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Продовольственная и
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REPORT OF THE EXTERNAL AUDITOR
ON THE FINANCIAL OPERATIONS OF
THE FOOD AND AGRICULTURE ORGANIZATION
OF THE UNITED NATIONS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

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EXECUTIVE SUMMARY

Introduction

1.   This Report of the External Auditor on the audit of the financial operations of the **Food and Agriculture Organization (FAO)** of the United Nations is issued pursuant to Regulation XII and the Additional Terms of Reference of the Financial Regulations of FAO. It contains the results of audit on the financial statements for the financial year ending 31 December 2014 and the observations with respect to the administration and management of the Organization as required under Regulation 12.4.

2.   This is the first Report issued on an annual basis in view of the adoption by FAO of the International Public Sector Accounting Standards (IPSAS) as its financial reporting framework effective this financial year 2014. The general objectives of the audit are to provide independent assurance on the fairness of presentation of the financial statements to Member States, to help increase transparency and accountability in the Organization, and to support the objectives of the Organization's work through the external audit process. The Report discusses in detail the financial and governance matters that the External Auditor believes should be brought to the attention of the FAO Governing Bodies.

Overall Result of the Audit

3.   We audited the financial statements of FAO in compliance with the Financial Regulations and in conformity with the International Standards on Auditing.

4.   Our audit of the financial statements revealed audit findings requiring adjustments which were accordingly considered by Management. After effecting the audit adjustments required for initial IPSAS implementation, no material weaknesses or errors were further noted that affected the accuracy, completeness and validity of the financial statements as a whole. As such, we expressed an unmodified audit opinion[1] on the Organization's financial statements for the financial year ended 31 December 2014. We concluded that the financial statements present fairly, in all material respects, the financial position of FAO for the year ended 31 December 2014, and its financial performance, the changes in net assets/equity, the cash flows, and the comparison of budget and actual amounts in accordance with IPSAS.

5.   We also concluded that the transactions of FAO that have come to our notice during the audit or that have been tested as part of the audit of the financial statements have, in all significant respects, been in compliance with the Financial Regulations and legislative authority.

6.   In line with Regulation 12.4, we conducted performance audit work in addition to financial audit. Our performance audit work is aligned with FAO risks. It included: the review of Technical Cooperation (TC) operations; the review of performance reporting and

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[1] Unmodified opinion – Under ISA 700, this is an opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. This is the new terminology that replaced "unqualified or clean opinion".

monitoring; and the review of human resource management. We also revisited our work on the internal control and risk management to follow-up on management actions on these important areas of operations. We provided Management with recommendations that are designed to support the objectives of FAO's work, to reinforce its accountability and transparency, and to improve and add value to FAO's financial management and governance.

Summary of Recommendations

7.   We made several value-adding recommendations to further improve FAO's financial management and governance. The main recommendations are that the Organization:

Audit of Headquarters	Priority	Timeline
IPSAS-Lessons Learnt and Benefit Realization		
1 **Review the IPSAS implementation process and determine the lessons learnt, the areas which need further improvement, and how the new information created under the new reporting framework can be used for decision making purposes. (Paragraph 46)**	**Significant[2]**	**2015**
2 **Validate and confirm the benefits realized in the implementation of IPSAS, and render a report thereon to inform stakeholders of the benefits of adopting the new financial reporting framework. (Paragraph 47)**	**Significant**	**2015**
Human Resources (HR) Management		
Governance and Change Management in HR		
3 **Design and implement a concrete and formal change management plan to better control the implementation of the Human Resource Strategy. (Paragraph 56)**	**Fundamental[3]**	**2015**
Recruitment of Professional Staff Members		
4 **Strengthen further the Office of Human Resources (OHR) capacity to adequately control the professional staff recruitment process and remind hiring units of**	**Significant**	**2015**

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[2]**Significant:** Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in financial consequences and operational disruptions.

[3]**Fundamental:** Action is considered imperative to ensure that the Organization is not exposed to high risks. Failure to take action could result in serious financial consequences and major operational disruptions.

	the existing provisions that provide that when the qualifications and competence of candidates are equal, preference should be given to internal candidates from within FAO or the United Nations Common System (UNCS). (Paragraph 63)		
Performance Management			
5	Enhance the OHR Performance Management Policy by expanding formally the use of career development objectives from a mere basis of skills management to a more comprehensive set of development goals that go beyond competency. (Paragraph 69)	**Significant**	**2015**
6	Craft appropriate strategies for the systematic review of the Performance Evaluation and Management System (PEMS) including the adoption of a quality assurance mechanism and ensure that these are applied on a consistent basis. (Paragraph 73)	**Fundamental**	**2015**
Staff Development and Training			
7	Prepare learning plans that are based on analysis of the knowledge and skills needs of staff, and design and implement learning programmes that are clearly linked to organizational needs and priorities in order to optimize the use of staff development funds. (Paragraph 77)	**Significant**	**2015**
8	Measure the effectiveness of its learning programmes through impact evaluation in addition to the existing practice to have a more effective basis in the formulation of future learning plans. (Paragraph 83)	**Significant**	**2015**
Staff Mobility			
9	Enhance further the Mobility Policy through the lessons learned in the 2014 and 2015 exercises and the robust engagements with line managers and staff to warrant wider acceptance of the Policy. (Paragraph 90)	**Significant**	**2015**
Gender Representation			
10	Enhance the OHR current methodology in establishing gender targets in relation to job vacancies and decision for selection and appointment, and resolve the conflicts in policies on competence and gender parity so that realistic targets are established and managed. (Paragraph 96)	**Significant**	**2015**

	Succession Planning		
11	Craft the Organization's succession strategy and embed the same in the on-going workforce planning exercise with particular emphasis on leveraging fully on the knowledge, skills and experience of prospective retirees to build a pipeline of talents thereby ensuring the mitigation of knowledge gaps. (Paragraph 102)	Fundamental	2015
	Managing Technical Cooperation Operations		
	Investment Centre Division (TCI)		
12	Ensure that risk considerations are reflected within the Strategy for Investment Support, and ensure that the Strategy and its deliverables are timely delivered by 31 December 2015. (Paragraph 107)	Significant	2015
	Emergency Rehabilitation Division (TCE)		
13	Craft clear protocols dedicated for L1 and L2 emergencies to ensure clearer accountability lines. Clarify the roles and responsibilities, and control designs for L3 protocol. (Paragraph 112)	Significant	2015
	Technical Cooperation Programme (TCP)		
14	Refine further the quantifiable output indicators taking into consideration the planned commitment to the TCP appropriation and ensure that the development of performance indicators is robustly monitored around the defined dimensions. (Paragraph 117)	Significant	2015
15	Continue to ensure that guidelines clearly define amongst others, the clear roles and responsibilities of Budget Holders and TCP Coordinators in the conduct of regular monitoring of projects; and that these are supported with tools and techniques to further improve monitoring activities thereby enhancing the quality of decisions at all levels. (Paragraph 122)	Fundamental	2015
16	Strengthen further the monitoring and review of the project terminal reporting process and engage more robustly with the decentralized offices to ensure that terminal reports are made readily available in the Field Programme Management Information System (FPMIS). (Paragraph 126)	Significant	2015

17	Assess the functioning of the new Terminal Reports system and ensure that opportunities for enhancements are taken advantage of, to improve the quality of the evaluation of projects, as required. (Paragraph 131)	**Significant**	**2015**
18	Conduct a thorough assessment of the most current competency needs of the decentralized offices particularly in the management of TCP projects to support the smooth implementation of the new TCP Manual, aligned to the Project Cycle Guide and ensure that expected results from the initiative are materialized. (Paragraph 135)	**Significant**	**2015**
19	Determine monitoring strategies that bring about more adequate controlling of project budget deliverables and oversight; and ensure that policies, procedures and tools are in place to facilitate monitoring within the regions and at the corporate level. (Paragraph 141)	**Fundamental**	**2015**
Performance Monitoring and Reporting			
20	Consider the inclusion of other variables that caused the overachievement of targets in the upcoming Performance Implementation Report (PIR) to warrant a more informative explanation on the deviation and establish a clear process of target setting where it begins with the country offices, and the focus and non-focus country offices involved. (Paragraph 153)	**Significant**	**2015**
21	Improve its validation methodology through OSP's close engagement with the country offices in determining the most appropriate timing of validation, standard information in the narrative summaries, and solutions to resolve challenges encountered during the reporting and validation phases. (Paragraph 158)	**Significant**	**2015**
22	Improve the formulation of outputs moving forward to the next biennium to ensure that terminologies used are consistently applied across all Strategic Objectives (SOs) and within the standards set by the United Nations Development Group (UNDG) Results-Based Management (RBM) Handbook. (Paragraph 162)	**Significant**	**2015**

Internal Control			
23	Continue its work to install a robust internal control framework within the current biennium as planned and ensure that it is ably supported by tools and guidance, directly linked to risk management framework and activities, and couched in accountability arrangements defined in its Accountability Policy. (Paragraph 173)	**Fundamental**	**2015**
Statement of Internal Control			
24	Establish a mechanism for responsible officers of the Organization to provide assurance to the Director-General (DG) on the functioning of internal controls within their respective areas of responsibility and for the DG to issue a Statement of Internal Control to be appended to the annual financial statements. (Paragraph 179)	**Fundamental**	**2015**
Risk Management			
25	Ensure that risk management is comprehensively and clearly embedded in all of its decision and work processes, and must be supported with further competency build-up and appropriate risk management tools. (Paragraph 196)	**Fundamental**	**2015**
Audit of Decentralized Offices			
26	Continue strengthening the internal control system in decentralized offices through a well-designed internal control framework and a continuous re-tooling of all staff performing programmatic, administrative and financial functions in the decentralized offices. (Paragraph 200)	**Fundamental**	**2015**

Previous Audit Recommendations

8.   The status of implementation by Management of previous audit recommendations of the External Auditor is embodied in a separate report presented to the Finance Committee. Sixteen (28 per cent) out of 57 recommendations in the Biennium 2012-2013 were implemented while 41 (72 per cent) were in the process of implementation. Of the 69 recommendations made for the Biennium 2010-2011, Management had already fully implemented 63 recommendations (91 per cent) leaving 6 recommendations (9 per cent) still in the process of implementation. For the Biennium 2008-2009, five (9 per cent) out of 27 recommendations remained under implementation. We reiterate that Management implement the remaining recommendations.

A. MANDATE, SCOPE AND METHODOLOGY

Mandate

9.   The Commission on Audit of the Republic of the Philippines was appointed as External Auditor of the Organization for a period of six years commencing with the year 2014 by the 146th Session of the Council[4].

10.   As the External Auditor, it is mandated to issue a report on the audit of the financial statements for each calendar year and relevant schedules, which shall include information necessary in regard to matters referred to in Financial Regulation 12.4 and in the Additional Terms of Reference. The report is transmitted through the Finance Committee, together with the financial statements, to the Council with any directions given by the Finance Committee. The Council shall examine the financial statements and audit reports and shall forward them to the Conference with such comments as it deems advisable.

11.   This is the first year of our new audit mandate and the first Report of the External Auditor to be issued on an annual basis in view of the adoption of IPSAS as the financial reporting framework of the Organization starting 2014.

Scope and Objectives

12.   Our audit is an independent examination of the evidence supporting the amounts and disclosures in the financial statements. It includes the assessment of the accounting principles used and significant estimates made by the Organization, and the overall presentation of the financial statements. It also includes an assessment of FAO's compliance with Financial Regulations and legislative authority.

13.   The primary objectives of the audit are to provide an independent opinion on whether:

    a.   the financial statements present fairly the financial position of FAO as at 31 December 2014, the results of its financial performance, the changes in net assets/equity, the cash flows and the comparison of actual amounts and budgets for the financial year ended 31 December 2014 in accordance with IPSAS; and

    b.   the transactions that have come to our notice or that we have tested as part of the audit, in all significant respects, comply with the Financial Regulations and legislative authority.

14.   The External Auditor likewise conducts a review of the Organization's operations under Financial Regulation 12.4 to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls, and in general, the administration and management of its operations. Those matters are addressed in the relevant sections of this Report.

