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NL227/e
AUD0122 - Audit of the Governance and Implementation of the Global Environment Facility Portfolio

1. 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 (OP).

2. 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 OPs. 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.

3. 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 (MS) 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. 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.

4. 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. 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

5. 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/Budget Holder, the Project Task Force, the Lead Technical Officer and the Funding Liaison Officer – 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 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 Lead Technical Officer and
Project Task Force 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**

6. 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**

7. The audit identified some instances where Country Offices and supporting Decentralized Offices required additional capacity to effectively monitor OPs’ compliance with the Operational Partners Agreements, 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**

8. 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**

9. 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.

10. 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.

11. 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**.

**Agreed Actions**

12. 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 the 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.
13. 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.

**AUD0222 - Audit of Selected Staff Entitlements**

14. OIG conducted an audit of the management of selected staff entitlements between September and November 2021. The scope of the audit was limited to the management of education grant, dependency benefits, entitlement travel, and settling-in grant.

15. During the period from January 2018 to July 2021, FAO’s staff entitlement expenditures were approximately USD 154 million. The four entitlement categories selected for review under the scope of this audit amounted to 80 percent of the expenditures. Staff entitlement processes are managed by the Shared Services Centre (CSLC) with the support, as necessary, of the Human Resources Division (CSH) as the policy owner.

16. The objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes over the management of the selected staff entitlements.

**Main observations and conclusions**

17. OIG is of the opinion that the governance arrangements, procedures established and controls applied for the management of the Staff entitlements covered by this audit provide reasonable assurance that entitlements are processed efficiently and effectively. OIG commends CSLS for the automation of many key controls.

18. Notwithstanding the above, OIG believes that there is room for further improving anti-fraud controls, in particular for education grant and entitlement travel, which are prone to inherently high fraud risks. Specifically, OIG noted that spot checks of original documentation submitted by staff members to support their education grant claims (attendance and payment) and independent confirmation from educational institutions were not regularly conducted. These actions should be considered for implementation as a matter of priority.

19. There are also opportunities for enhancing performance monitoring. For example, OIG observed the absence of a Service Level Agreement for the processing of settling-in grants. Having a Service Level Agreement would allow to measure and monitor more precisely the actual time for the process and speed up the payment to the staff member as a result of an appointment or reassignment to another duty station.

20. In summary, OIG concluded that the processes under review **Need Some Improvement** to further mitigate risks and enhance performance monitoring.

**Agreed actions**

21. The report contains five actions that CSLC management has agreed to undertake and committed to fully implement by December 2022.

**AUD0322 - Audit of the FAO Subregional Office for Eastern Africa**

22. OIG conducted an audit of the FAO Subregional Office for Eastern Africa (SFE) in Ethiopia between June and November 2021. SFE supervises and provides support to nine Country Offices in Eastern Africa, namely Burundi, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Somalia, South Sudan, and Uganda. While the audit covered the period from January 2020 to March 2021, the report also reflects subsequent developments as of November 2021.

**Main observations and conclusions**

23. Overall, OIG assessed SFE as **Some Improvement Needed** in its implementation of the system of internal controls.
Governance:

- Country Offices in the subregion commended the technical support provided by SFE. However, SFE’s role in operational support was unclear. The Regional Office for Africa expected SFE to be the first point of call for all support activities, while SFE considered that its primary role was to provide technical expertise. Further, contrary to MS 117.8, the Subregional Coordinator was not the FAO Representative for the Country Office in Ethiopia (FRETH). An integrated management of the two offices could lead to a leaner governance structure with a more reasonable supervisory span. The two offices shared administrative support services but did not have a proper cost-sharing arrangement.
- Approximately 87 percent of personnel had completed the six mandatory training courses related to ethical awareness and fraud prevention. However, SFE did not have a reporting channel to receive Sexual Exploitation and Abuse allegations in a confidential manner.
- Risk statements were generally well formulated but the fraud risk assessment needed improvement. The combined fraud prevention plan with FRETH was SFE centric and led to the underrating of some risks related to FRETH’s operations. SFE reviewed the 2020 Internal Control Questionnaires of the nine countries under its supervision but did not highlight suggestions for improvement to the Country Offices. In its own Internal Control Questionnaire, of the 44 control points, SFE reported 27 as fully implemented. However, OIG assessed that nine of these were only partially implemented.
- SFE actively advocated FAO’s mandate and had established good working relations with key stakeholders in Eastern Africa. It had also developed a communications strategy and implemented a series of planned communications activities.

Operations:

- In general, SFE conducted competitive recruitments, used rosters to fill positions, and limited contract duration of direct selections to 100 calendar days per year.
- SFE had limited procurement of approximately USD 300 000. The results of audit testing showed that the office was compliant with the applicable procurement procedures, supporting records were well documented, and there were no delivery delays by vendors.
- SFE did not have a written agreement with the local bank. Further, in over 50 percent of bank transfers, totalling USD 11 million during the audit period, payee banking information was not recorded in the Global Resource Management System (GRMS). SFE also incorrectly used unmatched invoices for recurring services.
- In 2020, SFE proactively identified a number of control weaknesses in the management of its vehicle fleet and had taken corrective action to address them. However, SFE did not properly conduct physical verification of assets and its asset register contained errors.
- SFE had yet to implement 10 of the 18 recommendations in the security assessment conducted by the United Nations Department of Safety and Security in 2018. As of 30 November 2021, 24 of its 42 personnel had not provided their mobile telephone numbers for security alerts.

