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Food and Agriculture  
Organization of the  
United Nations

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

Продовольственная и  
сельскохозяйственная организация  
Объединенных Наций

Organización de las  
Naciones Unidas para la  
Alimentación y la Agricultura

منظمة  
الغذية والزراعة  
للأمم المتحدة

# CONFERENCE

## Forty-second Session

Rome, 12 - 16 July 2021

### Audited Accounts - FAO 2019 Part B - Report of the External Auditor



**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 2019**

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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 of the United Nations (FAO)** 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 2019 and the observations with respect to the administration and management of the Organization as required under Financial Regulation 12.4. This is our final report as External Auditor from 2008-2019.

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

### Overall result of the audit

3. In line with our mandate, we audited the financial statements of FAO in compliance with the Financial Regulations and in conformity with the International Standards on Auditing (ISA). Our audit resulted in the issuance of an unmodified audit opinion<sup>1</sup> on the Organization's financial statements for the financial year ended 31 December 2019. We concluded that the financial statements present fairly, in all material respects: (a) the financial position of FAO for the year ended 31 December 2019; (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 were in accordance with International Public Sector Accounting Standards (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 resource mobilization; (c) evaluation function; (d) fraud risk management; and (e) 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.

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

## Key audit findings

6. The more significant observations resulting from our audit are briefly summarized as follows:

### *Prepayments and expenses*

- a. There were valid 2019 expenditures that remained as outstanding vendor advances totalling USD 3.707 million worth of goods and services. It is attributable to the constraints brought about by the reconciliation process of liquidation of vendor advances following the policy on liquidation of expenditure of no longer than three months or the 90-day rule, which impact on the FAO's compliance with the accrual method under IPSAS 1.

### *Employee benefit obligations (EBO)*

- b. The absence of regular funding for After Service Medical Coverage (ASMC) and the Termination Payments Fund (TPF) and the below benchmark annual returns on Long Term Investments (LTIs) increases the risk of sustainable and equitable future benefit payments to participants.

### *Technical Cooperation Programme (TCP)*

- c. There were 22 countries with no Country Programming Framework (CPF). The CPF is required for all countries receiving FAO support, regardless of the status of the FAO Representation as it defines the technical cooperation priorities between FAO and Member Countries. Also, there was an increased time-lag in requests for approval and a lower Programme of Work and Budget (PWB) 2018-19 delivery rate in the implementation of TCP.

### *Shared Service Centre*

- d. We identified significant opportunities for improvement for cost savings and efficiency in the policies and processes of SSC. In human resources, there is a risk in terms of capacity for retaining staff in the SSC because of the seeming disadvantage of the current grading structure compared with other United Nations (UN) agencies in Budapest which has led to a rather high turnover of staff over the years. The recommended centralization of the invoicing process was not yet fully undertaken. Also, there is an urgent need to implement a more efficient vendor database quality management and clarify the policies and improve the processes for secondary dependency allowances, education grants, and rental subsidies.

### *Resource mobilization (RM)*

- e. The high level of dependency of FAO on voluntary contributions, currently standing at 65 percent of its total budget, necessitates that the Organization should create an environment supportive of its resource mobilization ambition. FAO's

Resource Mobilization Strategy System lacks alignment to its evolving needs and needs to be guided by the right financial trajectory, put in place robust performance and monitoring mechanisms, facilitate proactive engagement with resource partners at all levels, and clarify roles and accountabilities including management of operational risks. The overall management of Resource Mobilization in the Organization must therefore be enhanced as the FAO faces the challenge of not just raising sufficient funds but to also mobilize funds towards the attainment of its strategic priorities.

#### *Evaluation function*

- f. The design and capacity of FAO's current Evaluation Policy or its Charter for the FAO Office of Evaluation is no longer aligned with the operating reality in the Organization including conformance with Joint Inspection Unit (JIU) and Independent Evaluation of FAO's Evaluation Function (IEFEF) recommendations, and the United Nations Evaluation Group (UNEG) Norms and Standards. This accountability gap is manifested in the management of its strategies and work plans; performance monitoring; design and operating effectiveness of organizational/structural independence; the delivery of evaluation in the decentralized offices; and even the management of fiscal and human resources. There is thus an urgent need to enhance the evaluation function through a more comprehensive policy, clearer accountabilities and structure and more effective processes.

#### *Fraud risk management*

- g. As FAO demonstrates its commitment to zero tolerance of fraud and corruption, it needs to revisit its fraud risk governance, improve risk assessment and fraud control activities, its fraud response undertakings including fraud investigations and the overall monitoring of its fraud risks. The adoption of FAO Anti-Fraud Strategy and Action Plan in addressing the increasing trend of new complaints relating to fraud shows the serious intent of the Organization to make anticipation a norm in managing its fraud vulnerabilities.

#### *Enterprise Risk Management (ERM)*

- h. The adoption of ERM in 2009 opened expectations as well as challenges on its intended value. Results of our series of reviews on ERM revealed that its implementation was stunted and affected by several limitations as to staff capacity and the overall effectiveness of the risk management put in place. The current initiative of FAO to re-energize ERM had opened several opportunities to finally make the management approach effective, based on the results of its risk maturity self-assessments.

### *Control Environment in Regional and Country Offices*

- i. Control gaps were noted in the Regional and Country Offices audited in 2019 needing reinforced supervisory controls, comprehensive results monitoring and robust enforcement of regulations and policies with sustained assessment of compliance with established frontline controls. This will better support the representations of decentralized offices as to their control environment.

### *Cases of fraud and presumptive fraud*

- j. The majority of the cases reported by Management involved FAO's vendors and staff. Although it was represented that such cases had not resulted in financial loss to the Organization, other related risks such as reputational risk was not factored in addressing these cases. We likewise noted an increase in fraud cases every year which manifests either leniency in the implementation of fraud control activities, its fraud response undertakings including fraud investigations and monitoring or increased awareness of staff about what constitutes fraud and their reporting responsibilities.

### **Summary of recommendations**

7. 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 <sup>2</sup>	Timeline
<b>Financial Matters</b>			
<b>Prepayments and expenses</b>			
1.	Ensure compliance with accounting of prepayments and expenses under IPSAS by assessing the application of the 90-day rule for temporary prepayments during year-end cut-off procedures, specifically in its compliance with accrual method as required in IPSAS 1. We also recommend the enhancement of the reconciliation process for temporary prepayments, to ensure consistency with the closure instructions on the recording of receipts of all goods and services received on or before the end of financial period ( <i>Paragraph 35</i> )	Significant	2021
<b>Employee Benefits Obligations</b>			
2.	Regularly fund ASMC and TPF and maximize LTIs performance to provide annual returns above benchmark to ensure intergenerational equity and	Fundamental	2021

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

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



Recommendations		Priority <sup>2</sup>	Timeline
	sustain expected future benefit payments for both active and inactive participants. ( <i>Paragraph 43</i> )		
<b>Country Programming Framework</b>			
3.	Continue a dynamic engagement with Member Countries, the UN Country Teams and the Resident Coordinators to jointly formulate the UN Sustainable Development Cooperation Frameworks (UNSDCFs) from which the CPFs must be duly derived from to have timely CPFs in place in all countries where FAO provides support. We further recommended that FAO through its training unit prepares/revises and roll-out a CPF training module based on the new CPF guidelines. ( <i>Paragraph 50</i> )	Significant	2021
<b>Technical Cooperation Programme</b>			
4.	a) Technical Officers and Programme Officers intensify further pro-active engagement with Formulators so that at least 50 percent of projects are approved within the first year of the biennium; (b) FAO Representatives work more diligently with the Government counterparts to address delays; and (c) Programme Support and Technical Cooperation Department (PSD) and Regional Representatives (RR) monitor closely project delivery to ensure that amounts carried forward are fully utilized at the end of 2021 and that the delivery rate of PWB 2020-21 approved budget in the biennium 2020-21 is increased to at least 40 percent. ( <i>Paragraph 58</i> )	Fundamental	2021
<b>Shared Service Centre</b>			
5.	Conduct an immediate review of the retention and staffing requirements to address the high turnover and existing risk of non-retention of experienced staff by SSC and complete the analysis to support moving forward with the realignment of the FAO-SSC's existing staffing pattern to ensure that its current grading structure is comparable with other UN agencies in Budapest. ( <i>Paragraph 66</i> )	Fundamental	2021
6.	Prepare a work plan pursuing full completion in identifying those invoicing transactions (in addition to operational advances, danger pay, and overtime pay) where streamlining or automation can be introduced to move forward with the invoice centralization project and ensure a more efficient and cost-effective processing of invoices. ( <i>Paragraph 72</i> )	Significant	2021

Recommendations		Priority <sup>2</sup>	Timeline
7.	Craft a well-developed document proposal aimed at automating the invoicing process for: (a) operational advances; (b) danger pay; and (c) overtime pay. The document proposal should include, among others, a concrete plan with list of activities and corresponding timelines to ensure the completion of the project. <i>(Paragraph 73)</i>	Significant	2021
8.	Prepare a work plan on the implementation of vendor database quality management as part of the proposed Data Quality Management, indicating therein, among others, a concrete plan with list of activities and corresponding timelines to properly monitor its implementation and ensure its completion. <i>(Paragraph 79)</i>	Significant	2021
9.	Formulate a clear-cut policy on the eligibility of General Services (GS) staff serving outside Headquarters (HQ) in Rome to qualify for the secondary dependents' allowance, thus, ensuring that the benefit is only granted to eligible staff members. <i>(Paragraph 86)</i>	Fundamental	2021
10.	Establish guidelines that will clarify the allowable provisions in kind including their ceiling amounts, and the documentary evidence that staff members need to provide, in support to the computation of the one-third of the total income of the secondary dependent, to be eligible for secondary dependents' allowance. <i>(Paragraph 92)</i>	Fundamental	2021
11.	Revise the documentary requirements in support for education grant claims to align it with current trends and developments such as electronic-system generated reports in enrolment, invoicing and payments, but should consider necessary controls to prevent submission of fraudulent documents, to allow more convenient and flexible educational arrangements for staff members' children. <i>(Paragraph 97)</i>	Significant	2021
12.	Streamline the procedures in the processing of rental subsidy under the basic scheme by reviewing the necessity of the process wherein the SSC HR Unit recommends to and seeks from DDG-Thomas its approval before a request for rental subsidy is granted. Instead, consider limiting reference to DDG-Thomas only for cases that diverge from the eligibility criteria. <i>(Paragraph 102)</i>	Significant	2021
Governance Matters			
Review of resource mobilization function			

<b>Recommendations</b>		<b>Priority<sup>2</sup></b>	<b>Timeline</b>
<b>13.</b>	<b>Invigorate its Corporate Resource Mobilization Strategy to reflect the Organization's current operating reality to further strengthen the resource mobilization governance arrangements and align related activities across all organizational levels. (Paragraph 113)</b>	<b>Fundamental</b>	<b>2021</b>
<b>14.</b>	<b>Enhance its resource mobilization strategy management system to achieve better synergy and coordination by:</b> <ol style="list-style-type: none"> <li>a. <b>preparing its RM corporate work plan that includes the key activities to be delivered based on the planned outputs and updated corporate strategies for clearer accountabilities; and,</b></li> <li>b. <b>coordinating more closely with decentralized offices to ensure that resource mobilization strategies and work plans are prepared and delivered by the Offices within the framework of corporate strategies and work plans, for more effective uptake of results information thereby eliminating accountability gaps. (Paragraph 119)</b></li> </ol>	<b>Fundamental</b>	<b>2021</b>
<b>15.</b>	<b>Clearly articulate the definition of the resource mobilization target and relevant parameters for more effective guidance in setting expectations and in defining the expected results. (Paragraph 125)</b>	<b>Significant</b>	<b>2021</b>
<b>16.</b>	<b>Clarify and harmonize its procedures and system of establishing resource mobilization targets at all levels and strengthen related activities to align to organizational needs and achieve a more effective and stable impetus for resource mobilization coordination, decisions and programme delivery. (Paragraph 131)</b>	<b>Significant</b>	<b>2021</b>
<b>17.</b>	<b>Craft a corporate resource mobilization monitoring mechanism supported with tools and techniques to ensure that the implementation of its resource mobilization strategies and work plans are systematically informed of the pervading operational reality and enable the Organization to reflect on it more effectively. (Paragraph 136)</b>	<b>Fundamental</b>	<b>2021</b>
<b>18.</b>	<b>Enhance the Results Framework for Resource Mobilization by developing relevant and quantifiable Key Performance Indicators for each expected output to ensure that achievements are</b>	<b>Significant</b>	<b>2021</b>

Recommendations		Priority <sup>2</sup>	Timeline
	measured against appropriate performance parameters for more meaningful results information and decision base. <i>(Paragraph 142)</i>		
19.	Reinforce its monitoring mechanism in project delivery and the related corporate information reporting mechanism, through more robust engagements with the concerned Budget Holders to ensure that donor engagements are sustained, and donor reporting is enhanced. <i>(Paragraph 149)</i>	Fundamental	2021
20.	Reflect on the current organizational RM roles and responsibilities and their interdependencies, deliver a clearer and better-defined RM structure, and support the same with formal policies and authorities, to ensure that RM dynamics are attuned with corporate principles on accountability and internal control. <i>(Paragraph 156)</i>	Significant	2021
21.	Undertake a review of the staffing pattern and needs of the Division in relation to accountability relationships and internal control vulnerabilities to ensure that the related operational risks are managed, and efficiency and effectiveness of work processes are enhanced. <i>(Paragraph 162)</i>	Significant	2021
22.	Engage closely with the Office of the Strategy, Planning and Resource Management (OSP) to ensure that its resource mobilization risk management process is made more formal and well-documented considering the requirements of the prevailing standards, so that risks are optimally identified and assessed for the continued progression of its risk management maturity level and optimize the value intended. <i>(Paragraph 170)</i>	Significant	2021
<b>Review of evaluation function</b>			
23.	Update its Evaluation Policy to ensure that the prevailing Norms and Standards and the current operating realities and initiatives are embraced to strengthen further its evaluation policy support and further clarify its accountabilities. <i>(Paragraph 175)</i>	Fundamental	2021
24.	Closely engage with its governing body and re-assess its Charter provisions on the recruitment, appointment, and termination of the Office of Evaluation (OED) Director position, to ensure that process safeguards are put in place to enhance the independence of the function and preserve the interest of the Organization. <i>(Paragraph 182)</i>	Fundamental	2021

Recommendations		Priority <sup>2</sup>	Timeline
25.	Engage closely with its governing body and review the existing structural independence of its functions to clearly define its reporting lines and the management's terms of engagements with the evaluation function without prejudice to its independence particularly in the management of its allocated financial and human resources to improve the Division's credibility and value. <i>(Paragraph 189)</i>	Fundamental	2021
26.	Refresh its evaluation strategy by detailing its priorities for the current biennium and as fed by the evaluation policy and deliveries of the previous strategy to ensure that accountabilities are synchronized, and its works are closely aligned to the current Medium-Term Plan (MTP) and PWB, for better operational synergy and more meaningful assessment of performance. <i>(Paragraph 195)</i>	Fundamental	2021
27.	Develop a biennial strategic plan by: <ul style="list-style-type: none"> <li>a. providing clearer and more detailed information on planned evaluation activities including the specific project/programme evaluations, the financial resources, and their use to perform the function for better transparency and information value; and</li> <li>b. establishing a more effective protocol to monitor its deliveries relating to timeliness and completeness of reports publication including such references as evaluation plans, terms of reference, management responses and other key evaluation products to ensure that remediation actions are undertaken for deviations, as necessary. <i>(Paragraph 200)</i></li> </ul>	Fundamental	2021
28.	Ensure that OED's policy proposal and implementation to enhance its decentralized evaluation function at the Regional and Country levels are supported with an effective operational work plan including realistic timelines, the needed safeguards and institutional support situated in a well-defined implementation context to increase its chance for success and creating the needed change. <i>(Paragraph 207)</i>	Significant	2021
29.	Enhance the transparency of OED's budget execution through clearer, more specific, concrete and formal policies, processes and structure	Significant	2021

Recommendations		Priority <sup>2</sup>	Timeline
	relating to the allocation, utilization, reporting and overall management of its Regular Programme budget and Evaluation Trust Fund to ensure that the Evaluation Function dynamics are attuned to corporate principles on accountability and internal control, and support budget scrutiny. <i>(Paragraph 215)</i>		
<b>Fraud risk management</b>			
30.	Craft a best practice fraud risk management policy that will encapsulate all related policies including its Policy Against Fraud and Other Corrupt Practices for a more focused and comprehensive management of its fraud vulnerabilities. <i>(Paragraph 221)</i>	Fundamental	2021
31.	Facilitate preparation of the Code of Conduct to concretize and consolidate the ethical expectations from its staff. <i>(Paragraph 225)</i>	Fundamental	2021
32.	<p>a. provide for the upcoming update of the fraud risk register and fraud risk assessment - more comprehensive guidance in fraud risk assessment built on its current approach, through the crafting of fraud risk assessment process and tools that guarantee the preparation of corporate fraud risk universe, more effective risk register, and the identification of better fraud risk statements and mitigating actions; and</p> <p>b. undertake a more formal fraud risk assessment exercise at the corporate level to support a complete risk universe or catalogue and ensure a top-down approach on fraud risk assessment. <i>(Paragraph 230)</i></p>	Fundamental	2021
33.	<p>Ensure to:</p> <p>a. provide policy support to annual affirmations of all staff to ensure that staff disclosures are updated and changes to relevant information are provided, for more effective monitoring and clearer accountability; and</p> <p>b. craft a policy and procedure that embed reference checking into the recruitment procedure for all positions regardless of funding source, nature and location to</p>	Significant	2021

Recommendations		Priority <sup>2</sup>	Timeline
	increase the fraud deterrence value of the recruitment process. <i>(Paragraph 235)</i>		
34.	Craft a strategy to ensure that staff responsibilities on fraud prevention and detection are discussed during the Performance Evaluation and Management System (PEMS) review and appraisal processes to strengthen further the Organization's zero fraud tolerance policy. <i>(Paragraph 239)</i>	Significant	2021
35.	Craft a policy and procedure on the conduct of exit interview for all separating staff as part of the off-boarding process, to strengthen its fraud prevention and detection mechanisms and, for better organizational learning. <i>(Paragraph 242)</i>	Significant	2021
36.	Improve the uptake of fraud complaints and allegations by streamlining its various fraud reporting channels and mechanisms to enable the completeness of OIG's records for more efficient fraud response. <i>(Paragraph 248)</i>	Fundamental	2021
37.	Craft and deliver a definitive strategy to support the OIG's growing investigation work load and the resolution of its operational constraints to enhance efficiency in dispensation of fraud and corruption cases. <i>(Paragraph 253)</i>	Fundamental	2021
38.	Ensure that the planned revision of its investigation guidelines consider procedures on witness and subject interview; investigation planning; notification to complainants; structure of investigation reports; referral to authorities; and safeguarding of assets and chain of custody, to provide a more thorough guidance to users. <i>(Paragraph 257)</i>	Significant	2021
39.	Adopt a set of performance indicators relative to the implementation of its Anti-Fraud Strategy and Action Plan to ensure that the performance of activities under each objective is supported with clear performance expectations for more meaningful measurement of policy performance. <i>(Paragraph 262)</i>	Significant	2021
<b>Implementation of Enterprise Risk Management</b>			
40.	Fortify its ERM implementation business case by ensuring that related planned works and required building blocks are delivered chronologically; and supported with robust change management activities, for better implementation manoeuvrability and to increase its chance for success. <i>(Paragraph 271)</i>	Significant	2021

Recommendations		Priority <sup>2</sup>	Timeline
<b>Control environment in decentralized offices</b>			
<b>41.</b>	<b>Continue to 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. (Paragraph 299)</b>	<b>Fundamental</b>	<b>2021</b>
<b>Cases of fraud and presumptive fraud</b>			
<b>42.</b>	<b>Recalibrate its Anti-Fraud Strategy and Action Plan to focus more on addressing the growing fraud cases which involved collusion participated by FAO staff and to develop a more stringent role of unit managers in identifying and preventing fraud within their respective units/offices, all to ensure that FAO manage reputational risks, among others, as a consequence of the presently increasing fraud incidents. (Paragraph 309)</b>	<b>Significant</b>	<b>2021</b>

#### **Status of implementation of prior years' audit recommendations**

8. 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 41 recommendations in the financial year 2018, 23 (56 percent) were implemented and 18 (44 percent) are in the process of implementation. Five (50 percent) out of the ten remaining recommendations in the financial year 2017 were implemented while the remaining five (50 percent) recommendations are still in process. Further, five (83 percent) out of the remaining six recommendations in the financial year 2016 were implemented while the remaining one (17 percent) recommendation is still in process of implementation. Lastly, one (50 percent) out of two remaining recommendations in the financial year 2014 was closed while the remaining one (50 percent) is still in the process of implementation. We further encourage Management to prioritize the implementation of the remaining recommendations.



## **A. MANDATE, SCOPE AND METHODOLOGY**

### **A.1 Mandate**

9. The Chairperson of the Commission on Audit of the Republic of the Philippines was appointed by the 146<sup>th</sup> Session of the Council<sup>3</sup> as External Auditor of the Organization for the period 2014-2019, by the 141<sup>st</sup> Session of Council<sup>4</sup> for the period 2012-2013 and by the 132<sup>nd</sup> Session of Council<sup>5</sup> for the period 2008-2011.

10. 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 Finance Committee, 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.

### **A.2 Scope and objectives**

11. 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.

12. 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 2019, 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 2019 were 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.

13. 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.

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<sup>3</sup> Resolution 1/146 adopted on 26 April 2013

<sup>4</sup> Resolution 1/141 adopted on 15 April 2011

<sup>5</sup> Resolution 1/132 adopted on 22 June 2007

14. 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.

### **A.3 Methodology and auditor's responsibilities**

15. 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.

16. 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.

17. We also reviewed the effectiveness of management controls in key areas of operations of five decentralized offices focusing on the technical cooperation programme, project implementation, donor reporting, asset and cash management, procurement, travel and human resource management including the implementation of risk management, in line with Financial Regulation 12.4.

18. For the financial year 2019, we conducted audits in the HQ, SSC, FAO Regional Office for Africa (FAORAF), FAO Regional Office for Latin America and the Caribbean (FAORLC), FAO Representation Offices in Myanmar (FAMYA), Madagascar (FRMAG), and Chad (FRCHD).

19. We also audited the financial statements of the FAO Credit Union for financial year 2019 for 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).

20. In view of the global COVID-19 pandemic which affected the community of nations, the audit of the financial statements, FAORAF, FAORLC, and review of the Evaluation function were conducted offsite. The audit was completed without any scope limitation and all audit procedures were performed to enable us to make reasonable audit conclusions.

21. 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 FAO Oversight Advisory Committee to further enhance our audit work.

22. 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**

23. This section presents the results of the audit for the financial year 2019, 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**

24. We concluded that the financial statements present fairly, in all material respects, the financial position of FAO for the financial year ended 31 December 2019, 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; and
- e) Statement V. Statement of Comparison of Budget and Actual Amounts.

25. We appreciate the efforts taken by FAO Management to address a number of recommendations issued during the audit of its 2019 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 2019 reflects the adjustments on the balances of the accounts affected, as well as the corrections and additions to the disclosures that we have noted in audit.

