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FINANCE COMMITTEE

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Progress Report on an Accountability and Internal Control Framework

Queries on the substantive content of this document may be addressed to:

Mr Boyd Haight

Director, Office of Strategy, Planning and Resources Management

Tel: +3906 5705 5324

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EXECUTIVE SUMMARY

- This paper provides a progress report on the development of an accountability and internal control framework at FAO, as requested by the Finance Committee at its 154th Session in May 2014.
- During the reporting period, the Secretariat took stock of the contribution of its work on accountability and internal control to the broader strategic priorities of the Organization.
- The implementation of the new Strategic Framework has led to the creation of new relationships and new management oversight bodies relating to accountability. These relationships, the associated terms of reference and reporting arrangements are distributed among various documents. They have evolved in the light of experience and need to be consolidated. By December 2014, FAO will have put in place a coherent accountability policy, defining the roles of senior managers and the main managerial oversight mechanisms.
- While the range of policies in place broadly meet the requirements of an effective system of internal control, these need to be placed in an overarching framework, to coordinate and provide direction for future work on internal control and to respond to the continuing challenges with the application of controls, particularly in the field. By June 2015, FAO will have put in place an overarching internal control framework, and completed a baseline diagnosis of internal control, prioritizing problems and the mitigating measures to be implemented within the framework.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to review and provide any views or advice on the current status of developing and implementing an accountability and internal control framework at FAO.

Draft Advice

- **The Finance Committee considered the progress made on developing and implementing an accountability and internal control framework at FAO.**
- **The Committee:**
 - **Noted the reported improvements in accountability and internal control;**
 - **Agreed with the steps being taken to have an accountability policy in place by December 2014 and an overarching internal control framework in place by June 2015; and**
 - **Requested a report on actions taken at its session in November 2015.**

Background

1. At its 154th Session in May 2014, the Finance Committee considered the progress made on accountability, risk management and internal control. The Committee noted the completion of the Enterprise Risk Management project and requested a progress report on accountability and internal control at its next regular Session in November 2014.¹
2. This is the third progress report to the Finance Committee on an accountability and internal control framework at FAO. The first report in November 2013² outlined the conceptual approach the Secretariat was taking to embed accountability and internal control in FAO's working practices, with risk management providing the link. In summary, accountability assigns responsibility and authority for the results to be achieved; risk management identifies the threats and opportunities to achieving those results; and internal control is the response. The risk focus of internal control keeps the management control proportionate to the benefits.
3. The second progress report in May 2014³ explained that the main priority for accountability and internal control had been to support the implementation of the new Strategic Framework through the Medium Term Plan and Programme of Work and Budget, embedding risk management in FAO's work. The report also presented the conclusions of donor assessments of FAO's systems of management control.
4. Since May 2014, the Secretariat has continued to put in place accountability and internal control measures for specific functions and areas of work. The measures completed and underway are summarised in Annex 1. At the same time, the Secretariat undertook a strategic review of these accountability and internal measures in order to diagnose identified problems and ensure that a strong and effective accountability and internal control framework is put in place.

The strategic context for Accountability and Internal Control

5. The Secretariat's work on accountability and internal control is undertaken within the overall policy objective of improving financial and administrative integrity in FAO and the achievement of programmatic results, helping to consolidate the transformational change initiative.
6. The transformational change initiative requires managers and staff to work in a new way. At the heart of this evolution in the way that FAO works is the move from centralized decision-making to a decentralized approach that empowers the front line, promotes innovation and cost awareness, is orientated by results and stakeholder expectations, and leverages external partnerships at strategic and operational levels.
7. For this reason, the transformational change initiative included within its scope improving accountability and internal control. FAO overhauled its accountability mechanisms with the introduction of the new Strategic Framework and Medium Term Plan. Similarly, FAO refocused how it implements the Programme of Work to better support the delivery of results at country level. This was accompanied by the reinforcement of field capacity in operations through the decentralization of emergency operations and strengthening of country office leadership.
8. For example, a new generation of FAO Representatives is emerging, more rigorously selected with more relevant skills, expertise and knowledge. Many of them are also experienced FAO personnel, who understand how the Organization operates and how decisions are made, and who have a clear vision of the support they need to be successful.
9. External observers have noticed improvements as a result of this work. For example, recent donor assessments, summarized in the May 2014 progress report, share an overall consensus that FAO has the policies and procedures generally in place needed to support an effective system of

¹ CL 149/4, Report of the 154th Session of the Finance Committee, paragraphs 37-38

² FC 151/20, Accountability and Internal Control Framework

³ FC 154/17, Progress Report on Accountability and Internal Control

accountability and internal control, and is making good progress towards filling identified gaps. Nevertheless, as reports from the Office of Evaluation, the Office of the Inspector-General and the External Auditor demonstrate, these policies and procedures are not being implemented in a consistent fashion, especially in the field.