Programme:

- SFE developed a priority framework for 2019–2023 and a resource mobilization strategy for USD 10.7 million, but it did not report on the results or achievements on an annual basis as required.
- SFE had not completed a gender stocktaking exercise and had assigned the wrong gender marker in 8 of 10 sampled projects.
- At project formulation, SFE did not establish grievance mechanisms for receiving and handling complaints of a potential violation of FAO’s environmental and social standards in 12 of 15 projects. For one project assessed as moderate for environmental and social risks, SFE did not prepare a risk mitigation plan as required.
• There were recurring delays in the implementation of Technical Cooperation Programmes partly because SFE understated project durations at their inception. Apart from recruitment and COVID-19 related delays, inadequate arrangements for project management when Project Managers and Lead Technical Officers were on extended leave also contributed to delays.

• SFE had a monitoring and evaluation workplan for all ongoing projects in its portfolio, but timelines for monitoring activities were not stipulated and the results were not reported.

Agreed actions
24. The report contains 12 actions that SFE has agreed to undertake. It has committed to fully implement all actions by 31 March 2023.

AUD0422 - Audit of the role of the Office of Emergencies and Resilience in leading and coordinating FAO’s emergency response and resilience efforts
25. The report provides the results of an audit of the Office of Emergencies and Resilience (OER) conducted by OIG, as part of its 2020–2021 programme of work. Specifically, the overall objective of the audit was to assess the responsibilities, authority and tools available to OER to perform its role in leading and coordinating the Organization’s emergency response and resilience efforts.

26. Emergency response and resilience programmes have become a large component of FAO’s portfolio. In three of the last four years, the value of new emergency and resilience project approvals was more than 50 percent of the value of all new project approvals. Fifty-five Member Nations have a high percentage of their population in acute food insecurity status, i.e. Integrated Food Security Phase Classification (IPC) Phase 3 or higher on the food security scale. IPC is a multi-partner initiative that assesses food insecurity and has five phases, with three being “crisis” and five being “famine”.

27. In response to this situation, the Director-General tasked FAO with the annual goal of reaching at least 60 million people in the IPC 3+ classification with emergency response and resilience interventions by 2023. In 2020, as part of a structural reform of FAO, the Director-General designated OER as the lead office for coordinating the Organization’s emergency response and resilience work in support of Country Offices.

Main observations and conclusions
28. OER made significant progress in developing and streamlining its coordination role in the first year after FAO’s corporate reform process. An internal assessment led to its reorganization into 11 business teams, dedicated to supporting a new service delivery model that focuses on assisting Country Offices in many areas, such as data analysis; capacity building for emergency preparedness; assessing emergency risks; emergency programming; resource mobilization; planning anticipatory actions and emergency response programmes; and adopting resilience actions. Preparedness and resilience, which were formerly separate from emergency response, are now integrated elements of this assistance.

29. FAO’s reorganization was a work in progress at the time of this audit. For example:

• FAO’s new results framework, with new Priority Programme Areas for emergency response and resilience that OER leads or co-leads, was formally approved in December 2021. Initial workplans were developed in December 2021, but the work planning process will continue in 2022.

• A feasibility review of more than 200 suggestions presented in 2020 by ten internal working groups on defining OER’s role, responsibilities, programmes and operations was still in progress in January 2022.

• A revision of Director-General’s Bulletin 2013/32 on FAO’s Level 3 emergency activation process, prepared by OER, was in draft form.

• The terms of reference for the 11 internal OER teams were in draft form.
• A 2020 draft report on “Support and Services Offered to FAO Country Offices” was still under internal OER review.

30. The period of restructuring provides an opportunity for OER to clarify its responsibilities and identify the accountabilities within the framework of emergencies and resilience. It also provides opportunities to enhance OER’s support to Country Office operations. OIG identified potential risks and suggested several actions, agreed with OER, on monitoring progress towards meeting the IPC 3+ target; developing a mechanism for assessing the return on OER’s investment in its support to Country Offices; monitoring the use and effectiveness of enhanced processing times for standard operations (fast-track procedures); and fine-tuning the proposed emergency activation guidance.

31. While this audit focused on OER’s emergency response support structure, several corporate-level issues emerged that deserve further attention because they are not unique to OER. These issues, already known from other reviews, may affect the performance and effectiveness of OER. The issues also illustrate the challenge for OER in coordinating emergency response in the network of overlapping responsibilities and accountabilities; for example:

• While emergency and resilience programmes constitute one of the largest components of the FAO budget, OER remains highly dependent on extrabudgetary funding.
• The recurrent theme of limited Country Office capacity, reported in other audits, also emerged in this audit as a factor that affected the sustainability of OER support.

Conclusion

32. In summary, OIG concluded that Some Improvement is Needed to further strengthen OER’s role in leading and coordinating FAO’s emergency response and resilience efforts. The report contains ten actions that OER and the Resource Mobilization and Private Sector Partnerships Division have agreed to implement by December 2022. OIG considers that the higher priority actions are to:

• agree with Decentralized Offices on a breakdown by region/subregion/country of the corporate target of assisting 60 million of the world’s most acutely food insecure people;
• develop and implement a system for capturing fundamental descriptive data on the type, extent, nature and value of OER assistance to Country Offices, taking into account the established targets, to better enable prudent strategic and resource management; and
• examine the workflow for emergency projects to identify bottlenecks in reaching the approval stage in the Project Cycle and potential mitigation measures or changes to address these bottlenecks.

