

## OFFICE OF THE INSPECTOR GENERAL

### Audit of the FAO Smallholder Agricultural Productivity Restoration and Enhancement Project (SAPREP) (AUD0723)

#### EXECUTIVE SUMMARY

The Office of the Inspector General (OIG) conducted an audit of the FAO Smallholder Agricultural Productivity Restoration and Enhancement Project (SAPREP) in Yemen between October 2021 and October 2022. While the audit covered the project's duration from August 2017 to June 2021, this report also reflects subsequent developments as of October 2022.

In October 2017, the FAO Representation in Yemen signed an Operational Partner Agreement with a non-profit organization based in Yemen, to implement 54 percent (or USD 19.5 million) of the project implementation. The Representation directly implemented the remaining 46 percent of the project budget (USD 16.5 million) with the assistance of ten other local service providers engaged through Letters of Agreement and eight government counterparts. Despite a very complex and difficult working environment in Yemen, the Representation and the donor had reported that the project was successful and had reached more beneficiaries than envisaged. However, this report focuses on the implementation of internal controls in project management.

#### Main observations and conclusions

Overall, OIG assessed controls over project management as **Major Improvement Needed** mainly due to the numerous control weaknesses identified in the selection of beneficiaries and input distribution documentation. The ratings used in assessing the controls in project formulation, implementation, monitoring and reporting were as shown below.



#### Project formulation:

- Approval process: The Representation formulated the project in consultation with the donor. The Project Document was duly approved, including the workplans and the project logical framework matrix.
- Quality of project formulation: A proper assessment of environmental and social management risks had been carried out; and a grievance mechanism for project beneficiaries had been established, with due consideration of gender-related elements during project formulation. The selection criteria of project beneficiaries were also clearly established.



#### Project implementation:

- Project structure: A well-established project management structure was in place; however, the Representation experienced project capacity challenges mainly due to personnel turnover and difficulties to recruit and retain personnel with the required skillsets.
- Workplan implementation: There was an overall ten-month delay in project implementation, partially due to COVID-related lockdowns and external factors outside the control of the Representation, such as time taken to obtain approvals from local authorities to gain access to the project



sites. However, the Representation would benefit from an analysis of lessons learned to avoid future delays, especially given that some of the internal administrative delays could have been avoided.

- **Procurement:** In general, procurement procedures were complied with but improvements were needed in procurement planning and assessment of late deliveries by vendors for possible application of liquidated damages. The lack of coordination between the Operations and Finance teams and the limited staffing capacity in the Finance team in reviewing service provider and vendor deliverables had significantly delayed payments, although corrective action was implemented in February 2023.
- **Selection of beneficiaries:** The third-party monitoring agent reported control gaps in the assessment of eligibility criteria during the selection of beneficiaries. OIG's review of the list of project beneficiaries also identified discrepancies that indicated weaknesses in the beneficiary selection process and raised issues about data integrity.
- **Input distribution:** Of 63 sampled transactions on input distribution activities managed by FAO and the Operational Partner, OIG identified exceptions in 49 cases (78 percent) where supporting documents were either incomplete or inaccurate. In June 2021, the Representation issued a Guidance Note on beneficiary registration and the requirements for input distribution records but the impact of this Guidance Note on SAPREP was limited because the project ended in the same month.
- **Management of service providers:** Of 14 sampled Letters of Agreement totalling USD 1.2 million, in all cases there were issues either relating to late or partial deliveries by service providers, payment delays by the Representation, or inaccurate recording of the award basis in GRMS.

#### **Project monitoring and reporting:**

- **External audit of the Operational Partner:** The Operational Partner had not implemented audit recommendations addressed to it in a timely manner, resulting in recurring control weaknesses throughout the project implementation, such as: the reporting of advances as expenditure; unclear basis for allocating salary costs to the project; and the absence of the project number in supporting documents.
- **Third-party monitoring agent:** The third-party monitoring agent conducted field monitoring visits to verify input distributions by the operational partner and service providers. While the agent submitted all deliverables, they were always with delays, primarily due to unrealistic timelines set by FAO. However, the third-party field monitors had, at times, modified the sampled beneficiaries when they could not locate the beneficiaries instead of following through with the samples to verify their existence.
- **Cost allocation:** The Representation did not have a clear basis to allocate expenditure by project components, as required by the donor. Similarly, the Representation had not established clear criteria for proper cost allocation of shared resources with other projects.



#### **Agreed actions**

The report contains seven actions that the Representation has agreed to undertake and is committed to fully implement by December 2023.

*Mika Tapio*

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**Inspector General**

**10 May 2023**

**ANNEX: DEFINITION OF AUDIT TERMS**

## AUDIT RATINGS

Rating System	An audit rating system (defined below) has been used to rank the adequacy of internal controls <sup>1</sup> in each area.
Satisfactory	The assessed controls, governance arrangements, and management of opportunities and risks, are adequate and effective to provide reasonable assurance that objectives are met.
Some Improvement Needed	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.
Major Improvement Needed	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.
Unsatisfactory	The assessed controls, governance arrangements, and management of opportunities and risks, are not adequate or effective to provide reasonable assurance that objectives are met.

<sup>1</sup> 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.