Audit of the Negotiation and Clearance of Funding Agreements  
(AUD0123)

EXECUTIVE SUMMARY

The Office of the Inspector General (OIG) conducted an audit of the negotiation and clearance process for Funding Agreements between June and September 2022. The audit covered the period from January 2020 to December 2021.

Extra-Budgetary resources constitute 73 percent of the total FAO resources mobilized in the 2020-21 biennium. Consequently, the negotiation and clearance of Funding Agreements carried out by the Funding Liaison Units, which establish the terms and conditions under which the funding is accepted, is a critical process for FAO.

Main observations and conclusions

OIG is of the opinion that the governance arrangements, procedures established and controls applied to the negotiation and clearance of Funding Agreements in FAO Need Some Improvement to increase the effectiveness and efficiency of the process.

Existing governance arrangements require strengthening, as follows: (i) the Resource Mobilization and Private Sector Partnerships Division (PSR) should be formally appointed as the business process owner, in accordance with FAO’s Internal Control Framework, for the negotiation and clearance process for Funding Agreements; (ii) possible conflicts of interest where Funding Liaison Units are responsible for both due diligence and fundraising functions should be addressed; (iii) PSR responsibility for the negotiation and clearance of Green Climate Fund Funding Agreements should be formalized; (iv) a coordination mechanism between the Funding Liaison Units should be established to ensure consistency in the negotiation and clearance process.

In terms of risk management, OIG observed that the process for identification and clearance of non-standard clauses in Funding Agreements was adequate. However, all non-standard clauses should be consolidated in a repository. In addition, for each clause type, clear red lines should be developed to guide negotiations over potential future clause changes requested by resource partners and ensure compliance with FAO’s Financial Rules and Regulations.

Furthermore, the efficiency and effectiveness of the negotiation and clearance process could be improved if: (i) FAO Country Offices consistently involved Funding Liaison Officers at the Concept Note phase of project development, as required by FAO Project Cycle guidelines. OIG recognizes that training of the decentralized offices on this aspect is in progress; (ii) increased support was provided to the Funding Liaison Units by a client relationship management system functionality; and (iii) the inadequate resourcing for the internal clearance process in the Finance and Legal units was addressed, together with the introduction of improved procedures for the clearance process.

Agreed actions

This report contains seven actions that management has agreed to undertake and committed to fully implement by December 2023. The priority action is that of appointing the business process owner to strengthen governance arrangements.

Mika Tapio
Inspector General

20 January 2023
# 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>
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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.