AUD0522 - Audit of the FAO Subregional Office for the Caribbean

33. OIG conducted an audit of the FAO Subregional Office for the Caribbean (SLC) in Barbados between September and November 2021. SLC supports 13 countries in the subregion. The Subregional Coordinator, as the head of SLC, supervises three FAO Representatives leading six countries, and directly supervises the remaining seven countries herself. While the audit covered the period from January 2020 to July 2021, the report also reflects subsequent developments as of April 2022.

Main observations and conclusions

34. Overall, OIG assessed SLC as Major Improvement Needed in its implementation of the system of internal controls, primarily due to numerous shortcomings identified in the governance structure, programme delivery in the sub-region, project implementation, project monitoring and reporting, procurement, and financial management, as shown in the table below.

Governance:

• SLC’s focus was primarily on supporting the seven countries that did not have an FAO Representative. The results of a survey showed that SLC provided strategic guidance but did
not give adequate operational support to the remaining six countries in the subregion. The Subregional Coordinator’s supervisory span was too wide to be effective – 22 personnel at seven different locations. The roles and responsibilities of personnel were unclear and functional titles did not reflect actual responsibilities. Excessive use of 19 generic email accounts to handle different types of requests amongst SLC’s personnel to support operational requirements for the subregion led to undue delays in addressing and responding to them.

- Over 90 percent of personnel had completed mandatory training courses related to ethical awareness and fraud prevention. SLC had designated focal points responsible for prevention of sexual exploitation and abuse, and had established a generic email account to receive complaints. However, in the absence of outreach activities to project beneficiaries, external counterparts and affected local populations, the grievance mechanism was not effective.

- Risk statements were generally well formulated in risk logs and the Fraud Prevention Plan, with updated risk owners and target dates. However, in SLC’s 2021 Internal Control Questionnaire, of 43 control points, 35 were reported as fully implemented, while OIG assessed that 8 were only partially implemented.

- SLC actively advocated FAO’s mandate and had established good working relations with key stakeholders in the Caribbean, including participation in the United Nations reform initiatives. It had also developed a communication strategy and implemented a series of planned communication activities.

Operations:

- SLC had a recruitment plan but it was not used. During the audit period, SLC issued 260 short-term contracts to rehire/recruit 157 individuals creating unnecessary administrative workload leading to delays in recruitments and high turnover of personnel due to job insecurity. The recruitment process for local Non-Staff Human Resources (NSHR) was not competitive and transparent.

- SLC had prepared an annual procurement plan but did not use it. The procurement process was inefficient with a minimum of 13 review levels per purchase order. Despite this, in some cases, solicitation methods were incorrect and the approved purchase orders lacked specific descriptions of the goods and services required. There was also inadequate segregation of duties: in 58 cases, the requisitioners and approvers were the same persons; and prior to June 2021, the Local Procurement Committee only had one member, supported by a buyer as the secretary.

- An international staff member who was a bank signatory had not been given access to the e-banking application to exercise her function since April 2020, while a national staff member was given the role of administrator for the e-banking application, which enabled him to create and delete users and payees and approve payments. In addition, SLC approved 300 payments totalling USD 1.1 million but payee banking information was not recorded in GRMS as required.

- The asset register showed inaccurate and outdated information as records on IT equipment were kept outside of GRMS.

- The Subregional Coordinator was duly trained in her role and functioning of the Security Management Team and participated in the meetings during the audit period. As of December 2021, all personnel had completed the mandatory security courses and 86 percent of personnel had provided their contact details for the FAO emergency notification system.

Programme:

- There were six countries in the subregion with minimal or no extrabudgetary funded project deliveries in 2020-2021. This included four countries without extrabudgetary funded national projects since 2015. Although SLC stated that these countries benefited from the implementation of sub-regional projects, there was no reporting on project results and
deliveries at country level. This had also led to incomplete reporting of achievements of Country Programming Framework of the countries involved.

- SLC had appointed a gender focal point and completed a gender stocktaking exercise. However, it had assigned the wrong gender marker in 5 of 10 sampled projects.
- SLC complied with FAO policies and internal approval processes for project formulation in the three sampled projects reviewed.
- There were recurring delays in implementation of projects resulting in project extensions. During the audit period, 25 LoAs were issued totalling USD 0.8 million to 16 service providers, all of which were directly selected despite late deliveries in the past. In addition, as of April 2022, 20 of the 33 ongoing LoAs where the target delivery dates had not been met.
- SLC did not have a plan for proper coverage of monitoring activities for the entire project portfolio. Monitoring activities were ineffective, judged by the recurring budget overruns; delays in project implementation; late reporting to donors; and two refunds to donors for ineligible expenditure during the audit period.

Agreed actions
35. The report contains 12 actions that SLC has agreed to undertake. SLC has committed to fully implement all actions by December 2022.

**AUD0622 - Audit of Procurement of Services**

36. OIG conducted an audit of the procurement of services as part of its workplan for the 2020–2021 biennium. The audit fieldwork was carried out between June and November 2021. The objective of the audit was to assess the effectiveness of the arrangements established by FAO Senior Management for the procurement of services to ensure relevant, timely, transparent and competitive acquisition of services and achievement of best value for money. This audit complemented a series of audits in a number of procurement-related areas conducted by OIG between November 2016 and March 2018.

