OFFICE OF THE INSPECTOR GENERAL

Audit of the Governance and Implementation of the Global Environment Facility (GEF) Portfolio (AUD 0122)

EXECUTIVE SUMMARY

The Office of the Inspector General (OIG) conducted an audit of the governance and implementation of the Global Environment Facility (GEF) portfolio between February and June 2021. The audit reviewed the governance arrangements and implementation of GEF projects in the period 2018–2021 with a focus on GEF projects implemented by Country Offices through national/government entities as Operational Partners (OPs).

Background

The GEF portfolio managed by FAO has grown substantially in recent years with the current value of projects under preparation or operationally active exceeding USD 1.1 billion. As at 30 July 2021, the operationally active portfolio comprised 123 projects with a total budget of USD 539 million, of which 20 projects (16 percent of the total) with a total budget of USD 113 million (21 percent of the total) use the indirect execution methodology through Operational Partners. In line with GEF requirements, FAO is currently effecting a major transition of its GEF portfolio from a direct execution (DEX) modality to the indirect execution modality: of the 50 pipeline projects not yet operationally active but which have been submitted or endorsed by GEF 41 projects (82 percent of the total) will use the indirect execution modality and a further 52 projects in preparation are all expected to use the indirect execution modality.

The formulation and implementation of all FAO GEF DEX projects are governed by the policies, procedures, practices and structures of the FAO Project Cycle. FAO GEF indirect execution projects are governed by Manual Section 701 Operational Partners Implementation Modality (OPIM) which references the guidelines of the Project Cycle for non-OPIM specific procedures. Under OPIM, FAO retains overall accountability for project implementation and provides support, monitoring and oversight of each OP’s work, but transfers responsibility for day-to-day project execution to an OP through an Operational Partners Agreement (OPA). A single project can have several OPs responsible for different project components/results or a combination of OPs and (Implementing) Partners with Letters of Agreement (LoA). The additional layer of an OP in the indirect execution modality, in addition to an OP normally having a lower technical capacity than FAO, results in a different risk profile from the FAO DEX projects.

Based on OIG’s risk assessment and given the future transition of the GEF portfolio to a predominantly indirect execution modality, this audit focused on examining whether the Project Cycle and OPIM methodology are adequate to ensure the effective and efficient implementation of GEF indirect execution projects through FAO Country Offices (COs). The audit further examined whether the Project Cycle takes into account the findings and conclusions of previous audit work carried out by OIG.

Key observations of the audit

Project Cycle roles and responsibilities

The Project Cycle has a matrix that sets out the accountabilities and responsibilities of Project Cycle roles for the formulation and management of GEF projects. The audit found differences between the responsibilities of the roles – the Project Formulator (PF) /Budget Holder (BH), the Project Task Force (PTF), the Lead Technical Officer (LTO) and the Funding Liaison Officer (FLO) – as defined in the Project Cycle and as operating in practice. The available capacity to
carry out these respective roles in specific project contexts was a key factor that led to these differences. Furthermore, while FAO has developed an accountability framework, its mechanisms did not operate effectively in some cases in the formulation and management of GEF projects. OIG considers that a strong internal control framework requires accountabilities and responsibilities to be clear, feasible, monitored and operating as defined. The responsibilities for monitoring and oversight and risk management of the GEF Unit in the Office of Climate Change, Biodiversity and Environment (OCB) also require clarification. OIG noted that the Project Support Services Division (PSS) has started a review of the functioning of Project Cycle roles, with the first phase co-led by PSS and DDG-Semedo examining the LTO and PTF roles with the objective of having a new technical support model with updated roles defined by the end of January 2022.

Technical capacity assessment for Operational Partners

An OP’s technical capacity is reviewed as part of the OP selection process taking into consideration the specific project context, the technical profile needed and capacities required to implement the identified results. However, there is no standard methodology for technical capacity assessments that can be applied globally to assess the technical capacity of a potential OP. Consequently, there is insufficient assurance that risks related to the technical capacity of an OP have been comprehensively identified, analysed and mitigated. OIG considers that the assessment of technical capacity risks requires both the definition of a standard approach and methodology and allocation of responsibilities for carrying out the assessment.