26. 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 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.

27. 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, concerns about the Organization's accounting for prepayments and its expenses, employee benefit obligations; and the delivery of the technical cooperation programme.

### ***B.1.1.1 Prepayments and expenses***

28. In 2019, the FAO Outstanding Advance Report showed Vendor Advances amounting to USD 7.403 million which was reclassified in P13-19 from Prepayments account (2800) to Other Prepayments account (2807) but subsequently reversed in 2020. The components of Vendor Advances indicated that 70.95 percent pertained to the Somalia Operating Unit, 21.01 percent to the South Sudan Operating Unit, and 8.04 percent to other operating units which accounted for USD 5.319 million, USD 1.742 million, and USD 0.342 million advances, respectively. In our review, we noted that of the USD 7.061 million vendor advances for Somalia and South Sudan, USD 6.809 million remained as outstanding prepayments as at 31 December 2019.

29. Further review of the USD 6.809 million outstanding prepayments disclosed that an amount of USD 3.707 million was already consumed due to the delivery of goods and services during the year 2019, hence should not be classified as prepayment in 2019. The details are provided below:

	<b>Somalia</b>	<b>South Sudan</b>	<b>Total</b>
Total Vendor Advances Paid	5,318,523.04	1,742,037.50	<b>7,060,560.54</b>
Less: Vendor advances yearend balance	5,252,949.67	1,555,709.50	<b>6,808,659.17</b>
Expenses recorded	65,573.37	186,328.00	<b>251,901.37</b>
Less: Should be expenses recorded	2,943,508.37	1,015,478.02	<b>3,958,986.39</b>
<b>Understatement of expenditures</b>	<b>(2,877,935.00)</b>	<b>(829,150.02)</b>	<b>(3,707,085.02)</b>

30. In the case of Somalia, cash delivery method for cash-based programmes that supports smallholder farmers and other vulnerable men and women shifted from physical to digital thru mobile money wireless transfers. Verification of the details of the outstanding prepayments of the top three suppliers' telecommunication companies catering mobile money wireless transfers showed that of the USD 5.157 million advances granted, USD 2.877 million were already distributed to the beneficiaries in 2019. Based on the data indicated per vendor invoices, 54 percent pertained to mobile money transfers made on December 2019 amounting to USD 1.554 million, while the remaining 46 percent amounting to USD 1.323 million pertained to money transfers for the months of August to November 2019.

31. For South Sudan, review of sampled vendor invoices of United Nations Mission in South Sudan (UNMISS), United Nations Children's Fund (UNICEF) and World Food Programme (WFP) for prepayments showed that of the USD 1.742 million, USD 1.015 million were already consumed due to the delivery of goods and services in 2019. The UNMISS- Debit Advice to FAO – South Sudan showed that fuel supply for the months January 2019 to December 2019 were charged against the UNMISS prepayment, to a total of USD 222 995. Of the said amount, only the fuel supply for the month of December 2019 was invoiced by the vendor on 29 January 2020. In addition, vendor invoices for the outstanding prepayments to WFP totaling USD 863 672, which pertain to United Nations Humanitarian Air Service (UNHAS) flight services, showed that flight services with a total cost of USD 855 351 were already used from the months of October 2018 to December 2019. Said amount also included the variance of USD 42 083 from the invoice charged against Invoice No. PP-179557.

32. We noted in DGP046 that the liquidation process per policy should last no longer than three months, however it was also stated that at each month-end and at the end of 90 days, a full statement of account for the expenses incurred together with the relevant supporting documentation must be rendered. At the end of the arrangement, any unspent funds must be returned to the disbursing office. The workflow of the DGP046 also indicates that the Operational Cash Holder submits a statement of account together with all original supporting documentation to the disbursing FAO office within 30 days after month end. Said statement of account will be the basis of the Disbursing Officer to record the expenditures in the Global Resource Management System (GRMS).

33. Additionally, we noted that the 2019 closure instructions require Budget Holders to ensure that receipts for all goods and services received on or before 31 December 2019 are recorded in the system by 31 December 2019 at 10 a.m. Rome time. With the said closure instruction, application of the 90-day ruling on temporary prepayments is contradictory.

34. Taking into account the existing liquidation process, it is clear that there is a requirement on the monthly preparation and submission of the statement of accounts, thus to ensure the timely recording of expenditures for the period. However, it can also be deduced that there were constraints in the reconciliation and verification process of submitted vendor invoices which prevented the budget holders ensuring the timely recording of prepayment related expenses. In addition, the application of the DGP046 on the liquidation of temporary prepayments impacted on the fair presentation of financial statements due to non-accrual of goods and services already delivered for the months of November and December 2019 amounting to USD 2.545 million.

**35. We recommended that FAO through the Finance Division (CSF) ensure compliance with accounting of prepayments and expenses under IPSAS by assessing the application of the 90-day rule for temporary prepayments during year-end cut-off procedures, specifically in its compliance with accrual method as required in IPSAS 1. We also recommend the enhancement of the reconciliation process for temporary prepayments, to ensure consistency with the closure instructions on the recording of receipts of all goods and services received on or before the end of financial period.**

36. CSF explained that the expenditures although valid as 2019 expenses, were not timely recorded in the GRMS. One of the reasons was that the reconciliation process to validate the accuracy of the amount per vendor invoice takes time. Furthermore, the liquidation process of vendor advances follow FAO's Policy ([DGP046](#)), wherein the liquidation of expenditure should last no longer than three months. Therefore, with the 90-day rule, vendor advances granted in October 2019 to December 2019 may still be under the reconciliation process and were not required to be recorded as expenditure.

#### ***B.1.1.2 Employee Benefits Obligation***

37. For the past five years, we noted that though the EBO amount is increasing, its funded status slightly increased to a third of the LTIs portfolio of USD 400 to USD 600 million. As at 31 December 2019, the present value of the EBO is USD 1 481 663 thousand while LTIs market value is USD 552 042 thousand as shown below:

(All figures in USD 000's)

Particular	2015	2016	2017	2018	2019
EBO	1,124,780	1,319,199	1,527,419	1,364,500	1,481,663
LTI	407,489	442,950	522,784	480,370	552,042
<b>Funded (%)</b>	<b>36%</b>	<b>34%</b>	<b>34%</b>	<b>35%</b>	<b>37%</b>

38. The increases in the EBO are due to the decrease in the discount rates used, and assumed proportion of staff electing coverage in the ASMC at retirement from 95 to 90 percent, an increase in assumed rates of withdrawal and assumed rates of early retirement, and a decrease in rates of retirement from ages 61-64, offset by the favorable impact of depreciation of the EURO against the dollar, decreases in the medical inflation rate and actual claims and administrative expenses.

39. Presently, FAO pays EBOs using its general asset or regular programme budget rather than drawing from the earmarked LTIs or its income, thus potentially impacting the liquidity position of the Organization in the long run. The present approach necessitated the active staff to subsidize 31 percent or USD 10 206 188 to the retirees' plan in 2019 (USD 11 476 008 in 2018) which means that active staff pay part from their salary to the EBO and which is paid to the retiree plan. As the retiree population expands, there is a risk that active staff may no longer be able to support the retiree plan in the future due to intergenerational imbalances resulting in an increasing liability. Consequently, increases in the deficit would need to be addressed either by increasing the participants' contribution and/or the Organization's funding.

40. We presented below the actions taken or continuously implemented by FAO to search for a solution to improve on and address the increasing EBO along the areas of measures amongst the members of the United Nations Common System:

Measures	Actions Taken
a. Increase the contribution of participants for ASMC	From 2015 to 2019, the contributions of participants are increasing primarily due to increases in actual claims. In 2020, the contribution of participants was reduced to 37.71 percent while FAO's share is 62.29 percent. This is compensated by due diligence in the processing of claims and cost containment measures agreed between the new Insurer and FAO.
b. Cost containment for ASMC	FAO together with the new Insurer fully implemented the new cost containment measures including: (i) prior approval of planned hospitalizations and expensive outpatient treatments (>1,000 USD/EUR); (ii) pre-approval in cases where a guarantee of payment is needed for in-network providers when cost is above 400 USD; (iii) the promotion of generic drugs; (iv) preferred selection of in-network providers in strategic duty stations; and (v) telehealth app.  In general, the effectiveness of the cost containment measures would help to reduce actual claims amounts in 2020 and in the coming years which would prevent the increase of premium contributions in the future.
c. Regular funding for ASMC and TPF Past	Beginning with the 2004-05 biennium and through the 2016-17 biennium, the Conference approved separate additional assessments of USD 14.1 million per biennium on Members towards funding the ASMC past service liability. No separate additional assessments were approved by the Conference for the 2018-19 and 2020-21 biennia. Based on this

Service Liability	<p>funds were transferred into the investment portfolio based on the percentage of total Member contributions actually received. For TPF, the unfunded past service liability has never been met from the budgetary appropriations or the Programme of Work.</p> <p><u>EAUD Comment:</u></p> <p>It is emphasized that regular funding to the EBO is a prudent governance practice which helps achieve intergenerational equity among inactive and active participants, avoiding the transfer of financing costs and risks into the future generations. Also, regular funding for ASMC and transferring it to LTIs maximizes opportunities to earn when financial market performance is positive.</p>
d. Maximize returns on investments	<p>The principal objective of the LTIs is to generate returns overtime. The existing asset allocation of LTIs is 50 percent equities and 50 percent fixed income with +/-5 percent allowable deviation before mandatory rebalancing.</p> <p><u>EAUD Comment:</u></p> <p>Annual returns on LTI portfolio for the past five years fell below the benchmark and/or any excess earnings was offset by negative returns in the following year. Nonetheless, the overall return on LTIs from inception is 6.078 percent.</p> <p>Comparing net returns on LTIs against interest costs of staff related liabilities (SRL) for the past five years showed that yearly net returns are not sufficient to cover the increasing annual interest costs with a shortfall of USD 38,250 in 2019.</p> <p>It is emphasized that the primary objective of the LTIs portfolio is to generate returns to augment the capital/fund designated to pay the EBO in the long run. Thus, it is essential for FAO to closely work with external managers such that returns should exceed their benchmarks over a 10+ year period.</p>

41. Even considering these enumerated measures and actions taken, the 2019 Actuarial Valuation Report indicates that FAO would need to contribute an additional USD 40,187,970 per year to fully fund the ASMC by 2039 and an additional USD 12,576,026 per year to fully fund the TPF by 2024.

42. Similarly, with the rising expected benefit payments in the coming years, an absence of regular funding to be placed into the LTI portfolio and its below benchmark annual performance it will likely be difficult for FAO to sustain the payment of expected EBOs to participants in the long run which may require the active participants to shoulder the risks by possibly increasing their contribution and/or receiving lower benefits than expected.

**43. We recommended that FAO regularly fund ASMC and TPF and maximize LTIs performance to provide annual returns above benchmark to ensure intergenerational**

**equity and sustain expected future benefit payments for both active and inactive participants.**

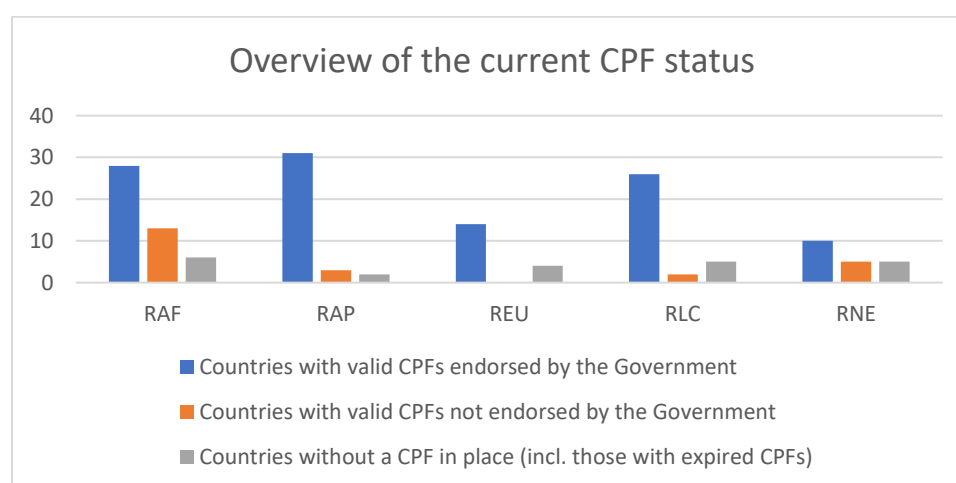
44. CSF commented that the Organization reports to Governing Bodies on an annual basis, through the FC, with details of the EBO, including the level of the earmarked funding. This effort is ongoing and will continue. FAO's Governing Bodies have consistently emphasized the importance of adopting a common 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.

### **B.1.2 Country Programming Framework**

45. The CPF is required for all countries receiving FAO support, regardless of the status of FAO Representation because it defines the technical cooperation priorities between FAO and Member Countries. It is also a tool used to define the medium-term response to the assistance needs of Member Countries in pursuit of national development objectives that are consistent with the FAO Strategic Framework, Regional Priorities, and the Sustainable Development Goals.

46. Since the launch of the new UNSDCF Guidance in June 2019, the CPF must now be grounded on the Common Country Analysis (CCA) and on the UN Cooperation Framework's Theory of Change to outline FAO's contribution and commitment to support national efforts to achieve the SDGs as part of the UN collective offer. To this effect, FAO has substantially revised its own CPF Guidelines, issued in October 2019, for the FAO planning and programming instrument at country level to be fully derived from the UN Cooperation Framework and duly aligned with its cycle, as required by the UNSDCF Guidance.

47. However, based on the OSP's CPF Monitoring Database, the overview of the current CPF status shows that out of 154 countries, 22 remained without a CPF in place, as shown below:



48. The Global Synthesis Report 2018 indicated that changes in the government structure and changing context within ministries created delays in the preparation of the CPF. On the other hand, based on Regional Synthesis Reports in 2019, a key issue on the non-finalization of some CPFs was the release of FAO CPF Guidelines for the FAO planning and programming instrument at country level to be fully derived from the UNSDCF.



49. It is emphasized that CPF serves as a starting point for the prioritization of in-country TCP technical assistance. The priorities defined in the CPF guide the use of TCP resources for demand-driven technical assistance intended to respond to governments' needs, promote change, foster capacity development and assist in mobilizing resources. The availability of CPF would help fast track appraisal, review, finalization, and eventual approval of TCP requests.

50. **We recommended that FAO through its FAO Representatives continue a dynamic engagement with Member Countries, the UN Country Teams and the Resident Coordinators to jointly formulate the UNSDCF from which the CPFs must be duly derived from to have timely CPFs in place in all countries where FAO provides support. We further recommended that FAO through its training unit prepares/revises and roll-out a CPF training module based on the new CPF guidelines.**

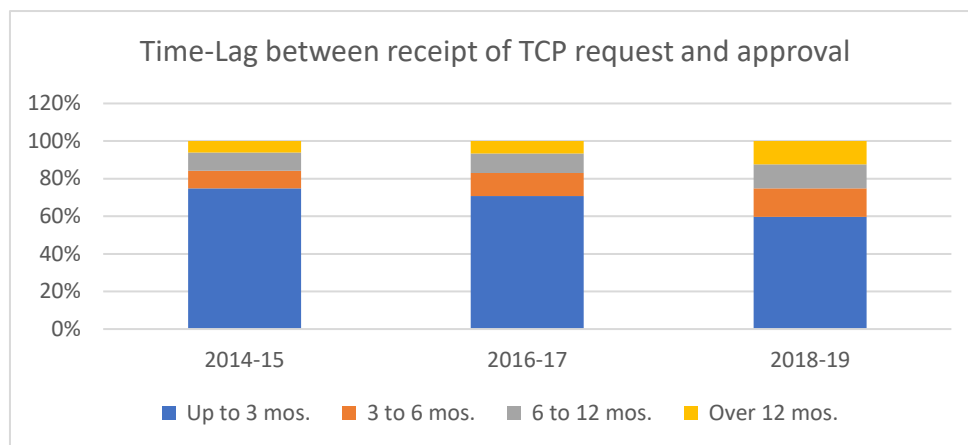
### **B.1.3 Technical Cooperation Programme**

51. The TCP allows FAO to draw from its own regular programme to make its technical competence rapidly available to Member countries at their request. TCP contributes to solving the Member's most pressing development needs in the agriculture, fisheries and forestry sectors and related to rural development and socio-economic issues. For PWB 2018-19, the Approved Budget for TCP increased to USD 140.8 million equivalent to 14 percent of the Net Appropriation.

52. FAO's Strategic Objectives (SOs) are closely aligned to the 17 Sustainable Development Goals (SDGs) that offer a vision of a fairer, more prosperous, peaceful and sustainable world. For 2018-2019, the deliveries under SO2 and SO5 contributed to SDGs: No Poverty, Zero Hunger, Gender Equality, Clean Water and Sanitation, Sustainable Cities and Communities, Climate Action, Life Below Water, Life on Land, and Peace, Justice, and Strong Institutions.

#### ***B.1.3.1 Increased time-lag in request for approval and lower PWB 2018-19 delivery rate***

53. Highlighting the importance of TCP, requests by Member countries for TCP increased by 60 percent from 477 in 2014-15 to 770 in 2018-19. However, based on Field Programme Management Information System (FPMIS) data, the approval rate of projects approved within the first three months of the request declined from 75 percent to 60 percent from 2014-15 to 2018-19, as shown below:



54. Likewise, the percentage of TCP delivery of the Biennial Appropriation per year of delivery shows that, for the last three biennia, on average 40 percent of the Approved Budget was delivered within the biennium it was approved. Although it is the norm that the delivery of a TCP project in its biennium of approval is low, delivery for 2018-19 was even below average at 36 percent.

55. The Regional Synthesis Reports 2019 indicates that one of the areas for improvement that can address delays is more flexibility and less bureaucracy with the use of and clearance procedures for TCP funds. In addition, delays in implementation of TCP may be attributable to Government counterparts in certain instances.

56. On the other hand, in our audit of Decentralized Offices (DOs) for 2019, we noted that for FAMYA, unavoidable factors caused the delay in the project formulation phase, including among others, full proposal formulation starting in Phase 2, appraisal sheet adjustment, revision of project activities to fit the new template, and delay in identification of resources and proposal design. For FRCHD, project approval processes for TCP have inherent impediments, one of which is the numerous coordination and engagements with project formulators and government beneficiaries. Likewise, for FAORLC, challenges in timely approval of projects are the long time it takes for formulators to produce the project documents and the review of the project documents by the main counterpart also often takes time.

57. To address some stated concerns, we noted that FAO simplified the TCP project document format, a new TCP Manual was released leading to simplified procedures, and the TCP terminal report was enhanced with a concise format. Nonetheless, with the TCP average biennium expenditure amounting to USD 135 million, a USD 86 million TCP balance carried forward for implementation in biennium 2020-21, and the TCP Approved Budget amounting to USD 140.8 million available in the PWB 2020-21, FAO would need further efficiencies to fully and timely implement its TCPs.

58. **We recommended that FAO through: (a) Technical Officers and Programme Officers intensify further pro-active engagement with Formulators so that at least 50 percent of projects are approved within the first year of the biennium; (b) FAO Representatives work more diligently with the Government counterparts to address delays; and (c) PSD and RR monitor closely project delivery to ensure that amounts carried forward are fully utilized at the end of 2021 and that the delivery rate of PWB 2020-21 approved budget in the biennium 2020-21 is increased to at least 40 percent.**

59. FAO accepts the recommendations and will consider its implementation on CPF and delivery of TCP.

#### **B.1.4 Shared Services Centre**

60. The result of our 2019 audit of SSC revealed that, in general, the control processes under the SSC functional services were effective; and the transactional processing arrangements were in accordance with FAO policies, standards, regulations and rules, and procedures. Be that as it may, we highlighted and raised in the succeeding paragraphs the significant improvement opportunities to enhance the management and control of its key processes.

##### ***B.1.4.1 Retention and staffing management***

61. During the first quarter of 2019, we observed that six personnel of the Finance Services Unit (four staff and two Non-Staff Human Resources (NSHRs)) transferred from FAO-SSC to other UN agencies. The said movement affected the service level agreement (SLA) compliance of the Unit, resulting in a decline of 9.26 percent from the April 2019 SLA compliance rate of 95.02 percent. As of the preparation of this report, the SLA compliance rate was still at 85.76 percent, which is below the SLA target of the Finance Services Unit. The transfer of these personnel which is equivalent to loss of expertise and accumulated experience, resulted in the disruption of SSC operations in general and a decline in the SLA compliance rate.

62. SSC Management explained that the high turnover rate of staff is attributed to the staffing pattern of FAO SSC. Compared with other UN Agencies, particularly the United Nations High Commissioner for Refugees (UNHCR) and UNICEF, whose entry level position is G5 and the highest is G7 position, the existing entry-level position of FAO is G4 position while the highest is G6. In addition, heads of units in other UN system SSCs are graded at P5 level as compared to P4 level in FAO. As such, the benefits of trainings invested to the staff are not maximized as they tend to transfer to a more lucrative working environment.

63. To address the issue, SSC Management explained about the plan to realign the existing staffing pattern to ensure that its current grading structure is aligned with other UN agencies. The plan foresaw salary adjustments of 45 personnel, to be funded with savings from the abolition of four G4 positions thus, achieving a cost neutral proposal that would reduce the risk of staff loss due to disparity of benefits against other UN agencies.

64. We noted however, that the Office of Human Resources (CSH) in HQ raised some concerns on the proposal made by SSC. The CSH suggested that the proposed retention and staffing proposals be put on hold for further discussion as the CSH believes that the proposal lacked in-depth and comparative analysis with other SSC hubs located in Budapest. They mentioned that comparison of workload should be based on specific criteria in accordance with the International Civil Service Commission (ICSC) Master Standard on job classification, as well as the principle of “equal pay for work of equal value”. The said information is deemed critical as any reclassification of positions in FAO units should always be consistent with FAO’s organizational structure.

65. Given that the turnover of staff in SSC is attributed to the high level of competition in Budapest, it is vital that Senior Management act swiftly to identify measures to maintain SSC’s capability to recruit skilled individuals and retain its experienced staff. The need to consider

increasing the level of competitiveness of FAO in the current Budapest market and other UN agencies, taking into consideration the costs it will entail and the advantages it will serve in the long term should be emphasized as the number of shared services center's hubs, both UN and Non-UN, continuously increase in Hungary.

66. **We recommended that the FAO conduct an immediate review of the retention and staffing requirements to address the high turnover and existing risk of non-retention of experienced staff by SSC and complete the analysis to support moving forward with the realignment of the FAO-SSC's existing staffing pattern to ensure that its current grading structure is comparable with other UN agencies in Budapest.**

67. Discussions has been resumed with the newly appointed Chief, SSC and the retention and staffing plan is to be resubmitted to CSH and DDG-Thomas.

#### ***B.1.4.2 Elements to fully centralize the invoicing process***

68. In line with the External Auditor's recommendation to consider the centralization of invoicing and with the amount and volume of transactions that FAO is currently processing, we were informed that the automation of the invoicing process is one of the areas considered as a prerequisite for the launching of the invoice centralization project. The Finance Services Unit has started to identify groups of invoices being processed which could be streamlined and/or automated to reduce manual intervention and gradually eliminate manually prepared invoices with auto-generated invoices. These are invoices for: (a) operational advances; (b) danger pay; and (c) overtime pay.