Main observations and conclusions
37. OIG concluded that the procedures established for the procurement of services were generally adequate and complied with. Notably:

- Senior Management had: (i) developed rules, policies, guidelines, procedures, instructions and templates for planning and conducting procurement actions; (ii) defined and allocated roles, responsibilities, authority and accountability for the key actors involved in the related activities; and (iii) established mechanisms and procedures for monitoring and managing vendor performance and obligations under the contractual instruments signed by the Organization, including their terms and conditions and reporting on performance at the end of a contract.

- The policies, rules and procedures laid down in MS 502 on the Procurement of Goods, Works and Services, and in the Procurement Handbook were generally observed and complied with by all actors involved in the procurement of services.

38. Hence, and also taking into consideration the results of previous audits of procurement-related areas and implementation of the agreed actions/recommendations raised in those audits, OIG is of the opinion that there is reasonable assurance that the procurement of services at FAO headquarters and Decentralized Offices is performed in a transparent and policy compliant manner.

39. However, the audit observed a number of areas where the processing of procurement actions and the management of procurement activities needed to be further strengthened:

(i) There were unstructured requests for purchases at Decentralized Offices leading to delays in launching procurement actions.
(ii) Some parts of MS 502 and the Procurement Handbook need to be revised, updated or fine-tuned as currently guidance is incomplete for some procurement-related activities.

(iii) Monitoring of procurement activities at the corporate level had weaknesses, reducing the assurance of proactive identification of non-compliant and inefficient practices, mistakes and unusual trends.

(iv) Risks associated with different aspects of the procurement of services were not identified and managed in a systemic manner.

40. Taking the results of the audit as a whole, OIG determined that Some Improvement is Needed in the arrangements for the procurement of services to improve their efficiency and effectiveness and to further increase transparency and competitiveness in the awarding of contracts.

Agreed Actions

41. The Procurement and LoAs Unit of the Logistics Services Division, in coordination with other stakeholders as necessary, has agreed to undertake the seven actions contained in the report to address the issues identified. Priority actions include:

- Strengthening the monitoring of exceptional awards and direct procurement through ex-post critical review;
- Revising and updating MS 502 and the Procurement Handbook to standardize the procedure of raising purchase requisitions and contract purchase agreements, and to further strengthen the use of procurement planning; and
- Establishing structured systems for risk management and monitoring of procurement activities at the corporate level to strengthen controls over procurement activities and to avoid potential negative impacts threatening the achievement of procurement objectives.

AUD0722 - Audit of Occupational Health and Safety Management

42. OIG conducted an audit of Occupational Health and Safety (OHS) Management in FAO between August 2021 and March 2022. The audit covered governance and operational aspects of OHS management for the period between January 2018 and March 2022.

43. The objective of the audit was to assess the adequacy and effectiveness of the governance, risk management, and control processes to ensure that FAO exercises its duty of care towards its employees. More specifically, the objective of the audit was to determine whether OHS management at FAO:

- is effective in meeting the Organization’s OHS Policy and objectives;
- is compliant with best practices;
- has clearly defined roles and responsibilities, including reporting lines and measurable objectives;
- is informed by a comprehensive and regularly updated risk assessment to promote continuous improvement;
- plans actions in line with the risk assessment, including estimation of the required resources and prioritization of actions; and
- includes provisions for the adequate management of OHS incidents and regular analysis of sick leave trends, so that the Organization can identify OHS hazards in a timely manner and implement corrective measures as necessary.

44. The main governing documents for OHS at FAO include:

- Director-General’s Bulletin 2011/17 Statement of Principles Regarding an Occupational Safety and Health Programme for the Organization.
Main observations and conclusions

45. OIG determined that the governance arrangements, procedures established, and controls applied in OHS management in FAO need major improvement.

46. At the governance level, OIG observed an excessively “headquarters-centric” approach to OHS and the absence of minimum OHS standards worldwide, which could result in FAO failing to adequately protect its employees in Country Offices, who may have a higher exposure to health risks than employees in headquarters. In addition, the roles and responsibilities of line managers and heads of FAO’s Decentralized Offices were not clearly defined, and those of the main responsible units in headquarters required clarification to ensure that the functions of OHS policy owner, as defined in FAO’s Internal Control Framework, are appropriately discharged.

47. At the operational level, OIG observed that the Organization lacked a comprehensive and regularly updated OHS risk assessment, which could result in FAO failing to identify OHS risks, implement mitigating actions and ultimately exercise its duty of care for employees. As a result, there was no solid basis for the prioritization of OHS actions and definition of required resources. Moreover, comprehensive plans with clear and measurable objectives to monitor the implementation of these actions were missing.

48. The Logistics Services Division acknowledged the need to strengthen OHS arrangements overall and indicated that root causes for many of the gaps identified in the report were the lack of resources, priority given to other needs, and frequent organizational changes.

Agreed actions

49. The report contains sixteen actions that management has agreed to undertake and committed to fully implement by December 2023. In OIG’s opinion, the priority actions are to:

- designate a single unit/person as responsible for coordinating OHS functions;
- develop minimum OHS standards for the Organization;
- conduct a comprehensive OHS risk assessment that would serve as a basis for other elements of OHS management in FAO; and
- strengthen the planning of OHS activities.

AUD0822 - Audit of Payroll Controls

50. 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.

51. The Shared Services Centre Payroll Unit (SSC-Payroll) is the business process owner for the payroll process. CSH is the policy owner. Staff and NSHR payrolls generated USD 788 million and USD 656 million of employee benefit costs respectively during the 2020–21 biennium.

