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## FINANCE COMMITTEE

**Hundred and Fifty-first Session**

**Rome, 11 -15 November 2013**

**Accountability and Internal Control Framework**

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### EXECUTIVE SUMMARY

- At its 145th session in December 2012, the Finance Committee requested a report on the status of the Organization's considerations on accountability and internal control.
- The transformational change initiative and the Strategic Thinking Process have substantially strengthened the application of accountability and internal control principles in FAO.
- FAO's philosophy has been to strengthen its accountability to wider stakeholders and internally. New corporate governance arrangements provide greater managerial oversight over FAO's performance, roles and responsibilities have been clarified with matrix management, in particular as regards the delivery of results, and greater attention is being paid to developing a system of rewards and sanctions. Externally, FAO is increasingly giving beneficiaries a voice in programme and project design, as well as the opportunity to provide feedback.
- The key to effective internal control is an understanding of risk. The enterprise risk management project is well advanced and on course for completion by the end of the year.
- Much work has been done to strengthen internal control, particularly in decentralized offices. Further work under consideration on internal control includes: improved corporate performance reporting, production of guidance on control design, the introduction of internal controls reporting and further streamlining of internal controls and processes.

### GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to review and provide any views or guidance on the current status of accountability, internal control and risk management in FAO.

#### Draft Advice

- **The Finance Committee took note of the progress achieved in putting in place policies and procedures for accountability and internal control including risk management.**

## Background

1. At its 145th session in December 2012,<sup>1</sup> the Finance Committee requested that the Secretariat prepare a report on the status of the Organization's considerations on accountability and internal control. The Director-General's transformational change programme<sup>2</sup> contained improvements to accountability and internal control, as part of an integrated package of measures for institutional strengthening to enhance the delivery and impact of programmes in support of the Organization's vision, goals and objectives.

2. This paper outlines the steps that FAO has taken and will be taking to strengthen accountability and internal control. Because of the pivotal role of risk, it also summarises the progress achieved by the enterprise risk management project (IPA action 3.54).

### Status of accountability in FAO

3. There is no internationally agreed definition of accountability. In practice, it refers to an obligation assumed for the execution of an authority and/or the fulfilment of a responsibility, where the obligation involves:

- a) reporting on the results achieved with the authority/responsibility;
- b) answering – providing an explanation or justification, if requested; and
- c) accepting the consequences, for example sanctions or rewards.

4. This obligation can be invested in an organization, a team or an individual. Accountability is a form of relationship; it could be between an organization and its external stakeholders, or within an organization between groups, teams and individuals.

5. By defining accountability in the context of an authority or a responsibility, FAO recognizes that accountability concerns not just the relationship between the governing bodies and the Director-General; FAO has a duty also to wider stakeholders affected by its work.

6. Effective accountability to external stakeholders builds confidence and trust, and creates the platform for programmes, projects and other interventions of higher quality, with greater and more sustainable impact. The foundations for FAO's external accountability are laid in the powers of the different organs of the governing bodies to request reports and explanations from FAO officials. At international level, FAO has maintained coordination mechanisms with the United Nations, such as through the Chief Executives Board. The Organization interacts regularly with a range of civil society and private sector representative bodies, thereby ensuring that FAO listens and responds to the views of its major stakeholders as it sets and executes its strategies.

7. This has been further developed in the Medium Term Plan 2014-17 and Programme of Work and Budget 2014-15, which clarifies that FAO and its partners are mutually accountable for the achievement of Organizational Outcomes, and that Strategic Objectives will be achieved through the combined contributions of governments, FAO, other UN agencies and other stakeholders. FAO is directly accountable for the delivery of Outputs, where the results directly attributable to FAO can be established and achieved through the use of assessed and voluntary contributions under FAO's direct control.

8. Similarly, at country level, in addition to regular contacts with UN agencies and civil society, FAO Representatives have strengthened policy dialogue with member countries at the national level, so that FAO better listens and responds to the food security and agriculture priorities set by governments through the Country Programming Frameworks.

9. External accountability also requires transparency. In addition to strategy and planning documents (Strategy Framework, Medium Term Plan and the Programme of Work and Budget) and

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<sup>1</sup> CL 145/7, paragraph 9d

<sup>2</sup> CL 145/3, paragraphs 25-26

performance reports (Mid Term Review and Programme Implementation Report), FAO makes publicly available a range of information on major corporate initiatives.

10. Since 2012, the Organization has taken a number of important steps to strengthen its accountability to external stakeholders. Firstly, it has published an improved Programme Implementation Report<sup>3</sup> derived from results-based management principles, in which the use of performance indicators and targets brought greater clarity to what FAO aims to achieve and has achieved.

11. The lessons learnt from that experience allowed the Organization to strengthen the basis for its accountability to external stakeholders in the reviewed Strategic Framework and Medium Term Plan 2014-17 and Programme of Work and Budget 2014-15, in three key areas:

- a) the reduction in the number of Strategic Objectives from 11 to five;
- b) the establishment of a clear line of sight from global goals through Objectives to Outcomes and Outputs; and
- c) the application of greater technical rigour to the design of indicators, baselines and targets, so that they are more reliable, focused, and cost-effective.