69. Operational advances pertain to prepayments applied to staff members, consultants, Personal Service Agreements (PSAs) and non-staff on behalf of the Organization for carrying out official business such as offsite workshops, short-term project activities and to pay suppliers who could not be paid by FAO directly. Danger pay is a special non-pensionable allowance established for internationally and locally-recruited staff who are required to work in locations where very dangerous conditions prevail. Overtime pay, on the other hand, is a compensation for the first hour of continuous work more than the established hours of work.

70. The Payroll Unit commented that the proposed project of automating overtime pay has been raised on several occasions but was not pursued as the Unit had other priority projects to deal with. With the proposed automation, the manual computation and verification of overtime and danger pay will be eliminated, which will eradicate human errors and inaccurate payments.

71. We highlight that introducing automation which will streamline the invoicing process will have a valuable impact on the efficiency of the process through reduced processing time of invoices considering the magnitude and amounts involved in the invoicing process as well as the manual processes in its current workflow.

72. **We recommended that the FAO, through SSC prepare a work plan pursuing full completion in identifying those invoicing transactions (in addition to operational advances, danger pay, and overtime pay) where streamlining or automation can be introduced to move forward with the invoice centralization project and ensure a more efficient and cost-effective processing of invoices.**

73. **Further, we recommended that the FAO, through collaboration by SSC and CSF in HQ, craft a well-developed document proposal aimed at automating the invoicing process for: (a) operational advances; (b) danger pay; and (c) overtime pay. The document proposal should include, among others, a concrete plan with list of activities and corresponding timelines to ensure the completion of the project.**

74. Accordingly, a pilot was completed successfully in 2019 and the evaluation of automated tool (robotics) is currently underway. Likewise, improvements have been included in the Enterprise Resource Planning (ERP) functional and technical upgrade. During phase 1, the detailed plans will be established and documented (phase 1 endorsed by ERP board and pending Capital Expenditure (CAPEX) funding).

#### ***B.1.4.3 Work plan on the implementation of vendor database quality management***

75. FAO maintains two banking databases in the GRMS which are independent from one another, namely the payroll and the non-payroll databases. Both staff members and non-staff (NSHR all contract types) are responsible for entering/updating their banking instructions and verifying/maintaining their HR addresses using one of the following GRMS responsibilities (depending on the contract type with FAO): FAO HR Employee (for staff members) and FAO NSHR Employee (for non-staff). The vendor database stores all information to efficiently facilitate the accounts payable and procurement processes of FAO.

76. We noted, that currently FAO is using the Supplier Wizard tool to create and update GRMS non-payroll payment records for suppliers. This tool allows updating of any record type. It also includes a built-in International Bank Account Number (IBAN) validation and allows the recording of UN Global Marketplace (UNGM) registry numbers. Although the system includes controls to prevent the creation of duplicate entries, such entries should be the exact match for it to be considered a duplicate. There is still a need to conduct manual review and investigation to filter possible duplications in the database. As of the reporting date, FAO has 360,000 records in its vendor database.

77. The SSC Management pointed out that the maintenance and clean-up of the database relies on the manpower of its Vendor Banking Services (VBS) team and explained that a system enhancement such as Data Quality Management (DQM) may be helpful to address the issue. The DQM will cover the entire Trading Community Architecture (TCA), which will go beyond the verification of the vendor and banking database. The DQM is intended to introduce solutions to the issues on vendor and banking database. Concepts and controls will form part of the DQM to enhance the status of the FAO vendor database. The system enhancement intends to have proactive measures to prevent errors and duplicates within the entire TCA. In addition, we were informed that a consulting company was commissioned to conduct a study regarding possible enhancements that can be incorporated in the current database management of FAO.

78. We highlight that it is essential to ensure quality of data to reduce the risk of potential unauthorized or inappropriate activity, duplicate payments and system inefficiencies, thus the need to organize and improve the vendor database. With the high volume of database information being maintained by VBS Team, enhancing the vendor and banking database will in the long term result in: (a) reduction of transfer knowledge costs and reliance on human workforce in maintaining the database due to improved controls integrated in the digital workflow; (b) prevention of erroneous and double payments due to existence of vendor

duplicates in the database; and (c) realignment of resources used to do corrective actions as part of database maintenance into a more value adding task within the Organization.

79. **We recommended that the FAO SSC, prepare a work plan on the implementation of vendor database quality management as part of the proposed Data Quality Management, indicating therein, among others, a concrete plan with list of activities and corresponding timelines to properly monitor its implementation and ensure its completion.**

80. The KPMG review of vendor quality management was completed in March 2020. A clean-up of the vendor database has started and is ongoing. A full work plan will be available by August 2020.

#### ***B.1.4.4 Policy and process on secondary dependency allowance, education grant, and rental subsidy***

##### ***B.1.4.4.1 Secondary dependency allowance***

81. Manual Section (MS) 318 Appendix B contains the guidelines for eligibility for secondary dependent's allowance for GS staff at HQ. It provides, among others, that a father over 65 years of age and a mother over 60 years of age, or permanently incapacitated are qualified to receive the benefit, provided, that each parent's total individual income does not exceed the minimum pension amount granted to employees or self-employed workers as established by the Italian Istituto Nazionale di Previdenza Sociale (INPS), which is EUR 8,370.18 or approximately USD 9,323.54 for 2019.

82. We noted however that, there is no policy that governs eligibility of a father, mother, brother or sister to secondary dependents' allowance for GS staff serving outside HQ in Rome (e.g. USA, etc.). The only rule that can be referred to is the last sentence in MS 302.3.137 which provides that, *"In duty stations where the Director-General finds that under prevailing local practice conditions other than the foregoing apply, the payment of a dependency allowance may be authorized to staff members in the GS category under such other conditions"*.

83. There are currently three GS staff in Washington and one in New York who are in receipt of an allowance for secondary dependents, who were first registered in GRMS between 2007 and 2016. The total benefits granted to each for the period 1 January to 30 September 2019 ranged from USD 1 019.25 to USD 1 155.93 regardless of the conditions as to the ceiling of the dependents' income, unlike with the ceiling provided for GS staff in Headquarters. Details are presented below:

Secondary Dependent	Total Individual Income	Secondary Allowance Received (January to September)		Dependency Status Start Date
		Year	Amount	
Mother	USD 10,136	2019	USD1,155.93	01-Jul-13
Father	EUR 15,152.62	2019	USD1,019.25	09-May-16
Mother	USD 7,524	2019	USD1,155.93	11-Dec-07
Father	USD 0	2019	USD1,155.93	07-Oct-09

84. Based on the preceding table, the secondary dependents of two of the four GS staff members serving outside the HQ are not eligible to the grant should the provisions in MS 318 Appendix B likewise be considered as basis to determine eligibility to the dependent's allowance. The total individual income of each parent exceeded EUR 8 370.18 or approximately USD 9 323.54 for 2019. Unfortunately, there is no such eligibility ceiling currently in place to those GS staff in receipt of allowance for secondary dependents outside the Headquarters in Rome.

85. We emphasize that the absence of concrete guidelines (i.e. as to age and ceiling of the dependent's income) for eligibility to the secondary dependents' allowance of GS staff outside HQ in Rome creates confusion not only to staff members but also to processors in SSC. Without the concrete guidelines as basis in the processing and approval of the same, it exposes the Organization to risk of financial loss.

**86. We recommended that FAO, in collaboration by the SSC and CSH in HQ, formulate a clear-cut policy on the eligibility of GS staff serving outside HQ in Rome to qualify for the secondary dependents' allowance, thus, ensuring that the benefit is only granted to eligible staff members.**

87. The CSH Director has agreed that MS 318.5.161 would also apply for GS staff.

88. We also observed that for the last four years, the Organization paid a total of USD 276 143 to an average of 79 staff members per year to cover their secondary dependents, as tabulated below:

Details	2016	2017	2018	2019 Jan. to Oct.	Total
No. of Professional staff members receiving secondary dependents allowance	74	77	80	84	315
Total amount of secondary dependents allowance paid to staff members (in USD)	68,444	72,956	71,143	63,600	276,143

89. MS 302.3.137 provides that *“when there is no dependent spouse, a dependency allowance shall be payable for one secondary dependent for whom the staff member provides at least one-third of the dependent's total income including that provided by the staff member, in cash and in kind, and at least twice the amount of the allowance claimed.”* It is the staff member's responsibility to provide the annual evidence for such criteria.

90. It was noted that in almost all of the cases reviewed (90 to 95 percent), food and household supplies, housing and even mortgage (if they are living in the same property), rental payment, payment of utilities, transportation and travel, personal items, clothing, hygiene, haircut, personal and domestic help, and gifts, among others, are included in the computation of one-third of the dependent's total income to be eligible. Further, the SSC disclosed that there were approximately 10 to 15 cases (approximately 15 to 20 percent) when payments by a staff member to a private medical insurance company for his secondary dependent is considered in the computation.

91. The HR Unit agreed that for staff members in the Professional and higher categories, the provision of MS 302.3.137 as stated above, is ambiguous and needs to be further clarified.

92. **We recommended that FAO, in collaboration by the SSC, CSH and Legal Office (LEG) in HQ, establish guidelines that will clarify the allowable provisions in kind including their ceiling amounts, and the documentary evidence that staff members need to provide, in support to the computation of the one-third of the total income of the secondary dependent, to be eligible for secondary dependents' allowance.**

93. The matter now is for CSH and LEG attention as a policy matter. The Head of HR in the SSC is currently gathering information on practices by other organizations, including WFP to get some indication of how they manage the question of “in kind” contributions to a secondary dependent income. The findings will be referred to CSH and LEG for consideration.

#### *B.1.4.4.2 Education grant*

94. For the period 1 January to 30 September 2019, SSC HR Unit processed 795 requests for education grant advance by 444 staff members; and 1,457 education grant claims by 846 staff members. We randomly selected a sample of 14 dependents of 7 staff members who submitted education grant claims and noted that 6 Statements of School Expenditure Form ADM 29 were not stamped by the educational institution.

95. The SSC explained that there is no issue with leading international schools in Headquarters in Rome in having ADM 29 stamped and signed by the school. However, staff member parents have difficulties in requesting the required supporting documents for educational institutions in the United States, Canada and some European cities, where students or their staff member parent enrol and pay online through self-service functions and payments are confirmed with a self-generated electronic account statements without stamps or signatures. Further, when children are studying away from the duty station of their parents especially in developing countries, the parents are provided with separate receipts and the school neither signs nor stamps any form.

96. The existing policy on the required documents to support education grant claims may render the parent staff members unqualified to receive education grant even when they are not at fault or the circumstances are not in their control. It creates a burden on both the staff member and processors at the SSC HR Unit because the policy is not in accord with current trends and practices. Today, technological advancement such as electronic-system generated functions in enrolment, invoicing and payment are considered as an alternative approach to registering children in schools and universities. There is an increase in the number of educational institutions that use such methods, which are cost effective and convenient on the part of parents compared to traditional ways of enrolment. Management should, however, consider providing controls to prevent the occurrence of fraudulent documents that will be used for the claims.

97. **We recommended that FAO, through the SSC, CSH and LEG in HQ, revise the documentary requirements in support for education grant claims to align it with current trends and developments such as electronic-system generated reports in enrolment, invoicing and payments, but should consider necessary controls to prevent submission of fraudulent documents, to allow more convenient and flexible educational arrangements for staff members' children.**



98. The recommendation is in progress of implementation. A proposal was made to CSH, as policy owner, to evaluate the need to revise the requirements in support for education grant claims by providing the practices from other agencies.

#### *B.1.4.4.3 Rental subsidy*

99. There are two schemes for rental subsidy - the basic rental subsidy scheme, which applies to duty stations outside Europe, USA and Canada; and the extended rental subsidy scheme, which is available to internationally recruited staff members in the Professional and higher categories for duty stations in Europe, USA and Canada. We observed that in the current practice of processing requests under the basic rental subsidy scheme, DDG-Thomas reviews and approves the request based on the evaluation and recommendation of the SSC HR Unit even if it is within the scope of functions of the SSC HR Unit to review, validate and approve requests for benefits and entitlements, such as education grant, language allowance, special post allowance, among others, including rental subsidy.

100. The SSC disclosed that the procedure is based on MS 308 Appendix H, paragraphs 28 and 30, where it is specifically prescribed that a recommendation be submitted to the DDG-Thomas based on the SSC HR Unit's review, verification and evaluation; for the consideration, review and approval of the DDG-Thomas. It was also mentioned that the policy may have been applicable before, when rules and functions had not yet been clearly defined. It was added that at present, the eligibility requirements, procedures and calculations are clear and simplified. With paragraph 9 of MS 308 Appendix H, which states that *"the determination of a reasonable rental level takes into consideration the higher among the results of the ICSC cost of living surveys plus an additional amount of 15 percent and the average rental paid by staff members at the same duty station with similar family circumstances, as well as factors, such as the type of duty station, the United Nations Department for Safety and Security (UNDSS) Security level and rental market statistics provided by licensed rental agents/brokers"*, the rental subsidy can be determined, processed and approved by the SSC HR Unit.

101. Considering that the abovementioned factors are readily available online and can be calculated, compared and analysed by the SSC HR Unit, the levels of approvals within the Unit, and its inherent function to review, validate and approve requests for benefits and entitlements, it may be inefficient for SSC HR Unit to still recommend for consideration and approval of the DDG-Thomas the requests for rental subsidy by the staff members. If not streamlined, this may result in devoting man-hours of the DDG-Thomas to a process that has already been done by the SSC HR Unit, which can be utilized to other essential duties.

102. **We recommended that FAO, in collaboration by the SSC and CSH in HQ, streamline the procedures in the processing of rental subsidy under the basic scheme by reviewing the necessity of the process wherein the SSC HR Unit recommends to and seeks from DDG-Thomas its approval before a request for rental subsidy is granted. Instead, consider limiting reference to DDG-Thomas only for cases that diverge from the eligibility criteria.**

103. Delegation of the approval step for the rental subsidy process is under consideration as part of a structured review of delegation of authorities being conducted by LEG and CSH.

## B.2 GOVERNANCE MATTERS

104. Sound governance is manifested in the ability of organizations to preserve and strengthen the confidence of their stakeholders, and the presence of a solid foundation for strong performance when changes in their operating environments are effectively responded to, and when operating gaps are made more visible for immediate remediation. Since good governance drives the organization to achieve its operating objectives, conversely, its absence impedes operational effectiveness that can eventually result in misalignment of lower level activities to the organization's mission. It is thus important to emphasize that central to effective governance is the alignment of several governance mechanisms such as accountability, risk management and internal control. These foundational frameworks build good governance through clarity of authorities, roles and responsibilities, robust risk management capabilities, and well-designed and delivered internal controls.

105. In FAO's complex operating environment, governance is played up along a variety of functions that contribute to efficient delivery of its services. Situated within an overall management framework, governance provides the foundation for the efficient use of resources and the delivery of activities to achieve performance accountability, all for the attainment of the intended results. It is on these premises that we reviewed FAO's delivery of its resource mobilization activities, its evaluation function, fraud risk management responsibilities and the control environment in decentralized offices in line with our mandate under Regulation 12.4 of the FAO Regulations.

### B.2.1 Review of resource mobilization function

#### *B.2.1.1 Strategy management system*

106. In FAO, the adoption of Results-based Management directly influenced how organizational strategies are crafted, delivered and measured as well as the management of the same. We noted that FAO's organizational strategic trajectories are shaped through an accountability compact with the member nations which are initially clarified and laid out in the Director-General's MTP. In the 2018-2021 MTP, resource mobilization-related objectives are found under *Functional Objective 8 –Outreach* and in the 2018-2019 PWB, Functional Objective (FO) 8 which has an Outcome Statement of *Delivery of FAO's objective is supported by diversified and expanded partnerships and advocacy, increased public awareness, political support and resources, and enhanced capacity development and knowledge*. Under FO 8.3 – *Resource Mobilization*, the defined expected Outputs that will contribute to the attainment of FO 8 Outcome involve the *Proactive outreach and marketing of FAO priority areas; voluntary contributions mobilized, utilized and accounted; and, enhanced organizational capacities for resources mobilization and effective project management cycle*. The formulation and implementation of complementary RM strategies are also encouraged by FAO at the regional/sub-regional levels, ensuring that regional RM strategies are built around Regional Initiatives (RIs) with the resources required and at country level—where RM initiatives are based on achieving the funding targets to fulfil FAO's commitment to national priorities.

#### *B.2.1.1.1 Corporate Resource Mobilization and Management Strategy (RMMS)*

107. As the main track of resource mobilization governance, a resource mobilization strategy enables any organization to establish the most ideal resource mobilization structure; processes

and skills, programs and initiatives, and to inculcate values. Resource mobilization strategies bolster resource mobilization capabilities and for these to be effected, there must be manifestations at the ground level on, how processes must behave, how performance is measured and how quality information flows. Crafted in 2011, the FAO's RMMS was rooted in the Organization's Renewal agenda to expand resource mobilization efforts within the Organization. The Strategy was also based on *the need to secure resources to support FAO's Strategic Framework and MTP* that underlined further FAO's commitment to *achieve adequate, more predictable and sustainable voluntary contributions*. We noted that FAO had envisioned that the RMMS was to have a lifespan equivalent to the four-year MTP 2010-2013, after which it will be reviewed and revised during 2013, together with the finalization of the MTP 2014-2017. The subject 2011 RMMS has remained the focal reference of FAO staff and other stakeholders in resource mobilization. Between 2011 and 2019, FAO had seen shifts and changes that presented opportunities for it to adapt to and define new strategic trajectories.

108. Our review of FAO's current operating environment highlighted some changes in its current funding environment. The Multilateral Organisation Performance Assessment Network (MOPAN) 2017-2018 Assessment Report indicated that the *FAO's implicit aim appears to be to increase the size and share of voluntary contributions, but this is not elaborated upon in the long-term Strategic Framework. Capacity and implementation risks are associated with an ever-greater reliance on voluntary contributions*. This observation necessitated a closer look by the Organization as it would need a new strategic path to undertake.

109. In the *FAO Country Offices Reports Global Synthesis 2018*, it was reported that the annual resource mobilization targets continue to be challenged due to several factors such as *limited presence of donors in Upper-Middle-Income Countries and that donors have their own implementation units and create bilateral agreements directly with the government, among others*. These risk factors must also be imbedded into the overall context of programme delivery.

110. Further, in the 2019 Corporate Risk Log, FAO recognized that *progress on one or more priority areas of its programme of work will be severely disrupted if resource mobilization fails to generate sufficient funds*. The corporate risk log also detailed several potential causes for the risks and the mitigation actions. These, too, provided the need for a revitalized resource mobilization strategy.

111. We noted the drivers of strategy change and were made aware of the shift in paradigm undertaken by the Business Development and Resource Mobilization Division (PSR) in marketing FAO's comparative advantage to existing and prospective resource partners. In its new Business Development Portfolio, FAO sought to engage partners in increasing their investments in food and agriculture by highlighting focus areas where partnerships can tangibly scale up results. Further, we noted some transformational changes and innovations that were being pursued by FAO in the area of resource mobilization but were not embedded in the existing RMMS, such as the current RM organizational transformation specifically in the Programme Support and Technical Cooperation Department (PS) and PSR; as well as the consideration of FAO's resource mobilization efforts relating to its contribution to the attainment of SDGs. The PSR, nonetheless, asserted that they still find the corporate RMMS efficient with some actual outputs still aligning to the expected results of the RMMS of 2011. Thus, we reiterate that the said RMMS had been contextualized against the backdrop of the emerging developments in years 2007-2008.

112. Strategic considerations such as the definition and allocation of accountabilities; the communication process; standards and major practices; institutional responsibilities; and systems design and implementation must be aligned to the current operating reality, so these can complement the expected outcomes. Therefore, FAO should create effective strategies in mobilizing the needed resources by considering the structural changes that took place after 2011, its resource mobilization innovations, initiatives and activities and the updated governance mechanisms on accountability, risk management and internal control, to strengthen its ability to achieve the results it so carefully planned. A concrete and formal strategy towards the attainment of FAO's resource mobilization objectives must thus be ready.

**113. We recommended that the FAO invigorate its Corporate Resource Mobilization Strategy to reflect the Organization's current operating reality to further strengthen the resource mobilization governance arrangements and align related activities across all organizational levels.**

114. The new Corporate Resource Mobilization Strategy envisioned to be finalized in December 2020 will incorporate inputs from the ongoing revision of FAO's private sector strategy, the South-South and Triangular Cooperation (SSTC) strategy and the new Hand-in-Hand approach. It will also include initiatives such as the successful review of main pooled-funding mechanisms and the *revision of Cooperation Frameworks* to align better with the SDGs agenda which constitute reliable bases for an updated Corporate Resource Mobilization Strategy, among others. Following the UN reform process, country and regional offices will be actively engaged in the update of the RM as well.

#### *B.2.1.1.2 Strategy and action plans at decentralized level*

115. The existing 2011 RMMS included a corporate Work Plan for 2010-2013 which was organized according to the four outcomes defined within the same strategy document. On the other hand, the Quick Guide emphasized that the value of an RM Strategy is vital as it details *how resources might be leveraged to meet the Organization's resource requirements and* emphasised the dependency of the Action Plan to the RM Strategy. The *RM Action Plan* detailed the specific activities required to engage partners based on the five RM Steps. At country level, the *FAO Country RM Guide* provided the guidance for developing country RM Strategy and Action Plan and emphasized its importance stating that the country strategy *should be aligned to the RM Strategies developed at regional and sub-regional levels and vice versa, so that efforts are synergized and complementary*. Again, the dependency of the Action Plan to RM Strategy is highlighted in this instance.

116. Noting the preceding corporate policies, we ascertained that no corporate-level RM work plan/action plans were provided for the periods 2014-2017 and 2018-2021 with the latest which covered the 2011-2014 period. At regional level, we found out that the FAO Regional Office for Near East and North Africa (FAORNE) designed its own RM Strategy and the corresponding Action plan while FAO Regional Office for Asia and the Pacific (FAORAP) updated its 2018-2019 RM Strategy and Action Plan. We have further noted that the Regional Office for Europe and Central Asia (FAOREU) had a RM Strategy for biennium 2018/19 that clearly defined the roles and responsibilities at the region and country levels as well as the identification of funding gaps and opportunities with corresponding Action Plan. For FAORLC and FAORAP, only the RM Strategy/Framework covering the biennium 2018/19 were provided to us without the corresponding Action Plan. For FAORAF, its RM Strategy covering the biennium 2018/19 was still unofficial but indicated that the Office had its RM Strategy and

Action Plan for 2014-2017. The required Resource Partner Matrix Template that should support the RM Strategy and Action Plan were not, however, available at the time of the audit.

117. At the country level, we determined that 13 Country Offices (COs) had prepared their respective RM Strategies. Of these Offices, we ascertained that six had developed their RM Strategies based on online trainings and support by the PSR while seven prepared theirs based on experience and research as they were not aware of the PSR tools on RM. We further determined that some of the COs just adopted the RM Strategy of their Regional Office (RO) and had not actually prepared their own. We noted too, that most of the COs developed their RM Strategies as a requirement of the regional/sub-regional level to complement the CPF. However, some COs pointed out the need for practical guidance in the formulation, development and implementation of RM Strategy and Action Plans to better reflect the Organization's operations. Also, we have gathered that the development and submission of an RM Strategy and RM Action Plan had not been made mandatory although these were highly advised particularly in CPF formulation to better enable FAO Headquarters to support RM efforts.