Main observations and conclusions

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

53. 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 NSHR 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 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.

54. 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

55. The 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.

AUD0922 - Audit of the FAO Subregional Office for West Africa

56. OIG conducted an audit of the FAO Subregional Office for West Africa (SFW) in Senegal between August 2021 and March 2022. SFW supervises and provides support to 15 Country Offices in West Africa. While the audit covered the period from January 2020 to June 2021, the report also reflects subsequent developments as of May 2022.

Main observations and conclusions

57. Overall, OIG assessed SFW as Major Improvement Needed in its implementation of the system of internal controls, primarily due to numerous shortcomings identified in the governance structure, ethical awareness measures, human resource management, procurement, financial management, gender mainstreaming, and different phases of the project management cycle as shown in the table below.

Governance:

- The organizational structure of SFW comprised mainly programmatic teams and the supervisory span in SFW was reasonable. However, SFW’s role in operational support to the Country Offices in the subregion was unclear. The Regional Office for Africa expected SFW to be the first point of call for all support activities although SFW did not have operational support functions and had to rely on an outposted Finance Officer and the FAO Representation in Senegal (FRSEN) for day-to-day operational support. In an audit survey, the Country Offices were generally positive about the support received from SFW. However, 10 of the 15 Country Offices had indicated in their annual reports, some areas for improvement for SFW, particularly on the timeliness in providing technical clearance for procurement. SFW attributed the delays mainly to the time needed for approvals from the relevant technically competent units at headquarters when the lead technical officers in SFW did not have the necessary technical expertise or authority for specific items under procurements.
- SFW did not monitor the completion of the mandatory training courses related to ethical awareness and fraud prevention. More than 20 percent of personnel had not completed three of the six mandatory training courses. In addition, SFW did not have a reporting channel to receive sexual exploitation and abuse allegations in a confidential manner.
- SFW had established well-formulated fraud prevention plans. However, in its risk log, SFW had described risks facing external stakeholders rather than risks to FAO. Mitigating actions were either not well formulated or aligned with the risks identified. In addition, of the 18 control points reported as fully implemented in the Internal Control Questionnaire, OIG assessed that four control points were only partially implemented.
- Interviews with representatives of a regional intergovernmental body and a regional key donor showed that SFW actively advocated FAO’s mandate and had established good working relations with the stakeholders. SFW had also developed a communication strategy and implemented a series of planned communication activities.

**Operations:**
- SFW relied on FRSEN’s support in human resource management services. In a majority of sampled cases, the recruitment of local NSHR was not transparent and competitive, and FRSEN did not verify the qualifications of selected candidates and did not screen them using the United Nations ClearCheck database to avoid hiring individuals with a record of sexual harassment and/or sexual exploitation and abuse.
- During the audit period, seven FRSEN personnel performed the buyer function, including SFW procurement actions, although none had procurement-related functional titles. The procurement process of sampled transactions was not transparent. Evaluation of bids and review by the Local Procurement Committee was not conducted as required, and 81 percent (USD 396 000) of unmatched invoices were of a higher amount than the allowable threshold.
- In 25 percent of payments via e-banking (USD 120 000) during the audit period, payee banking information was not recorded in GRMS. In some sampled transactions, supporting documents for payments were either incomplete or contained discrepancies. Furthermore, there were 135 late settlements of advances (USD 161 500) beyond 90 days, 79 operational and travel advances (USD 559 400) to individuals, and 4 advances (USD 9 300) to vendors made without financial guarantees.
- There were inadequate controls over fuel consumption and vehicle maintenance. The asset register was also incomplete and inaccurate with either no custodian information or no asset tags.
- Controls over security management were generally adequate with 91 percent self-assessment compliance rate of the security risk management measures, although improvement in fire safety systems was needed.

**Programme:**
- SFW developed a subregional programming framework for 2020–2025; a resource mobilization plan for 2021–2025; and annual workplans duly linked to the subregional programming framework. However, the resource mobilization strategy did not include a resource mobilization target and the action plan did not indicate expected timings and action owners.
- SFW had not completed a gender stocktaking exercise and had assigned the wrong gender marker in three of five sampled projects.
- SFW completed operational checklists during project formulation without proper validation. In three of four sampled projects, the grievance mechanism for project beneficiaries was not described in the project document as required. The responsible Lead Technical Officers also wrongly assessed the environmental and social management risk
for two projects as low, without due consideration of FAO’s Environmental and Social Management standards.

- Eight of 12 operationally active projects had implementation delays. Controls over LoAs were weak. Of four sampled LoAs, one LoA had remained open since 2019; one LoA had been signed prior to review by the Local Procurement Committee; and one LoA issued using Technical Cooperation Programme resources provided financial support to a project beneficiary, instead of focusing on the provision of technical expertise, contrary to the established rules. In another project, the selection criteria were unclear and the selection process was not duly documented.

- SFW had established an annual monitoring plan and assigned a dedicated monitoring officer to conduct weekly monitoring meetings. However, the effectiveness of project monitoring controls remained limited because the weekly monitoring meetings assessed the progress of project delivery solely based on the percentage of the total project budget spent and did not monitor the status and achievements of result indicators.

**Agreed actions**

58. The report contains 14 actions that SFW has agreed to undertake. SFW has committed to fully implement all actions by December 2023.

