EXECUTIVE SUMMARY

The Office of the Inspector General (OIG) conducted an audit of payroll controls between February and April 2022.

Specifically, OIG carried out an audit of payroll governance arrangements in addition to substantive testing of payroll calculations, disbursements and accounting during 2020–21.

The Shared Services Centre Payroll Unit (SSC-Payroll) is the business process owner for the payroll process. The Human Resources Division is the policy owner. Staff and non-staff human resources payrolls generated USD 788 million and USD 656 million of employee benefit costs respectively during the 2020–21 biennium.

Main observations and conclusions
No errors were noted in the substantive audit testing, which provides confidence that payroll controls were operating adequately during the period under review.

However, OIG concluded that the following governance arrangements required improvement to enhance the overall effectiveness of the payroll process and related controls:

- SSC-Payroll is responsible for the payroll process, i.e., for calculating net earnings and contributions for staff and non-staff human resources amounting to nearly 50 percent of FAO annual expenses. However, there was inadequate independent monitoring of the process. The level of monitoring should be commensurate with the materiality of the transaction flows.

- Segregation of duties between the various business process owners who are responsible for the Global Resource Management System (GRMS) modules which provide input to the payroll process and those GRMS modules that are under the direct responsibility of SSC-Payroll was inadequate. This was the result of an excessive accumulation of business module ownership responsibilities in SSC-Payroll, and payroll module system responsibilities being too widely defined and distributed. Inadequate segregation of duties increases the risk of payroll fraud.

- Organization and resourcing of SSC-Payroll was inadequate for its responsibilities due to the significant increase in business processes allocated to the unit, high level of personnel turnover and a business model which allocates technical responsibilities for configuration of the payroll module to SSC-Payroll rather than to the Digitization and Informatics Division. This increases the potential risk that payroll processes may not complete in the required monthly timescales.

In summary, OIG is of the opinion that governance arrangements for the payroll process in FAO Need Some Improvement to ensure the effectiveness and efficiency of the function and to reduce the risk of fraud.
Agreed actions

This report contains eight actions that management has agreed to undertake and committed to fully implement by June 2023. In OIG’s opinion, the priority actions are to allocate responsibilities for monitoring of the payroll process, revise segregation of duties and ensure an adequate level of staffing for the SSC-Payroll unit.

Mika Tapio
Inspector General

17 June 2022
## ANNEX: DEFINITION OF AUDIT TERMS

### AUDIT RATINGS

<table>
<thead>
<tr>
<th>Rating System</th>
<th>Description</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>

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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.