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[4] Resolution 1/146 adopted on 26 April 2013

15.   Overall, the audit intends to provide independent assurance to Member States, to reinforce transparency and accountability in the Organization, and to support the objectives of the Organization's work through the external audit process.

Methodology and Auditor's Responsibilities

16.   We conducted our audit in accordance with the International Standards on Auditing. These standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining evidence supporting the amounts and the disclosures in the financial statements on a test basis. The audit also includes assessing the accounting principles used and the significant estimates made by Management as well as evaluating the overall presentation of the financial statements. We adopted the Risk-based Audit Approach in the audit of the financial statements which requires us to conduct risk assessments of material misstatements in the financial statements and assertions levels based on understanding of the entity and its environment.

17.   The External Auditor's responsibility is to express an opinion on the financial statements based on an audit. An audit is performed to obtain reasonable assurance, not absolute assurance, as to whether the financial statements are free of material misstatement including those caused by fraud or error.

18.   Our review of FAO operations with regard to Financial Regulation 12.4 was focused on the following:

    a. Human resources management;
    b. Performance reporting and monitoring;
    c. Technical cooperation operations;
    d. Internal Control System;
    e. Risk Management; and
    f. Operation of decentralized offices.

19.   For the financial year 2014, we conducted audits in the Headquarters (HQ), in two regional offices, namely, the FAO Regional Office for Latin America and the Caribbean (RLC) and the FAO Regional Office for Near East and North Africa (RNE) and in three representation offices, namely, the FAO Representation Offices in Brazil (FLBRA), Philippines (FAPHI) and Sudan (FNSDN).

20.   We also audited the financial statements of the FAO Credit Union and the FAO Staff Commissary for financial year 2014 and we issued separate reports on each. Furthermore, we reviewed and certified the Status of Funds of the programmes implemented in cooperation with or on behalf of other agencies, namely: United Nations Development Programme (UNDP) and Global Environment Facility (GEF).

21.   We coordinated planned audit areas with the Office of the Inspector General (OIG) to avoid unnecessary duplication of efforts, and to determine the extent of reliance that can be placed on the latter's work. We also collaborated with the Audit Committee to further enhance our audit work.

22.   We continued to report audit results to FAO Management in the form of management letters containing detailed observations and recommendations. This practice provides a continuing dialogue with Management.

B.   RESULTS OF AUDIT

23.   This section presents the results of the audit for the financial year 2014, the first year of implementation of IPSAS. It covers matters that, in the opinion of the External Auditor, should be brought to the attention of the Governing Bodies. We afforded FAO Management the opportunity to comment on our audit observations to ensure balanced reporting and co-develop solutions. The recommendations provided to Management are designed to support the objectives of FAO's mandate, to reinforce its accountability and transparency to improve and add value to FAO's financial management and governance.

B.1 FINANCIAL MATTERS

B.1.1 Review of IPSAS Implementation

24.   We provided continuous support and assistance in FAO's implementation of IPSAS until its final adoption in 2014. Our support was aimed at addressing the risks of producing non-compliant IPSAS financial statements. It included: a) assessment of the IPSAS/ Enterprise Resource Planning (ERP) Project in October 2011; b) review of Accounting Policies and Technical Memoranda in February-March 2013; c) assessment of the progress of implementation of IPSAS in June-July 2013; and d) review of IPSAS Opening balances, accounting policies and dry run financial statements as at 30 June 2014, in November-December 2014.

25.   The adoption of IPSAS is envisioned to help improve the quality, comparability, and credibility of its financial reporting and would result in improvements in accountability, transparency and governance.

B.1.1.1 Assessment of IPSAS/ERP Project

26.   We reviewed the progress of implementation of IPSAS and the ERP Project of the Organization in October 2011. IPSAS was originally envisioned to be implemented in 2010, and was later postponed to 2013 and then to 2014. The decision to postpone implementation was attributed to the IPSAS/Oracle12 Project being integrated into a much larger programme, the Global Resource Management System (GRMS) Programme.

27.   We advised Management to strengthen project risk management, to finalize the High-Level Deliverables for Accounting Policy and Procedures to provide the basis for the preparation of the succeeding deliverables such as the updated Financial Rules and Regulations, Reporting and Control Deliverables and IPSAS-compliant Release 12 components, to expedite the preparation and finalization of Accounting Policy Statements, and to prepare and finalize a Policy Guidance Manual.

B.1.1.2 Review of FAO Accounting Policies and Technical Memoranda

28.   We reviewed the accounting policies and the related technical memoranda prepared by FAO IPSAS Project Team, from 25 February to 11 March 2013, to determine compliance with IPSAS.

29.   We noted that of the 31 IPSAS, Finance Division (CSF) confirmed that only 22 standards were related and/or relevant to FAO operations. These standards were used as a guide in the formulation of its accounting policies and technical memoranda. Nine IPSAS, which were not directly related to FAO operations, were nonetheless used for clarification purposes within the policy documents. The FAO IPSAS Project Team developed 21 Accounting Policies and 27 related Technical Memoranda.

30.   Our initial review disclosed that only Accounting Policy 13 – Reserves, fully complied with the pertinent provisions of IPSAS 1 – Presentation of Financial Statements and IPSAS 28 – Financial Instruments Presentation. We noted that the 20 Accounting Policies complied with the standards with the exception of issues identified during our review which needed to be addressed and were accordingly considered by CSF to ensure full compliance with the IPSAS to which they relate.

B.1.1.3 Assessment of IPSAS Implementation

31.   We assessed the progress of IPSAS implementation from 17 June to 10 July 2013 to determine its status, including its governance and transitional activities leading to the preparation of the first IPSAS-compliant financial statements.

32.   We noted a number of challenges in the integration of the IPSAS project with the GRMS Programme and recommendations were issued to achieve sound project governance and management support, clearer accounting policies and more appropriate planning strategies by aligning these more closely with the objectives of the project.

33.   We considered those recommendations critical to the successful adoption and implementation of IPSAS and we underscored two main points: Management's continued support to IPSAS implementation; and project controls which should be sustained and further improved.

B.1.1.4 Review of IPSAS Opening balances, accounting policies and dry-run financial statements as at 30 June 2014

34.   We reviewed from 10 November to 10 December 2014 the IPSAS Opening Balances for 2014, relevant Accounting Policies and Technical Memoranda, and Dry Run Financial Statements as at 30 June 2014.

35.   Our review, which was conducted to provide guidance to Management in its preparation of 2014 IPSAS-compliant financial statements, was aimed at ascertaining whether the 2014 IPSAS opening balances and the dry-run financial statements including the note disclosures were presented in accordance with FAO accounting policies and with IPSAS.

36.   We noted a number of issues which were resolved and considered by Management to ensure the preparation of IPSAS-compliant financial statements.

B.1.2 Audit of First IPSAS Financial Statements

37.   Our 2014 year-end audit was primarily aimed at rendering an audit opinion on the first IPSAS-based financial statements of the Organization as at 31 December 2014. We reviewed the annual financial statements to ensure that there were no material errors in the amounts, and that the requirements of IPSAS had been met. Our review resulted in adjustments of balances of several accounts, corrections and aligning the presentation of accounts and note disclosures, and inclusion of additional information in the notes for complete and faithful presentation of financial information, clarity and understanding by users of the financial statements.

38.   The misstatements in the account balances which were subsequently adjusted/corrected related to the following:

a.   Compilation errors in recognizing rental expense and prepayments from commercial leases and mass additions accrual affecting Intangible Assets, Property, Plant and Equipment (PP&E), and other expense accounts;

b.   Compilation and calculation errors in recognizing revenue from voluntary contributions under transitional provisions affecting Trust Fund (TF) contributions and TF Contributions received accounts;

c.   Miscalculation of Education grant expense;

d.   Non-observance by some field offices of cut-off procedures affecting recognition of revenue and expenditure from in-kind donated facilities, Inventories, Intangible assets, PP&E and related expense accounts; and

e.   Misclassification in the presentation of accounts including classifying "Assessments – current" as "Assessments – noncurrent", "Accounts receivable from Jointly financed activities" as "Receivables – exchange", "Provisions" erroneously treated as "Other Accounts Payables", and mapping of clearing accounts to "Other liabilities" instead of "Accounts Payable".

39.   We also provided suggested revisions to note disclosures which were subsequently addressed by Management. These included, among others, the following:

a.   Disclosure on the nature and effects of the change in accounting policy affecting the opening balances for 2014 as a result of first IPSAS implementation;

b.   Expanded discussion on inventory valuation disclosed in Note 2.27;

c.   Expanded discussion on the disclosure of the estimate of freight cost of inventories;

d. Expanded disclosure of the actual nature of inventory write-downs;

e. Further discussion on the prospective application of the transitional provision adopted by FAO included the capitalization of costs of intangible assets;

f. Modification of the presentation of PP&E and Intangible assets acquired prior to 2014 as part of IPSAS Opening balance adjustments in Statements I and III;

g. Expanded disclosure on the implementation of transitional provision for recognition of PP&E and the plan during the transitory five-year period;

h. Expanded disclosure on classes of revenue from non-exchange transactions recognized in accordance with IPSAS, classes which are in transition, progress towards implementation of policies in accordance with IPSAS, and plan for full implementation of IPSAS on revenue from voluntary contributions;

i. Expanded disclosure on accounting policies on revenue recognition as non-exchange transaction, terms of loans and valuation assumptions used in the computation of donated interest and revenue on Working Capital Fund as concessionary loan;

j. Expanded disclosure on accounting treatment of gains and losses on available for sale investments in pertinent notes to the financial statements; and

k. Clearer presentation of information on the face of Statement V and its notes and footnotes.

40. We also suggested modification to the FAO Accounting Policies and Technical Memoranda for which CSF agreed to make amendments and enhancements, as follows:

a. Aligning FAO Accounting Policy 8 to disclosure requirements for the Statement of Financial Performance;

b. Aligning Employee Benefits - Technical Memorandum on evaluation of entitlements with the provisions of IPSAS 25 on accounting for post–employment benefits;

c. Aligning FAO Accounting Policy 12 specifically paragraph 7.1.4 on annual leave costs to make it consistent with IPSAS 25 provisions;

d. Expanding the policy explanation of inventory valuation method of First-In, First-Out (FIFO) with specific identification method provided under Note 2.27 and FAO Accounting Policy 5;

e. Provision in Technical Memorandum 19 to accurately define the policies being implemented by the Organization in the transition of revenue from non-exchange transactions;

f. Expanding discussion on the accounting treatment of SFERA in the relevant Accounting Policy and Technical Memorandum;

g. Aligning the useful life of Buildings in FAO Accounting Policy 6 different to the useful life disclosed in the Notes and in GRMS; and

h. Aligning the accounting treatment of unrealized gains and losses on available-for-sale investments under FAO Accounting Policy 2 with pertinent provisions of IPSAS 29 – Financial instruments: recognition and measurement.

41. **CSF agreed to revise the FAO Accounting Policies and Technical Memoranda.**

B.1.3 IPSAS – Lessons Learnt and Benefit Realization

42. We noted that the Organization had encountered challenges resulting in delays in the implementation of IPSAS from the original target of 2010. While the simultaneous implementation of the upgrade of the ERP to Oracle 12 and the GRMS Programme brings long-term benefits to the Organization, it has affected the timetable of IPSAS project implementation. Furthermore, turnover of key project personnel did not contribute to the smooth and timely completion of the IPSAS Project.

43. In the year-end audit, we recommended and CSF effected the necessary adjustments in the accounts, statement presentation and note disclosures in order to present fairly the financial statements as at 31 December 2014. Moving forward, we identified opportunities to further improve the recording, processing and reporting of financial transactions which CSF agreed to implement starting with the next financial reporting period, such as:

a. Solidifying processes or incorporating in the existing procedures, systems that will completely capture donated inventories received and segregate non-expendable items from project inputs to come up with accurate reports on distributed items, Inventories and PP&E;

b. Strengthening controls over the processing of reports submitted for accruals as stated in the closure instructions, to ensure the accuracy of accounts reported in the financial statements;

c. Training of staff on new policies and procedures under IPSAS to minimize delays and errors in the recognition of assets;

d. Application of transitional provisions in a consistent manner;

e. Observance of proper cut-off procedures and accrual;

f. Capture of complete and accurate data for the recognition of revenue, expense and inventories;

g. Follow-up of long outstanding balances of clearing accounts; and

h. Prioritization of a fix for the identified system errors on Prepayments, Accounts Payable and Cash in bank reports.