**AUD1022 - Audit of FAO Cash Transfers**

59. OIG conducted an audit of FAO cash transfers between May and October 2021. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes to facilitate the effective implementation of cash transfer projects and address potential risks, including fraud risks.

60. FAO’s cash transfers are governed by MS 702, which came into effect in May 2019 and is owned by Deputy Director-General (Bechdol), with the support of the Project Support Division (PSS). OER provides guidance and support to Decentralized Offices on cash transfers.

61. The audit covered the period from January 2019 to December 2020, with emphasis on the operational arrangements in place and expenditure incurred following the issuance of MS 702. Audit observations made in the report were updated at reporting stage to reflect corporate procedures and guidance in place as of July 2022. The audit included a desk review of operations in four countries (Somalia, Yemen, Myanmar and Nigeria). Field visits could not be undertaken due to the COVID-19 pandemic.

**Main audit observations**

62. The audit identified many positive practices, including the issuance of MS 702, which closed a significant policy gap in the governance and implementation of cash transfers. The requirement for cash transfer projects to undergo feasibility clearance by OER ensured that headquarters had adequate visibility and provided its contribution prior to the approval of each project. MS 702 also introduced a new type of purchase order that has improved budgeting and accounting for cash transfer projects. MS 702 also defined roles and accountabilities in the implementation of cash transfer projects both at Decentralized Office and headquarters levels. Finally, PSS and OER had developed a range of guidance materials and provided ample support to Decentralized Offices to increase the effectiveness of cash transfer operations.

63. The main weaknesses identified by the audit relate to: (i) the lack of a corporate beneficiary information management system; (ii) insufficient protection of beneficiary data; (iii) roles and responsibilities not always well defined at Decentralized Office level; (iv) weaknesses in the selection of beneficiaries and documentation of eligibility criteria; (v) weaknesses in beneficiary registration and data quality; and (vi) weaknesses in the identification of beneficiaries at distribution points and post-distribution validation activities.
64. Decentralized Offices execute some cash transfer projects in difficult contexts where there are significant implementation challenges, including security and access problems. This aggravates the already significant risks related to the effective identification of beneficiaries, due to the lack of effective biometric technology and overreliance on mobile phones for validation activities. PSS and OER stated that these risks are common to all implementing modalities (e.g. in-kind assistance) and additional risk mitigation activities could in many circumstances result in efficiency losses.

65. OIG acknowledges that most of the control weaknesses identified in the audit relate to beneficiary data management aspects which are equally applicable to other modalities. In this regard, PSS and OER added that MS 702 already establishes standards for cash transfer operations which are more stringent than for other modalities. They felt that further elevating the standards for cash transfer projects alone would create a significant gap between modalities with a comparable risk profile, which could act as a disincentive to design and implement cash transfer operations. PSS and OER therefore opined that it would be advisable to harmonize, to the extent possible, the standards applied to all implementing modalities.

66. OIG agrees with PSS and OER on this aspect, but notes that a major obstacle to address the existing issues across all implementing modalities has been the lack of a corporate-level policy owner for beneficiary data management in FAO as a whole. With the recent publication of FAO’s Data Protection Policy, which foresees the establishment of a Data Protection Oversight Committee and a Data Protection Unit, OIG expects that this important gap will be filled once these entities become operational.

67. The following summarizes the six main audit observations:

- **Corporate beneficiary information management system**: FAO does not have a corporate system for beneficiary information management, whether for cash transfers or any other modality of assistance. Decentralized Offices sometimes use tools that do not meet the minimum access and data protection controls required by MS 702, such as unsecured Excel files. As these tools were developed by each country office separately, this has sometimes led to inefficiencies or failure to adopt best practice. PSS and OER acknowledged the desirability of a corporate Beneficiary Information Management System. In the meantime and with limited extrabudgetary resources available, PSS and OER, in close collaboration with the Digitalization and Informatics Division, are now developing and deploying a system called IDEA (Identification, Delivery, Empowerment Application) to Decentralized Offices, with a focus on, but not limited to, cash transfers and vouchers. However, imposition of a single system on diverse offices and projects could harm project effectiveness. For this reason, IDEA will be provided as an option to implementing offices, and not as a requirement.

- **Beneficiary data protection** is one of the main challenges of cash transfer operations. MS 702 requires that beneficiaries’ personal data should remain strictly protected and confidential at all times, with controls on access by and transmission to third parties, in compliance with FAO corporate standards and policies. Such standards and policies comprise, in particular, AC 2022/06 (the “Data Protection Policy”) issued in July 2022. At the date of finalizing this audit, AC 2022/06 was in an early stage of implementation without operational guidance being yet available. Prior to the publication of AC 2022/06, PSS and OER considered it prudent to await this policy before strengthening guidance relating to cash transfers in this area, noting that cash transfers are at present the only modality or area of work in FAO with specific data protection guidance and procedures. Consequently, during the period covered by the audit, FAO lacked corporate operational guidance in this area. PSS and OER partially filled this gap by developing guidance, including implementing tools and materials, for Decentralized Offices to manage data protection locally. However, local arrangements do not always ensure adequate management of data protection risks.

- **Roles and responsibilities**: Each Decentralized Office has developed standard operating procedures to govern different processes relating to cash transfer projects. Even if not mandatory, as per MS 702, standard operating procedures can be an effective tool to improve performance and accountability in implementing complex operations such as cash transfers.
However, in some cases, standard operating procedures did not include responsibilities for all/some key steps/processes. There were also gaps in standard operating procedures relating to critical processes, and some conflicting roles and responsibilities. To address this, PSS and OER agreed to include an “Operational Manual” approach in MS 702, in line with similar requirements in the forthcoming MS 703 on Beneficiary Grants and MS 704 on Vouchers.