10. Remediating this situation requires updating and consolidating accountability and a new approach to internal control. The following sections explain the work being undertaken and envisaged in this regard.

Accountability

A. Definition of Accountability

11. The Finance and Budget Network⁴ of the United Nations has defined accountability as “an agreed process for both giving an account of your actions and being held to account; a systematic approach to put that process into operation; and a focus on explicit results or outcomes.”

12. An effective approach to accountability accordingly improves performance by driving the principles of results-based management through the different levels of the Organization, by

- a) setting clear, relevant, and measurable responsibilities for managers and staff at different levels of the Organization;
- b) establishing the scope of those responsibilities in a coherent corporate framework, including as regards engaging with stakeholders to understand and respond to their views;
- c) enabling the discharge of those responsibilities by assigning resources and delegating (and setting limits to) authority; and
- d) clarifying how, when, and for what purpose⁵ managers and staff will be required to give account for their performance against the responsibilities assigned and authorities granted.

B. Measures to improve accountability at FAO

13. An organization-wide approach to accountability involves clarifying roles and responsibilities among the senior managers, documenting the delegation of authorities and the arrangements for reporting and management oversight. The implementation of the new Strategic Framework has led to the creation of new relationships and new management oversight bodies. These relationships, the associated terms of reference and reporting arrangements are distributed among various documents, and have evolved in the light of experience.

14. Therefore, to strengthen accountability in FAO, the Secretariat will consolidate these documents as a single policy statement, updating them to reflect recent refinements and lessons learnt, and making explicit the link to FAO's broader regulatory framework emanating from the Basic Texts and, where required, to the internal control framework.

15. By December 2014, FAO plans to have a coherent accountability policy in place, outlining the roles of senior managers and the main managerial oversight mechanisms.

Internal control

A. Definition of Internal Control

16. At the 151st session of the Finance Committee in November 2013,⁶ FAO explained that internal control is the response to risk through a network of systems, policies and practices established

⁴ The Finance and Budget Network reports to the High Level Committee on Management of the UN System Chief Executives Board for Coordination. Its role is to provide strategic advice on finance and budget issues of common concern to agencies across the UN system.

⁵ Purpose in this sense would include the choice between sanctions and rewards, or learning and innovation

⁶ FC 151/20: Accountability and Internal Control Framework

to provide reasonable assurance that organizational objectives will be achieved. It is concerned with five key areas of organizational performance:

- a) The effectiveness of operations,
- b) The economical and efficient use of resources,
- c) Compliance with applicable laws, regulations, policies and procedures,
- d) Safeguarding resources against fraud, waste and loss, and
- e) The reliability and integrity of information and data.

17. In short, internal control comprises the tools that managers need to be successful. Applied appropriately, internal control reduces costs, improves performance and builds confidence in the Organization among stakeholders. A 2006 study by the University of Wisconsin-Madison for example identified that ineffective internal controls in publicly quoted US companies raised the cost of capital by 104 basis points.⁷

B. Measures to improve internal control at FAO

18. While the Secretariat has continued to put in place internal control measures for specific functions and areas of work (see Annex 1.B), resolving the control challenges requires a coordinated response at a corporate level. FAO accordingly will adopt an internal control framework based on internationally recognised standards. An internal control framework contains two elements: objectives or benefits that the model will deliver; and a description of the elements that need to be put in place to deliver those benefits. FAO has established the objectives (see paragraph 16 above), but has not specified the integrated elements required to deliver those benefits.

19. One of the major challenges in any organization is aligning incentives with needed actions. For example, officers are conscious of the effect on the Organization's credibility if its reports contain unreliable data. But these reports often depend on data entered by teams in the front line, who do not directly use the data entered, and so may underestimate the relative importance of it being accurate. Internal control models address such asymmetric incentives by establishing common objectives throughout an Organization and specifying the measures expected to meet them.

20. An internal control framework will help to resolve two other challenges facing the Organization. Firstly, the integrated components of an internal control framework contain the basic elements that a manager needs to have in mind when organising, directing and monitoring teams and workstreams, and responding to risk. The roll-out of an internal control framework will increase managerial competencies across the Organization. It will thus contribute to addressing the frequently mentioned concern of a gap in management skills and, in the context of the field, it will help prepare FAO Representatives for greater delegations. WFP have invested in the capacity development aspect of an internal control framework, and FAO will borrow from their experience.