44. We also emphasized the need to update the accounting descriptions of all IPSAS accounts in the Chart of Accounts in accordance with IPSAS/FAO Accounting Policies. The absence of descriptions or definitions aligned with IPSAS/accounting policies hinders uniform application, transparency, comparability, easy understanding and review of the transactions behind the accounts.

45. We recognized the commitment and professionalism of CSF in the pursuit of producing IPSAS-compliant financial statements. It is expected that the challenges will be less when preparing the financial statements for the next financial reporting period. While Management was successful in its implementation of IPSAS, there is a need to confirm the benefits realized.

46. **We recommended that FAO review the IPSAS implementation process and determine the lessons learnt, the areas which need further improvement, and how the new information created under the new reporting framework can be used for decision making purposes.**

47. **We further recommended that FAO document, validate and confirm the benefits realized in the implementation of IPSAS, and render a report thereon to inform stakeholders of the benefits of adopting the new financial reporting framework.**

B.2 GOVERNANCE MATTERS

48. In addition to financial audit work, we conducted performance audits on areas which are important to FAO operations. In the current year, three areas were selected for review: a) managing human resources; b) performance reporting and monitoring; and c) managing technical cooperation operations. We also updated our work on internal control and risk management which were covered in last years' audit. Our observations are presented in paragraphs 49 to 246.

B.2.1 Human resources management

49. We reviewed the vital area of human resource management within the Organization with the aim of obtaining reasonable assurance that FAO's human resource management strategies and processes are delivered in a manner consistent with FAO's objectives and in accordance with applicable norms and standards of the United Nations.

B.2.1.1 Positive Developments in HR

50. We noted significant achievements by the OHR that, expectedly, would provide traction in the implementation of the FAO Human Resource Strategy. We would like to highlight the following:

a. Use of the *i*Recruitment module in the advertisement of vacancies for General Service (GS) at Headquarters and for National Professional Officer positions in the decentralized offices effective January 2015;

b. Introduction of the revised Mobility Policy and the design of the first Mobility Guidelines in February 2015;

c. Initiation of the HR Infrastructure project in January 2015 to streamline the recruitment processes for Professional and General Service staff, further automation of recruitment sub-processes, processing of HR benefits and entitlements, standardizing, simplifying and automating HR servicing and recruitment procedures;

d. Identification of the critical workforce segments and other options that will support the introduction of the workforce planning concept within the Organization;

e. Crafting of Programmes that will link staff development and the needs of the Organization particularly focusing initially on FAO Representatives (FAORs) learning and support tools, Managing for Results and the Project Cycle;

f. Automation of the Separation Payment Scheme, enhancement of the Leave System, development and implementation of an on-line rental subsidy calculator, and introducing digital signatures in the RLC Regional Office for hiring processes; and

g. Standardization of HR reports that are currently deployed to HR specialists both in the HQ and decentralized offices and the design of the HR management dashboard, aimed at improving data integrity on staff and non-staff employees which is at an early stage of implementation. The initial version of the management dashboards with key information on human resources and travel was introduced in May 2015 and deployed to managers and administrative staff in Headquarters. The dashboard is a tool to support work planning and monitoring of resources.

51. While we recognized the foregoing significant achievements, the results of our audit noted opportunities for improvement that need to be considered by Management for the HR function to further evolve and contribute to the overall organizational effectiveness. These are discussed in the following paragraphs.

B.2.1.2 Governance and change management in HR

52. For governance to work, organizations must have effective internal policies and procedures, and necessary safeguards that will address process weaknesses. These are, however, highly dependent upon how processes are designed, how roles and responsibilities are delegated and how protocols are established. Human resource governance must work along these parameters, as well. The complexity of managing human resources is made even more pronounced when a change or reform is introduced. Introducing a change that brings human resource management into a new dimension requires several important steps, from building up the foundation of the change to practicing the "continuous improvement" philosophy. As such, effecting change involving the human capital requires consensus building, participation, transparency, responsiveness, efficiency, effectiveness and fairness.

Actualizing a change ultimately requires a complete and an organized planning, which is a good governance requirement.

B.2.1.2.a Change management strategies in implementing the HR Strategy

53.   The FAO Human Resource Strategy of April 2014 recognized a perception of the function as being overly-centric and hampered by bureaucratic, administrative processes that impede effective and efficient service delivery and limit client responsiveness and in some cases create a perception of lack of transparency and consistency. This perception implied that real changes are needed and must be supported therefore by a process that offers better traction in the achievement of intended results.

54.   We noted that OHR had not prepared or issued a resistance management or change management strategy in implementing the new HR strategy. OHR noted that it was well aware that significant changes in management can initially meet important resistance and have focused their communication efforts each time a new policy initiative is introduced through articles, briefings with departments and divisions, meetings with managers and affected staff, and training sessions.

55.   While we recognized that OHR has been demonstrating an increase in awareness creation amongst managers and staff, managing obstacles to change and building up on that change are two of the foremost activities that OHR should make more pronounced because resistance to change, in particular, can abound given the nature and the context of the change. The implementation of the FAO Human Resource Strategy introduced several changes in modalities which expectedly created some barriers. This warrants concrete strategies and actions to be undertaken to minimize the effect of the barriers. OHR, with the support of Senior Management, has to become an agent of continuous transformation and be the principal party to change cultivation within the human resource management processes.

56.   **We recommended that OHR, with senior management, design and implement a concrete and formal change management plan to better control the implementation of the Human Resource Strategy.**

B.2.1.3 Recruitment of professional staff members

57.   With the new Strategic Framework already in place, FAO considers it timely and relevant to transform organizational support units, including the Human Resource Division, from a transactional and operational function into a more strategic business partner that is responsive to FAO's vision. Accordingly, we noted that serious efforts are underway with the end in view of producing an effective and efficient human resource management by implementing workable initiatives. These initiatives are capable of hiring and managing staff on the basis of technical skills and enabling competencies, as well as ensuring their retention. These are necessary to help the Organization achieve its goals and deliver its mandate. Towards this end, existing human resource policies and procedures have been updated or were in the process of being revised to reflect a new recruitment process for Professional staff in 2014 and for the General Service category in 2015.

B.2.1.3.1 *Existing recruitment standards with regard to the order of preference for internal, FAO and UNCS, candidates*

58.   In filling job vacancies, OHR informed us that, in accordance with the relevant staff regulation and rules, competence precedes order of preference. When all candidates possess the level of competence required for a position, preference is given to internal candidates, candidates from within the UN Organizations, and external candidates in that particular order.

59.   We also gathered that when a post becomes vacant, the recruiting unit may recommend candidates from staff mobility or engage in short-term appointments. OHR informed us that the hiring unit usually decides on how to fill its vacant post but can request OHR's assistance in identifying the best course of action to follow.   The choice on how to fill vacancies so long as the endorsed candidate proves competent for the post is left with the hiring unit. In most cases, however, vacancies are made open to both internal and external candidates

60.   The OHR also informed us that in advertising job openings to everyone, the Organization will potentially create a large pool of qualified candidates and have a better chance of selecting the most suitable person for the job. The OHR further stressed that the paramount consideration in the appointment of staff is competence. They highlighted that it is possible that the most suitable person, particularly for Technical Specialist roles, can be found outside the Organization or the UN common system. It further informed us that the order of preference is considered after candidates have been screened and shortlisted.

61.   Our interviews with members of Selection Committees disclosed that in selecting candidates for endorsement to the position, consideration is given to the most qualified/suitable candidate based on their competency for the job without giving consideration on whether the candidate comes from within or outside the Organization, which is in line with the existing provisions.

62.   Consistent with the idea that people are the most important asset of the Organization, the Organization has to demonstrate that it values the contribution of its personnel. In filling job vacancies, Management should require hiring units that, when all things are equal, the order of preference in filling positions should be observed. This way, qualified internal candidates are given the opportunity for advancement.

63.   **We recommended that OHR strengthen further its capacity to adequately control the professional staff recruitment process and remind hiring units of the existing provisions that provide that when the qualifications and competence of candidates are equal, preference should be given to internal candidates from within FAO or the UNCS.**

B.2.1.4 Performance management

64.   The current Human Resources Strategy of FAO includes a major initiative to establish a revised performance management process to promote good management practices of continuing appraisal, coaching and feedback. It will help employees understand the nature

and quality of their performance, and identify their areas for improvement and motivational factors. In essence, an effective performance management process sets the foundation that aligns each staff's contribution to the overall organizational goals.

B.2.1.4.a Use of PEMS Results in relation to Career Management

65.   The Staff Development and Learning Branch collects the data on developmental objectives after the PEMS planning cycle is completed and uses them to adjust the training curriculum according to demand and to understand which other activities the staff wish to access to develop their skills, competencies and careers. We observed, however, that the process does not provide for a holistic approach for career management and succession planning for staff members. Other than being used as a guide for identifying training needs of staff, the process does not fully support career development objectives that would allow managers and staff to provide opportunities to indicate career goals and aspirations, identify career possibilities within the organization, identify strong and weak points and find remedial measures, determine career potential, and plan developmental (promotional or lateral) assignments.

66.   The PEMS also serves as a career management tool to identify high performers and prepare them for higher level positions and to assume greater responsibilities. The current practice of PEMS results utilization presents a big opportunity to the OHR to expand its use and will be a positive avenue to further the management of careers of the staff. If done in this manner, the staff will have more room to manoeuvre in terms of managing their careers and in leveraging on opportunities offered by FAO. We noted, however, the current work of OHR in introducing enhancements to the Organization's performance management policy as discussed in document FC 157/11 presented to the 157th Session of the Finance Committee in March 2015. The enhancements are aimed at promoting increased management accountability, and introducing clearer, related processes.

67.   A critical aspect in performance management is its linkage with other equally important human resource management components such as career management, staff development and training. This linkage is established in the International Civil Service Commission (ICSC) Framework which sees performance management as providing the basis for staff to make informed decisions about career aspirations and for managers to make decisions about the development and training needs of staff.

68.   According to the Joint Inspection Unit (JIU), performance management should provide objective and reliable input not only for managers for them to make informed decisions with regard to placement, retention and staff development needs, based on individual merit within a transparent process, but also for staff to decide on their career goals.

69.   **We recommended that OHR enhance further its Performance Management Policy by expanding formally the use of career development objectives from a mere basis of skills management to a more comprehensive set of development goals that go beyond competency.**

B.2.1.4.b Standards and quality of appraisal reports

70.   Our examination of sampled PEMS revealed the apparent disparate appreciation amongst staff and supervisors in the crafting of the work plan objectives, activities and performance indicators. Description of tasks and duties were mistaken for objectives, the distinction between activities and objectives not clearly drawn, and performance indicators were written like activities. Moreover, the prescription for the Specific, Measurable, Attainable, Realistic, Timely (SMART) criteria in the writing of objectives and performance indicators, as well as the required number of objectives and activities within each objective, were observed to have not been faithfully adhered to in a number of instances.

71.   OHR informed us that they can carry out post-factum quality checks; however, no systematic checking is planned for the quality of work plans. It also commented that in 2013, simple guidelines were established to encourage staff members and supervisors to establish better quality work plans. The responsibility of reviewing the quality of the work plans and year-end appraisal lies with the supervisor. In the context of the revised PEMS, OHR indicated that the focus will be on further improving and simplifying the PEMS work plan objectives and ensuring that staff and supervisors comply with SMART work plans.

72.   While we recognized the efforts delivered by the OHR in providing the managers and staff members with the necessary training and guidance, we emphasize that as an integral part of performance management, performance appraisal must not be construed as a simple administrative obligation that is complied with on a periodic basis. Rather, it must be regarded as a useful planning and communication tool, and not just a rating tool, that focuses more on apportioning the goals of the organization and the work unit to the staff, thus making them more engaged in their achievements, thus ensuring greater accountability.