- **Beneficiary eligibility, selection and validation:** Decentralized Offices defined reasonable selection criteria; however, some countries did not store data demonstrating the qualifying criteria for selected beneficiaries. Verifications of beneficiary data were predominantly conducted via phone calls, which limited them to beneficiaries with mobile phones and was hindered by network issues. This may have provided an opportunity for the inclusion of ineligible beneficiaries in distribution lists through error or fraud. PSS and OER noted that, beyond phone verification, many offices use third-party monitors to verify beneficiary data. They also indicated that in several contexts alternative verification methods are not feasible, too expensive and/or time-consuming, and it would be unacceptable to exclude from FAO’s support beneficiaries without access to a mobile phone. They further reiterated that cash transfers are currently the only modality in FAO applying any controls relating to beneficiary eligibility, selection and validation. Notwithstanding this, OER and PSS agreed to develop additional guidance for eligibility verification and documentation.

- **Beneficiary registration and data quality:** FAO contracted implementing partners to carry out registration of beneficiaries. The Decentralized Offices reviewed by OIG allowed registration of multiple types of identification documents (ID), which made it difficult to identify anomalies in the recorded ID numbers and increased the possibility of having duplicate and ghost beneficiaries. PSS and OER acknowledged that this is a residual risk in some contexts, given the low coverage and availability of official identification documents but that de-duplication and data cleaning processes could still be effective in detecting ineligible beneficiary entries, even when multiple ID types were permitted. Nevertheless, OIG noted several data quality issues in the beneficiary lists, which in some cases prevented from conducting meaningful analysis to identify duplications.

- **Beneficiary identification and verification at distributions:** Use of unreliable means of beneficiary identification and a lack of FAO presence at distributions in some cases (usually due to security/access issues) may provide an opportunity for diversion of funds. Verification of cash transfer disbursement was usually phone-based, with some offices also sometimes using third-party monitors. The beneficiary verifications, therefore, were subject to the same limitations as described above for beneficiary eligibility verifications.

**Conclusions**

68. In summary, OIG is of the opinion that the governance arrangements, procedures and controls developed specifically for cash transfer projects in FAO (i.e. MS 702 and its associated guidance and tools) **Need Some Improvement** to facilitate their effective implementation and reduce the risk of fraud.

69. However, overall controls over cash transfer projects are negatively impacted by weaknesses in broader corporate policies relating to beneficiary data management and protection. In line with the conclusions of OIG’s audit report from 2018 on FAO’s Data Protection and Privacy Management (AUD1618), this is an area still in need of major improvement, as highlighted by the current audit, especially as 10 agreed actions from that report remain outstanding.

**Agreed actions**

70. The report includes eight agreed actions, including four with high priority, that management has agreed to fully implement by March 2024. OER and PSS noted that implementation of some of the agreed actions will require significant resources to strengthen capacity both at headquarters and Decentralized Office level.
AUD1122 - Audit of the Medical Insurance Coverage for Supernumeraries Plans

71. OIG conducted an audit of the Medical Insurance Coverage for Supernumeraries (MCS/MCNS) Plans between March and May 2022. MCS is the medical insurance plan offered worldwide to NSHR and short-term staff working with FAO. MCNS is the medical insurance plan covering other types of non-staff such as FAO interns, volunteers and fellowship holders, FAO Goodwill Ambassadors, members of the FAO Council, committees or similar bodies, etc.

72. Based on a risk assessment conducted at the audit planning stage, the audit focused on the MCS plan. Nevertheless, most observations and recommendations are equally applicable to the MCNS plan, as both plans are managed by the same service provider.

73. The MCS plan is underwritten by a commercial insurer. The current contractor took over the plan in 2021 following a procurement tender. During the period January 2015–December 2021, the MCS base premiums paid (including participants’ contributions for MCS) were approximately USD 15.1 million. The number of claims processed totalled 31,352 for medical expenses and 1,662 for compensation of days lost.

74. The main objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes over the management of the MCS/MCNS plans under the current contract (Audit objective 1). The audit covered the period January–December 2021; however, the audit took the opportunity to also assess the implementation of corrective actions in response to identified weaknesses and gaps in the previous contract. An additional audit objective was to assess the reconciliation made by CSH of payments advanced by FAO under the previous contract which were not settled by the participants, and the efforts made to settle or recover such advances (Audit objective 2).

Main audit observations

Audit objective 1: Governance, risk management and control processes over the management of the MCS/MCNS plans

75. OIG believes there has been a major qualitative leap from the management of the previous insurance contract. OIG commends the Social Security Unit (CSHS) for selecting a provider to digitalize the claims experience, which has brought the automation of many key controls.

76. Notwithstanding the above, OIG believes there is room to further improve the monitoring of service providers and plan performance. Specifically, OIG noted that the claim administrator did not completely adhere to contractual provisions regarding reporting schedules and content, and CSHS had not documented its procedure to analyse, document and disseminate the information received from the claim administrator. These actions should be implemented as a matter of priority.

