OFFICE OF THE INSPECTOR GENERAL

Audit of the FAO Office in Papua New Guinea (AUD0823)

EXECUTIVE SUMMARY

The Office of the Inspector General (OIG) conducted an audit of FAO Office in Papua New Guinea between May 2022 and March 2023. While the audit covered the period from January 2020 to October 2022, this report also reflects subsequent developments as of March 2023.

Main findings and conclusions

Overall, OIG assessed the Office as **Major Improvement Needed** (see annex for definition of audit terms) in its implementation of the system of internal controls as shown below.

Satisfactory	Some improvement needed	Major improvement needed	Unsatisfactory

Governance:

Governance structure and capacity: Despite a significant growth in the size of the project portfolio from USD 3.3 million in 2019 to USD 68 million in 2023, the Head of Office was the only staff funded by Regular Programme and the Office relied on Non-Staff Human Resources (NSHR) to perform the core functions of Head of Programme and Head of Operations. Further, there was a lack of effective supervision over the administrative functions performed by three teams working in silos. Also, a D-1 Programme Coordinator managing a large programme of USD 54 million in the country was supervised by another D-1 at the Regional Office for Asia and the Pacific (RAP) rather than the P-5 Head of Office who was the budget holder. However, in May 2023, RAP clarified the required coordination and communication arrangements between the Programme Coordinator and the Head of Office by updating the Programme Coordinator's Terms of Reference.

Risk management: The Office submitted its 2022 Risk Log and Fraud Prevention Plan timely but omitted key risks relating to operating in a country without a Host Country Agreement, lack of staffing positions for core functions, as well as inherent fraud risks relating to the selection of project beneficiaries and input distribution. In addition, action owners of risks were not properly identified and mitigating measures were either not relevant to the associated risks or not implemented as planned. In the 2022 Internal Control Questionnaire, of the 38 control points reported as fully implemented, OIG assessed that 21 control points were only partially implemented. These control points related to procurement, financial management, asset management, travel management and project reporting.

Operations:

Human resource management: The Human Resource function was not well organized and supervised. Recruitment of local NSHR was not competitive and transparent; selected candidates were not properly screened; personnel records were incomplete; and individuals were rehired without assessment of their past performance or completion of mandatory training.

Procurement: The procurement function was disorganized, without proper supervision, leading to a lack of transparent and competitive procurement. Ten non-procurement personnel were performing the buyer function; and, prior to September 2021, there was no Tender Opening Panel or Local Procurement Committee. Other issues identified included non-assessment of liquidated damages for late deliveries and incorrect use of unmatched invoices, while 77 percent of vendors engaged by the Office were not registered with the United Nations Global Marketplace.

Financial management: The Office had access to Electronic Fund Transfer functionality since February 2022 but it made minimal use of it as a payment modality. Instead, it continued to use e-Banking that was less effective from an internal control perspective. Financial records in the FAO Global Resource Management System were incomplete and unreliable. Bank reconciliations were completed with delays and contained errors. Forty-three repayments totalling USD 698 000 had to be made by the Office to correct earlier errors in payments. In addition, despite a personnel of the Office having misappropriated an advance granted in 2020, controls over management of advances remained weak at the time of the audit.

- Inventory and asset management: From 2020 to October 2022, the Office procured USD 2.5 million in inventory that was sent directly to implementing partners for distribution to beneficiaries. However, the Office did not conduct a reconciliation process to account for the inventory sent to the partners. In addition, the asset register was unreliable because it contained assets that had been disposed of and incorrect information about the custodians and locations of assets.

- Security management: The Office had personnel in seven locations across five security areas in the country, including one area assessed as “Level 4 – Substantial Risk” and four assessed as “Level 3 – Moderate Risk.” Despite the high security risks in the country, the Office had not prioritized implementation of the United Nations security risk management measures. As of March 2023, the Office reported only 13 percent compliance rate with the required security measures.

Programme:

- Country Programming Framework: The Office had developed and used a Country Programming Framework (CPF) 2018–2022 to guide its programmatic priorities. However, the CPF was not aligned with the country’s targeted Sustainable Development Goals, contained errors and was not signed by both the Head of Office and the authorized government representative as required.

- Project formulation: The Office did not systematically define the criteria for selection of beneficiaries and the parties involved in Project Documents. For the large programme of USD 54 million, the Lead Technical Officer had underrated the Environmental and Social Management (ESM) risk. Following a case of displacement of a family, the ESM Unit reassessed the risk and recommended the Office to implement ESM risk mitigation plans but the Office did not implement the recommendation stating that the risk mitigation plans were not feasible. For other projects, the Office did not establish project-level grievance mechanisms to receive complaints on possible violations of FAO Environmental and Social Standards and there were also errors in the assignment of gender markers.

- Project implementation: The Office did not have adequate controls in place to verify the selection process of beneficiaries, evidence of input distribution and the attendance records of training workshops. Beneficiaries were selected for input distribution even when they did not fully meet the selection criteria. Supporting documentation relating to input distribution was incomplete and contained discrepancies. Management of Letters of Agreement was also inadequate: in 17 Letters of Agreement, service providers were late in implementing the agreed activities with delays ranging from 43 to 365 days.

- Project monitoring and reporting: The Office had improved the monitoring controls in the large programme of USD 54 million in January 2023 following the development of a Monitoring and Evaluation System. However, it had yet to explore the use of this System for other projects and monitoring controls remained weak. The Office also did not adequately monitor project expenditure against approved budgets. When budget overruns occurred, the Office made adjustments to allocate unrelated expenditure to other projects. The Office did not develop criteria to allocate the cost of shared resources among projects. In addition, the Office did not comply with reporting requirements stipulated in Project Documents.

Agreed actions

This report contains 12 actions that the Office has agreed to undertake and is committed to fully implement by December 2023.

Mika Tapio

Mika Tapio
Inspector General — ***16 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[1] 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.

[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.