73.   **We recommended that OHR craft appropriate strategies for the systematic review of the PEMS including the adoption of a quality assurance mechanism and ensure that these are applied on a consistent basis.**

B.2.1.5   Staff development and training

74.   As a knowledge-based organization catering to a workforce with diverse learning needs, cultures, functions and locations, we noted that FAO's learning and development strategy focuses on aligning learning and development areas with the strategic directions and priorities of the Organization, and in supporting effective delivery and country operations. It is thus expected that staff development objectives are borne out of thoughtful planning and implementation with feedback measures to ensure that they respond to staff's learning needs. Essentially, staff development depends on how carefully the process is conceived, planned and implemented, thus, requiring robust thinking and execution.

B.2.1.5.a Linkage of learning needs with organizational needs

75.   Training provided to staff members must be clearly and directly linked with organizational needs and priorities to ensure its effectiveness. Where no such linkage can be made, it can be considered inappropriate to conduct a training programme as it would only be a waste of valuable resources. Training programmes must produce tangible payoffs in

organizational effectiveness. Organizational impacts result when knowledge and skills learned in a training programme are applied on the job, resulting in competent performance by staff. A needs analysis aims to identify the performance gap which training intends to fill. Thus, expected organizational impacts should be clearly articulated.

76.   We noted that it is not apparent in the PEMS as to how the learning needs of staff, which are identified by managers based on the developmental objectives in their PEMS, are tied up to organizational needs and priorities. We further observed that it is not clear as to how the consolidated learning plans per division and of the Learning, Performance and Development Branch (CSPL) are designed considering the varying learning needs identified by each of the staff member. We stress that at the level of the division or the CSPL, the management of the learning needs of each staff must be escalated to a level where the overall organization needs are addressed for better streamlining of needs and strategic goals.

77.   **We recommended and OHR agreed that the CSPL prepare learning plans that are based on analysis of the knowledge and skills needs of staff, and design and implement learning programmes that are clearly linked to organizational needs and priorities in order to optimize the use of staff development funds.**

B.2.1.5.b Evaluation of transfer of learned knowledge and skills back to the workplace

78.   One of FAO's initiatives contained in the Human Resources Strategy is to promote continuing improvement and innovation through a revised learning and development curriculum. This aims to revise the current learning strategy to best address emerging learning needs. The applicable measurement of success for this initiative is a comprehensive range of learning and development options offered in a blended learning environment, comprising face-to-face and e-learning courses.

79.   We find this measurement of success however, as more quantitative rather than qualitative and may not support its goal to create an enabling work environment, free from harassment and discrimination and sensitive to diversity, which supports staff in meeting professional and career development objectives and reflects best practice in performance management, if measurement is based on numbers only.

80.   Further, we noted that the Key Performance Indicators (KPI) used by CSPL in evaluating its programmes are limited to measuring the participants' reaction, or at most, how much their knowledge/skills increased as a result of the training and do not address the real measure of the success of a training programme which is its impact on organizational effectiveness.

81.   OHR informed us *that impact evaluations are carried out for large programmes such as the two management leadership programmes. For selected programmes, Level 3 or applied learning on the job is completed. For all programmes, Level 1 evaluations are carried out, which also include a Key Performance Indicator (KPI) on applicability.* Based on the OHR Learning and Activity 2013 Activity Report, we determined that the evaluation of training results dealt with the trainees' cognition as to the effect of the courses to these individuals and not on the impact of these trainings to the actual overall performance of the trainees. In this sense, impact evaluation is thus needed and must be used as much as

practicable for all programmes that aim to build the competencies of staff because this type of evaluation can truly measure the effectiveness of learning programmes.

82.   Staff training is a costly investment for any organization and it has to be converted into a profitable, sustainable and renewable endeavour to guarantee effective returns. In this way, training thus becomes a key element in achieving organizational goals and its success is measured by the impact it created on the achievement of organization's goals and objectives.

83.   **We recommended that OHR measure the effectiveness of its learning programmes through impact evaluation in addition to the existing practice to have a more effective basis in the formulation of future learning plans.**

B.2.1.6 Staff mobility

84.   Mobility is an underlying premise of the international civil service which promotes shared principles and values. United Nations organizations' mobility requirements may vary depending on their structure, size and mandate. According to the ICSC's Framework for Human Resources Management, mobility programmes should, among others, provide for the movement of staff within and across international organizations, and to the extent possible, to and from national civil services and public and private sector institutions and be a condition of employment when required by the organization.

B.2.1.6.a Motivational elements to encourage mobility

85.   We noted that the implementation of the mandatory managed mobility in 2014 has proven difficult. In February 2015 a new Mobility Policy with supporting guidelines and a tool kit were published. The 2015 Mobility exercise revealed better results than the first pilot in 2014.

86.   OHR commented that difficulties with the introduction of a corporate mobility policy were expected because, historically, FAO workforce has not been very mobile and a managed mobility programme represents a significant change for most of the staff. Resistance of the staff to the exercise is shown in their hesitation to apply for posts and the unwillingness of managers to release staff members to avoid work disruption. It was also noted that the financial incentives in the form of a mobility allowance and the support system given to staff members and their families to settle into new stations, were unable to heighten staff interest and that there is not enough motivation for managers as they are not actively engaged in the whole process. This aspect has been addressed and significantly improved with the updated Mobility Policy issued in 2015 that provides that managers are directly responsible for establishing the mobility plans for staff under their responsibility and submitting these for final review.

87.   The current FAO policy on geographic staff mobility aims to, among others, foster career development by providing staff with different opportunities and work challenges contributing to their professional development, while simultaneously ensuring that the continuity and quality of programme delivery are maintained. This is coupled with an incentive given to staff members who have successfully undertaken a geographic mobile assignment, by giving them priority consideration for appointments and promotions, all other criteria being equal.

88.   In this sense, we observed that the incentives in the Organization's mobility policy are not attractive enough to motivate staff and managers alike. While OHR emphasized in its Human Resources Strategy to *develop, implement and manage a corporate mobility scheme, based on clear, transparent criteria and linked to staffing and promotion decisions,* the mobility policy does not present a viable plan for staff career development. OHR noted that mobility is a normal feature of service within an international organization and it is provided for in the FAO's Staff Regulations and Rules.   Therefore, international professional staff members are expected to be mobile during their career within FAO and the UNCS, as a normal feature of their service.

89.   Moreover, the FAO policy does not provide for reabsorption or return rights. It is acknowledged that establishing a mechanism with return rights under a corporate mobility scheme would be extremely difficult, if at all possible, to manage. Indeed, this would imply that many posts would have to remain blocked and could not be filled to ensure the return rights. We were advised that, to OHR's knowledge, none of the UN organizations with large mobility programmes grant return rights to staff as a regular feature in their policies.

90.   **We recommend that OHR further enhance the Mobility Policy through the lessons learnt in the 2014 and 2015 exercises and the robust engagements with line managers and staff to warrant wider acceptance of the Policy.**

 ### B.2.1.7 Gender representation

91.   The Charter of the United Nations was the first global treaty calling for equality of men and women, and this principle has been embraced in the United Nations system. Recognizing gender equality as a human right and that empowering women is also an indispensable tool for advancing development, the General Assembly of the United Nations promulgated the first resolution concerning the employment of women by the organizations of the United Nations system, urging them to take appropriate measures to ensure equal opportunities for qualified women in senior and other professional positions.

B.2.1.7.a Establishing gender targets

92.   We noted that only 36% of the workforce in the professional and higher categories is female. As to positions, 20% of the total Directors and 38% of the professional officers are female. OHR highlighted that one factor preventing the Organization from realizing its set target for employing female staff is the fact that fewer female candidates apply for job vacancies in FAO. OHR likewise explained that while female candidates may be included in the list of applicants endorsed by the Selection Committee there is no guarantee that a female candidate will be chosen as the paramount consideration must always remain the competence and suitability of the candidate for the post under review.

93.   The OHR commented that under the work plan for 2014-15, corporate biennial targets for gender representation were established but not annual ones. This was due to the on-going review of the recruitment procedures for professional staff, on-going work on the gender action plan due for review as well as the finalization of the gender guidelines. The OHR added that it will have to consider the reporting for gender representation – whether it should be established at departmental level or rather at the corporate level. These are decisions that

will be taken under the final review of the updated Gender Action Plan and gender guidelines.

94.   Based on the foregoing, we concluded that there is a particular need for the Organization to take proactive steps in ensuring that gender parity is achieved, not only because FAO has committed itself to becoming a lead agency in promoting gender equality, but more importantly because as an Organization, FAO has long recognized that gender considerations are an important element for the Organization in pursuit of its mandate of supporting the attainment of food security for all. As reported in the JIU Report for Gender balance and geographical distribution, the challenge lies in reconciling policies on competence and gender balance considering that conflicts may arise in trying to satisfy all requirements simultaneously.

95.   This being said, the progress made in the gender balance over the past years in FAO should be noted.   Indeed, the representation of women in the professional and above categories throughout the Organization has steadily increased to an average of 35% to 36% whereas this figure was around 28% in 2005.   OHR and Management have taken steps to improve the representation of women in its workforce and pursue these efforts to increase the gender balance within FAO.

96.   **We recommended that OHR enhance its current methodology in establishing gender targets in relation to job vacancies and decision for selection and appointment, and resolve the conflicts in policies on competence and gender parity so that realistic targets are established and managed.**

B.2.1.8 Succession planning

97.   Succession planning, as a process, identifies and develops staff with potential to fill key business positions.   It also increases the availability of experienced employees that are prepared to assume these roles as they become available.   In essence, succession planning is a major subset of workforce planning and the exercise comes into play at the stage where gap analysis of the workforce is conducted. Succession planning also involves identification of positions/key groups, the competencies required of the positions, identification of potential candidates and the learning and development objectives of these activities are then inputted into the whole human resource strategy. From an internal control standpoint, succession planning relates directly to developing competencies that can result in process efficiency and in a more effective management of the human capital.

B.2.1.8.a Succession and workforce planning

98.   From the FAO Human Resources Strategy, we noted that succession planning is neither made as part of the workforce planning process nor were activities identified to preface any succession planning initiative.   Even if succession planning is to be undertaken, this cannot be done in isolation of the broad workforce planning process.   The gap analysis exercise intended to be undertaken by OHR does not explicitly express the inclusion of succession planning as a criterion in the anticipated changes on the human resource skill mix. OHR has advised that workforce and succession planning are high priority topics on its agenda for the next biennium and beyond.   Work is currently under way to set up the necessary tools to support this initiative such as the new PEMS, competency management.

99.   Succession planning finds even more relevance as the age structure of manpower in an organization gets older. The inevitable fact of age progression naturally entails an exit of people, and for which the organization must be prepared, to give entrance to the next-in-line who will succeed, take over and continue the unfinished activities of their predecessors. In the case of FAO, 1,434 of its professional staff members and 118 of its Directors and above category, ranged at the average age of 48 years and 55 years, respectively. Thus, it can be said that the Organization has an aging workforce. There is, therefore, a genuine necessity to initiate policies and implement strategies to ensure that upcoming vacancies will not derail the normal operation of the Organization. Such necessity is magnified by the fact that 16 Directors and 53 professional staff members are retiring or have retired beginning October 2014 until December 2015.

100.   To determine FAO's preparedness for this type of contingency, we surveyed selected respondents and determined that some are not aware of the institutional measures ensuring knowledge transfer and of any program in the Organization for preparing the succession to management post. Further, one respondent highlighted that succession planning was a major problem in her unit. We noted that as a result, FAO resorts to rehiring retirees as a temporary measure for filling gaps in the ranks. We determined that a total of 167 retirees have been rehired, 38 retirees in 2013 and 129 retirees in 2014. From these, 53 remain on board while the rest have contracts which end as at October 20, 2014.

101.   It can be argued that the lack or shortage of talents in the pipeline justifies the perennial practice of rehiring retirees back into the mainstream to play the same role they performed whilst in the Organization. However, the strategy may be challenged and perhaps, even equated to inefficiency on the part of the Management in the absence of initiatives that can ably tap the knowledge of retirees and staff who are due to retire, who take away with them valuable and unshared knowledge, thereby perpetuating the need to continue employing retirees. Re-hiring retirees to act as consultants also comes at a price to the Organization. While the retirees/consultants are paid less compared to a regular staff, cost efficiency cannot be offered as the best reason because it also pinpoints inefficient planning.