77. There are also opportunities to enhance internal controls. For example, OIG observed the absence of any document relating to a USD 728,000 reserve deducted from NSHR and labelled “emergency fund”. Having a clear mandate and standard operating procedures on the use of this reserve would mitigate the risk of it being used for other unintended purposes.

Audit objective 2 - Reconciliation of outstanding advances under the old contract

78. OIG notes that, under the old contract, due to a lack of adequate internal controls at the former Office of Human Resources (now CSH), FAO paid approximately USD 1.8 million to participants as advances (for compensation of sick leave days) which were not settled. Most of the amount is irrecoverable as the payments were made before 2018. But even for the more recent advances, CSH has estimated that it may only be able to recover approximately USD 130,000.

79. OIG considers that the root cause for this issue was the general deterioration of governance processes for the management of medical insurance plans at that time, as already documented in OIG’s report AUD 0220 (Audit of the Management of the After Service Medical Coverage Plan).
OIG notes that the current contract arrangements do not foresee the advancement of any payments by FAO and therefore the same problem cannot happen.

**Conclusion**

81. In summary, OIG is of the opinion that the governance arrangements, procedures established and controls applied in the management of the MCS/MCNS plans in FAO need some improvement to improve the effectiveness and efficiency of the plans and reduce the risk of fraud.

**Agreed actions**

82. The report contains four actions that management has agreed to undertake and committed to fully implement by December 2022. The priority action is that CSHS clarifies the purpose of the emergency fund and formalizes the management policy of that fund.

**AUD1222 - Audit of the Markets and Trade Division - Part I**

83. OIG conducted Part I of an audit of the Markets and Trade Division (EST) as part of its workplan for the 2022–2023 biennium. The audit fieldwork was carried out between March and June 2022. The objective of Part I of the audit was to assess the effectiveness of the arrangements EST has established for its control environment, project management, administrative and financial controls, and achievement of gender equality, including compliance with corporate policies in these areas. Part II of the audit will cover overall division-level work planning, programming and implementation.

**Main observations and conclusions**

84. Based on the results of the audit, OIG determined that some improvement is needed to improve the effectiveness of EST’s arrangements over its control environment and compliance with corporate policies and procedures for human resource management, procurement and gender equality.

85. OIG concluded that:

- EST management has established effective measures to: (i) strengthen the division’s control environment; (ii) support informed decision-making; (iii) allocate roles, responsibilities and authority within the division in a rational manner; and (iv) implement corporate policies on the management of project implementation and gender equality.

- EST complied with corporate policies, guidelines, guidance and procedures in carrying out the division’s regular activities and in processing day-to-day operations in the main areas and subareas covered by this audit.

86. Notwithstanding the above, the audit identified opportunities for improvement in the subareas of risk management, fraud prevention, non-standard information technology systems, human resource management, procurement and gender equality. These opportunities are presented in detail in Section IV of the report.

**Control environment**

87. In compliance with corporate policies, EST developed a risk log, fraud prevention plan and business continuity plan; met the requirements of health, safety and security, information technology, records management and communications and publications; and monitored the completion of mandatory training by its personnel. However, there is a need to improve risk and fraud management to increase the assurance of safeguards against uncertainties and unexpected events.

**Management of project implementation**

88. EST complied with the FAO Guide to the Project Cycle and other corporate policies, procedures and guidelines related to project formulation, monitoring of implementation, and communication with and reporting to resource and development partners such as recipient governments. OIG’s detailed review of implementation of a sample of ongoing projects with EST as
Budget Holder found that implementation was characterized by timeliness and healthy relationships with representatives of resource partners and recipient governments.

*Administrative and financial controls*

89. EST complied with corporate controls over human resource management, procurement of goods and services, and LoAs. However, there is a need to further strengthen human resource management through establishing structured succession plans and backup for key functions, and to enhance procurement planning to avoid any disruption of operations caused by possible delayed processing of unplanned procurement actions.

*Gender*

90. EST has taken steps towards full compliance with the FAO Policy on Gender Equality 2020–2030 and the Guidelines for Gender Stocktaking. This included: establishment of a stand-alone annual gender workplan; conducting a comprehensive gender stocktake in 2021; and developing time-framed actions to fill the gaps identified in the stocktaking report. However, there is still a need to revise the 2022 annual workplan for full alignment with the Guidelines for Gender Stocktaking and to ensure that the stocktaking recommendations are fully implemented over the 2020–2023 cycle.

*Agreed Actions*

91. EST has agreed to undertake the six actions contained in the report to address the issues identified.
ACRONYMS

CSH    Human Resources Division
CSHS   Social Security Unit
CSLC   Shared Services Centre
DEX    Direct Execution
EST    Markets and Trade Division
FRETH  FAO Representative for the Country Office in Ethiopia
FRSEN  FAO Representation in Senegal
GEF    Global Environment Facility
GRMS   Global Resource Management System
IDEA   Identification, Delivery, Empowerment Application
IPC    Integrated Food Security Phase Classification
LoA    Letter of Agreement
MCS/MCNS Medical Insurance Coverage for Supernumeraries
MS     Manual Section
NSHR   Non-Staff Human Resource
OER    Office of Emergencies and Resilience
OHS    Occupational Health and Safety
OIG    Office of the Inspector General
OP     Operational Partner
OPIM   Operational Partners Implementation Modality
PSS    Project Support Services Division
SFE    FAO Subregional Office for Eastern Africa
SFW    FAO Subregional Office for West Africa
SLC    FAO Subregional Office for the Caribbean
SSC    Shared Services Centre