118. As FAO operates in an inherently dynamic environment where expectations are attached to the resource mobilization strategies of the Organization, there is a need for the eventual conversion of its RM strategies into work plans and activities that are ably supported by a more robust strategy management system. The decisions across all management layers, consequently, must be well-coordinated and this can only be achieved if strategic paths are clear and the strategies are appropriately cascaded and understood by all internal players.

119. **We recommended that the FAO enhance its resource mobilization strategy management system to achieve better synergy and coordination by:**

- a. **preparing its RM corporate work plan that includes the key activities to be delivered based on the planned outputs and updated corporate strategies for clearer accountabilities; and,**
- b. **coordinating more closely with decentralized offices to ensure that resource mobilization strategies and work plans are prepared and delivered by the Offices within the framework of corporate strategies and work plans, for more effective uptake of results information thereby eliminating accountability gaps.**

120. The new Corporate Resource Mobilization Strategy will include a 4-year work plan, reflecting planned inputs, key activities, responsible players, outputs and expected outcomes. OSP, Emergency and Resilience Division (PSE), Partnerships Division (PSP), One Stop Service Centres (OSSC) and Regional Offices will be invited to take an active role in the exercise.

#### ***B.2.1.2 Targets and extrabudgetary contributions estimates***

121. With its primary focus on expected results and the use of performance indicators to measure achievement of these results, the FAO's PWB presents an integrated view of total resource requirement to carry out its mandate and achieve its biennial targets under the results framework, through the *Net Budgetary Appropriation and Voluntary Contributions*. We noted that the extrabudgetary resources can be provided by Members and other partners on a

voluntary basis through direct support to the Programme of Work, or through Trust Funds. In the 2017-2018 MOPAN Assessment Report, it was however indicated, that *FAO's financial resources have been increasing in aggregate terms, but challenges remain and that voluntary (extrabudgetary) contributions have driven growth in FAO's aggregate expenditure.* Notwithstanding, FAO is *actively seeking to strengthen and realign its financing instruments to attract more flexible, less-earmarked pooled funding from both donors and partner governments.* Nevertheless, the Report indicated that *despite these initiatives, the financial framework poses risks for FAO's delivery capabilities.*

*B.2.1.2.1 Definitions of resource mobilization target and voluntary contributions estimates in relation to the PWB*

122. OSP, in close relation with the PS, leads and coordinates the preparation of the FAO's strategic, programme and budget plans that also include the development and monitoring of corporate integrated resource mobilization activities. OSP also manages the allocation of resources, and monitors and reports on corporate programme implementation. On the other hand, the PSR under the PS, leads and coordinates the mobilization of voluntary contributions in support of the Organization's strategic priorities. OSP and PSR, apart from the other Departments and DOs, are the two main key users of budgetary information as it relates to the budget estimates and the resource mobilization target. The *FAO Guide to Resource Mobilization* manual emphasized that mobilizing resources is an integral part of the project and programme delivery and impact. This Guide, which was issued by the PSR in year 2015 provides that Resource Mobilization target is equivalent to the amount of the voluntary contributions budgeted in the PWB. The view that the RM target for the biennium is the same as the amount of the Extrabudgetary Contributions reflected in the PWB was also posited by the PSR. It further asserted that the target RM for the 2018-2019 biennium contained in the PWB is pegged at USD 1.5 billion.

123. On the other hand, the OSP explained that the RM target and the voluntary contribution amount in the PWB are two different concepts. The voluntary contribution in the PWB are estimates of spending limit for the biennium, as the guidance of FAO stakeholders and are different from the resources to be mobilized during the biennium. The OSP expounded that the extrabudgetary contributions of USD 1.5 billion was the current pipeline projects in the FPMIS as well as feedback from colleagues, referring to emergency projects. In this regard, it is worthy of noting that in the 2014 JIU report *Analysis of the Resource Mobilization Function Within the United Nations System*, FAO was identified as one of the UN Organizations which had been translating its resource mobilization targets into work programmes and budgets, which enables its legislative bodies to see the link between the strategic priorities of the organization and the resources required to achieve them. The JIU report supported the view that the voluntary contributions estimate in the PWB also pertains to the RM target for the biennium.

124. Nonetheless, if FAO defines the resource mobilization target as different from that of the voluntary contributions in its PWB, then it becomes a possibility that the difference in meaning can also be translated to difference in amounts. If the OSPs point is to be taken and considering the parameters that it used to determine the spending limit of mobilized funds for the biennium, then there is a great possibility that the resource mobilization target for the same period could be different from what is considered. Either way, the representations of both the PSR and the OSP need to be reconciled as the noted difference would impact on the delivery of resource mobilization activities and expected results.

125. **We recommended that the FAO, through the PSR and OSP, clearly articulate the definition of the resource mobilization target and relevant parameters for more effective guidance in setting expectations and in defining the expected results.**

126. The new Corporate Resource Mobilization Strategy will introduce a technical definition of resource mobilization targets, considering FAO's strategic objectives and financial needs at the Country, Regional and Headquarter levels. PSE, PSP, OSSC, Office of Support to Decentralized Offices (OSD) and Regional Offices will be invited to take an active role in the exercise.

*B.2.1.2.2 Policies and approaches in setting resource mobilization targets across the Organization*

127. We determined that the PWB 2018-2019 provided a brief note on how extrabudgetary or voluntary funding delivery should be determined which stated specifically that the *extrabudgetary resources reflect the preliminary estimates for voluntary contributions in 2018-2019, comprising 61 percent (USD 1,555 million) of overall resource requirements. The estimates of delivery are based on operational projects that will extend into the next biennium, proposed projects in the pipeline and likely to be approved, and prospects based on project ideas and positive contacts with partners.* Using these parameters, we have requested for a list of projects that were supposed to have been considered in the computation but OSP provided us only with the breakdown by Strategic Outcome, by Region and by HQ which did not allow us to perform the planned tests. Although estimating the voluntary contributions for a biennium is a significant institutional endeavour, still the PSR and OSP had not provided us with documentation covering the dialogues and consultations that were undertaken between them and other FAO key offices.

128. We have investigated how relevant RM policies are carried out in the COs. The differing views and instructions by which RM targets were established by various FAO offices were made apparent by the results of our survey of four HQ offices, two ROs and 24 COs.

129. The responses of the COs indicated that RM targets were set through the CPF Resource Mobilization Strategy and Action Plan. Some COs replied that they did not participate in the setting of RM targets, while others specified that their RM targets were made using the FPMIS and believed that they were considered in the overall RM target. On the other hand, two FAO ROs affirmed that the COs and the HQ are using two different mechanisms in setting the RM targets. In the HQ, Directors of four offices with significant voluntary contribution estimates in the PWB implied that the amount of voluntary contributions in the PWB is the amount they need to mobilize for the biennium. They were aware that their targets were based on the status of their projects as illustrated in the PWB.

130. While some UN organizations had been preparing their RM budgets using the *Needs-Based Budgeting* or *Funding Gap* methodology to determine the amount to be mobilized for a given period, others determine their targets through an analysis of historical trends, the political and economic situation of the donor countries, trends in funding for organizations and humanitarian financing environment as reported in 2014 by the JIU Inspectors. The latter, we noticed is the approach envisioned by FAO for the COs through its *Mobilizing Resources to Implement the CP* policy. In this instance as there are varied conjectures submitted by several FAO offices, a clearer and harmonized approach in setting RM targets and how these are presented in the PWB must be achieved. The manner FAO had been estimating the amount of

voluntary contributions for one biennium is an issue for resolution since we could not find any corporate policy, guidance or strategy on the matter.

**131. We recommended that the FAO clarify and harmonize its procedures and system of establishing resource mobilization targets at all levels and strengthen related activities to align to organizational needs and achieve a more effective and stable impetus for resource mobilization coordination, decisions and programme delivery.**

132. With support from OSP and in close coordination with regional offices, PSE and OSD, PSR will review methods for setting resource mobilization targets, taking into account FAO's strategic objectives and financial needs at the Country, Regional and Headquarter level.

### ***B.2.1.3 Monitoring mechanisms***

133. One of the principles that underpin FAO's *managing for results (MfR)* framework deals with *learning and accountability*. The MfR is expected to lead to greater accountability by encouraging to *clearly define, track and demonstrate the results*. In the same manner, the Reflect Phase of FAO's resource mobilization approach deals with the need to *monitor progress and report on the RM Strategy and Action Plan, an important end-point in the three RM cycle which is deemed as essential for future planning and action*. The RM approach also includes the need to *measure the RM strategy and Action Plan at regular intervals*. As required in the adopted approach, an *end-point evaluation on the resources mobilized for the programme or project framework should also be conducted*.

134. The monitoring on the progress of delivery of RM Strategy and Action Plan and evaluation of RM performance at global, regional and national level are an important culmination in the resource mobilization cycle, as stressed by FAO's Guide to Resource Mobilization. The quality of information used in the *Reflect* phase is highly influenced by how results monitoring is done and how the data collected are analysed before these are translated into report. With the requirements set by results-based management, as embodied in the United Nations Development Group (UNDG) Results-Based Management (RBM) Handbook of 2011 and United Nations Development Assistance Framework (UNDAF) Guidance, monitoring indeed equips an organization with procedures to address risks and vulnerabilities, enhance coherence of policy application and promotes integration and inclusivity, among others.

135. In the 2018 Mid-term Term Synthesis Report (MTR), it was reported that FAO was able to mobilize more than USD 700 million of voluntary contributions and was firmly on track to reach its biennial target of USD 1.7 billion. The amount mobilized was also reported to have been brought about by the *revamped multi-partner mechanisms* that offered a *more programmatic approach, upgraded governance and reporting procedures*, among others. Since the MTR only reports the extent to which FAO is on track to deliver the Outputs against the indicators and targets; and, the highlights of achievements at global, regional and national levels, the *learning and adapting* experiences could not be ascertained to link the activity to performance reporting and in the Reflect phase of the RM process. Based on our engagements with the PSR and the DOs, we ascertained that there was no standard guideline on who will perform the monitoring and evaluation of RM activities; at what point or how the monitoring and evaluation of RM should be done; and what document should be used or produced to substantiate the exercise. Moreover, feedbacks from the COs revealed that there was no formal monitoring and evaluation done at the regional level of their RM Strategies and Action Plans



although these were discussed during meetings with the regional office or during the regular performance evaluation at the country office.

136. **We recommended that the FAO craft a corporate resource mobilization monitoring mechanism supported with tools and techniques to ensure that the implementation of its resource mobilization strategies and work plans are systematically informed of the pervading operational reality and enable the Organization to reflect on it more effectively.**

137. The new Project Lifecycle data management system currently under development until December 2020 – *Project Lifecycle Management System (PROMYS)* – will comprise relevant information on voluntary contributions, including monitoring of resource mobilization performance at the Country, Regional and Headquarter levels.

#### ***B.2.1.4 Performance indicators***

138. The importance of mobilizing and subsequently delivering the target amount of voluntary contributions is made more evident in the way achievements are measured. In FAO, RM is directly aligned to its *FO 8: Outreach*, which used the *Amount of voluntary contributions mobilized* for a biennium as the sole output indicator for all Resource Mobilization results areas. The FO 8 Outcome Statement, *Delivery of FAO's objectives is supported by diversified and expanded partnership and advocacy, increased public awareness, political support and resources, and enhanced capacity development and knowledge*, indicated varied activities and outputs. The three specific outputs from three results areas are: partnerships (8.1); communications (8.2); and resource mobilization (8.3). For Resource Mobilization, the corresponding outputs supporting the corporate outcome on *FO 8: Outreach* included 8.3.1- *Proactive outreach and marketing of FAO priority areas of work and resource requirements, resulting in an expanded and diversified based of partners with which FAO works*, 8.3.2- *Voluntary contributions mobilized, utilized and accounted consistent with FAO policies* and, 8.3.3- *Enhanced organizational capacities of resource mobilization, and effective project cycle management*.

139. Our analysis revealed that for results areas 8.1 and 8.2, each expected output has corresponding key performance indicators (KPI) while for 8.3, there is only one KPI. We determined that the KPIs for 8.3.1 and 8.3.3 could not be measured using the 8.3.2 KPI as the activities implied different sets of output. As such, using a single all-encompassing KPI would not enable the identification and measurement of the correct expected results as indicated by the expected output or objective. A KPI that is not attuned to the defined expected results, being the outputs, will also impact on the evaluation of the expected outcome as the accountability for such KPIs are shared by FAO and the member states. This is not aligned with the way results-based management is delivered in FAO, as declared in its 2018 MTR, stating that FAO had been *rigorously pursuing a significant number of strategies to achieve the Outputs*, but performance in the results area could not be effectively gauged due to lack of effective KPIs.

140. In capacity development which is closely related to Output 8.3.3, we have noted that the PSR has upgraded its resource mobilization portal and provided a series of webinars to FAO Representatives. We determined from relevant training documents and queries that FAO is on track in delivering the planned 34 trainings on resource mobilization. Moreover, the 2018 MTR outlined that FAO has been introducing updates and improvements to the Projects section of the FAO Handbook. The Project Cycle procedure for the re-designation of Project Budget

Holders has been streamlined and simplified and a new operational guideline on “Project Opening” in the FPMIS has been issued, among others. The achievement of these specific outputs must also be measured with the most appropriate KPI.

141. The use of KPIs is critical in tracking, measuring and valuing the progress of resource mobilization in FAO and its contribution to the achievements of the Strategic Objectives. Using an appropriate KPI is also aligned to the recent call of FAO Resource Partners of increasing the availability and quality of statistics for informed decision-making on the Sustainable Development Goals, a key ingredient to putting the 2030 Agenda on track.

142. **We recommended that the FAO enhance the Results Framework for Resource Mobilization by developing relevant and quantifiable Key Performance Indicators for each expected output to ensure that achievements are measured against appropriate performance parameters for more meaningful results information and decision base.**

143. The new Corporate Resource Mobilization Strategy will update the existing results framework for resource mobilization by providing a new set of KPIs.

#### ***B.2.1.5 Donor reporting and engagement***

144. In mobilizing its resources and engaging with resource partners, FAO applies five guiding principles that reinforce the RMMS stating among others, that *all resources mobilized are formally monitored and accounted for, both internally and externally* and that *close relations with resource partners are maintained, built on trust and mutual accountability*. On the other hand, the FAO’s Accountability Framework features *Reporting* as one of the means of managing results that ensures engagements with partners are focused and positive, thereby, increasing trust and constructive relationships with partners which can help attract additional resources and create a more enabling environment for the achievement of the Organization’s Strategic Objectives.

145. In FAO’s 2015 *Quick Guide to Resource Mobilization*, it was emphasized that the “Manage and Report” step is *crucial in maintaining good relations with a resource partner and forms the bedrock of potential ongoing resources*. It was also explained that reporting is *conducted in a timely fashion, both via FAO reporting mechanisms and as agreed with the resource partners*. On the other hand, the “Communicate Results” step in RM was considered *essential to build visibility and respect for FAO and its work overall target audience*. In support to these, we noted that the PSR relies on the FPMIS as an information and monitoring tool of the field activities funded by the voluntary contributions, as well as the TCP, among others. From the FPMIS Monitoring Report for Active Projects as at 26 November 2019, we observed that there were 1,379 active projects funded through voluntary contributions with Field Programme Support Network (FPSN) conditions, of which 898 projects had no issues while 481 projects were identified as having certain conditions. Of the 481 projects with issues, 71 projects were noted to have *Not to Exceed dates (NTE), Terminal Report Required* condition, which meant that terminal reports of these projects had not been received even if the projects had already passed their NTE dates.

146. We were further informed that the PSR or technical units were only involved in the monitoring of project reports upon the Budget Holder (BH) request or if the BH had not been able to prepare the report. It is thus clear that the PSR is not completely involved in the project cycle except for its mandatory role through the Funding Liaison Officer (FLO). The role of

PSR in the project cycle is performed through the FLO, however, the PSR is responsible for the submission of Terminal Reports to the donor governments, as outlined in the signed Project Agreements, or Host Agreements while the CSF clears the financial reports.

147. Since the PSR is the contract manager and the overall overseer of the global programme and project reporting to resource partners, it is most appropriate that it should have more involvement in the project cycle to ensure that programme or project results are reported in a timely manner in accordance with the FAO results-based framework and standard reporting procedures. As can be deduced from the foregoing discussions, if the reporting deadlines were not met, it thus follows that reporting to resource partners were not timely made. Since the PSR occupies the frontline in donor engagement, it should be equipped with the necessary controlling mechanism to respond and interact. In our engagements with FAO's 16 resource partners, we gathered that there were instances that FAO had been delayed in providing them the reports agreed upon in the funding agreement. While the resource partner had an option to get updates or information through the FPMIS, most of the 16 respondent resource partners were not aware of the system and those who knew that the system existed, had difficulty accessing the same.

148. Corporate mechanisms should enable PSR to take a more pro-active stance in dealing with FAO's RPs since resource mobilization is not PSR's job alone. The inability of the Organization to meet the reporting requirement could undermine the sustainability of planned results and follow-up support by the key stakeholders.

149. **We recommended that the FAO reinforce its monitoring mechanism in project delivery and the related corporate information reporting mechanism, through more robust engagements with the concerned Budget Holders to ensure that donor engagements are sustained, and donor reporting is enhanced.**

150. The system under development – *PROMYS* – will include key features to monitor project delivery, including status of progress and terminal reports, based on a clear accountability framework, to improve the way projects are managed from conception until final closure. Management added that it has been noted that those responsible for projects are taking action, and there have been improvements in the overall number of projects with conditions that require Budget Holder action.

#### ***B.2.1.6 Structure, roles and responsibilities***

151. The Organization recognizes that mobilizing voluntary contributions is primarily a shared responsibility amongst all FAO managers and senior officers, who have the responsibility to ensure that staff and teams under their supervision support agreed priorities. We noted that resource mobilization had been vigorously pursued at the regional, sub-regional and country levels to have clear delivery of every RM mandate at all organizational levels, and these were reinforced by the Organization's accountability principle of *defining clear roles and responsibilities*. This principle is further supported by the Organization's internal control framework that emphasized the linking of *existing corporate policies and compliance monitoring tools to the roles, responsibilities and accountabilities of managers and staff*.

#### *B.2.1.6.1 Reporting lines and dependencies of Corporate RM actors*

152. In any organizational endeavor, it is always essential that roles and responsibilities of every actor are clearly defined and articulated so that accountabilities and coordination are in place. In this sense, a coordinated approach based on clear roles and responsibilities can lead to inefficiency, incapacity, performance gaps, and prolonged cycle time in operational processes and eventually, the inability to achieve operating objectives.

153. We gathered that there are 22 groups of actors/offices that participate in the Organization's RM activities. The RM actors included those that belong to the Governance and Coordinators group, the Executive Management and Monitoring Team (EMMT) and the Business Development Task Force (BDTF), with the lead actors comprising the Director-General together with the two DDGs. Given the complex web of RM responsibilities across the Organization, it is vital that the related interdependencies, reporting lines and accountabilities are made clear and communicated. Moreover, we have noted that the roles and responsibilities of the OSP, Office of Communications (OCC), OPC and OSD with respect to Resource Mobilization were plainly stated in DGB 2014/53 that they *have very important roles to play to foster an enabling environment for resource mobilization*. Similarly, the Offices' relationship with other RM players were not specified.

154. Likewise, we looked at the functions of the offices in their respective intranet pages and ascertained, except for OSP which has defined RM responsibilities, that OCC, OPC, and OSD's RM functions were not identified including the reporting lines and interdependencies. Correspondingly, current policies did not provide information on the working relationships or chain of responsibilities between the PSR and PS, Corporate Programme Monitoring Board (CPMB), EMMT, Regional Representatives, FAO Representatives (FAORs) and RM Focal Persons. We also gathered that there were two ROs which indicated that while the RM Support Hub is useful as it enumerates their specific roles and responsibilities, the RM efforts were neither systematic nor governed by a clear institutionalized mechanism. Some of the ROs even suggested the need to clarify not only the roles and responsibilities of RM specialized staff, but also the line of resource mobilization responsibilities from the Director-General (DG) to DDG to Assistant Director-General (ADG) to Director to Technical Officer in HQ/DOs and FAORs. Likewise, there is a need to clarify the possibility of establishing a specific post for a resource mobilization officer at the regional office due to constraints towards working on resource mobilization, especially in terms of human capacities at ROs and COs, and at the same time to provide a more systematic support to DOs on resource mobilization issues. Clearly, based on the foregoing, questions of: who supervises who; to whom one should report; to whom one is directly accountable; and who monitors what, are needed to be responded to.

155. While we acknowledge that majority of the roles and responsibilities of the RM process owners were enumerated, these should be rendered complete and formal. With the complexity and wide scope of RM delivery in the Organization, it is vital that the inter-dependencies of roles and responsibilities are clearly defined in a structure with delineated accountabilities and responsibilities.

156. **We recommended that the FAO reflect on the current organizational RM roles and responsibilities and their interdependencies, deliver a clearer and better-defined RM structure, and support the same with formal policies and authorities, to ensure that RM dynamics are attuned with corporate principles on accountability and internal control.**

157. The new Corporate Resource Mobilization Strategy will present a *Resource Mobilization Internal Accountability Framework*, clearly stating RM roles and responsibilities at the Country, Regional and Headquarter levels.

*B.2.1.6.2 Accountability and capacity of PSR in relation to the use of NSHR and the current human resource complement*

158. We noted that the PSR is organized into three core teams, namely the *Resource Partnership Management Unit (PSRP)* with the *Administrative Support-PSRP*; *Outreach Marketing and Reporting Unit (PSRR)*; and the *Business Development Unit (PSRB)*. On top of these core teams is the *Office of the Director (PSRD)*. As of November 2019, the staffing structure of the PSR comprises a total of 63 personnel of which 25 are regular staff and the remaining 38 or 60 percent are NSHR.

159. We ascertained that there are 29 Consultants which held critical position as either a *Business Development Specialist, Reporting Specialists, Coordinators, Data Analysts, Financial Analysts, Programme Specialists and RM Specialists, among others*. Their Terms of Reference (TORs) disclosed that their functions include the *operational and financial closures of all FAO Multipartner Programme Support Mechanism (FMM) funded projects completed in GRMS; and, ensure that workspace and website of multi-partner initiatives are functional*. On the other hand, a Consultant who is appointed as a Partner Liaison and RM Officer Consultant *liaises with donor countries from assigned portfolio to facilitate donor-compliance-related issues throughout their project life cycle, coordinates negotiation of partnerships, funding agreements, project proposals and related terms and conditions with donor countries*, among other functions. The contracts of the Consultants ranged for a term of four months to one year and by FAO policy, they are not subject to PEMS. The option taken by the PSR to employ NSHRs could be attributed to budgetary constraints to save on cost as the nature of funds inflow in any organization is unpredictable, among others. However, due to the precarious nature of employment of the NSHRs as most of them perform regular staff work, a closer oversight and evaluation of the work performed by them is necessary.