21. Secondly, tangible benefits will also be felt in policy and process design. The internal control framework is, in effect, a checklist of the elements that need to be in place for their policy or process to be successful. The methodical application of the framework, in conjunction with risk assessment, will improve policy and process design, ensuring that all elements need for the policy and process to be successful are in place. The Office of the Inspector-General, for example, has identified as a common cause of control weakness the inconsistent application of monitoring mechanisms⁸.

22. The internal control framework will improve performance on a corporate scale as well. The model provides the basis for corporate monitoring of internal control across the Organization, allowing it to spot trends and take action to prevent a major control failing.

23. Furthermore, external stakeholders increasingly look for a functioning internal control framework as evidence of the strength of FAO's management processes, from priority setting and planning, through implementation to monitoring and reporting.

⁷ The Effect of Internal Control Deficiencies on Firm Risk and Cost of Equity Capital (<http://www8.gsb.columbia.edu/programs-admissions/sites/programs-admissions/files/accounting/LaFOND.pdf>)

⁸ FC 154/13, 2013 Annual Report of the Inspector-General, para 57

24. By June 2015, FAO plans to have put in place an overarching internal control framework, and completed a baseline diagnosis of internal control, prioritizing problems and the mitigating measures to be implemented within the framework.

Annex 1: Improvements in Internal Control and Accountability

A) Accountability

Status	Improvements
Completed	<p>Performance management process (PEMS) reviewed and updated.</p> <p>Comprehensive review and update of FAO's Financial Rules</p> <p>Roles and responsibilities for resource mobilization clarified.</p> <p>Improved external reporting by updating the format, presentation and content of the Mid Term Review</p>
In progress	<p>Development of a dashboard for reporting of corporate reporting to Senior Management</p> <p>Development of HR policies on performance management and recognition</p> <p>Comprehensive revision of procedural guidance on procurement with emphasis on accountability, especially of the Authorized Official</p>

B) Internal control

Status	Improvements
Completed	<p>Revised competency framework, including six leadership competencies. Integrated in all HR functions, including recruitment and PEMS.</p> <p>Introduction of competency based interviewing, and more systematic testing and reference checks to improve selection of professional staff.</p> <p>First workforce planning exercise undertaken to identify skills and experience gaps.</p> <p>Field Support Group established comprising representatives from CS, CIO, OHR, OSD and Regional Offices to discuss challenges facing Decentralised Offices</p> <p>Monthly webinars responding to user problems in using certain aspects of GRMS</p> <p>On-line training package as well as improved procedures, guidance and system support for asset management</p> <p>12 International Procurement Officers now in place to support high risk/complex or high value procurement volumes in selected field offices.</p> <p>Implementation of a new funding mechanism to cover security requirements for staff working for Extra Budgetary Programs in decentralised offices.</p> <p>Targeted training in GRMS financial processes in five locations attended by representatives from over 20 FAORs</p> <p>Risk based roll-out of GRMS functionality to FAORs, with HQ retaining responsibility for more complex transactions.</p>

B) Internal control (contd)

Status	Improvements
In progress	<p data-bbox="437 286 1337 353">HR dashboard to allow Departments and Regional Offices to better analyse, plan and monitor their HR needs.</p> <p data-bbox="437 371 1337 439">Creation of staff development programmes to strengthen application of Results Based Management principles</p> <p data-bbox="437 456 1337 524">Improvements in cost management through the Comprehensive Financial Framework for Cost Recovery</p> <p data-bbox="437 542 1337 575">Improved management of internal recharges</p> <p data-bbox="437 593 1337 660">Revision of project management guidance, to streamline procedures and to better meet new demands.</p> <p data-bbox="437 678 1337 745">New dashboards for procurement reporting to allow better monitoring and oversight being developed within GRMS</p> <p data-bbox="437 763 1337 797">Introduction of a process for vendor complaints in procurement.</p> <p data-bbox="437 815 1337 882">Implementation of a Vendor Sanctions Policy to mitigate exposure to procurement fraud .</p> <p data-bbox="437 900 1337 967">Recruitment of five P3 Finance Officers posted to Regional Offices to support financial control in the decentralised offices.</p> <p data-bbox="437 985 1337 1075">Creation of a dashboard to monitor financial-related risks in the field. Modules currently being developed cover cash management, advances and project budget control.</p> <p data-bbox="437 1093 1337 1193">Implementation of Electronic Funds Transfer (EFT) to automate payment processes in field offices that hold accounts with international banks. As of 30 August 2014, EFT has been implemented in 15 locations.</p> <p data-bbox="437 1211 1337 1236">Practice note to Decentralised Offices on managing procurement risk</p>