Monitoring and oversight of Operational Partners

The audit identified some instances where Country Offices and supporting Decentralized Offices required additional capacity to effectively monitor OPs' compliance with OPAs, provide support, monitor and oversee the OPs execution activities, and manage the required assurance activities during implementation. Capacity limitations were further exacerbated by a fragmented and non-standardized approach to monitoring resulting from the lack of a dedicated monitoring function in FAO accountable to set monitoring standards and the limitations of the current project management system. OIG considers that the capacity of a Country Office to provide the required monitoring and oversight, which is currently self-certified, should be assessed independently of the Country Office prior to project approval.

Compliance with GEF standards

The revised GEF Environmental and Social Safeguards Standards required a revision of FAO’s Framework for Environmental and Social Management and interim arrangements to ensure compliance. However, operationalization of the new Framework will require increased financial and human resources to implement and monitor the associated policies and procedures.

Conclusion

The observations made in this audit regarding capacity limitations, in particular in terms of Project Cycle roles and Country Office monitoring capacity, are not GEF portfolio specific but could potentially impact also other FAO projects.

Specifically for GEF projects implemented through OPs, the lack of a standard and consistent approach to technical capacity assessment of OPs and weaknesses in the monitoring and oversight of OPs increase the risk that GEF indirect execution projects using the OPIM modality may not be implemented efficiently and effectively.
Therefore, as the focus of this audit was on projects implemented through the rapidly growing indirect execution modality, OIG assessed the existing governance and implementation arrangements of the GEF portfolio as Major Improvement Needed (see Annex for definition of audit ratings).

**Agreed Actions**

The previous Project Cycle and Management of the FAO GEF Portfolio audits, conducted by OIG in 2019 and 2017 respectively, and the current audit shared similar findings and conclusions regarding the structural, procedural and control issues which negatively impacted project management. OIG references in this report existing Agreed Actions and other corporate initiatives where they address the root causes of the findings in this audit and makes further recommendations to address the additional risks when implementing GEF projects executed through OPs.

The report includes five new actions, all of which are considered high priority that management has agreed to undertake. The relevant FAO departments have committed to fully implement all actions by December 2022.

*Mika Tapio*

**Inspector General**

24 January 2022
ANNEX: DEFINITION OF AUDIT TERMS

A. AUDIT RATINGS

<table>
<thead>
<tr>
<th>Rating System</th>
<th>An audit rating system (defined below) has been used to rank the adequacy of internal controls in each area.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory</td>
<td>The assessed controls, governance arrangements, and management of opportunities and risks, are adequate and effective to provide reasonable assurance that objectives are met.</td>
</tr>
<tr>
<td>Some Improvement Needed</td>
<td>A few specific weaknesses in the assessed controls, governance arrangements, and management of opportunities and risks were noted; generally however, they are adequate and effective to provide reasonable assurance that objectives are met.</td>
</tr>
<tr>
<td>Major Improvement Needed</td>
<td>Numerous specific weaknesses in the assessed controls, governance arrangements, and management of opportunities and risks were noted; they are unlikely to provide reasonable assurance that objectives are met.</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>The assessed controls, governance arrangements, and management of opportunities and risks, are not adequate or effective to provide reasonable assurance that objectives are met.</td>
</tr>
</tbody>
</table>

B. PRIORITIES OF AGREED ACTIONS

<table>
<thead>
<tr>
<th>Rating System</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Prompt action is required to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major negative consequences for the audited entity.</td>
</tr>
<tr>
<td>Moderate</td>
<td>Action is required to ensure that the audited entity is not exposed to risks. Failure to take action could result in negative consequences for the audited entity.</td>
</tr>
<tr>
<td>Low</td>
<td>Action is desirable and should result in enhanced control or better value for money. Low priority Agreed Actions, if any, are dealt with by the audit team either during the exit conference or through a separate memorandum. Therefore, low priority Agreed Actions are not included in this report.</td>
</tr>
</tbody>
</table>

1 FAO’s accountability policy, in an extension of the COSO internal control objectives, establishes five critical areas of performance relevant for assessing the adequacy of controls – effectiveness, economy and efficiency, compliance, reporting and protection.