160. As regards the employment incumbency of the non-regular staff from 2018 to November 2019, our analysis revealed that of the 87 non-regular staff engaged at the start of CY 2018, only eight continued their employment with FAO while 35 separated in 2018 and 22 in 2019 due to termination of contract. For PSRB, we noted that its function involved a wide range of activities that include the monitoring of the business development portfolio and engagements with resource partners, the decentralized offices, the technical departments and Strategic Programme teams; and in leading on business modeling initiatives in programme design, partnership building, and fundraising. Given the wide scope of work of the PSRB vis-à-vis its current staff complement, there was an obvious imbalance that could result in process inefficiencies and exposure to the risk of weakened capacity.

161. While it may appear that by employing Consultants, FAO is saving on financial cost, the costs of re-learning and re-teaching processes may be much more, in the long-term owing to the temporary nature of the employment in relation to employee turnover. With the current set-up, the PSR had recognized that it posed several risks for FAO such as *loss of institutional memory and capacity, risk of resource partner-driven agenda and financial and legal risks and reputational risks* which echoes both the *MOPAN FAO Performance Report for 2017-2018 and the 2012 JIU Report (JIU/REP/2012/5)*. As regards the PSRB, the Division noted that

since it is a new function, it should steer the entire FAO into a more long-term and strategic direction through more appropriate funding.

162. **We recommended that the FAO undertake a review of the staffing pattern and needs of the Division in relation to accountability relationships and internal control vulnerabilities to ensure that the related operational risks are managed, and efficiency and effectiveness of work processes are enhanced.**

163. PSR was convinced that FAO's resource mobilization capacity needs to be enhanced and that regular programme staff are the key component to create an even more functional, long-term and strategic RM division to ensure the financial sustainability of FAO.

#### ***B.2.1.7 Risk management in resource mobilization***

164. In its 135<sup>th</sup> session, the Finance Committee approved the adoption of International Organization for Standardization (ISO) 31000 standards, and considered the lessons learned and benchmark practices from the JIU Report as well as the recommendations of the Deloitte report, to formalize the embedding of risk management in the Organization. A snippet of FAO's vision on risk management was also encapsulated in the Immediate Plan of Action (IPA) 12, i.e. *implement an internally led organization-wide ERM, and design an appropriate ERM model to develop a customized ERM framework. The ERM framework should include key components that address the objectives, strategy, risk processes, monitoring and reporting* hence, resource mobilization is not exempted.

##### ***B.2.1.7.1 Resource mobilization corporate-level risk***

165. We noted that the FAO May 2019 Corporate Risk Log records Risk No. 5 as relating to resource mobilization which stated that *Progress on one or more priority areas of FAO's Programme of works is severely disrupted because resource mobilization fails to generate sufficient funds*. The first phrase *Progress on one or more priority areas of FAO's Programme of work is severely disrupted* can be viewed as the obvious Risk Event while the next phrase of *because resource mobilization fails to generate sufficient funds* becomes the risk factor that gave rise to the risk event. In this sense, the risk factor became an observed event that was supposed to have been drawn from a complete analysis of the context established for risk identification. Another scenario can be made up on Risk No. 5 statement, where the first phrase is the impact and the second phrase are the risk event. These varied conjectures can only be settled if FAO is clear on its risk management process activities such as risk contextualization, assessment and reporting, among others.

166. In the same Corporate Risk Log, we noted that FAO has identified ten *potential causes* resulting in corporate risk no. 5 and observed that some of the statements needed further clarification. For instance, we identified that one *potential cause* is supported by another root cause, opening a conjecture on what should really be the potential root cause and the effect. Another question that could be raised on the list of potential causes is that the *potential cause* may not be the potential cause at all if the events are situated in chronological order. How potential causes were stated also indicated that the specific guidance followed did not ensure uniformity of the statements with clear emphasis on the basic risk statement components – risk factor, root cause, risk event and the risk consequence or impact. This information is vital particularly when risks identified will be evaluated and eventually treated. We have also examined the *additional mitigation actions* that were supposed to address the 10 identified

potential causes for Corporate Risk No. 5. We determined that: (a) the number of mitigation actions do not correspond to the identified potential causes, i.e., there are ten potential causes while only eight are crafted for the mitigating actions leaving the other potential causes unaddressed; (b) few mitigating actions can be clearly mapped against the identified potential causes and others are difficult to attribute to a single potential cause; and, (c) there was an impression that the potential actions are intended to address two or more potential causes that can complicate the measurement of residual risks, as applicable.

#### *B.2.1.7.2 Resource mobilization risk management process*

167. We observed that the PSR practices risk management and had been a *part of the process of establishing the corporate risk log and several mitigation actions in the risk log*. We were also informed by the Division that it did perform risk assessment in 2018 as a precursor to the PSR's transformation and presented several documents used to *approach the risks in resource mobilization but do not constitute risk analysis documents*. Instead, the *documents provided the basis for the identification of the corporate risk log*. We further noted that the bases for risk identification included findings from a series of FAOR interviews, the 2017-2018 MOPAN Report and the overview of FAO Corporate Resource Mobilization Strategy for 2018-2021. We were not informed, however, on the process of how these documents were analysed to identify risks. We ascertained though that based on the documents used for risk identification, only corporate-level risks were identified which only referred to one risk category—strategic risk. The exercise clearly did not allow for the identification of operational, fiduciary and financial risks, to complete the risk profile of resource mobilization. Also, we were informed that the corporate risk no. 5 was crafted primarily based on PSR's inputs where several of its *suggestions were taken on board*. But risk identification cannot be done through suggestions alone. A formal process must be followed.

168. Moreover, we noted that part of risk management requirement included in FAO's *Managing risk – Brief guide* is the preparation of risk logs at all levels of the Organization including divisions such as the PSR. In the October 2019 OSP email detailing the risk management instructions for the year, we noted that it indicated the initiation of the preparation of risk registers for all FAO offices worldwide, following a series of briefings and meetings to introduce the next steps in the strengthening of risk management in FAO. However, in our engagement with the PSR and OSP, we were informed that there are two prior risk management guidance that were published but would still be enhanced thus, the current *Brief Guide* on risk management is intended to simplify the process as FAO continues to build new and better guidance, moving forward.

169. We stress the fact that risk maturity levels are built over time and along the way, challenges such as misunderstanding of the value of risk management initiatives; cost of executive time imputed; and slow and confusing implementation that hampers operational agility; are to be expected in managing the change. These must not, however, deter the organization in moving forward.

170. **We recommended that the FAO engage closely with the OSP to ensure that its resource mobilization risk management process is made more formal and well-documented considering the requirements of the prevailing standards, so that risks are optimally identified and assessed for the continued progression of its risk management maturity level and optimize the value intended.**

171. The new Corporate Resource Mobilization Strategy will incorporate that OSP will support PSR in their risk analysis and risk management.

## **B.2.2 Review of evaluation function**

172. The UN system has always recognized the value of the evaluation function in promoting learning and accountability. The 2030 Agenda for Sustainable Development identifies data, monitoring and evaluation (M&E) as playing key roles in informing the follow-up and review processes of the work of the UN Sustainable Development Cooperation Framework in all relevant countries. In response to the challenge of the evolving context of evaluation, the UNEG, released the updated Norms and Standards document in June 2016, superseding its 2005 version. The new issuance ensures its continued relevance in guiding and further strengthening evaluation practices.

### ***B.2.2.1 Evaluation Policy***

173. We noted that an Independent Evaluation of the FAO Evaluation's Function was conducted in 2016 and found *that the Charter has become outdated and should be replaced by an "Evaluation Policy" for FAO to be implemented during the first semester of 2017*. The recommendation was made 6 years after the issuance of the Charter, that is now a decade old and a lot more changes in the evaluation landscape had already transpired. Nonetheless, the Charter has not been replaced to date. With the overarching context of evaluation in FAO imprinted in the *Charter for the FAO Office of Evaluation*, we determined that the Charter has the key features of an evaluation policy as envisioned by UNEG. However, such would not currently conform to the latest UNEG norms and standards as it needs recognition of the significant internal transformational changes in evaluation introduced by FAO in the last 10 years. These include:

- a. FAO's current evaluation policy was contextualized based on the 2005 UNEG Norms and Standards which enumerated only five evaluation underpinning principles while the 2016 UNEG Norms and Standards, three applicable additional general norms and four institutional norms were added, and these must be reflected in an updated Policy.
- b. FAO's evaluation policy categorizes the types of evaluation in FAO as (i) Evaluation for the Governing Bodies, (ii) Country Evaluations, and (iii) Evaluations of Individual Programmes and Projects, usually funded from extrabudgetary resources. Latest official documents disclosed that FAO classifies evaluation into (i) Thematic and Strategic Evaluations, (ii) Country Programme Evaluations, (iii) Project/Programme Evaluations, and (iii) Joint Evaluations. The differences in nomenclatures and descriptions may be confusing to stakeholders thus creating differing expectations that clarity and consistency must be worked out.
- c. The enumeration of the roles and responsibilities of the OED have substantially diminished due to two major issuances affecting evaluation in FAO - the OED Project Evaluation Manual for DOs of 2019 which delineated evaluation responsibilities of BH at FAO country, sub-regional and regional offices, Lead Technical Services and all other units at the headquarters outside of the OED. On the other hand, the FAO's policy on financing the evaluation of initiatives funded



by voluntary contributions of 2013 brought in new players in the evaluation field. Clarity of responsibilities, in this instance, is thus needed since the delivery of evaluation function is not limited to the conduct of evaluation per se but also includes other activities such as provisions for evaluation and monitoring, among others.

- d. In year 2010, FAO followed the *Two Trust Fund pool accounts* system for evaluation, established to receive the evaluation funds: one for emergency and rehabilitation projects and another for technical cooperation for development projects, including programme support to normative. This was changed in 2013 when FAO introduced new policies and procedures for the allocation of financial provisions for evaluation of all FAO initiatives funded by voluntary contributions. The two Trust Funds for which the OED has Budget Holder's responsibility had been merged into one single "Evaluation Trust Fund." However, on paper, FAO still operates using two evaluation trust funds.
- e. FAO's evaluation policy does not have a disclosure policy for the dissemination of evaluation results given that all evaluation reports are to be considered as public documents.
- f. The policy does not have a framework for decentralized evaluations and yet FAO had already released a manual on project evaluations for decentralized offices.

174. From the foregoing, it is emphasized that policies are essentially both accountability documents and control mechanisms and the UNEG requires that every organization should establish an explicit evaluation policy. Considering the specificities of the organization's requirements, UNEG highlighted that the evaluation policy should include a *clear explanation of the purpose, concepts, rules and use of evaluation within the organization; the institutional framework and roles and responsibilities; measures to safeguard evaluation independence and public accountability; and, a framework for decentralized evaluations*, among others. The UNEG also recommended that the evaluation policy should be approved by the organization's governing body and must be periodically reviewed and updated. However, what constitutes effective policy design which in this case the FAO Evaluation Policy, is a question of capacity to influence the necessary changes undertaken based on what was anticipated. As both an accountability document and mechanism, an evaluation policy must be able to provide control over the delivery of an evaluation activity including the governance structure required for effective performance. It must be emphasized that as a form of control, a policy should function well in two different but related aspects: design and operating effectiveness. It is always logically sound that a policy implementation effectiveness is only as good as the policy design.

**175. We recommended that the FAO update its Evaluation Policy to ensure that the prevailing Norms and Standards and the current operating realities and initiatives are embraced to strengthen further its evaluation policy support and further clarify its accountabilities.**

176. Management commented that it has already committed to submit a new comprehensive policy to the Governing Body in 2021 and we noted of this positive development.

### ***B.2.2.2 Organizational/Structural independence***

177. The evaluation function of organizations must address independence requirements that are greatly influenced by the evaluation governance structure and organizational control environment to become fully independent and have the needed credibility of its work deliveries. Viewed by stakeholders as a function that offers assurance, independence thus enhances an evaluation function's credibility that its authority and accountability must be put in place. To highlight the importance of the evaluation function, an IEFEF conducted in 2016 acknowledged that the independence of OED is limited, particularly its behavioral independence. It was also noted that OED's organizational independence is affected by design due to set of practices; and the Evaluation Charter for OED has become outdated.

#### ***B.2.2.2.1 Appointment of the Head of Evaluation***

178. In the United Nations system and in support of the independence of the evaluation function, the JIU (JIU/REP/2014/6) recommended that with respect to the appointment of the internal oversight, the legislative bodies should decide that: (a) *qualified candidates should be identified on the basis of a vacancy announcement that should be widely publicized;* (b) *appointment should be subject to consultation and prior consent of the governing body;* (c) *termination should be for just cause, and should be subject to the review and consent of the governing body;* (d) *A non-renewable tenure of five to seven years should be established, with no expectation of any further employment within the same United Nations organization at the end of the term.*

179. Based on foregoing, our review of the provisions of the OED Charter produced some inconsistencies with the JIU recommendations. We observed that FAO does not have a specific policy on the recruitment and selection of the OED Director, what is being followed is the provisions of the Staffing of the Office of the Evaluation in the OED Charter. We also noted that a panel consisting of representatives of the Director-General and Programme Committee as well as evaluation specialists from the UN agencies review the terms of reference and statement of qualifications for the post. Based on the review, a vacancy announcement is prepared and issued widely and a list of qualified candidates for interview is compiled. Through a competitive procedure, the appointment out of the recommended candidates for the OED Director post is submitted to the DG. The participation of the legislative body, through the Programme Committee as member of the recruitment panel, is limited only to the review of the candidates and to make final recommendations. However, since the recommended candidates can be usually more than one, and the final decision to select on who to appoint is lodge to the discretion of the DG, the issue raised by the JIU about *leadership and its direct role in enhancing credibility and trust among a diverse range of stakeholders* still pervades. To emphasize, the JIU recommendation that the appointment of the Head of Evaluation must be subjected for consultation and consent of the governing body was not observed. This gap impairs the required impartiality that the Head of Evaluation must possess.

180. As to the terms of incumbency of the head of the evaluation function, the JIU recommended for a non-renewable tenure of five to seven years with no expectation of any further employment within the same UN organization at the end of the term. According to the Inspectors, this policy is considered to grant more independence than a renewable one. This needs to be established but was not adopted by FAO. The 2010 OED Charter provisions remain in effect on the possibility of reappointment only once for a further term of four years and may not be reappointed within FAO to another post or recruited as consultant during a period of one

year following the expiry or termination of the appointment. Similarly, we determined that the termination of appointment of the Director of OED is still subject to the discretion of the Office of Director General (ODG) after consultation with the program committee, with no required grounds or basis to stimulate termination. This practice is not aligned to the JIU recommendation, which requires that it should be for just cause and subject to review and consent of the governing body.

181. The OED Charter was adopted in 2010 and almost ten years after, no amendment or enhancements were made by the Organization to consider the evolution of the evaluation function in the UN system. Even the Programme Committee Report on the evaluation of FAO's evaluation functions acknowledged that the OED Charter is already outdated; and that the Charter is not even an evaluation policy. The preceding JIU recommendations relative to the appointment of the Head of Evaluation Office that were not considered by FAO also weaken the structural independence of the OED. With so much at stake in terms of independence preservation, FAO must take stock of what works and what does not when appointing and providing authority to the head of the OED, all for preservation of independence, integrity and reliability.

**182. We recommended that the FAO, considering authoritative recommendations, closely engage with its governing body and re-assess its Charter provisions on the recruitment, appointment, and termination of the OED Director position, to ensure that process safeguards are put in place to enhance the independence of the function and preserve the interest of the Organization.**

183. OED stressed that first, a number of elements in the recommendations need to be addressed by the Governing Body and/or the Management. Thus, OED alone cannot take all the necessary decisions on the way to implement recommendations. If appropriate, we would make suggestions to the Governing Body and the Management on these elements. Second, the current biennium 2020-2021 is a transition period for the evaluation function in FAO. A new evaluation policy is planned to be developed and submitted to the Governing Body for its approval towards the end of 2021. At the same time, OED will embark on the decentralization plan with the transition period of two years. Therefore, the full implementation of the recommendations is expected to start from the next biennium of 2022-2023.

#### ***B.2.2.3 Structural independence***

184. We noted that the FAO's OED Charter clearly provides that the evaluation function must be free from undue influence by management through independent control of the financial and human resources allocated to the evaluation, including independent performance assessment of evaluation staff. Our review of the organizational/structural independence of the OED disclosed that it reports to both the Director-General and to the Council through the Programme Committee. Although OED is separate from those directly responsible for the implementation of the policies and operations that are evaluated, it is still not fully independent because of the second reporting line to the DG. The IEFEF 2016 Report pinpointed that the governance structure for OED, the double reporting line and budgetary restriction, has scope for improvement in terms of independence.

185. Our inquiry on OED's structural independence disclosed that limitations still exist in recruitment and selection of its staff and the travel decisions of its Director. There is no separate policy and procedure for recruitment and selection of OED staff. Although the OED Director

and CSH agree on the recruitment strategy for vacancy, staff mobility, professional employment roster or competitive recruitment process, the raising of vacancy announcement still requires clearances and approval of the DG. Moreover, we were told that the participation of OED in the recruitment and selection process through competitive recruitment process are limited to the review of position description and completes it either by using Generic Job Profiles (GJP) and in creating the long list of applicants, among others. The OED Director does not have any participation in selecting and recommending the short list to which the appointee will be selected where the final decision to appoint belongs to the DG, although more inputs are asked of the OED for those positions funded by the Evaluation Trust Fund. Nevertheless, this still appeared to be inconsistent with UNEG Norm 13: *management of the human and financial resources allocated to evaluation should lie with the head of evaluation to ensure that the evaluation function is staffed by professionals with evaluation competencies in line with the UNEG Competency Framework.*

186. As regards the hiring of consultants, we noted that OED can recruit without clearance if they are in the OED Roster, except for Category A Consultant, where a new clearance from ODG at each new recruitment is required even if one consultant is recruited for two consecutive contracts, with similar tasks and same rate. The OED claimed that the provision, *the determination of the A-Level will require the approval of the concerned Assistant Director-General*, contradicts section 34 of the OED Charter. The CSH replied that, *while the OED Director is accountable for recruitment and the use of resources, the same is also true for the DG, to whom the former has direct reporting line. The clearance is limited to category and remuneration of the proposed consultant, and not to the choice of individual or the proposed terms of reference for which they are being hired. As such, the requisite independence of OED is adequately safe-guarded.* But while it is true that paragraph 1.7 of the MS 317 refers only to the determination of category and remuneration of the proposed consultant, the requirement for the approval of the DG appeared to be an indirect circumvention of the independence of the OED to select its evaluators and/or terms of reference. The approval of the DG is equivalent to the consent or go-signal to recruit; and if the same is not obtained, the CSH will not proceed with the selected evaluator's recruitment, and the OED will be required to select another consultant.

187. As to budgetary independence, we gathered that the OED Director is engaged with the OSP Director on budget proposal and the creation of a D-1 position which was eventually rejected by the previous DG, as there was already a commitment not to increase the number of D-1 positions. With reference to the travel of the OED Director, the limitation that requires the DG's approval in every instance still exists, that is also an indirect interference to the management of the OEDs allocated financial resources. The OED informed us that at the time of the drafting the Charter, the model of double reporting lines was proposed as a smooth transition to full independence. The Charter, however, remains vague on the reporting lines to the DG, leaving it open to several conjectures. As a result, there has been some incidence of interference on the evaluation under the previous Management and therefore the double reporting line has affected independence at time. Moreover, we were informed that it is the belief of the OED, and we agree, that greater functional independence of OED could be gained through a single line of reporting to the Governing Bodies. This should be conditioned by clear accountability of the OED Director to the DG with respect to the use of the Division's budget and the imperative to consult with and respond to the needs for evaluation from the DG.

188. The completion of the supposed strengthening of the OED's independence, eliminating the foregoing restrictions and limitations were already long overdue for its target date of

completion was in September 2017. We emphasize that the structural independence of the Office underpins and guarantees its freedom to conduct evaluation and report the results to the governing body. The limitations put into the OED Director on decisions can impede this freedom. As a step into the right direction, we were informed that the OED is planning to develop a comprehensive policy for evaluation that will be an opportunity to address the issue of functional independence and provide clarity on line of reporting, responsibilities and accountability of the OED Director. An encroached independence diminishes the meaning of the FAO evaluation principles as well as the expectations attached to them. As an office that provides a major third line of defense to improve operations effectiveness, the OED provides assurance to FAO's governing body on the functioning of both the first and second lines of defense. We highlight, as the UNEG says, that independence of evaluation activities is necessary for credibility, influences the ways in which an evaluation is used and allows for the impartial and free from undue pressure evaluation throughout the evaluation process. Independence is vested in the Evaluation Head to directly commission, produce, publish and disseminate quality-assured evaluation reports in the public domain without undue influence by any party.

**189. We recommended that FAO engage closely with its governing body and review the existing structural independence of its functions to clearly define its reporting lines and the management's terms of engagements with the evaluation function without prejudice to its independence particularly in the management of its allocated financial and human resources to improve the Division's credibility and value.**

190. OED fully agrees with the recommendation and will reflect them in its proposal for the new evaluation policy. This aspect of the policy requires full consultations with the Governing Body and the Management since OED cannot decide on its own independence. Since there is a value in maintaining close linkage to the Management, if the double reporting line is to be maintained, it must be clear what the double reporting line exactly means. Further, OED understand the concern of the Management on the Director General's overall accountability on the resource use as well as on the compliance with the rules and regulations and other policy directives. Therefore, while OED fully supports the recommendations to make it structurally independent, it intends to propose a mechanism to ensure the full accountability of OED itself on the use of its own resources, including on the deliveries, the hiring of staff and consultants, and other operational aspects. This could be in the form of a biennial accountability report submitted to the Governing Body and/or the Management.

#### ***B.2.2.4 Strategy management***

191. In FAO's results chain, the results in the form of Outputs become the main contribution of FAO to the Outcomes and thus has the full accountability to deliver the same. Driven by the MTP, the Organization then sets out to prepare its PWB that presents the *programmatic priorities and results frameworks including the costs and resource requirements from the assessed and voluntary contributions*. To execute the PWB, specific strategies and work plans are prepared at different organizational levels that also include individual staff work plans. In all these undertakings, FAO had demonstrated a system of strategy management – from conducting a strategic analysis and seeking authority from the member states, developing, translating, executing, monitoring/evaluating, and adapting to changes as they occur. FAO's strategy management also highlights the dependencies of each of these phases.

#### B.2.2.4.1 Strategic planning

192. Strategy management within the evaluation function in FAO is expected to be rooted in its evaluation policy that declared the principles for evaluation while its evaluation strategy identifies the concrete outcomes, milestones, and targets for implementing those principles. The evaluation strategy also operationalizes and facilitates the effective implementation of the evaluation policy. Anchored on the evaluation policy, the strategy is to help position evaluation as a critical management tool for enhancing accountability, promoting organizational learning and knowledge management, and informing decision-making processes. We noted that one of the recommendations in the 2016 IEFEF report was for FAO to develop a strategy and action plan for 2017-2019 to enhance evaluation learning and accountability. In response, OED presented to the Programme Committee on 31 March 2017 a Strategy and Action Plan 2017-2018. We noticed however that OED did not prepare a Strategy and Action Plan in the following biennium. OED explained that the preparation of the 2017-2018 Strategy and Action Plan was time-bound as it was only in response to the evaluation of the Evaluation Function and OED had already submitted the relevant progress report to the Programme Committee.