12. During the current biennium, the Organization has also moved to make itself accountable in new ways to a new set of external stakeholders – its beneficiaries. In 2013, FAO developed guidelines on Accountability to Affected Populations.<sup>4</sup> The policy aims to increase the involvement and influence of people receiving support from FAO's programmes in all steps of the programme cycle, including initial assessment, project design, beneficiary selection, implementation, monitoring and evaluations. Critically, this process includes complaints and response mechanisms, and other feedback instruments, so that FAO and its partners know the effect (both positive and negative) of programmes on participants.

13. FAO's work on internal accountability has focused on strengthening the visibility of management across the major areas of corporate performance, clarifying roles and responsibilities, and thereby helping managers to direct their efforts to the most important areas, and supporting a more efficient allocation of resources.

14. Internal accountability starts with the Director-General, who is accountable to the governing bodies for the totality of FAO's work. Accountability runs through, and joins up, the working relationship of members of every team. It defines how employees at different levels make commitments to one another for the delivery of organizational results, shows how progress is measured and reported, how the response is handled when progress is not as expected and how authority and resources are assigned. Accountability is thus a conduit, connecting every employee to the Director-General, and down which responsibilities for the delivery of results are cascaded, matching resources assigned and the appropriate level of authority delegated.

15. Beginning in 2012, internal accountability in FAO rested on personal performance agreements and reporting through the Performance Evaluation and Management System (PEMS), as well as the internal corporate planning cycle, regular budgetary performance reports and team performance reviews during the end of biennium assessment.

16. In preparing for the implementation of the reviewed Strategic Framework from 2014, the Organization has recognized that these mechanisms need further development, if they are to be fit-for-purpose in a matrix management environment. The PWB 2014-15 reformed FAO's internal governance structures, in order to establish an adequate level of managerial oversight over corporate performance, as well as delivering other benefits, such as developing synergies and fostering programmatic and institutional policy coherence. This reform included the creation of the Corporate Programmes Monitoring Board, which provides oversight and continuous review of the matrix

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<sup>3</sup> C 2013/8 Programme Implementation Report 2010-11

<sup>4</sup> <http://www.fao.org/emergencies/fao-in-action/accountability-to-affected-populations/en/>

management approach to programme delivery, bringing together the Strategic Objective Coordinators and Assistant Directors-General.<sup>5</sup>

17. Reform of the internal governance mechanisms was accompanied by a revision of the terms of reference of the Assistant Directors-General, and creation of new Terms of Reference for Strategic Objective Coordinators, so that responsibilities for the delivery of the benefits and for managing the associated risks from the reviewed Strategic Framework and the matrix structure were clearly defined and assigned. The Assistant Directors-General and Strategic Objective Coordinators are in the process of institutionalizing these new roles and responsibilities, using strategic and operational planning processes derived from results-based principles. This will create, in effect, a series of nested delegations so that managers are truly empowered, and that empowerment is complemented by a stronger accountability.

18. These institutional measures to strengthen accountability have been complemented by similar measures in the domain of human resources. Started in 2012, and expected to continue through to 2015, the principle measures in this respect include:

- a) reinforcing the accountability of managers for their performance as managers, by revising and simplifying the statement of managerial competencies, and making it more explicitly measurable;
- b) aligning the timeline for the formation of PEMS agreements to integrate PEMS more closely with the Programme of Work, thereby strengthening the line of sight for performance from the top to the bottom of the Organization, and the link between the results hierarchy and the management of human resources;
- c) revising the reporting format of PEMS, so that it can accommodate the multi-stakeholder analysis that a matrix structure will require; and
- d) developing a “culture of consequences”, by introducing a rewards and recognition programme and more active monitoring of the management of under- and over-performers.

### **Status of enterprise risk management**

19. Risk management links accountability and internal control. Accountability creates a common sense of purpose between different layers of FAO’s management and staff and between FAO’s management and its stakeholders. Taking a risk perspective to what is necessary to meet expectations of stakeholders and supervisors increases the likelihood of those expectations being met. Understanding what might go wrong and needs to go right, together with the relative likelihood and the potential consequence, provides the context for a cost-effective system of internal control. A risk informed context clarifies the benefits expected from central policies, thereby reducing the exposure to un-necessary, cumbersome and inefficient processes and procedures, and guides front line managers on how to apply those policies effectively.

20. Under IPA action 3.54, FAO will have in place an enterprise risk management structure and system by the end of 2013.<sup>6</sup> Good progress has been made on meeting this commitment since the last report to the Finance Committee:

- Risk Policy and Framework: a Risk Policy, which incorporates the elements required for a risk framework, has been endorsed by the Corporate Programmes Monitoring Board (CPMB), which will have responsibility for the oversight of FAO’s risk policy and the corporate risk profile.
- Embedding risk in corporate processes: risk management, based on ERM principles, has been incorporated in FAO’s project cycle and in operational work planning for the PWB. FAO is on

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<sup>5</sup> C 2013/3 Information Note no. 5 “Implementation Arrangements – Matrix Management”

<sup>6</sup> C2013/26

target to have risk management incorporated in the remaining two core corporate processes, country work planning and Capital Expenditure projects by the end of 2013.