102.   **We recommend that OHR craft the Organization's succession strategy and embed the same in the on-going workforce planning exercise with particular emphasis on leveraging fully on the knowledge, skills and experience of prospective retirees to build a pipeline of talents thereby ensuring the mitigation of knowledge gaps.**

B.2.2.   Technical cooperation operations

B.2.2.1 Investment Centre Division

103.   Making sure that FAO's mandate for agriculture development and sustainability requiring attention to agricultural strategies, policies and investment will be realized is FAO's Investment Centre Division. It leads FAO's efforts to promote increased and more effective public and private investment in Food Security, Nutrition, Agriculture and Rural Development (FSNARD). It stands apart by having a different business model in that most of its work is carried out under FAO's partnership agreements with International Financing Institutions (IFIs) where it provides its expertise and neutral advice to a great number of

countries for the formulation and implementation support of multi-million dollar projects through specialized skills in investment planning, formulation and evaluation.

B.2.2.1.a Formulation of strategy for investment support

104.   A series of evaluations were made on the role of FAO in Investment support for FSNARD with the recommendation that FAO craft its strategy for investment support, an overarching recommendation that will integrate building stronger partnerships and capacity development. The FAO-wide strategy will also capture how FAO-TCI will maximize strengths, minimize weaknesses, seize opportunities and avoid threats for investment support.

105.   We examined several considerations made by the TCI in crafting the FAO-wide Strategy and determined several of these: strategy prioritization, programming for results, monitoring and evaluation, formalized documentation and requisites for successful implementation of the strategy. We however, noted that the drafting of the strategy has not yet fully addressed risk management aspects. The strategy crafting process should extensively incorporate risk management requiring reasonable identification of risks and risk indicators through contextualization, appropriate risk responses relative to the affected strategies, and adequate risk monitoring parallel to the progress of strategy implementation. Management recognizes the incorporation of additional risk management on the strategy setting.

106.   We commend TCI for the initiatives leading to the development of the FAO-wide strategy for investment support. With the implementation of the strategy, expectations are set at a high level. The activities that are planned to be delivered until the end of 2015 must continue to be accomplished in a controlled manner as it necessitates close monitoring of activities. We also noted that FAO had committed to the Programme Committee to complete the Strategy on Investment Support with all recommendations completed by end 2015, hence monitoring must continue to be done weekly by TCI Senior Management and by TC Executive Team Management Meeting, and monthly or as required by the Corporate Programmes Monitoring Board (CPMB).

107.   **We recommended that TCI ensure that risk considerations are reflected within the Strategy for Investment Support, and ensure that the Strategy and its deliverables are timely delivered by 31 December 2015.**

B.2.2.2 Emergency and Rehabilitation Division

108.   TCE takes an active role in the implementation of FAO's resilience agenda. It works in disaster risk reduction (preparedness, prevention and early warning), response, and promoting the full integration of development-oriented work into humanitarian response interventions which depend largely on capacity and enabling policies and frameworks.

B.2.2.2.a Emergency Response Protocols

109.   As a full member of the Inter-Agency Standing Committee (IASC), FAO articulated its declaration and response protocol for Level 3 (L3) emergencies in the Director-General's Bulletin (DGB) No. 2013/32. The bulletin aligns FAO's internal processes with those of the international humanitarian community in the event of system-wide mobilization and response for L3 emergencies while retaining its ability to act independently in fulfilment of its

mandate. The subject L3 protocol was framed to provide protocols for system-wide emergencies. As it is, we tested the policy to determine whether or not the provisions therein provide a sufficient mechanism in terms of roles, responsibilities and accountabilities for all levels of emergency.

110.   Based on the design of FAO's current L3 emergency protocol and on the submissions of the decentralized offices, we determined that the policy, as both an accountability and control mechanism, presents certain challenges. Foremost of these is the definition of activation levels to assist the emergency management leadership and the public to understand the initial and current size of the emergency and probable manpower levels. This should serve to meet economy of force and must minimize unnecessary costs. As the emergency grows or diminishes, the size of the emergency activities will be adjusted to meet changing conditions. The flexibility of only one protocol in terms of interpretation will not bode well due to the nature of the main agenda which is emergency work.

111.   Given the nature of an emergency response which includes the mobilization of the necessary emergency services and first responders, this should be driven by the type and kind of emergency and which is likely to include several waves of core emergency services, which can be supported by a number of secondary emergency services. FAO's accountability policy supports this issue too. Any policy adopted by the Organization including those pertaining to emergency activities has to be anchored on this pillar because emergencies do not occur with the same intensity and level, and must therefore be guided with clearer policies. Aligned to this concern, the OIG had recently identified as a high level risk, the lack of development of detailed recovery procedures and action plans to ensure that offices can function in an emergency at decentralized levels. To mitigate this risk, it was expected that standard operating procedures (SOPs) and action plans should be developed at/for decentralized levels. As a good benchmark, the World Food Programme (WFP), which is co-leading the global Food Security Cluster with FAO, has already recognized the importance of articulated response protocols for L1 and L2 emergencies. In the WFP Emergency Response Classifications document, it provided the levels of activation of response levels which clearly details the roles and responsibilities during each emergency level giving a more definite mandate to emergency actors

112.   **We recommend that TCE craft clear protocols dedicated for L1 and L2 emergencies to ensure clearer accountability lines. We further recommend that TCE better clarify the roles and responsibilities, and control designs for L3 protocol.**

B.2.2.3 Technical Cooperation Programme

113.   The TCP is part of FAO's Regular Programme financed from the assessed contributions of its Members. Following the decentralization of the TCP in 2010, the transformational change process, and the Strategic Thinking Process that led to the reviewed Strategic Framework, member countries requested assurance that the TCP adapt to this new organizational context and remain a programme of importance and relevance as a means for accessing FAO's technical expertise. Responding to this call, the Council in December 2013 endorsed the proposed TCP enhancement measures and implementation plan that better align the TCP with the reviewed Strategic Framework.

B.2.2.3.a.Performance reporting in TCP

114.   The Council endorsed the proposed adoption of TCP performance indicators that cover two performance levels: (*i*) *relevance and sustainability of TCP development interventions; and (ii) approval and delivery rates of TCP resources*. We noted however, that for 2014, only the performance for approval and delivery rates of TCP resources was reported in the Mid-term Review Synthesis Report (MTR) 2014. There was no report on the relevance and sustainability of TCP development interventions in the MTR as this was a transition period. In fact, with the introduction of the new corporate format for terminal reports under the Project Cycle, introduced for TCP projects under the new TCP Manual in March 2015, reporting on relevance and sustainability is to take place as of 2016.

115.   With reference to the UNDG Manual of RBM, outputs are defined as what all the implementers produce, FAO included. Reporting for results following the results chain requires that "output" information is included; otherwise, succeeding change cannot be measured particularly at the outcome level. Without clear tangible outputs, the contribution of the TCP to the achievement of an Organizational Outcome cannot be accurately measured.

116.   Moreover, one of the important principles embraced by FAO in terms of managing results is the *Use of results information for learning and managing, as well as for reporting and accountability*. Aligned to this principle is the need for FAO to completely report the actual accomplishments with the accompanying yardstick against which the performance is measured. It is critical for both targets and accomplishments not only for approvals and delivery (already reported) but also for performance (relevance and sustainability) to be presented in the MTR so that decision-makers, stakeholders and the member countries-at-large can draw clearer inferences on the results produced by the Organization.

117.   **We recommended that FAO further refines quantifiable output indicators taking into consideration the planned commitment to the TCP appropriation and ensure that the development of performance indicators is robustly monitored around the defined dimensions.**

B.2.2.3.b Formal project monitoring standards and tools

118.   Since the decentralization of the TCP, decentralized offices were empowered in managing the TCP appropriation for development projects – from planning, formulation and budgeting to execution, monitoring and reporting. Meanwhile, the role of the TCP in the HQ insofar as development projects are concerned has been focused on corporate management and oversight of TCP.

119.   Monitoring and reporting are all integral features of managing for results. The purpose of monitoring is to ensure proactive management for results and to support efficient and effective implementation of the work plan and budget. The monitoring aims at facilitating timely and cost effective implementation, including identification of issues and problems for corrective action by the project management at all levels.

120.   We observed that the FAORs are not provided with specific detailed guidelines regarding the frequency with which TCP projects should be monitored and what document

should be used or produced to document the monitoring exercise. The TCP commented that the TCP Manual sets activities on a quarterly basis to facilitate Budget Holder (BH) monitoring and added that it is the standard established responsibility of the BH/TCP Coordinator along with task force members to monitor project progress, based on the work plan. Monitoring reports are already available in FPMIS for BH/TCP Coordinators to use and roles and responsibilities are defined in the Project Cycle guide.

121.   Setting a uniform corporate guidance covering the regular reporting and monitoring exercise for TCP projects is a control measure that will have a pervasive effect on the quality of the data measured and the resulting decisions based on the collected information. It also enhances accountability and strengthens the related controlling activities and guarantees the regular execution of activities while ensuring that commonly required data are captured in the existing standard template. This will also ensure that top level oversight functions such as those performed by the TC are delivered more effectively.

122.   **We recommended that FAO continues to ensure that guidelines clearly define amongst others, the roles and responsibilities of Budget Holders and TCP Coordinators in the conduct of regular monitoring of projects; and that these are supported with tools and techniques to improve monitoring activities thereby enhancing the quality of decisions at all levels.**

B.2.2.3.c Availability of terminal reports for projects in the FPMIS

123.   The TCP Manual 2009 provides that each project is concluded with a terminal statement (TS) that is prepared under the responsibility of the Lead Technical Unit (LTU). The same concept is adopted in the TCP Manual 2015 but with some modifications. In lieu of TS, the latest guidelines, aligned with the corporate project cycle guide, require the TCP Coordinator, with technical inputs from the Lead Technical Office (LTO) and other Project Task Force (PTF) members, to prepare a terminal report (TR) for each concluded project. The TR, which must be submitted to the government at ministerial level within three months of completion of project activities, shall include scorecards to assess the relevance, achievement of results and sustainability of TCP projects.

124.   We noted that some operationally or financially closed projects were either not supported with TS/TR or the TS/TR uploaded in the FPMIS is not accessible. In addition, we noted that some TS/TRs were submitted late. TCP clarified roles and informed that the TCP Coordinator's role is to ensure that the report is produced in a timely manner, the uploading of finalized TS/TR into the system is a task assigned to South and Resources Mobilization Division (TCS) and the TCP Team at HQ ensures oversight monitoring of the timely preparation of TRs.

125.   While the duty of uploading terminal statements in the system lies with the TCS, it is the responsibility of the TCP Coordinator to ensure that the report is produced in a timely manner, and that of the TCP Team to continue ensuring oversight monitoring so that TSs are prepared on time. This monitoring duty is within the sphere of the overall corporate management and oversight function of the Assistant Director-General (ADG)/TC. There will be however no terminal report to be uploaded into the system if the TCP coordinators do not ensure that the same are made available.

126.   **We recommended that FAO strengthen the monitoring and review of the project terminal reporting process and engage more robustly with the decentralized offices to ensure that terminal reports are made readily available in the FPMIS.**

B.2.2.3.d Support for evaluating TCP projects

127.   In 2012, the FAO Secretariat approved the implementation of the Ex-Post Assessment (EPA) tool in evaluating TCP projects. Shortly after its roll-out, the EPA was abandoned. With the enhancements of TCP, the EPA is replaced by the terminal report to be prepared by the TCP Coordinator. As it is too early to appropriately examine the capability of terminal reports to measure the relevance, sustainability and catalytic impact of TCP projects, its adaptation having been launched just recently, we requested the Office of Evaluation (OED) for an opinion on the relevance and long range success of TCP projects, in reference to the past evaluation exercises where TCP projects were covered.

128.   The OED commented that as regards the impact derived from the TCP-assisted projects, given their mostly catalytic or supportive nature and their small size, such projects should not be seen as producing long-lasting impact by themselves, but rather having leveraged the effect of the whole country programme through, for instance, demonstrative effect of pilot projects or stand-by support to the government needs. The OED concluded that FAO would not be as successful as it is now without the TCP on its side.