193. We surmised however, that the OED position echoes the conclusion reached by the JIU in 2012 that *across the UN system, strategic plans have been created on an ad hoc basis in response either to requests from governing bodies or from within the organizations themselves*. On this note, the JIU also elaborated that *strategic planning is not a mere fashion* and indicated in their report that strategies are never static saying that *strategic planning helps an organization make choices and respond to all existing pressures-emerging issues, needs and mandates*. The JIU further elaborated that *strategic planning is the process by which an organization's medium-to-long term goals, as well as the resources plans to achieve them, are defined*. To the Inspectors, the key elements of a good strategic plan are coverage, time frame, budget alignment thereto, and decision-making. In this context, we reviewed the Strategy and Action Plan of the OED for 2017 and 2018 and determined that the basic components of a strategic plan such as objectives, activities, indicators, target, timeframe and baselines have all been considered therein. However, noticeable was the omission of any statement or proposal on how the execution of the strategic actions would be funded and for how much. In same Strategy and Action Plan, the OED set out to accomplish several activities such as the revision of various guidance materials, among others. This, nevertheless, does not offer guarantee that the current needs of the Organization as elaborated in its 2018-2019 and 2020-2021 PWBs can be addressed due to changes in programmatic and operational priorities.

194. We stress that OED has the responsibility to provide the FAO Council, as the oversight body of the evaluation function, with complete, relevant, accurate and timely strategic information for its informed decisions. It is, therefore, essential for FAO to recognize that while an evaluation strategy is always time-bound, it must also align with the Organization's PWB to allow for more effective performance measurement and other strategic reckoning. The need for a strategic plan is highlighted in the UN's *Strategic Planning Guide for Managers* emphasizing that it is critical for all UN agencies to develop a strategic plan within the department, division, offices, section, unit or team to align their priorities to a higher-level strategy. Looking outward, a strategic plan guides the organization and provides the framework for accountability to its partners and the stakeholders at large. With the inherently dynamic environment within which FAO operates, the positioning of FAO's evaluation function must be founded on clearer linkages and accountabilities and these can be achieved if alignments of all key components of the strategy system is achieved. We underscore that a cohesive and

streamlined set of strategies produce clearer accountabilities that eventually leads to effective achievement of goals and priorities.

**195. We recommended that FAO refresh its evaluation strategy by detailing its priorities for the current biennium and as fed by the evaluation policy and deliveries of the previous strategy to ensure that accountabilities are synchronized, and its works are closely aligned to the current MTP and PWB, for better operational synergy and more meaningful assessment of performance.**

#### *B.2.2.4.2 Work planning and delivery*

196. The UN Strategic Planning Guide to Managers calls for the integration of strategic plans with work planning. As components of a strategy system, work plans or operational plans, outline the specific, short term operational objectives, outputs, projects, and processes of an entity. Aligned to this, the 2016 UNEG Standard 1.3 provides that *evaluation plan and reporting evaluations should have a mechanism to inform the governing body and/or management on the evaluation plan and on the progress made in plan implementation. The evaluation plan should be based on an explicit evaluation policy and/or strategy, prepared with utility and practicality in mind and developed with a clear purpose, scope, and intended use for each evaluation (or each cluster of evaluation).* In this sense, work plans must then be constructed within the guidance of a strategic plan and should contain operational details.

197. In FAO, OED in compliance with its Charter, submits to the Programme Committee an *Indicative Rolling Work Plan of Evaluations* covering a three-year period for its review, comment, and endorsement. We observed that the principles, criteria and rationale behind the selection of the planned evaluations are clearly explained in the Work Plan. On the other hand, pursuant to existing evaluation guidelines, the 2007 Council decision and the *Procedures for Financing the Evaluation of Initiatives Funded by Voluntary Contributions*, OED has been prioritizing the evaluations of projects with extrabudgetary budget of over USD4 million. Separate project evaluations, independently of the budget size, are also carried out for GEF projects and in response to specific requirements of resource partners and stakeholders. We gathered that the OED proposed to the Programme Committee thru the Indicative Rolling Work Plans of Evaluation six thematic and ten country programmes for evaluation for 2017-2019. As to the timing of evaluation, the *Guide to Project Cycle* provides that a mid-term evaluation is typically held around the half-way point in the programme/project life. On the other hand, a final evaluation is held at or near the end of a programme/project. Final evaluations are undertaken for both accountability and learning purposes and are often relevant to decisions about extending the programme/project.

198. In our review of the 2017-2019 Indicative Rolling Work Plan of the OED and corresponding deliveries, we noted some deviations from UN best practices and the UNEG norms on transparency, as elaborated below:

- a. Like the strategic and action plan, the OED Work Plan did not disclose the budget estimates to implement each thematic and country programming evaluation.
- b. The OED indicated in the Indicative Work Plan that about 30 to 40 projects would be evaluated for 2017-2019 but there was no mention which amongst the hundreds of FAO projects will be subject of evaluation. We determined that there were 108 project evaluations under monitoring from 2017-2019. Following the project

evaluation guidelines, we determined that the 2017-2019 work plans provided us should at least include projects with NTEs falling in 2017-2019 and early 2020. Using these parameters, we determined that there was a total of 133 extrabudgetary projects with either over USD 4.000 million budget or are GFF-funded with NTEs falling in 2019-2020. Of the 133, we observed that the OED selected 103 projects or 77 percent of the total for evaluation, of which, 40 or 38 percent were GFF-funded. Sixty-five (65) of the 103 selected projects had been reported to have been completed as of audit date. From this, we verified that only 35 of the completed evaluations reported have corresponding Evaluation Reports published in the OED website. This number corresponded to 53 percent of completed projects and only 34 percent of the projects planned for 2017-2019.

- c. All six thematic evaluations planned for 2017-2019 were accordingly delivered as scheduled but the release of project evaluation reports showed a different scenario. We noted that of the 24-project evaluation reports we examined, 10 registered delays of 2 to 12 months while the publication of 3 reports were behind by 1 to 2 years. Further, we could not determine the timeliness of 11 project evaluation reports since their corresponding TORs and/or Evaluation Plans were not made available with the main reports.
- d. From the 48 evaluation reports published from 2018 to 2019 in the OED Web Portal, 17 evaluation reports had no attached TORs and/or Evaluation Plans while 9 had no management response.

199. Work planning allows for innovation and provides for better coordination of activities to be undertaken. This is particularly important when strategic priorities are set out into motion as demonstrated by FAOs RBM Framework where operational planning becomes a product of strategic planning based on the PWB and the MTP and where work plans become the concrete vessels to document the expected results and outputs for products and services, all within the established results chain. It is also essential that work planning is enabled to support work coordination and synergy within an organizational unit to ensure that expectations are delivered and robustly monitored. Since a plan generally contains information, it is vital that this information is made relevant and reliable for a more effective decision base. It is thus important that evaluation work plans hold key information that support transparency and provide an effective decision base, that monitoring of work deliveries becomes critical.

200. **We recommended that FAO develop a biennial strategic plan by:**

- a. **providing clearer and more detailed information on planned evaluation activities including the specific project/programme evaluations, the financial resources, and their use to perform the function for better transparency and information value; and**
- b. **establishing a more effective protocol to monitor its deliveries relating to timeliness and completeness of reports publication including such references as evaluation plans, terms of reference, management responses and other key evaluation products to ensure that remediation actions are undertaken for deviations, as necessary.**



201. OED will develop separately a biennial strategic plan with elements as aforementioned. At the same time, it wishes to keep the indicative rolling plan.

#### ***B.2.2.5 Evaluation in the decentralized offices***

202. Assigning accountabilities and roles even in organizations with well-designed structures can always be impeded with inability to establish the optimum subsidiarity i.e., which tasks should be performed by the central authority and those from the field offices. Decentralization implementation also follows this line with accountability, responsiveness, and efficiency within its line of sight. The decentralization rationale of FAO also relates to these two operational qualities where decision-making authority is delegated to the lower level management, where there is a wider span of control, lesser organizational levels and a bottom-up flow of decisions happens. However, Background Paper #1 of the IEFEF Report indicated that *auto-evaluations and/or decentralized evaluations appeared to have been discontinued rather than strengthened, as was the case at International Fund for Agricultural Development (IFAD) and World Food Programme*. At present, FAO's Charter for the FAO Office of Evaluation does not have any provision for decentralized evaluation and is only impliedly recognized in Section 34. There is no further discussion or provision on decentralized evaluation framework, its application to FAO's operation and the role of OED carrying the decentralized or auto-evaluation. We noted in the same IEFEF Report that FAO has been strongly increasing the decentralization of its operations, but the evaluation function is fully centralized. It was thus recommended by the IEFEF that FAO should develop a programme of decentralized evaluations, including mid-term evaluations, through its Regional Offices, funded with a proportion of trust funds for evaluation and could be implemented by September 2017.

203. Following the IEFEF recommendations, we determined that in 2019, the OED had made good inroads on decentralizing its evaluation function through the crafting of the *Project Evaluation Manual for Decentralized Offices* that was disseminated in June 2019, more than a year from its planned delivery. A closer look at the Manual revealed that it provides for the generic concept and process of evaluation, like what is already practiced. We also found that the Manual neither presents a comprehensive model for the decentralization of the evaluation function nor does it specifically provide for other types of evaluation to be carried out in the decentralized offices but is limited only to the Mid-Term Evaluations (MTEs). Moreover, the conduct of MTE in the DOs is still subject to certain conditions and will be determined by the OED in consultation with the BH. Further, there is no criteria or policy in determining the responsibility or jurisdiction of either the OED or DO in managing evaluation. The IEFEF recommendation to *develop a programme of decentralized evaluation, including mid-term evaluations* thus made the Manual still inadequate.

204. It is important to note that FAO had recently recognized the need to have a clearer decentralized evaluation function through a March 2020 OED proposal entitled *Enhancing the Use of Evaluation for Learning in FAO Regional and Country levels through Decentralized Evaluation*, which was already endorsed by the Programme Committee. Based on our review, we determined that the OEDs proposal appears to supplement the inadequacies of its *Project Evaluation Manual for Decentralized Offices*. The proposal is for the expansion of FAO's evaluation function to include decentralized evaluation alongside centralized model compatible with OED's mandate in a way that *evaluation can be more effectively performed and contribute to organizational learning*. The proposal, we noted, also aims to *stimulate and support programme and project managers in enlivening the later phases in the project cycle*,

*generating evaluation evidence, and making it transparent and available for wider learning at regional level.*

205. We noted further that the proposal acknowledges that, the first period of implementation of decentralized evaluations highlighted the lack of evaluation capacity in decentralized offices as one of the major constraints. It also confirms the conclusion of the IEFEF of some *disconnect between evaluation and management and missed opportunities for evaluation to contribute to the programming cycle and results-based management at regional and country levels*. The proposal, we noted, hopes to build on the results of the study as well as the lessons learned from the first phase of decentralization and the experience of placing an evaluation capacity in FAORLC. The proposed three main measures for decentralization are: *Decentralize selected types of project and country evaluations; Establish Regional Evaluation Teams, composed of out-posted OED Evaluation Officers, in larger Regional Offices; and Enhance evaluation capacity in support of decentralized evaluation and the use of evaluation*. The proposal focuses on meeting the evaluation needs at regional and country levels of FAO as these are where the contributions of evaluation to RBM and, ultimately, to organizational and programmatic performance require most attention. It will also re-focus the work of the central evaluation office on what it can do most effectively.

206. The OED informed us that it will prepare an operational work plan for the proposal although it may take time to finally adapt the same so consequently, the capacity development and roll out of the proposed enhancements will likewise be protracted. But even as we recognize that it is the first time that the OED had formulated an evaluation manual for the decentralized offices, and is expected to be *quite raw and open for enhancement for the lesson learnt from its initial roll out*, we think that the Division has to be ready for the vagaries of a policy cycle although it has to achieve some quick wins too along the way. Meanwhile, we need to highlight some vital cogs that the OED may need to recognize in its work plan to implement its proposal. A policy implementation support system must be first in the agenda because regular procedures and operating channels may not be enough and special mechanisms can be needed. A consideration of the policy space will enable the OED to identify institutional support as well. It must thus be clear at the level of the OED how it will respond to this reality. Another obvious necessity in policy implementation is the tracking of its trajectory where policy performance, progress assessment and problem resolution are undertaken to ensure that the policy proposal is implemented with the least of impediments particularly those relating to efficiency. To ensure that policy resistance is at the minimum, the OED may also opt to benchmark its policy proposal with best practices within the UN system. Above all these, is the need to be aware of the circumstance external to OED that can cripple the initiative. Viewing the OED proposal as a policy for change, expectations can be built around what will not and what will be done, that plans such as the operational work plan need to be appropriately contextualized and ably supported by safeguards being aware of the risks that surround policy implementation.

**207. We recommended that the FAO ensure that OED's policy proposal and implementation to enhance its decentralized evaluation function at the Regional and Country levels are supported with an effective operational work plan including realistic timelines, the needed safeguards and institutional support situated in a well-defined implementation context to increase its chance for success and creating the needed change.**

208. OED fully agrees with the recommendation as it is in line with the current plan for such evaluations. An action plan will be developed in 2020 in consultation with the Management, particularly with senior managers in the field.

#### ***B.2.2.6 Regular Programme Budget and Evaluation Trust Fund Management***

209. In FAO, governance in its financial management system is initiated in its Strategic Framework that is operationalized through its MTP that outlines the Strategic Objectives and Outcomes to be achieved by members and international community with FAO support during the period. The MTP is then operationalized by the biennial PWB that details the programme priorities and the supporting results framework to advance the Strategic Framework and the MTP. The PWB presents the costs and the funding requirements from assessed and voluntary contributions for the two-year period and annual allotments are issued to provide the execution authority to budget holders to help implement their work plans.

210. For biennium 2018-2019, the OED's regular programme budget is USD 8.025 million and USD 20 thousand for extrabudgetary or a total of USD 8.045 million or 0.8 percent of the total USD 1.005 billion net appropriation of FAO for the said biennium. This is in accord with the minimum requirement under the 2010 Charter of the FAO Office of Evaluation. To execute its budget, we inquired on a policy that governs specific expenditure items and were informed that OED does not have guidelines on the use of its budget under the Regular Programme. However, we were told that the existing practice is that all thematic evaluations that are planned with and submitted to the FAO Programme Committee are, in principle, fully financed from PWB as these evaluations are quite large and complex. We also noted that Country Programme Evaluations are also charged against the PWB. The OED likewise informed us that the current arrangement is that payments of salaries of nine professional (P) and three GS positions and three long-term consultants and non-evaluation activities such as communications, except communication consultants, inter-agency collaboration (UNEG, participation to conference) and some training expenses are being charged against this PWB. On the other hand, there are nine professional and two GS positions and 16 consultants whose remunerations are charged against the Evaluation Trust Fund. The OED justified that these consultants are long-term consultants mostly working on voluntary contributions project evaluations.

211. We gathered that under the OED structure, all four Groups consisting of a Group Leader with Evaluation Officers and Evaluation Specialists/Analysts have their respective Regional and Thematic Focus. To illustrate, Group I have Africa as its Regional Focus and food security and nutrition and humanitarian actions as its Thematic Focus while Group II has Latin America and the Caribbean and Near East and North Africa as Regional Focus and food systems as Thematic Focus. Group I Leader's salaries are charged against the trust fund while that of Group II Leader's, against the PWB. Also, under the OED Director, only the Team Leader of administrative staff and two of the three Members, all holding GS positions, are in the PWB budget. We also established from the OED Financial Reports for 2018-2019 generated from the Integrated Management Information System (iMIS), that OED also charged expenditures on travel, hospitality, expendable procurement, locally-contracted labour and general operating expenses against the PWB. With these arrangements, it is always essential to recognize that budget execution discretion carries a certain amount of risk particularly in exacting budgetary controls and accountability.

212. In trust fund management, we noted that the establishment and administration of the OED's Evaluation Trust Fund is mainly governed by the 2013 *Procedures for Financing the*

*Evaluation of Initiatives Funded by Voluntary Contributions.* In compliance with the corporate policy of integration of emergency, rehabilitation and development activities, the two Trust Funds that pool contributions from both Emergency and Rehabilitation and Development Projects had been merged into one single *Evaluation Trust Fund*. The said issuance mandates the separate evaluation of initiatives funded by voluntary contributions with a budget over USD 4 million, except for initiatives that are part of Emergency and Rehabilitation Programmes and GEF-funded projects, among others. It also obliges all staff with responsibility for project approval and operational clearance to ensure compliance with said rule. We also noted in the guidance *that the Evaluation Trust Fund will be managed by OED, with the role of Budget Holder and Lead Technical Unit. The Director, OED, will be responsible for the final decision on the use of the accrued resources, including timing and approach, after consultation with concerned parties.* The subject FAO policy is principally about funding evaluation initiatives and does not elaborate on how the funds received are to be utilized or disbursed, save for the very brief general statement delegating this responsibility to the OED Director.

213. On the issues raised, OED confirmed that there are relevant processes, workflows and practices in place but that these are not documented and officially adopted as a policy. As a matter of fact, even the delegation of authority from the OED Director, who is the Budget Holder by his position, to the acting Budget Holder is not written but is only reflected in the FAO corporate systems contravening the existing FAO regulation. We further observed that the 2015 OED Evaluation Manual provided little information on the subject and so in the 2019 OED Project Evaluation Manuals. Based on further inquiry, we determined the unwritten work arrangements in the management of OED's Trust Fund emanating from the receipt of evaluation provision, setting the evaluation budget, review and approval of budgets, authorizing the commitment and reporting of trust fund utilization.

214. It is emphasized that the clarity of policies, processes and roles begets effective communication and coordinated decision-making. Inversely, ambiguous working relationships and protocols may result in misinformation, wrong expectations, and uncoordinated actions. While the effectiveness of the design of budget accountabilities depends on the embedded internal dynamics between the overall budget and specific area of work, budgeting must always be supported by transparency, integrity, openness, and accountability requirements, among others. However, the hallmark of good budgeting is on transparency that requires clarity, reliability, and comprehensiveness in reporting the results of executed budgets. Because of budget transparency, there is accountability on the use of funds and integrity due to the budget's inherent vulnerabilities to waste and misuse and even fraud. Creating trust in budget execution removes further debate on how well public monies are spent. In effect, budget transparency supports better outcomes, but these must first emanate from clearer and more robust accountabilities to execute the budget.

215. **We recommended that FAO enhance the transparency of OED's budget execution through clearer, more specific, concrete and formal policies, processes and structure relating to the allocation, utilization, reporting and overall management of its Regular Programme budget and Evaluation Trust Fund to ensure that the Evaluation Function dynamics are attuned to corporate principles on accountability and internal control, and support budget scrutiny.**

216. OED fully agrees with the recommendation. This will be implemented through the biennial strategic plan and the accountability report. More explicit policies will be developed

on the use of the programme budget and the trust fund. In this context, OED intends to review how each evaluation activities are resourced – given that FAO field programmes are financed by a mix of the programme budget and voluntary contributions. Another factor to be considered is the increased demand for system-wide coherence and joint activities among UN agencies, and the need for enhanced results accountability at the country level as an input to the overall UN system accountability mechanism.

### **B.2.3 Fraud risk management**

#### ***B.2.3.1 Fraud risk governance***

217. Fraud governance lays the foundation for effective fraud risk management and the lack of it undermines any fraud risk management efforts. Within the ambit of governance is risk management, a process where risks, in this instance fraud risks, are identified, assessed, and mitigated to help an organization deliver its mandate without integrity impediments in the achievement of its operating objectives.

##### ***B.2.3.1.1 Fraud risk management policy***

218. Essential to fraud risk management are the overarching organizational governance policies and structures that provide solid decision-making foundation. FAO has its own Internal Control Framework based on the Committee of Sponsoring Organization of the Treadway Commission (COSO) model and the Accountability Policy of 2014 that underlined accountability as an *agreed process for being held to account for actions taken or the failure to act* citing further the benefit of *safeguarding resources against fraud, damage and harm, theft and loss (protection)* that can be derived from the Policy. FAO had also put up a system of anti-fraud and related policies, foremost of which is the *FAO Policy Against Fraud and Other Corrupt Practices* that contains the *Zero-Tolerance Policy*; the Prevention and detection of fraud and other corrupt practices and Office Plans against Fraud and Other Corrupt Practices; Reporting and Whistle-blower protections, among others.

219. Anent the said policies and procedures, however, FAO could still build a more robust, visible and rigorous fraud governance process from the dispersed policies. A more thorough risk assessment methodology and swifter response to fraud allegations will also be possible if points of focus for every fraud risk management activity are clearly-defined and a more comprehensive picture of fraud risk management is presented. With the challenging landscape of fraud risk management, adopting a more comprehensive and clearer approach can enhance the Organization's capacity to manage its fraud vulnerabilities. For these, we refer to the COSO's Fraud Risk Management (FRM) Framework where points of focus are clearly defined.

220. As the essential point of focus for the delivery of a fraud risk management programme as defined in the Framework, *establishing a more comprehensive fraud risk management policy* also supports the design of the fraud governance mechanism. Since FAO had embarked on designing and placing adequate controls based on audit results, internal control reports, risk matrix, monitoring tools and learning initiatives, the anti-fraud strategy and actions plan adopted is a good complementary action.

221. **We recommended that the FAO craft a best practice fraud risk management policy that will encapsulate all related policies including its Policy Against Fraud and**

## **Other Corrupt Practices for a more focused and comprehensive management of its fraud vulnerabilities.**

222. The Internal Control and Compliance Unit (DDCI) will work on the development of a comprehensive Fraud Risk Management policy framework encapsulating all key elements and related policies to allow a more integrated approach to fraud risk vulnerabilities management. This work will be undertaken in collaboration with key stakeholders, including OIG, CSH, LEG, Ethics Office and other relevant units with the finalization of this policy.

### *B.2.3.1.2 Code of Conduct*

223. A Code of Conduct serves as a foundation for preventing, detecting, and deterring fraudulent and criminal acts and helps foster a morally sound decision making environment. In many organizations, the ethics policy details the specific expectations about behavior in the organization. However, we observed that FAO does not have a specific ethics policy and what the Organization currently used as reference is the Standards of Conduct for the International Civil Service.

224. An organization with clear and consistent policies regarding ethics, values and behavior can reduce the potential fraudster's ability to rationalize his actions. Moreover, an ethics code facilitates the reporting of inappropriate conduct by delineating the types of conduct the organization deems unacceptable. Currently, FAO only uses the general standards of conduct and as such, does not make reference to the: (a) specific values and aspiration of FAO in terms of organizational behavior; (b) its relationship to FAO's governance policies such as accountability and internal control frameworks, the FAO's results framework and its financial regulations and rules; (c) the specific boundaries allowed by FAO for political activities; and (d) specific resources protection responsibility, among others. While the Code of Conduct helps in resolving issues, it also serves as a declaration of an organization's commitment to the highest standards of integrity. All of these justify the need for FAO to have its own Code of Conduct.

**225. We recommended that the FAO facilitate preparation of the Code of Conduct to concretize and consolidate the ethical expectations from its staff.**

226. The Ethics Office has commenced working on the Code of Conduct and that the draft Code of Conduct outline will be shared with stakeholders (OIG, Ombudsman, CSH, and LEG) for consultation and review. Finalization of Code is planned for Q4 2020.