- Risk reporting: the first corporate risk report, based on risk data collected during high-level work planning, has been submitted to the Corporate Programmes Monitoring Board. This data, together with more extensive risk data that will be gathered from risk assessment work on operational work planning will be used to create the first baseline of risk and FAO's first corporate risk register.
- Risk training: managers in Corporate Services, Human Resources and Finance Department have received direct face-to-face training on the "non-facilitated" risk tool. The lessons learnt will inform the development of on-line training and Web site. Other risk tools are being developed to be placed on the Intranet.

### **Status of Internal Control**

21. Internal control is the means by which risks are managed, being the network of systems, policies and practices established to provide reasonable assurance that organizational objectives will be achieved. It is concerned with five main 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 waste and loss, including that due to fraud, irregularity or corruption; and
- e) the reliability and integrity of information and data.

22. As the Office of the Inspector-General observed in its 2011 Annual Activity Report,<sup>7</sup> one of the effects of the IPA programme was to improve the system of internal control in FAO. The institutionalization of enterprise risk management and the introduction of PEMS represent core elements in this process, as well as other initiatives such as reform of the FAO Manual and process streamlining. The key dimension was the introduction of improved accountability mechanisms at corporate level and through the different layers of management as part of the transformational change initiative and the Strategic Thinking Process, which have aligned and regrouped staff around a clearer, more focused and succinct sense of purpose. During the course of the present biennium, FAO has paid particular attention to strengthening the operation of internal controls in the decentralized offices. Three particular elements should be highlighted in this respect.

23. Firstly, the skills base of staff has been reinforced. Selection procedures for FAO Representatives have been enhanced, based on clearer merit principles and the testing of managerial competences, so that they better match the mix of skills, experience, knowledge and competencies required for this demanding post. Secondly, FAO launched skills mix reviews in 2012 and again in 2013 to reinforce the capacities of regional and subregional offices to meet the expectations of its stakeholders and better support field offices. The latter exercise alone resulted in some 70 changes to job descriptions, gradings and technical specialisms, and included the abolition and creation of posts.

24. Secondly, information technology systems and other tools are being developed which will provide better support for FAO Representatives in managing the work of their offices, and assurance over the reliability of financial and other performance information. The Global Resource Management System (GRMS), fully rolled out in June 2013, improves the operation of internal controls in a variety of administrative and financial areas. Guidance and good practice in the area of financial management has also been developed to support the implementation of International Public Sector Accounting Standards (IPSAS), which in itself will significantly enhance internal financial control. The new guidance on FAO's project cycle has been accompanied by an upgrade to the Field Programme Management Information System (FPMIS). Data validation protocols were introduced into the production of the Programme Implementation Report.

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<sup>7</sup> FC 143/13

25. Lastly, FAO has invested in monitoring systems so that FAO Representatives that are challenged to manage their operations effectively and efficiently, receive the assistance they need and timely action is taken where required. These monitoring systems are based on two primary elements: a system of country office benchmarking; audits of the Office of the Inspector-General and evaluations from the Office of Evaluation.

26. FAO's oversight bodies (External Audit, the Office of the Inspector-General and the Office of Evaluation) fill a vital role in accountability and internal control. Assurance on the quality of their work and of their professional excellence is provided by, among other things, their independence and their need to comply with professional standards.

27. The absence of an internal evaluative capability to resolve an issue before it becomes serious constitutes a gap in FAO's system of internal control. As reported to the Programme Committee in March 2013,<sup>8</sup> there is need for an internal review function, producing reports on problem areas for internal circulation and remedial action at short notice.

28. Accordingly, the Organization will put in place a rapid performance review function to examine, appraise, diagnose and resolve identified or potential areas of organizational underperformance. Given the relationship between accountability, risk and internal control, the Organization intends to place this function with the risk management team under the direct supervision of the Director, Office of Strategy, Planning and Resources Management. This is in line with the underlying concepts of the fast problem response element of the enterprise risk management project, as originally presented to the Finance Committee at its 135th session in October 2010.<sup>9</sup>

29. Other plans under consideration for future enhancements to the system of internal control comprise:

- a) improved corporate performance reporting, including through the monitoring and evaluation framework now under development, to provide Senior Management with more complete, timely and relevant information on corporate activity and progress towards achieving corporate results;
- b) the production of simple guidance on control design;
- c) the consideration of a formal process of internal controls reporting to reinforce the application of internal controls and to escalate issues on internal control more promptly; and
- d) further streamlining of FAO processes based on the experience of the Mexican Government, supplemented by a review of the lessons learnt from the FAO Manual and process streamlining project.

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<sup>8</sup> PC 113/4

<sup>9</sup> FC 135/13