129.   To determine the value that the TCP projects have as catalysts for development, we queried with several FAORs and gathered that there were TCP projects that had lasting impact and there were also TCP projects which had little or no lasting impact. We also learned that OED evaluations of TCP projects are carried out through country and thematic evaluations. Consequently there is not a dedicated individual evaluation for every single TCP project per se after Not-to-Exceed (NTE) date and follow-up made on the recommendations addressed to the government as provided in the terminal statement.

130.   It is established that TCPs demonstrate a certain level of change within the recipient countries. Apparent too in the statements is the fact that the projects' Terminal Reports are expected to bring about some value. If the intention of the Terminal Report is to determine every project's relevance, achievement of results and sustainability of these projects, more robust related activities are thus needed to fulfill these expectations. The submissions of the FAORs already suggested that Terminal Reports are relevant to decisions but should evolve into a document that effectively contains information on results achievement, and the relevance of the project in general as defined in the newly released Project Cycle Guide and related TCP Manual Appendix.

131.   **We recommended that FAO assess the functioning of the new Terminal Reports system and ensure that opportunities for enhancements are taken advantage of, to improve the quality of the evaluation of projects as required.**

B.2.2.3.e Formal trainings and needs related to the adoption of the TCP Manual

132.   We conducted a survey of FAORs from countries belonging to special attention list and intermediate countries. The survey results showed that only 50 per cent believe that project approval would be expedited under the latest guidelines. About 56 per cent

commented that the project cycle process was made even more complicated because of the additional steps added and new actors on board, further that in a region where there are few FAORs; individuals will be assuming multiple roles in the process. About 75 per cent said they could not prepare a concept note and complete a logical framework matrix. Two FAORs highlighted the duplication of actions in the preparation of Short Project Proposal (SPP) and Concept Note (CN).

133.   We also solicited comments from the FAORs on how else the TC at HQ can assist TCP Coordinators/FAORs in the country offices to efficiently manage TCP projects operation and resources and determined several inputs such as the provision of training on the application of new guidelines and on the corporate Project Cycle Guide, sharing of experiences and best practices across regions, continuous development of tools and procedures and simpler monitoring and evaluation systems, amongst others.

134.   Although accurate conclusions cannot be made based on the results of our survey, it is clear from the responses that much is still needed to be done for the better functioning of the decentralized offices as regard the administration and management including of TCP projects. This opportunity has to be met with concrete actions from the side of the TC HQ. Foremost among these opportunities is the build-up of competencies across the decentralized offices, an observed commonality in the responses gathered.

135.   **We recommended that FAO conduct a thorough assessment of the most current competency needs of the decentralized offices particularly to the management of TCP projects to support the smooth implementation of the new TCP Manual, aligned to the Project Cycle Guide, and ensure that expected results from the initiative are materialized.**

B.2.2.3.f Monitoring of deliveries on TCP emergency projects

136.   The TCP appropriation for the biennium 2014-15 amounts to USD 129.6 million, of which USD 19.30 million is allocated for emergency assistance. Based on the report "TCP Approvals and Expenditures as at mid-May 2015", a total of USD 94.42 million, or 73 per cent of the allocation for emergency assistance had been committed to approved projects. Meanwhile, the level of expenditures against the 2012-13 appropriation at USD 16.63 million for emergency assistance had already reached USD 14.48 million, registering an 87 per cent delivery.

137.   We noted that several emergency projects approved using the 2012-13 appropriations are already past their NTE dates but the corresponding budgets are not yet fully delivered. We also observed some emergency projects funded using the 2012-13 or 2014-15 appropriations with low delivery or no delivery as yet at all.

138.   The TCP HQ informed us that the main responsibility for project implementation and update of relevant project information lies with the Budget Holder/TCP Coordinator. Monitoring support is provided by the Regional Office, whether for development support or emergency assistance, for the countries in the region. The Programme Officer from the TCP HQ undertakes further monitoring, checking overall progress and required steps in project implementation/completion, inter alia verifying completeness and correctness of information uploaded in FPMIS for the region of responsibility. However, the gaps that we noted suggest

that a more systematic monitoring is necessary by both the FAOR and the Regional Offices, with overall TCP headquarters oversight.

139.   Monitoring is always a necessary controlling activity. This is made even more pronounced if applied in managing emergencies. Emergency TCP projects provide an immediate reaction to a disaster situation and aim for the early rehabilitation of the productive capacity of the intended beneficiaries affected by a calamity. Due to the nature of the situation that TCP-assisted emergency projects need to address, efforts must lead towards unimpeded deliveries of approved budgets if the intention is to assist countries, and partners respond more effectively to crises and emergencies with food and agriculture related interventions.

140.   Equally important is the assurance that information uploaded in the FPMIS is updated and is free from errors. This is to guarantee that only accurate and up-to-date information is obtained by the TCP in HQ or other interested users for reporting purposes.

141.   **We recommended that FAO determine monitoring strategies that bring about more adequate controlling of project budget deliverables and oversight; and ensure that policies, procedures and tools are in place to facilitate monitoring within the regions and at the corporate level.**

B.2.3 Performance monitoring and reporting

142.   The Mid-Term Review Synthesis Report that is carried out at the end of the first year of a biennium reported that 82 per cent (42) of the Output indicators were on track, of which 68 per cent (28) were exceeded while moderate progress has been made on 14 per cent (7) of the indicators, and 4 per cent (2) of the indicators were off track. Its preparation has lead the Organization to identify lessons learnt and develop nine strategies to further improve the delivery of programmes to achieve the intended results which are planned to be implemented within the year and in the ensuing biennium.

143.   In delivering the expected results set out in the Medium Term Plan and Programme of Work and Budget (MTP/PWB), FAO adopted the Results-Based Management which rests on clearly defined accountability for results and requires monitoring and assessment of progress towards the achievement of expected results including the reporting of its performance. Our review of programme performance reporting through RBM as reflected in the MTR aims to provide support to the Organization in terms of identifying further opportunities to improve and validate the identified areas for improvement.

B.2.3.1 *Positive developments in the planning, monitoring and reporting of programme results*

144.   One positive result that we noted is the identification of 48 corporate outputs measured by 50 Output indicators in the MTP/PWB as a result of the Strategic Thinking Process which allowed the focusing of work of the Organization across all locations and better tracking of the changes at the Outcome level. The self-assessment on the delivery of these corporate outputs is now based on evidence that resulted in clearer audit trails and

enhanced further the accountability lines amongst delivery managers and reporting officers. Better accuracy of data provided is now guaranteed.

145. In addition, we noted the material improvements in FAO's reporting infrastructure with the enhancements made to the FPMIS and the Programme Planning, Implementation Reporting and Evaluation Support System (PIRES). The newly-developed results dashboard has vigorously enabled the monitoring and reporting of the deliverables contributing to the corporate outputs. This arrangement had enabled the country offices to participate in the corporate monitoring and reporting for results, improved transparent reporting, and access of the validations and final reports at all levels of the Organization.

146. Moreover, we noted that the reporting of results in the MTR together with the implementation of the RBM has allowed the Organization to effectively create the learning loop where lessons learned identified are expected to enhance further results reporting and monitoring in the coming biennium. We take particular interest on this development as it signals the continuous improvement philosophy that the Organization adapt in ensuring that results' reporting is constantly improved based on past learnings.

147. Finally, we noted that FAO entered into a contract with an external consultancy firm to perform the needs assessment survey of the Organization in 2015 to improve the Managing for Results (MfR) Learning Programme of FAO. This demonstrated the serious commitment of the Organization to achieve its intended purpose by improving on the competencies of its staff, which undoubtedly is one of the most vital controls.

148. **We commended FAO for the serious commitment it has so far demonstrated to provide more value to the delivery of programme results through the OSP's enhancements on the programme reporting and monitoring infrastructure and the quality of base data for the programme results.**

B.2.3.2 Planning of targets by focus countries and other variables

149. The MTR 2014 indicated that most of the 2014 corporate targets exceeded were due to more country contributions reported than planned in 2014.

150. Our feedback from the SO Teams and decentralized offices disclosed that only the focus and some non-focus countries were involved during the planning process. SO3, SO4 and SO5 informed that they have not systematically engaged with all the country offices because it was done when the new Monitoring and Evaluation (M & E) Systems were also being operationalized. Moreover, country level accomplishments that contributed to results from projects where the budget holder was not the FAOR were also reported in the MTR. Despite the incomplete targets set for the biennium 2014-2015, we were informed that the targets for 2015 will not be revised.

151. On the other hand, our survey of 17 FAORs revealed that 13 of them were not involved during the target-setting of which 4 indicated that they did not share in the Corporate Targets while one was not aware if his country office shared or not. In the absence of their share in the Corporate Targets, one FAOR said that for monitoring of his country office performance, actual quantity of outputs was compared not against the targets in 2014

but against those in biennium 2012 to 2013. Thus, without the share of the country offices in the corporate targets, the measurement of performance can be less effective and not inclusive.

152. While the challenges at hand had been recognized in the Lessons Learned in Annex 2 of the MTR and while we agree that revision of targets would be irrelevant at this time of the year, non-revision of the targets for 2015 will mean that the outputs in 2015 are being reported against the incomplete targets. This means, the PIR for release in 2016 may report more or less the same overachieved targets, and the targets in 2015 are still not inclusive of all the country offices. Disclosures of these facts in the PIR need to be enhanced.

153. **We recommended that FAO through the OSP consider the inclusion of other variables that caused the overachievement of targets in the upcoming PIR to warrant a more informative explanation on the deviation and establish a clear process of target setting where it begins with the country offices, and the focus and non-focus country offices involved.**

B.2.3.3 Validation of accomplishments

154. The results' validators use the narrative summaries as one of the bases to assess if the accomplishments of the decentralized offices contribute to results or change, and therefore should be reported in the MTR. Most of the Strategic Objectives (SOs) had validated accomplishments only once in 2014 which was done during the preparation of the MTR except for SO1 that validated accomplishments in the mid and year-end of the same year.

155. We noted that there were 1,576 accomplishments or 40% of the submitted accomplishments for validation that were not included in the MTR 2014. Management forwarded reasons such as: they did not illustrate change or result; were yet to be completed; not well justified; and were not aligned with the indicator or with the output as a result of the non-involvement of the country offices when these were developed.

156. While narrative summaries are used for validating accomplishments, we noted that all the SOs except SO1, validated some accomplishments and included them for reporting in the MTR even in the absence of narrative summaries. One of the Regional Representatives surveyed commented that the SO Teams had different comments on the narrative summaries that confused them and made compliance with the validation requirements challenging.

157. While we acknowledge that the challenges in the validation process are already being addressed by FAO through the development of a Country Road Map for target setting or the short project proposal and concept note which will help ensure the alignment of projects to the reviewed Strategic Framework, and involvement of all the country offices during planning and target setting for the biennium 2016 to 2017, we highlight the urgency of taking action on this matter.

158. **We recommended that FAO improve its validation methodology through OSP's close engagement with the country offices in determining the most appropriate timing of validation, standard information in the narrative summaries, and solutions to resolve challenges encountered during the reporting and validation phases.**

B.2.3.4 Application of RBM principles in the development of statements of outcome, output and indicator

159.   FAO's 48 Organizational outputs under 17 Outcomes support the achievement of its 5 SOs. Our review of the statements disclosed that these were crafted differently among the 5 SOs with three of them crafted in action language and the rest in change language. Also, some Outcome statements do not seem to inform the governing bodies and members of what FAO wants to achieve or where it wants to be in 2 to 4 years from planning, particularly 1.2 *(Member countries and their development partners adopt inclusive governance…x x x)* and 5.2 *(Countries and regions provide regular information and early warning against….x x x).*

160.   OSP informed us that the two SO Teams preferred to use action language *to focus attention on actions and approaches in FAO support terms that could lead to contributing to improvements (or changes) at the Outcome level* and avoid confusing Output with Outcome.

161.   The principle of RBM on the development of statements of output and outcome does not change even when applied within a project, across programmes or at the institutional level; however, this may be interpreted differently across institutions even in the presence of one guiding framework. The main purpose of the MTR is not merely to report but also to communicate to stakeholders who may not even have a background of the RBM which could be achieved through the simplicity and consistency of language used in the Report. This intent should be made apparent in the document.