### *B.2.3.2 Fraud risk assessment*

227. As explained in ISO 31000 (2018), risk assessment is a *process of identifying, analysing and evaluating risks* that are to be *conducted systematically, iteratively and collaboratively, drawing on the knowledge and views of stakeholders*. Implementing a specific and more focused fraud risk assessment as a separate risk management process, provides greater assurance that the assessment remains on intentional acts. On the other hand, the COSO ERM framework emphasized that organizations must have an integrated or holistic view of risks. Specifically, Principle 2 of the COSO Fraud Risk Management Guide explains that fraud risk assessment is to be performed to *identify specific fraud schemes and risks, assess their likelihood and significance, evaluate existing fraud control activities, and implement actions*

to mitigate residual fraud risks. The two risk management frameworks support the need of an organization to have a common language for articulating its business risks.

228. In FAO's Internal Control Framework, risk assessment is defined as one that *involves a dynamic and iterative process for identifying, assessing and managing the risks, including the risk of fraud and other corrupt practices, to the achievement of objectives*. On the other hand, risk is defined by FAO as the *effect of uncertainty on objectives; where the effect is a deviation from the expected – positive and/or negative*. Relating these definitions to fraud risk, FAO has defined fraudulent practice as *any set of act or omission, including misrepresentation that knowingly or recklessly misleads, or attempts to mislead, a party to obtain financial or other benefit or to avoid an obligation*. Moreover, a corrupt practice is viewed by FAO as the *offering, giving or soliciting, directly or indirectly, of anything of value, whether tangible or intangible, to improperly influence the actions of another party*. In the explanatory note of FAO's Fraud Risk Matrix, we noted the details on how fraud risk identification and assessment are to be undertaken. The said explanatory notes further defined the scope of fraud risk management including the validation of completeness of fraud risk register and identification of missing risks, the review whether existing control measures are effective in preventing or/detecting potential fraudulent practices as designed and the identification of gaps/improvements required for areas with higher risk.

229. We have examined the existing corporate policies and tools such as the FAO's Corporate Fraud Register, its Fraud Risk Matrix-Explanatory Notes and the related corporate risk management related guidance and observed the following:

- a. The Explanatory Note supporting the Fraud Risk Matrix, while detailing the *focus of the review* did not provide for the use of risk factors and/or indicators that will be needed to further facilitate the identification of fraud risks; and the context of risk identification. At this initial stage, it relied, in particular on OIG detected fraud risks and business owners experience.
- b. The fraud risk classification including the *Remarks* and the *Overall Risk Rating Scale*, being used as risk identification and assessment criteria did not yet include the fraud risk strategy to be undertaken under the given risk severity level except for a need to include improvement actions required to address the internal control gaps.
- c. The Corporate Fraud Risk Register presents fraud risks per work area such as vendor management, travel and procure-to-pay cycle, among others, that all pertain to financial-related fraud risks - except for Project identification, formulation and appraisal and the related reporting to resource partners (included under the area on financial management and reporting). The risk areas identified, however, does not yet include non-financial fraud risks such as intentional misreporting of programme results/outcomes/outputs.
- d. As part of the Risk Taxonomy, the different fraud risks, red flags and/or potential fraudulent practices have wide variations that aggregating the same will be a challenge. Further and in relation to the corporate fraud risk register, the column on *Fraud risks: red flags, and/or potential fraudulent practices* are yet incomplete statements of fraud risk events given that these do not identify the root causes of

fraud risks and some do not include the specific consequence that will affect the crafting of the desired mitigating action.

- e. The *Fraud Risk Matrix per Area*, the basis in the preparation of the corporate fraud register, does not clearly lay out complete risk statements in all cases, the explanation of the risk impact, among others.

230. **We recommended that the FAO:**

- a. **provide for the upcoming update of the fraud risk register and fraud risk assessment – more comprehensive guidance in fraud risk assessment built on its current approach, through the crafting of fraud risk assessment process and tools that guarantee the preparation of corporate fraud risk universe, more effective risk register, and the identification of better fraud risk statements and mitigating actions; and**
- b. **undertake a more formal fraud risk assessment exercise at the corporate level to support a complete risk universe or catalogue and ensure a top-down approach on fraud risk assessment.**

231. The first update of the guidance is currently ongoing in preparation for the launch of the 2020 Fraud Prevention Plans (FPPs). It will consider lessons learned from the 2019 FPP preparation exercise as well as the observations. While, further updating of the guidance and tools will take place when preparing for the next corporate fraud risk assessment (Q4 2020/Q1 2021) and the launch of the 2021 FPP process.

***B.2.3.3 Fraud control activities in human resource management procedures***

232. A fraud control is an activity established through policies and procedures that help ensure that management's directives to mitigate fraud risks are carried out. Equally important in a fraud risk management program is the COSO principle stating that *the organization selects, develops, and deploys preventive and detective fraud control activities to mitigate the risk of fraud events occurring or not being detected in a timely manner*. A forestall integral part of this principle are eight points of focus which mainly rests with the need to design fraud control in a way that it mitigates the assessed fraud risks, delivered across the enterprise, supported with tools and enabled through an organizational policy. As part of a control system, fraud controls must be so designed to prevent or deter fraud, and to detect the occurrence of the same.

***B.2.3.3.1 Recruitment and Annual Affirmation***

233. New employees who enter the Organization affirm, through signing the terms of employment, that they are subject to FAO Staff Regulations, Staff Rules and Administrative Manual. Additionally, during the on-boarding process, they are also made to sign a *Declaration of non-employment and disclosure combined* form declaring *no conflict of interest*. However, after the initial affirmation and declaration, we noted that FAO does not have the means to carry out an annual renewal of this affirmation and declaration, a process necessary due to changing circumstances particularly on relationships and status during employment as they relate to conflict of interest, among others. Nevertheless, we determined that the changes from the circumstances initially declared by the staff need to be reported to the Ethics Officer.



234. Further, in the CSH Finance Committee Report, it was established that the Organization has not systematically and consistently performed reference verification, particularly in the recruitment of P-level staff for Regular Programme positions. To address the gap, CSH has already drafted a Standard Operating Procedure (SOP) on reference verification that aims to harmonize the reference checking process. However, the draft SOP only covers professional staff hired on fixed term positions for one year or more irrespective of funding source, level and location of the position. We hold that a fair and transparent selection and recruitment process propagates ethical behaviour in any work environment. This process must thus be applied at all types of employment and in levels of the Organization.

235. **We recommended that FAO ensure to:**

**a. provide policy support to annual affirmations of all staff to ensure that staff disclosures are updated and changes to relevant information are provided, for more effective monitoring and clearer accountability; and**

**b. craft a policy and procedure that embed reference checking into the recruitment procedure for all positions regardless of funding source, nature and location to increase the fraud deterrence value of the recruitment process.**

236. The Ethics Office has engaged with CSH to discuss and agree on a work-around that will allow for the Affirmations and Disclosures to be done annually through the SSC-HR Unit. And SSC-HR to engage with Information Technology Division (CIO) to explore available options for automating the Affirmations and Disclosure Form.

#### *B.2.3.3.2 Performance evaluation*

237. The FAO Competency Framework outlines the expected behaviors that are needed to be demonstrated by its employees to deliver quality results. To determine how the framework is practiced, we asked selected respondents relating to ethics and fraud, hence, determined that four out of six respondents for Tier I (top management) stated that there are *no ethics-related metrics incorporated within performance evaluation process*; and 28.5 percent or 14 out of 49 responses for Tier II (P and G staff levels) indicated that *their immediate supervisor has not informed them of their duties and responsibilities and of management's expectations regarding their role in helping to prevent and detect fraud*. Upon inquiry, the Ethics Officer explained that FAO's Competency Framework *indeed has a section on values with a comprehensive set of criteria to be met by staff members. They include the requirements for ethical behavior at work*. The Ethics Officer further emphasized that the *"competencies" should be discussed as part of the PEMS review, just like the "objectives"*. *The problem may be that managers don't discuss these when they should, and instead skip over them as they are less important.*

238. While a conclusion cannot be derived from the survey results, we hold that ethics-related metrics used in the performance evaluation process must be re-evaluated since the assertions of the respondents can represent the notion of a larger group. Further, the discussion between the supervisor and the staff about the staff's role in preventing and detecting fraud is a critical factor to increase ethical consciousness and sense of professional responsibility across the Organization. Staff competency does not only relate to technical capabilities since FAO's staff professional values are also anchored on *integrity and transparency, commitment to the Organization and respect for all*.

239. **We recommended that FAO craft a strategy to ensure that staff responsibilities on fraud prevention and detection are discussed during the PEMS review and appraisal processes to strengthen further the Organization's zero fraud tolerance policy.**

240. The CSH, in coordination with the Ethics Office, will identify and implement strategies to ensure that staff responsibilities on fraud prevention and detection are discussed during the PEMS review and appraisal processes, including through communications and performance management briefings.

#### *B.2.3.3.3 Policy and procedure on exit interviews*

241. Generally, an exit interview is a survey conducted with a staff who is separating from the organization. The significance of this type of interview is that it provides feedback to the Organization that can include reasons for the separation and a picture of how the organization treats its employees. The interview also allows the Organization to know some concerns of the separating staff and can even uncover more serious issues such as misconduct and fraud allegations. In FAO, we determined that the CSH conducts exit interviews partly online by requiring staff leaving to answer an exit interview questionnaire through a web application and to send back a scanned copy of answered exit interview questionnaire through email to the CSH Director. However, we were also told that the exit interview in FAO is not a mandatory part of the off-boarding process by separating staff because there is no policy that requires it. The absence of the policy denies the Organization the opportunity to obtain meaningful employee feedback and a chance to assess its fraud vulnerabilities from the perspective of a separating employee.

242. **We recommended that FAO craft a policy and procedure on the conduct of exit interview for all separating staff as part of the off-boarding process, to strengthen its fraud prevention and detection mechanisms and, for better organizational learning.**

243. The CSH will work with Ethics Office, LEG, SSC and other relevant offices to craft a policy and procedure on the conduct of exit interview for all separating staff.

#### *B.2.3.4 Fraud response*

244. An organization should develop and implement a system for prompt, competent, confidential review, investigation and resolution of allegations of fraud and other related activities. This activity is embodied under COSO Fraud Risk Management Principle No. 4 - Fraud Investigation and Corrective Action. The principle highlights five points of focus that include the establishment and formal documentation of a process for the receipt, evaluation, and treatment of communications of potential fraud.

245. To ensure that FAO sustains its commitment to integrity and ethics, its fraud response mechanisms should be clearly and completely laid out with due consideration to information confidentiality of certain investigation procedures. We noted that FAO has established various channels to report cases of fraud, corruption and other related cases. As an organization with global operations, responding to fraud cannot only highlight one or two mechanisms. The JIU Inspectors in their report *Fraud Prevention, Detection and Response in United Nations System Organizations* (JIU/REP/2016/4), indicated that *effective anti-fraud efforts are dependent on a comprehensive anti-fraud policy and governance structure that allocates clear responsibility*

*and accountability for the prevention and detection of and response to fraud and form part of the organization's accountability framework.*

#### *B.2.3.4.1 Fraud reporting mechanisms*

246. Fraud can come to the organization's attention in many ways such as whistleblowing, tips from individuals, internal and external audits, and by accident. Aligned to this, we noted that all FAO personnel have the obligation to report possible violations of FAO's regulations, rules and other administrative policies, fraud included. This can be done by reporting the matter to the head of office or directly to the OIG by telephone, confidential email or snail mail. The different ways to report misconduct are listed in various places, including OIG's intranet and other relevant policies, including the FAO Whistleblower Protection Policy. Under the latter, the individual or office receiving the report is duty-bound to protect to the maximum extent possible, the confidentiality of the complaint in all other communications related to the complaint, including when referring it to the OIG. The policy, however, does not provide referral/reporting mechanism to the OIG relative to the complaints received by the Head of Office and Ethics Office. Such mechanism may include the process/procedure of reporting and the timeframe within which to report. Upon inquiry, the Ethics Office informed us that the heads of offices are under an obligation to report wrongdoing and those cases that they received from another person. The OIG further explained that *timeframes for the referral of matters to OIG will necessarily depend on the nature of the situation, and it would be difficult to establish what they should be ex ante. Not all complaints initially present themselves as such, and situations that originally appear to be with management remit of the Head of Office may subsequently evolve into matters that need to be referred to OIG. All FAO personnel should report allegations of fraud to OIG as soon as possible after becoming aware of the allegations.*

247. The institution of an effective fraud complaint and reporting mechanism influence the delivery of the other fraud response phases. The presence of a reporting mechanism can also become a deterrence to fraud. The importance of an effective reporting mechanism was also highlighted by the JIU Inspectors saying that *tipsters and whistle-blowers are crucial in cases where fraud is committed through collusion and in sophisticated fraud schemes without paper trails, or cases that are very difficult to identify and gather evidence for, such as high-value fraud in procurement, grants and funds paid to implementing partners.* As observed, the varied fraud reporting lines currently in place within FAO is fragmented owing to unclear avenues on how the reported fraud allegation or incident from other organizational levels will reach the OIG's desk. Given the serious implications associated with fraud, the definition of clear reporting lines and institution of information-sharing mechanisms must not be overlooked.

**248. We recommended that FAO improve the uptake of fraud complaints and allegations by streamlining its various fraud reporting channels and mechanisms to enable the completeness of OIG's records for more efficient fraud response.**

249. The OIG concurs that there is a need to clarify reporting channels for alleged misconduct with it as the primary reporting channel. While allegations may also be reported to the Heads of Office or Department, this should come with the obligation for the recipients to inform the OIG without delay. OIG will advocate further streamlining and consolidation of reporting channels.

#### *B.2.3.4.2 Disposition of fraud cases*

250. OIG's Investigation Unit is responsible for conducting investigations into complaints of wrongdoing, such as fraudulent or corrupt practices, harassment, abuse of authority, sexual harassment and sexual exploitation or abuse, willful or grossly negligent acts that endanger lives or cause damage to FAO's property or improper use of the Organization's resources. In the conduct of investigation, OIG follows the *Revised Guidelines for Internal Administrative Investigations* by the Office of the Inspector General (AC 2017/03). There are 392 cases received by OIG/INV for the period 2016-2019. The majority of these reflect violations of the FAO Manual with 35 percent followed by fraud with 27 percent and harassment with 13 percent and the rest pertained to corruption, retaliation, vendor sanction, among others. For fraud, out of the 106 cases, 83 were closed and the rest are either under preliminary review or investigation while for the 22 corruption cases, 14 were closed and 8 under preliminary review as of 31 October 2019. There are cases under preliminary review and investigation stages that are pending for a significant period.

251. On the presented statistics, the OIG informed us that there is a limited number of staff that undertake the investigation and there are other functions carried out by OIG investigative personnel (e.g. advisory, training, or policy-related work) which, at times, require immediate attention. The lack of resources for OIG's investigative function has resulted in additional time being necessary to complete the preliminary review and investigation of complaints. Nonetheless, all cases are completed as expeditiously as possible given the current staffing and resources levels.

252. Considering the nature of fraud and its impact to the organization, it is imperative to resolve fraud cases at the earliest opportunity. Likewise, prolonged case disposition generally threatens evidentiary quality as most of these are precarious in nature, i.e., memories fade and evidences spoil. However, FAO's zero tolerance of fraud can be sustained if its fraud response mechanism is effectively enabled.

**253. We recommended that FAO craft and deliver a definitive strategy to support the OIG's growing investigation work load and the resolution of its operational constraints to enhance efficiency in dispensation of fraud and corruption cases.**

254. The new OIG Charter reflects the Director General's responsibility to provide OIG with sufficient resources, provides for the contribution of extrabudgetary funded activities to support OIG's costs, assigns the Audit Committee an advisory role on the sufficiency of resources available to OIG and will continue to monitor closely its resources and highlight any shortage to Management.

#### *B.2.3.4.3 Investigation guidelines*

255. We observed that FAO *Revised Guidelines for Internal Administrative Investigations Guidelines* does not expound on the safeguarding of assets and chain of custody. It merely states that OIG catalogues evidence in a case file with the designation of the origin of the document or other item of evidence, location, date obtained and the name of the filing investigator. The Guidelines does not likewise exemplify witness and subject interviews, interview guidelines, investigation planning, notification to complainants, structure of investigation reports and referral to authorities. Upon inquiry, we ascertained that the OIG has a process for *preserving chain of custody and documenting the receipt of physical evidence and*

*evidence received via IT information systems. However, the OIG indicated that consideration can be given to include those instructions in future versions of the investigative guidelines; and informed that given that the guidelines do not apply to all investigations undertaken by the office, it may be advisable to move the guidance to SOPs.*

256. It was also revealed that OIG has already prepared in draft form several relevant SOPs. Their completion will be included in OIG's Quality Assurance and Improvement Program for 2020. Since an investigation guideline informs the investigation participants including other stakeholders, it must be complete to ensure that investigation activities are appropriately controlled as to thoroughness, objectivity, and effectiveness, all in accordance with standards and best practice.

257. **We recommended that FAO ensure that the planned revision of its investigation guidelines consider procedures on witness and subject interview; investigation planning; notification to complainants; structure of investigation reports; referral to authorities; and safeguarding of assets and chain of custody, to provide a more thorough guidance to users.**

258. OIG had already begun the process of reviewing and codifying, in the form of Standard Operating Procedures, its practices related to different phases and aspects of the investigation process. The FAO Investigation Guidelines provide comprehensive guidance to investigation participants but will be reviewed and updated to reflect changes in the legal framework and developments in the profession.

#### ***B.2.3.5 Fraud monitoring activities***

259. The institution of an effective fraud risk management program calls for a continuous improvement process that requires updated status of the organization in terms of effectively deterring, detecting and preventing fraud, and where it needs to be. Hence, employing certain feedback protocols are vital. COSO Fraud Risk Management Principle No. 5 – Monitoring Activities specifies that *the organization selects, develops, and performs ongoing evaluations to ascertain whether each of the five principles of fraud risk management is present and functioning and communicates Fraud Risk Management Program deficiencies in a timely manner to parties responsible for taking corrective action, including senior management and the board of directors.*

##### ***B.2.3.5.1 Monitoring Mechanism for FAO Anti-Fraud Strategy and Action Plan (2018-2021) Implementation***

260. We noted that FAO's Corporate Strategy and Action Plan was developed to further enhance the management of fraud risks over the medium term and aligned with its Internal Control Framework. The Strategy which covers the years 2018 to 2021, focuses on three mutually-reinforcing objectives and related priority actions. As indicated in the Strategy, the progress in implementing the agreed actions will be monitored regularly, with quarterly reporting to the DDG-THOMAS, as custodian of the Anti-Fraud Policy.

261. As the Strategy and the related Action Plan were only issued in 2018, we were told that the Organization is in the *first stage of its journey to strengthen Fraud Risk Management*. However, noting that the said strategy and action plan involve three objectives, it is necessary that it is supported with performance indicators or a mechanism to effectively measure its

performance given that the policy implementation is at an early stage. It is also made clear in the action plan that baselines are to be set, and performance indicators are to be developed. In the *Strategy implementation and reporting arrangements* portion of the same document, it is indicated that *progress in achieving the objectives will be reviewed at midterm (end-2019) as well as at the end of the implementation period and reported to the Internal Control Board*. As part of functional monitoring of a policy, it is important that the review of policy performance is based on pre-determined parameters such as indicators for clearer parameters and accountability at the onset of the policy implementation. It is in the initial stage of policy implementation that quick wins are earned and must thus be highlighted through a formal set of performance indicators to underscore their value.

**262. We recommended that FAO, moving forward, adopt a set of performance indicators relative to the implementation of its Anti-Fraud Strategy and Action Plan to ensure that the performance of activities under each objective is supported with clear performance expectations for more meaningful measurement of policy performance.**

263. Building on experience, a process for monitoring progress in implementing the Strategy, including the list of performance indicators and related methodology, will be formalized and documented.

#### **B.2.4 Implementation of Enterprise Risk Management**

264. The enterprise-wide risk management had been a part of FAO conversation since 2009 when ERM formed part of the Immediate Plan of Action. In the FC Report of 2010 (FC 135/13), it was reported that the proposal on the design of the ERM framework, the work plan, and budget of USD 700 000 were already established. In 2011, some progress was achieved by the Organization as reported in FC 138/12 with the Finance Committee expecting that the ERM Framework would be fully operational by the end of 2011. In 2012 however, the Finance Committee reported that the ERM team experienced some challenges such as in the integration of ERM into the Organization's management, governance and accountability structure that made it difficult to orient risk assessments to planned results. FAO's commitment to deliver full implementation of ERM by the end of 2013 had another impediment as the ERM project was suspended in 2012 to allow the Organization to re-assess the integration of risk management in the results-based management framework in the light of experience and considering the results of reviews of the Office of the Inspector-General.

265. From 2014, we have consistently reviewed the implementation of ERM in various levels of the Organization including the decentralized offices based on its Risk Management Guide and observed that risk management implementation was stunted. We have specifically observed that there was a pervasive inability to provide the right context for risk assessment, the identification and assessment of risks and the application of risk mitigation strategies and actions. Our review of ERM implementation in FAO in 2019-2020 particularly in resource mobilization and evaluation function also yielded concerns on the risk management process. On the other hand, the creation of FAO's Anti-Fraud Strategy and Action for 2018-2021 necessitated the creation of the Organization's Fraud Risk Policy which should be integrated with FAO's risk management policy. These concerns require the FAO to re-energize risk management and ensure that it achieves the intended benefits.

266. We informed the OSP that FAO needs to consider the results of our prior reviews where the offices were still unable to provide us with acceptable explanations on how the risks

identified in their respective risk logs are identified and assessed and could not provide us with clear justifications on how the risk management process proceeded. These had been the persistent issues we noted since 2014 which FAO needs to address swiftly.

267. In response, the OSP took note and accepted the concerns that we have communicated. It also provided us with several updates on the state of risk management implementation in FAO and noted that a work plan for 2020 is already crafted. An update of the Corporate Risk Log was originally planned for summer but had to wait for little while until discussions with senior management on the proposed processes are made. As to the overall implementation strategy of risk management in FAO, we gathered that it is aiming to proceed stepwise along the axis of maturity model towards greater ERM maturity rather than use a big bang approach. The OSP underlined that taking a maturity level approach tends to produce better results when rolling out change globally in FAO, allowing it to accompany the changes and risk management strengthening with support and capacity building. We noted too that the requirement to prepare risk logs was rolled out to all offices in the second half of 2019, together with the revised guidance on risk identification, assessment and the risk management process itself that is supported by a dedicated IT tool. Aligned to these representations, we determined that FAO now takes on the risk appetite approach in embedding risk management within the Organization while recognizing that it already has a risk policy and procedures, tools and guidance for preparation of risk logs and mitigating actions although escalation procedures, established reporting routines and a risk appetite statement or analysis are still to be prepared.

