FCF	Financial Closure Forms
FPMIS	Field Project Management Information System
FAORAP	FAO Regional Office for Asia and the Pacific
FRMOZ	FAO Representation in Mozambique
FRNE	FAO Regional Office for Near East and North Africa
FRNIR	FAO Representation in Nigeria
FRUGA	FAO Representation in Uganda
GA	General Assembly
GEF	Global Environment Facility
GL	General Ledger
GRMS	Global Resource Management System
HQ	FAO Headquarters
HR	Human Resources
IC	Investment Committee
ICF	Internal Control Framework
ICQ	Internal Control Questionnaires
ICSC	International Civil Service Commission
IFAD	International Fund for Agricultural Development
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
ISO	International Organization for Standardization
JACMC	Joint Advisory Committee on Medical Coverage
JIU	Joint Inspection Unit
KPI	Key Performance Indicators
LFM	Logical Framework Matrix
LOA	Letter of Agreements
LTI	Long Term Investments

LWOP	Leave without pay
MCS	Medical Coverage Super
MN	Member Nation
MS	Manual Section
MTP	Medium Term Plan
NPP	National Project Personnel
NSHR	Non-Staff Human Resources
NTE	Not to Exceed
OCA	Operational Cash Advances
OIG	Office of the Inspector General
OPC	Operational Petty Cash
OSP	Office of Strategy, Planning and Resource Management
PC	Petty Cash
PEMS	Performance Evaluation and Management System
PO	Purchase Order
POW	Programme of Work
PPM	Payroll Payment Method
PSAs	Personal Service Agreements
PSRG	Professional Staff Recruitment Guidelines
PSSC	Professional Staff Selection Committee
PVAR	Physical Verification Asset Report
PWB	Programme of Work and Budget
QA	Quality Assurance
QTP	Quarterly Travel Plan
RBAs	Rome-Based UN agencies
RFP	Request for Proposal
RL	Representation Letter
SEA	Sexual Exploitation and Abuse
SG	Secretary General
SIC	Statement on Internal Control
SLA	Service Level Agreements
SMART	Specific, Measurable, Achievable, Relevant and Time-Bound
SMCC	Staff Management Consultative Committee
SPC	Separation Payment Scheme
SRB	Staff Representative Bodies
SRF	Special Reserve Fund
SSC	Shared Services Centre
TCP	Technical Cooperation Programme
TEC	Travel Expense Claims
TOR	Terms of Reference
TPF	Termination Payments Fund
UGSS	Union General Service Staff
UN	United Nations
UNDP	United Nations Development Programme
UNJSPF	United Nations Joint Staff Pension Fund
VA	Vacancy Announcements
WB	World Bank
WCF	Working Capital Fund
WFP	World Food Programme