162.   **We recommended that FAO through OSP take the lead in further improving the formulation of outputs moving forward to the next biennium to ensure that terminologies used are consistently applied across all SOs and within the standards set by the UNDG RBM Handbook.**

B.2.4 Internal Control

163.   The exigency of a more effective internal control has long been recognized by the Organization. We noted that in 2013, the Secretariat crafted a conceptual approach to accountability and internal control in support of the transformational change that the Organization had embraced primarily to improve the delivery of its programmes. In 2014, we observed that several enhancements to internal control and accountability were entrenched in several processes through the delivery of policies and procedures intended to improve efficiency and effectiveness.

164.   The endorsement of the FAO Accountability Policy by the Corporate Programmes Monitoring Board in December 2014 formalized the parameters on how internal control will be embedded across the Organization. Risk management in the Organization had already taken its foothold in 2013 when FAO's risk policy together with several guides were issued and was expected to cultivate risk awareness across and improve risk culture.

165.   The recognition by the Organization of good governance elements such as accountability, risk management and internal control is one big step towards an improved ability to achieve the set goals, objectives and results to create and preserve value. If these

elements are made operational, internal controls can then be directed to mitigate recognized risks thereby increasing the Organization's ability to adequately address accountability gaps.

166.   The need to enhance the Organization's internal control has been highlighted in our report for the biennium 2012-2013 (C 2015/5 B) where we underlined the need for the Organization to formalize its policy framework and mechanism on internal control. During the current year, the results of our audits suggested that weak controls or the absence thereof still continue to impinge across critical operational processes. We tested several controls along critical areas of operations, both in the decentralized offices and in the headquarters. Our test results involving the decentralized offices' operations exhibited instances where country plans for Country Programming Framework (CPF) are not prepared and project implementation is protracted and not ably controlled. The non-preparation of procurement plans by several offices continues to persist and physical assets in some offices are not ably protected from loss or mismanagement. We also observed inadequate controls in managing staff travels and that multiple travel advances still exist. On the other hand, we determined that cash management in one office still needed tighter controlling as performance of controls such as regular cash counts and disbursement documentation were not applied. The gaps are discussed in detail for each decentralized office audited in the section of this Report on the Audit of Decentralized Offices.

167.   The control gaps in the decentralized offices have created operational risks that necessitate proper management and considerably challenged the ability of the Organization to manage its risks.   There is thus a need too, that risk management is fully entrenched comprehensively in all processes within the Organization.   However, results of our recent audits also underlined the fact that risk management has not progressed as we have expected it to.   We still noted big differences in risk definitions, in staff understanding of these definitions, and in the types of risk logs and risk categories being used amongst departments. Further, we also noted that risks were considered for the 2014-15 biennium as part of High Level Work-Planning, and during Operational Work-Planning for the Functional Objectives. However, this did not constitute the comprehensive approach to risk management that we would like to see.

168.   We therefore welcome the Organization's approach to work-planning for the 2016-17 biennium, which includes assessing risks across all locations and for both the Strategic and Functional Objectives as part of work-planning for the 2016-17 biennium, and will lead to FAO's first corporate risk log. This will provide decision makers with a better decision base and allow the Organization to have a real and clear picture of its corporate risk profile which will eventually result in more responsive and effective internal control.

169.   Given this scenario, it is imperative that FAO should develop an internal control framework as a tool to help an organization design, implement, and monitor systems of internal control in accordance with the organization's objectives. One such tool is the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control—Integrated Framework.

170.   In its effort to concretely embed a more effective system of internal control, we were informed that FAO's internal control framework is currently being developed. We also gathered that a steering group has been formed to guide this work, chaired by the Deputy Director-General Operations (DDO) with the ADGs for Corporate Services (CS) and TC and the

OSP Director as members. The output of this exercise, which is expected to be completed by end of June 2015, is the adoption of an internal control model and framework that considers three elements that we have previously recommended: a governance mechanism; an internal control model; and internal control reporting through senior managers to the Director General.

171. However, manifestations of weak controls discussed elsewhere in this report need to be underlined at this juncture where risk management, internal control and accountability mechanisms are expected to bring about positive change. An agile internal control framework that does not over-control nor is overly bureaucratic along with an effective risk management must now be made as part of all decision making and the subsequent planning and execution of planned activities. The ongoing momentum must be sustained.

172. For governance to advance, the roles, responsibilities, processes and procedures within an organization have to be anchored solidly on a stable foundation. The policies and procedures that are used to direct an organization's activities need to provide reasonable assurance that corporate objectives are met and that accountability is upheld. This assurance is spread up to the preservation of reputation, effective provision of services and providing guarantee of appropriate behavior. To bring about these organizational aspirations, a culture of accountability and risk management has to be cultivated from within that must be demonstrated in the effectiveness of internal control across a multitude of decisions and processes.

173. **We recommended that FAO continue its work to install a robust internal control framework within the current biennium as planned and ensure that it is ably supported by tools and guidance, directly linked to risk management framework and activities, and couched in accountability arrangements defined in its Accountability Policy.**

B.2.4.1 Statement of Internal Control (SIC)

174. We recommended in our last biennium audit report that FAO incorporate in its plan the preparation of a SIC. Although there was an ongoing discussion in the Finance and Budget Network of the UN System on this matter, we were informed that FAO will need to weigh the cost against the benefits of such action in the context of the other needs of the Organization before a SIC could responsibly be included. However, we put so much importance to the SIC such that we recommended that :

> **"FAO integrate in its on-going enhancement of its internal control the formulation of a mechanism for responsible officers of the Organization to provide assurance to the Director-General, who is tasked with the overall responsibility for the Organization's internal control, on the functioning of internal controls within their respective areas of responsibility. Such feedback from those officers would be the DG's basis to prepare a Statement of Internal Control that would be appended to the financial statements."**

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175. The statement of internal control is a means for an entity to convey its approach to, and its responsibility for, risk management, internal control, and corporate governance. It is also a means to bring to focus weaknesses that exist in the internal control system within the

organization. Public sector entities need to provide assurance in managing and controlling the resources that are given to them and for which they are made responsible.

176.   The statement of internal control is an important accountability document in communicating these assurances to its governing bodies and usually includes the following most significant elements:

a)   management's statement of responsibilities for a system of internal control that supports the achievement of objectives;

b)   the purpose of the system of internal control, including as regards managing the risks of failure and confirmation that it was operational during the financial reporting period;

c)   the ability and capability to manage risk, such as the direction provided to risk management, the training and equipping of staff to address risks, and utilizing lessons learnt and good practices;

d)   the risk and control framework, with a description of the key elements in the risk management strategy, such as how risks are identified, evaluated and controlled, how the risk appetite is determined, and how stakeholders are involved in managing risks that affect them; and

e)   a review of the control's effectiveness that would include a confirmation by the Chief Executive who has overall responsibility for reviewing the effectiveness of the system of internal control, taking into account the work carried out by internal audit, external audit, and the entity's managers, confirming that a plan is in place to address any weaknesses identified and to ensure continuous improvements.

177.   Although this statement is not required under IPSAS, it is a practice observed by other United Nations organizations including the World Food Programme.

178.   In its Progress Report on an Accountability and Internal Control Framework (FC156/15) presented to the Finance Committee at its 156th Session in November 2014, management indicated that the roll-out of an internal control framework will increase managerial competencies across the Organization and thus contribute to addressing the frequently mentioned concern of a gap in management skills and, in the context of the field, an internal control framework will help prepare FAO Representatives for greater delegations. It was mentioned that WFP have invested in the capacity development aspect of an internal control framework, and FAO will borrow from their experience.

179.   **Hence, we reiterated our recommendation that FAO establish a mechanism for responsible officers of the Organization to provide assurance to the Director-General on the functioning of internal controls within their respective areas of responsibility and for the DG to issue a Statement of Internal Control to be appended to the annual financial statements.**

B.2.5   Risk Management

180.   Borne out of FAO's commitment to manage its business risks efficiently and responsibly, risk management had been on its agenda since 2009 where investments were made to embed a formal risk management process through an initial study conducted by an external firm and its eventual adoption as IPA Project 12 in 2011 with a budget of USD 0.7 million in 2010-11 (development and implementation) and USD 0.8 million per annum (on-going running costs) from 2012-13. In its delivery, FAO's risk management objectives had initially revolved around three areas at the start: a) management of the corporate results hierarchy; b) extra-budgetary and business improvement projects; and c) rapid problem response.

181.   The FAO Corporate Policy on Risk Management declares several benefits out of its adoption which involve more robust planning and informed decisions, ability of line managers and staff to remedy serious gaps; and provision of timely information on these gaps.   These intended benefits are clearly aligned to the five principles that FAO had embraced in managing its risks: in that FAO's risk management must be proportionate, aligned with working practices, comprehensive, embedded and dynamic.   As applied in FAO's work, risk management was envisaged to be an integral part of the design and operation of processes; must be dynamic and responsive to changing risks; reflect FAO's culture and its lines of accountability and authority; and that potential risks are identified, assessed, controlled and reported in a structured manner.   In 2013, FAO's risk management guidelines and the risk log tool were put into use.

182.   Within these set parameters, we assessed the current state of risk management in several critical processes to determine the level at which it has been embedded and the depth and breadth of the risk culture propagated.

B.2.5.1 Risk management in work planning and performance reporting

183.   In the implementation of the new Strategic Framework and in relation to the risk management activities during the planning and in the evaluation of performance for 2014, OSP informed us that corporate risk assessment was undertaken during the high-level work planning and for operational work-planning for the 2014-15 biennium, OSP indicated that during the preparation of the MTR some risk-related analyses took place (in particular major lessons learnt and action items for 2015) and were summarized and reported to members in the 2014 MTR. However, no formal risk assessment was carried out. OSP informed us that this was because it used risk assessment as a forward-looking tool, supporting planning among other things, and so not suitable or appropriate for a retrospective exercise such as the MTR. So for example, the lessons learnt from 2014 will be used during the risk assessment to support work-planning across the Organization for 2016-17.

184.   The Office of Strategy, Planning and Resources Management (OSP) clarified that *since the adoption of the Enterprise Risk Management (ERM) corporate policy, awareness to risks and risk management practices are continuing to mature in FAO*. OSP emphasized also that *FAO is guided by five principles of risk management, particularly proportionality and alignment principles*. Along these lines, the results of our survey, though not conclusive revealed that, out of 19 respondents, only two indicated that risk assessments were done

during the planning and evaluation of performance results and almost all of them commented that risk assessment in FAO needs improvement through training.

185.   The information provided by our respondents suggests that competency is the key to the effective delivery of risk management in general. One cannot mandate to perform an activity where strong competency is absent. If FAO risk management culture is expected to build-up over time, sufficient support has to be made which should go beyond the provision of risk management guidelines. The lessons learnt in the high level planning risk review already pointed out these deficiencies and were acknowledged. It is all about building competency and embedding the process across key processes in FAO. The investment that the Organization has made in adopting risk management should not become futile.

186.   OSP commented that *in line with FAO's greater risk maturity, risk assessment during the operational work planning for the 2016-2017 biennium is more clearly defined for a more systematic application*. OSP further informed us that it will *involve delivery teams in various locations and have a wider application and the result of risk assessments will feed the corporate risk log*. In terms of risk reporting, OSP opined that it *considers internal control reporting, i.e., an assessment of how well risks have been managed over the reporting period, to be the more usual risk-related element of a performance report and FAO is investigating its feasibility as it builds its Internal Control Framework*.

187.   The delivery of programme results and the monitoring of the achievement of the strategic objectives must really involve risk considerations and every process owner must know their accountability once they become risk owners. In managing risks as they impact programme results and their eventual reporting, it is important that risks are highlighted, appropriately assessed at certain intervals or as the needs arise, are adequately controlled. A trail of risk management activities has to be clearly embedded in the life cycle of the results framework so that corporate risks can be efficiently traced to their specific source and mitigation actions are better clarified. This is emphasized in the UNDG RBM Handbook.