268. We were told further that the OSP will provide the necessary feedbacks where it believes the root cause of risks had not been identified but reasoned out that it may take time before full understanding and high-quality risk logs are available for each office throughout FAO. It also indicated that it will review all risk logs in this initial stage and provide feedback as necessary, which we expect to lead to gradual improvement in quality. In this regard, we noted a big step towards re-energizing ERM in FAO, with the recent creation of a Task Force to advancing risk management maturity in the UN system resulted in the Organization performing a self-assessment based on established risk maturity model. While the results of such self-assessment in FAO mostly mirrored what we have already observed in the past, we think that focus must now be geared towards value creation. For risk management to mature, FAO needs to re-commit and hasten the embedding of risk management in the Organization. Based on the results of our prior reviews, we have concluded that risk management implementation in FAO must progress at a faster pace if it intends to improve on its level of maturity. In doing so, we determined that the Organization must ensure that risk diagnosis is complete where risks and remedies not only address the symptoms but rather the root causes, for better risk mitigation. We also thought that identifying generic risks must be avoided so as not to conceal the specific issues at hand thereby ensuring that the right risk management strategy and control are applied.

269. Further, we determined that the lack of risk assessment trails, such as context definition, allowed for the arbitrary identification of risks and did not address the real risks. Having an incomplete view of risks in the absence of the right perspective, would not allow FAO to effectively escalate its risks resulting to risk mitigation problems. Another concern that must be addressed is the absence of the right risk model or taxonomy that support the operations of the Organization, the absence of which can impede risk profiling. But even with all these manifestations, we think that FAO had already achieved a simple quick win with the ERM maturity self-assessment that produced several opportunities to complete the process of the ERM adoption, 10 years from its initial recognition and formal adoption as a management

approach. However, integrating risk considerations into existing management activities always requires attention to the scope of the initiative.

270. The results of Risk Management Maturity Self-Assessment in FAO revealed that in all eight (8) assessment areas considered; several mechanisms are still to be established in order to achieve greater risk management maturity. We took notice of Culture, Capabilities, Process and Integration, Framework components and coverage, and, Documentation/Evidence to Verify Maturity Level as assessment areas that presented the greatest number of opportunities for FAO to improve. But beyond all of these, FAO must recognize that while embedding ERM can be done incrementally, such must also consider the logical establishment of its building blocks. It is therefore vital that the risk management principles adopted are clear and reflect the intent of the Organization and ensure that the culture is built around these as the principles provide the foundation for risk management implementation

**271. We recommended that FAO, through the OSP, fortify its ERM implementation business case by ensuring that related planned works and required building blocks are delivered chronologically; and supported with robust change management activities, for better implementation manoeuvrability and to increase its chance for success.**

272. The recommendation is accepted. FAO is aiming to proceed stepwise along the axis of maturity model towards greater ERM maturity rather than use a big bang approach as its overall implementation strategy.

## **B.2.5 Control environment in decentralized offices**

273. For the financial year 2019, we reviewed the design and operating effectiveness of embedded controls across critical processes in the FAORAF, FAORLC, FAMYA, FRMAG, and FRCHD. The review was carried out primarily to determine the sufficiency of the delivery of front-line controls within these processes, how these impact operational efficiency and effectiveness; and how policies and procedures are adhered to. The delivery of these front-line controls, also known as management controls, reflect the effectiveness level of control environment within the offices. These control activities are designed within the key business processes of the Organization such as for project implementation and monitoring, technical cooperation programme, 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.

### ***B.2.5.1 Project implementation and monitoring***

274. Project management involves the use of established parameters, principles and procedures from inception to completion. In 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.

275. In FAORLC, FAORAF, FAMYA and FRCHD we observed that there were deliveries beyond the budget or more than the available cash received, and the delays in the operational and financial closures were apparent. Further in FAORLC, we noted zero deliveries for projects after Entry-on-Duty (EOD), as well as financially closed projects yet with cash balances and no financial report submitted to the donor. In the case of FRCHD, we also noted that there were



45 projects which remained in the active pipeline for at least three years and most of the said projects were outstanding in the pipeline for more than 10 years. Lastly in FRMAG, we determined the delayed submission of terminal reports, stalled project closure, and project that exceeded NTE date.

276. One of the important activities in managing projects is to ensure the timely winding up of the projects' technical, operational and administrative actions particularly in effecting the project's operational and financial closures to ensure that the established protocols are properly undertaken. Falling short to follow such protocols could affect order and cohesiveness in the accurate and prompt updating of the project's information in FPMIS. Moreover, one of the Organization's focus is its partnership with donors which is built on trust and mutual accountability. The appropriate disposal of unspent project balances, being one of the ways to show accountability on FAO's side, should be initiated especially that the NTEs of the projects had long been elapsed.

#### ***B.2.5.2 TCP Implementation***

277. The TCP was created to enable FAO to make its know-how and technical expertise available to member countries through targeted, short term, catalytic and sustainable projects. It aids in all areas pertaining to FAO's mandate and competence that are covered by the Strategic Framework to respond to governments' priority needs.

278. In FAORLC and FRCHD, we noted significant delays in the approval of government requests for TCPs. In fact, there were 15 projects in FAORLC which have lag times ranging up to 269 days between the approval and the actual entry-on-duty dates while in FRCHD, five projects remained in the active pipeline for more than six weeks or 42 days before the approval. Meanwhile, in FAMYA we noted lag time from the active pipeline (P2 status) to final consultation (P3 status) of up to 23 weeks in the formulation phase of TCP projects.

279. TCP projects are demand-driven technical assistance that respond to government's priority needs, catalyze change, foster capacity development and assist member countries in mobilizing resources. The delays encountered pose a risk that expected benefits may not be availed of by the recipient government in a timely manner. Likewise, technical assistance may not have the same value and relevance if the same is provided on later dates.

#### ***B.2.5.3 Donor reporting***

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

281. In FRMAG and FRCHD, we observed the late submission of progress and terminal reports. In FAORAF, the progress report and terminal reports were not uploaded in the FPMIS.

282. Late submission of terminal reports may preclude FAO in the following: (a) administration of corrective measures to address the exceptions/problems identified in the implementation of projects; and (b) loss of donations and future partnerships due to inability to timely deliver donor reporting commitments.

#### ***B.2.5.4 Procurement and letters of agreement***

283. FAO procurement is generally undertaken based on competition and is based on the fundamental principles of best value for money, fairness, transparency, economy and effectiveness. Related to this, a Letter of Agreement (LoA) is a contractual instrument used to obtain timely acquisition of services from eligible entities in a transparent and impartial manner, taking into consideration economy and efficiency to achieve an optimum combination of expected whole-life costs and benefits.

284. In FAMYA, FAORLC and FRCHD, we noted that the procurement plan lacks adequate details pursuant to the prescribed regulations. Further in FAORLC, we determined the lack of justifications for the use of direct procurements, obtaining only one quotation instead of three, and the lack of Local Procurement Committee (LPC) review. Moreover, for FRCHD, we observed that there were procurement personnel performing incompatible functions.

285. Adequate procurement planning could avoid or minimize the possibility of last-minute procurement actions as well as the possibility of late deliveries. Likewise, it must be emphasized that procurement policies, regulations, rules, and procedures need to be adhered into to ensure compliance with all the fundamental principles of FAO procurement.

#### ***B.2.5.5 Cash and financial management***

286. 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. The audit of cash and financial management covered both the evaluation of effectiveness and adequacy of controls over cash accounts and the determination of compliance with existing FAO financial policies, regulations, and rules.

287. We noted in FAMYA that the petty cash funds were almost depleted upon replenishment and that there were instances that the monthly imprest account balance were relatively high. Similarly, the amount set up for Petty Cash Fund (PCF) is more than what is actually needed for petty expenses or expenses which are not regularly incurred by FAORLC. Moreover, we noted that the FRCHD do not maintain a USD imprest bank account.

288. We emphasize the established policy that the local currency balance should be kept low to minimize the risk of devaluation. Thus, adequate planning and monitoring of cash balance is necessary to ensure timely transfers from USD accounts that are required to be maintained to local currency accounts to cover expected disbursements and to avoid possible devaluation. Cash on hand being significantly huge might pose a risk as to its custodianship/safekeeping.

#### ***B.2.5.6 Asset management***

289. Adequacy and availability of assets are vital to the effective functioning and delivery of the FAO's operational commitments. Manual Section 503 provides the guidelines for asset management which prescribe the processes and controls for the maintenance of records, custody and safekeeping, conduct of physical verification, transfers, and disposal of assets.

290. In FAORLC, FAORAF, FRMAG, FAMYA and FRCHD it was pervasive that the Asset Register did not provide complete and accurate asset records, such as assets without indicated serial number, Purchase Order (PO) number, vendor name, bar code labels, and location; there were also assets reflected in the name of retired staff; and duplicate numbers. In addition, there were IT equipment that were assigned to custodians who are not personnel of FRCHD and FAORLC.

291. The entry of complete details in the Asset Register will ascertain the existence, determine the responsible custodian, and identify the current location of the property. The lack of the required details, particularly the custodian and location affect the reliability of the asset records. Likewise, assets assigned to persons who are not personnel of the Organization defies accountability over the asset and a risk of loss on the part of the Organization.

#### ***B.2.5.7 Human resource management in decentralized offices***

292. FAO recognizes that the key in attaining its 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 NSHR include Consultants, PSA Subscribers, National Project Personnel (NPP) and other non-staff personnel.

293. Our review of the sampled personal files in FAORAF, FAORLC, FRMAG and FAMYA revealed either improper/incomplete or un-updated case folders on file, unsigned letter of amendments in the PSAs, insufficient documentation, deficiencies in the TOR attached to contracts, no document evidencing the competitive selection undertaken, as well as absence of performance quality assessment of NPPs.

294. Properly filed copies of documents serve as evidence to prove that the selection, hiring and management of human resources, particularly the PSAs and NPPs, are competitive and transparent, and undertaken in compliance with required policies and procedures. The maintenance of personnel documents is necessary to provide a record of their existence and validity. On the other hand, the quality assessment on the performance provides a valuable input to the concerned officers involved in the selection process, as these could be used as reference should the Organization consider availing the services of the NSHRs.

#### ***B.2.5.8 Travel management***

295. Travel management is a specialized corporate function that balances staff travel needs with the Organization's goals and objectives. It ensures cost tracking and control and facilitates adherence to travel policies.

296. Verification of travel transactions in FAORLC and FRMAG disclosed that additional advances were granted to 24 travellers despite the existence of their previous travel advances that were yet to be cleared by the technical officers. In addition, we found out that there were past due accounts whose status were "terminate assignment" in FRMAG and FAORAF. Moreover, delayed approval of submitted Travel Expense Claims (TEC) by the Budget Holder was noted in FAORLC while in FAORAF, unaccounted TEC in the GRMS was observed.

297. We emphasize the importance of compliance with the FAO travel policies as internal control measures. Settlement of prior travel advances shall be required for new travel advances to ensure prompt settlement of the former and avoid accumulation of outstanding travel advances. Likewise, clearance or recovery of past due travel advances shall be required for the same purposes. Travel expenses shall be promptly accounted for as the related mission reports are project deliverables so that travel expenditures may be reported on the period to which they relate.

298. Based on the results of our audits of critical operational processes in the regional and country offices which are communicated in the management letters addressed to the heads of offices concerned, we deemed it vital to highlight the importance of controls 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 is 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 requires sustained assessment at all levels of the FAO management, not just in the regional and country offices.

299. **We recommended that FAO continue its efforts to 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.**

300. FAO agreed to implement the recommendation and in this regard, the guidelines for employment of National PSA (PSA.NAT) and National Project Personnel (NPP) were revised by CSH in January 2020 to strengthen the operational efficiency and effectiveness of the selection process. The guidelines strongly encourage a transparent competitive/comparative selection and emphasize the importance of providing and retaining written records.

## **C. DISCLOSURES BY MANAGEMENT**

301. 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**

302. In 2019, write-offs amounting to USD 26 137.41 were made. This amount comprised of: (a) USD 12 520.81 pertaining to loss due to robbery; (b) USD 9 484.82 caused by fraudulent payments; and (c) USD 4 131.78 referring to payments with wrong banking details. Review of these write-offs were made and found to be in accordance with regulations and that the appropriate procedures were observed.

## C.2 Ex-gratia payments

303. Management disclosed that ex-gratia payments made in financial year 2019 totaled USD 280 950.00. The amount of USD 212 500.00 was paid as death compensation to the beneficiaries of the PSA Consultant who died in the Ethiopian Airlines air crash. The amount of USD 68 450.00 was paid for the emergency medical repatriation of a PSA subscriber (international status), based in Erbil, Iraq to serve as International Irrigation Specialist at FAO Erbil Office who was found unconscious on 02 September 2019.

## C.3 Cases of fraud and presumptive fraud

304. 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 considering the definition of fraud contained in its Policy against Fraud and Other Corrupt Practices introduced on 12 March 2015 (Administrative Circular No. 2015/08 (Annex 1)). 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.

### *i. Cases under review in 2018*

305. The Management informed that there were still two cases of fraud under investigation as at reporting date. We noted that these cases were still ongoing since 2017, which includes: (a) allegations of fraud involving two vendors that submitted fraudulent documentation and may have colluded in the context of tender for seeds valued approximately USD 1 million. Nonetheless, neither vendors were awarded a purchase order, thus there was no financial loss to the Organization. The Vendor and Sanctions Committee (VSC) had issued the Notice and Sanctions Proceedings to the vendors. One of the vendors did not respond, hence the VSC will then prepare the proposal for sanction for submission to the ADG, Corporate Services Department. The other vendor replied, and the case is pending completion of the sanctions proceedings; and (b) fraudulent documentation by a vendor, in Decentralized Office, to attest the quality of its goods to induce the office to disburse USD 96 607 for the goods. The vendor did not respond to the Notice of Sanctions Proceedings issued by the VSC, thus the latter will prepare proposal of sanction for submission to the ADG, Corporate Services Department.

### *ii. Cases dealt with in 2019*

306. Of the cases of allegations of fraud dealt with in 2019, we noted that five cases were now closed, while the other five cases were currently pending with the VSC or action is being taken to recover monies. These cases were investigated by the OIG and found that:

- a. **Closed cases.** (i) multiple FAO personnel knowingly or recklessly approved terms of reference for a consultant that contained tasks that were not intended to be carried out and/or timecards indicating days not actually worked in relation to an Editorial PSA Subscriber contract to cover work done without a contract; (ii) two NPPs of a Country Office were engaged in collusive practices and solicited payment from the NGOs in exchange for assistance in the award of Letters of Agreement. No loss to the Organization was identified. The respective NPP Contracts were not renewed and a

warning has been inserted in the respective NPP's personnel files; (iii) NPP had an arrangement with at least two other FAO personnel in the same Country Office and various NGOs designed to achieve the improper purpose of favoring certain NGOs in exchange for improperly favoring them. No loss to the Organization was identified. The NPP resigned on completion of the investigation and a warning was accordingly inserted in the NPP's personnel file; (iv) NPP contract created multiple false invoice entries in FAO systems resulting in the receipt of duplicate payments and avoiding recovery against outstanding operations advances, amounting to approximately USD 7 983.42 in undue payments. The NPP Contract was not renewed and a warning has been inserted in the NPP's personnel file; and (v) a supplier provided falsified documentation to FAO resulting in payment for services which had not in fact been rendered. The case was submitted to the Assistant Director-General, Corporate Services Department, for appropriate action.

**b. Pending with the VSC.** (i) 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 issued to the vendor in question and no loss has been identified; (ii) staff member was involved in fraudulent and collusive practices in relation to the issuance of consultancy contracts between 2001 and 2018. The staff member's actions misled the Organization into making payments amounting to USD 177 821.38 which unduly benefitted him financially. The staff member was summarily dismissed effective 11 October 2019. Action is being taken to recover monies from the staff member's emoluments; (iii) implementing partner falsified documentation supplied to the Organization in support of its request for reimbursement of USD 15 044 pursuant to a Letter of Agreement. As per its own admission, the vendor provided the Organization erroneous information which inflated its request by a total of USD 2 375; and (iv) third party monitor engaged by an FAO country office submitted fraudulent reports indicating the proper implementation of a field project. OIG's report was finalized and issued in early 2020.

### ***iii. Ongoing matters of presumptive fraud as of April 2020***

307. As of April 2020, Management reported eight ongoing matters of presumptive fraud which were currently investigated by the OIG involving allegations on three staff members, four suppliers, and one pensioner. Details are provided below:

**a. Cases on staff members.** One staff member fraudulently represented a residential move to justify receipt of a relocation grant. The staff member reimbursed the funds allegedly received under false pretenses before the start of the investigation. There was also a case wherein staff member instructed the beneficiaries to deposit money to be used as part of the project in a third party account, thereby diverting the funds amounting to approximately USD 10,000. Another staff member may have an ongoing conflict of interest with a vendor of the Organization and colluded with this vendor in obtaining contracts with a value of approximately USD 315 850.

**b. Cases on suppliers.** There was one supplier that provided FAO with falsified delivery notes bearing the signature of FAO personnel to demonstrate that goods were delivered, when in fact they were not. The value of the goods allegedly not delivered is approximately USD 45 000.00. The supplier did not receive any payment related to the falsified delivery note. On the other hand,

there were three distinct cases wherein suppliers submitted fraudulent documents and concealed their associations with other companies bidding on similar FAO tenders for the provision of seeds.

c. **Case on pensioner.** FAO pensioner knowingly submitted fraudulent medical claims for a value of approximately USD 100 000 to FAO's medical insurance provider. The matter was submitted to the Director-General for decision on the pensioner's continued participation in the Organization's After Service Medical Coverage.

308. The ethical standards, code of ethics, robust policies and strategies as well as reporting structures are the foundation of effective fraud management within an organization. While we note the actions being taken by Management on cases of fraud and misconduct, we are concerned on the continuous involvement of FAO staff which we find critical for the Management to give an equal, if not a more significant attention. We highlight that as a consequence of these cases, FAO may be exposed to a wide range of risks, including reputational risks that is greatly detrimental to the Organization, as a whole. It is then imperative for FAO to further improve its fraud controls in order to effectively deter and prevent its staff in committing fraudulent acts and misconduct.

309. **We recommended that FAO recalibrate its Anti-Fraud Strategy and Action Plan to focus more on addressing the growing fraud cases which involved collusion participated by FAO staff and to develop a more stringent role of unit managers in identifying and preventing fraud within their respective units/offices, all to ensure that FAO manage reputational risks, among others, as a consequence of the presently increasing fraud incidents.**

## **D. ACKNOWLEDGEMENT**

310. We wish to express our appreciation for the cooperation and assistance extended to us 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.

311. We also wish to express our appreciation to the FAO Finance Committee, the FAO Council and the FAO Conference for their continued support and interest in our work as External Auditor from 2008-2019.

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

**Quezon City, Philippines**  
**31 July 2020**



## List of Acronyms

<b>Acronyms</b>	<b>Description</b>
ADG	Assistant Director-General
ASMC	After Service Medical Coverage
BDTF	Business Development Task Force
BH	Budget Holder
CAPEX	Capital Expenditure
CCA	Common Country Analysis
CIO	Information Technology Division
COSO	Committee of Sponsoring Organization of the Treadway Commission
COVID	Coronavirus Disease
CPF	Country Programming Framework
CPMB	Corporate Programme Monitoring Board
CSF	Finance Division
CY	Calendar Year
DDG	Deputy Director-General
DDCI	Internal Control and Compliance Unit
DG	Director-General
DGB	Director-General Bulletin
DO	Decentralized Offices
DQM	Data Quality Management
EAUD	External Auditor
EBO	Employee Benefits Obligations
EMMT	Executive Management and Monitoring Team
EOD	Entry-on-Duty
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
FAMYA	FAO Representation Offices in Myanmar
FAO	Food and Agriculture Organization
FAOR	FAO Representatives
FAORAF	FAO Regional Office for Africa
FAORAP	FAO Regional Office for Asia and the Pacific
FAOREU	Regional Office for Europe and Central Asia
FAORLC	FAO Regional Office for Latin America and the Caribbean
FC	Finance Committee
FLO	Funding Liaison Officer
FMM	FAO Multipartner Programme Support Mechanism
FO	Functional Objective
FPMIS	Field Programme Management Information System
FPP	Fraud Prevention Plans
FPSN	Field Programme Support Network

<b>Acronyms</b>	<b>Description</b>
FRCHD	FAO Representation Offices in Chad
FRM	Fraud Risk Management
FRMAG	FAO Representation Offices in Madagascar
GEF	Global Environment Facility
GFF	Global Financing Facility
GJP	Generic Job Profiles
GRMS	Global Resource Management System
GS	General Services
HQ	Headquarter
HR	Human Resources
IBAN	International Bank Account Number
ICSC	International Civil Service Commission
IEFEF	Independent Evaluation of FAO's Evaluation Function
IFAD	International Fund for Agricultural Development
iMIS	Integrated Management Information System
INPS	Italian Istituto Nazionale di Previdenza Sociale
IPA	Immediate Plan of Action
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
ISO	International Organization for Standardization
JIU	Joint Inspection Unit
KPI	Key Performance Indicators
LEG	Legal Office
LPC	Local Procurement Committee
LTI	Long Term Investments
MOPAN	Multilateral Organisation Performance Assessment Network
MS	Manual Section
MTE	Mid-Term Evaluations
MTP	Medium-Term Plan
MTR	Mid-term Term Synthesis Report
NPP	National Project Personnel
NSHR	Non-Staff Human Resources
NTE	Not to Exceed dates
OCC	Office of Communications
ODG	Office of Director General
OED	Office of Evaluation
CSH	Office of Human Resources
OIG	Office of the Inspector General
OSD	Office of Support to Decentralized Offices
OSP	Office of the Strategy, Planning and Resource Management
OSSC	One Stop Service Centres
PCF	Petty Cash Fund
PEMS	Performance Evaluation and Management System

<b>Acronyms</b>	<b>Description</b>
PO	Purchase Order
PROMYS	Project Lifecycle Management System
PS	Programme Support and Technical Cooperation Department
PSA	Personal Service Agreement
PSD	Programme Support and Technical Cooperation Department
PSE	Emergency and Resilience Division
PSP	Partnerships Division
PSR	Business Development and Resource Mobilization Division
PSRB	Business Development Unit
PSRD	Multi-Partner Initiatives and Office of the Director
PSRP	Resource Partnership Management Unit
PSRR	Outreach Marketing and Reporting Unit
PWB	Programme of Work and Budget
RBM	Results-based Management
RM	Resource Mobilization
RMMS	Corporate resource mobilization and management strategy
FAORNE	FAO Regional Office for Near East and North Africa
RO	Regional Office
RR	Regional Representatives
SCP	Sustainable Consumption and Production
SDGs	Sustainable Development Goals
SLA	Service Level Agreement
SOP	Standard Operating Procedure
SOs	Strategic Objectives
SPS	Separation Payment Scheme
SRL	Staff Related Liabilities
SSC	Shared Services Centre
SSTC	South-South and Triangular Cooperation
TCA	Trading Community Architecture
TCP	Technical Cooperation Programme
TEC	Travel Expense Claims
TOR	Terms of Reference
TPF	Termination Payments Fund
UN	United Nations
UNDAF	United Nations Development Assistance Framework
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNDSS	United Nations Department for Safety and Security
UNEG	United Nations Evaluation Group
UNGM	UN Global Marketplace
UNHAS	United Nations Humanitarian Air Service
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund

<b>Acronyms</b>	<b>Description</b>
UNMISS	United Nations Mission in South Sudan
UNSDCF	UN Sustainable Development Cooperation Framework
USA	United States of America
USD	US Dollars
VBS	Vendor Banking Services
VSC	Vendor and Sanctions Committee
WFP	World Food Programme