B.2.5.2 Risk management in TCE and TCI

188.   To deliver risk management within FAO, a context has to be established at the outset where scopes of work are defined and background information is gathered before a preliminary analysis is undertaken. The FAO guidance booklet "Risk Management: An Advanced Guideline", advises that to establish a context, three elements must be satisfied: the risk assessment context itself and both the external and internal environments. We noted that the Guideline details several required activities relating to risk contextualization, particularly those that pertain to the internal and external environment. In essence, these contextualization requirements help managers and staff to identify the critical factors that can give rise to risks. The behaviour of internal processes is expected to react to external disturbances giving rise to the identification of risks by the Organization. However, it should not be inferred that risk contextualization is only done at the corporate level. More often, corporate risks are results of smaller and peculiar risks that reside on smaller processes across the corporate hierarchy. This means, therefore, that risk contextualization has to be viewed from all levels of the organization. Given the wide latitude and complexities of FAO operations, this activity must not be overlooked.

189.   Our review of risk management for both the TCE and the TCI also runs along this line. As a process, we performed an analysis for both Divisions utilizing the current risk management guidance available, the risk log tool and the FAO risk taxonomy (Generic Risks to Delivery). Our assessment revealed that:

  a. The risks identified by the TCE are contextualized out of the outcomes, outputs, indicators and targets of the relevant strategic and functional objectives, and the findings of the Evaluation and Internal Audit Reports. There is no clear indication on how risks are identified by the Division outside of these reports as there are other expected risk factors that could have been considered, such as those that reside along specific processes;

  b. There are no concrete and formal documentations on the establishment of risk management context for both Divisions making it difficult to define the trail for risk reviews and in the understanding of how risks are escalated from the lowest level of the Organization;

  c. The risk log is the only formal tool that evidences the performance of risk management. The risk logs of both the TCE and the TCI are not replete with the needed information for more accurate decisions. It needs to contain more information. The risk log has to include the reasons that will explain why the risk was identified in the first place. An information must also support why a risk rating of high, medium or low are indicated for each risk identified;

  d. There is difficulty to relate the risk descriptions for both the TCE and TCI risks to their corresponding mitigation actions as the risks are not concretely contextualized;

  e. For TCE, feedback that we gathered from the decentralized offices indicated that most did not participate in the risk management process. The majority of the responses confirmed that they did want to participate in the risk management. The responses considered that such participation is beneficial because FAO works with specific location, culture and economy hence country offices need to be integrally involved and it will homogenize the methodology of risk management work.

  f. For TCI, we gathered that participation of stakeholders (people who are affected by risk in TCI operations such as TCI staff, cross-divisional staff, funding partners) in the risk process is a recognized area of improvement.

190.   FAO's plan for a more inclusive and comprehensive identification of risks has to be demonstrated across all levels of management. To warrant more effective risk mitigation strategies, the identification of risks should not be done arbitrarily. It has to have more concrete bases. In the negative, risk responses are narrowed only to reaction where possibilities of avoiding, transferring or assuming risks depending on the organization's risk appetite and vulnerability could have been more palatable. It also triggers fashioning and implementing controlling processes and procedures which operationalize the set strategies that do not effectively deliver the desired responses to risks and causes of risks. It also affects the crafting of risk monitoring procedures that are necessary in the iterative risk management process.

191.   FAO explained that they considered carefully the level of staff effort that should be assigned to risk assessment of TCE and TCI, in the light of the guiding principles for risk management set by the risk policy, in particular those of being proportional (of costs to benefits), comprehensive and dynamic. While the observations of the External Auditor are most useful for the further development of risk practices in FAO, FAO asserts that the approach taken in this instance was consistent with the policy principles above, the limited scope and purpose of the risk assessment exercise and the standards for risk assessment laid out in the FAO guidance "Risk Management: a Beginner's Guide". This guidance, together with the Advanced Guide, had been developed with expert external consultancy support from a senior member of the Institute of Risk Management.

B.2.5.3 Risk management in the implementation of HR Strategy

192.   Our scrutiny of the OHR consolidated risk universe indicated that the risk events identified therein relate to top level corporate risks such as the inadequacy of human resources, IT support services and support from management, high staff turnover, and technology and service level agreements. We noted that risk contextualization was not performed at the process level which could have pinpointed process level risks in terms of efficiency, activity turnarounds, performance, change readiness and capacity, among others.

193.   The absence of an actual risk log containing risks identified at the HR Strategy implementation process level implies that process risks are not at all identified and mitigated. This essentially renders the management of HR Strategy implementation process prone to unmanaged process risks that can result in longer turnarounds, inefficiency and protracted performance of activities. There is thus lesser guarantee that results can be achieved at the projected timelines that finally impacts on the expected effectiveness.

194.   OHR informed us that "*the risk log is being finalized at the Office of Assistant Director-General, CS level, in consultation with OSP. Actions of the HR Director to gain support of managers and mitigate the occurrence of the identified risks will of course be taken into account and evaluated in this context. We have not yet, however, undertaken this exercise pending the adoption of the risk management log.*" As of the reporting date, a number of human resource management risks have already been identified and documented during the HR Infrastructure Project Planning exercise and an updated risk log is expected soon.

195.   Given the value that risk management delivers to all of FAO's initiatives, the practice must be viewed as an indispensable tool towards achieving results. As an integral part of management, risk management should provide the information needed in the careful stewardship of initiatives towards the achievement of the set of expected results. Within a set of good governance mechanisms, risk management along with good accountability and internal controls frameworks, frame the delivery of commitment magnified in processes that are established for the purpose. Along the governance continuum, accountability, risk management and internal control must set the tone for effective delivery of engagements and these three requirements must therefore run along one cohesive and clear path. As the effective embedding of risk management within the Organization continues, there is now a need for FAO to consider a more comprehensive action to enhance further its ways of managing its business risks.

196.   **We recommended that FAO ensure that risk management is comprehensively and clearly embedded in all of its decision and work processes, and must be supported with further competency build-up and appropriate risk management tools.**

B.3 AUDIT OF DECENTRALIZED OFFICES

B.3.1 State of Internal Control in Decentralized Offices

197.   In our report for the biennium 2012-2013 (C2015/5 B), we pointed out that for the past three biennia (2008-2009, 2010-2011 and 2012-2013), common internal control deficiencies were noted in decentralized offices in spite of the presence of the FAO Handbook, Manual Sections, guidelines and information notes provided to all staff.

198.   During the year, we conducted an audit of two regional offices, the FAO Regional Office for Latin America and the Caribbean and the FAO Regional Office for Near East and North Africa and three representation offices, the FAO Representation Offices in Brazil, Philippines and Sudan. The main objectives of the audit visit were to review their operations and financial control as well as their compliance with FAO policies, regulations and rules. We reviewed important aspects in the areas of operations such as decentralized functions, the country programming process, technical cooperation programme, project implementation, cash and financial management, asset management, human resource management, procurement, travel, and expenditure control. We still noted deficiencies in these areas and these were communicated to management. The Management Letters we issued to the heads of these offices discussed in detail the improvement opportunities and recommendations to offer solutions and course of actions.

199.   Considering that most transactions are now processed at the decentralized offices, we see the need by Management to address these weaknesses and deficiencies, and strengthen the internal control system in the decentralized offices. We believe that with a well-designed internal control framework and the provision of capacity building to all staff involved in operations, these deficiencies can be addressed and will further reinforce accountability and transparency in the decentralized offices, and in the Organization as a whole.

200.   **We reiterated our recommendation that FAO further strengthen the internal control system in decentralized offices through a well-designed internal control framework and a continuous re-tooling of all staff performing programmatic, administrative and financial functions in the decentralized offices.**

201.   The improvement opportunities noted in the decentralized offices audited are discussed by audit area, as follows:

B.3.2. Country Programming Framework

202.   Along this activity, we highlighted the need for RNE to operationalize the achievement of optimum benefits of decentralization by having a quick decision making process, a clear structure of accountability, and strengthened governance. Giving priority for

the immediate approval of CPFs could streamline its country-level strategic prioritization and overall medium-term country-level programming.

203.   We recognize FLBRA's commitment for the immediate completion of the country work plan (CWP) to have a roadmap to link activities and accomplishments and how results are to be achieved. We encouraged the preparation of a detailed plan for resource mobilization strategy to provide sufficient and sustainable resources for each planned priority output. Meanwhile, a CPF with a programming cycle that is aligned with UNDAF priorities could prevent ineffective resource utilization and management.

204.   In FAPHI there is a need to prepare a more specific CWP that will provide specifics on how the results are to be achieved, the operational link between the FAO's strategic and operational planning frameworks and its CPF, and delivery of short-term outputs. We likewise encouraged the office to remain steadfast and continue its pro-active role in meeting all the challenges in the implementation of CPF as well as to develop a detailed Monitoring Framework.

205.   In FNSDN we observed that the Resource Mobilization (RM) strategy and Action Plan were not incorporated in the recently formulated CPF Plan of Action for the period 2015-2019. We see the need to fast track the formulation of the RM Strategy and Action Plan and incorporate detailed RM actions to ensure that RM is integrated as a priority area of work. Meanwhile, prioritization of requests of Technical Cooperation Programme will ensure that projects remaining in the active pipeline can be funded in the foreseeable future.

B.3.3. Technical Cooperation Programme

206.   In this area, we noted that RLC needed to address the low rate of commitment, the absence of approved budget for some countries, and the situation where countries received budgets more than their indicative allocation. Hence, we recommended that the Regional Office establish indicative approval targets as early as possible, continue extending proactive support to the TCP Coordinator in engaging the government and regular monitoring of approvals relative to reallocation.

207.   We emphasized that RNE review the TCP indicative allocation vis-a-vis actual allocation as necessitated by low actual allocation and over-commitment of allocation in some countries. We suggested the full utilization of country offices' allocations, dialogue with the government on possible ideas and inception, the giving of priority to special attention countries, and the monitoring of approvals of requests for TCP allotment.

208.   For the TCP projects with low delivery, we encouraged RNE to accelerate the project delivery to meet its targeted NTE dates and the timelines to ensure that all outputs and activities are achieved. Meanwhile, timeliness in the screening of the TCP proposals, conduct of technical reviews, preparation of concept notes, formulation of project documents, and appraisal could facilitate the immediate approval of government requests for TCP projects.

209.   We also noted the need for FLBRA to take a proactive role to keep the government engaged in dynamic partnership and mutual commitment to facilitate timely approval and implementation of TCP projects.

210.   For FAPHI, we noted the need to adhere to the thresholds set for TCP Facility and its component *(baby project)* and for FNSDN, the prioritization of the request of TCPs will ensure that projects remaining in the active pipeline can be funded in the foreseeable future.

B.3.4. Project Management

211.   RLC needs to establish the deadline for submission of inputs for projects, the necessity to undertake special efforts in order to avoid delay in its implementation and strict monitoring to avoid deficits in cash allocations and to fast track the operational and financial closure of projects. We also recommended the strict uploading of relevant reports to the FPMIS for the information of concerned individuals or entities.

212.   RNE needs to avoid incurring deficits in cash allocation for projects, constantly monitor and establish its cash balance as the limit in committing expenditures. To avoid incurring cash deficits, we suggested the forecasting of expenditures as a control in its financial operation, also taking into account potential exchange losses when the source of funding is denominated in currencies other than USD. We encouraged them to resolve the delays in operational and financial closure as well as to address the deficiencies in project monitoring and reporting through the submission of terminal reports/statements, facilitation of asset transfer, settlement of all commitments, compliance with the reporting mechanism, and revision of work plans to reflect current activities of the projects.

213.   In FLBRA, we observed delays in project implementation vis-à-vis EOD date and work plans, and delays in operational and financial closures. Ensuring that all activities are accomplished within the timeframe set and preparation of budget revisions prior to expiration of NTE dates could facilitate the early closure of projects and the surrender of unused funds, as well as avoid interruption of activities and support the delivery of expected outputs. We encouraged the conduct of an in-depth review of each project which caused the delays and the application of lessons learned in the past in formulation of work plans as well as ensuring that financial closure immediately follows the operational closure. We also noted a system improvement opportunity by assigning a programme officer to upload all relevant project documents in the FPMIS to ensure information availability at any given time.

214.   FAPHI needs to continue its efforts to observe and comply with the applicable policies and procedures in line with project implementations to preclude issues identified on delayed implementation and operational and financial closure of projects, distribution of project inputs and relevant project reports not tracked and uploaded in the FPMIS, cash deficits and undisposed assets from completed projects.

215.   We suggested to FNSDN that all factors related to the implementation of projects such as the recruitment process of technical staff, the cooperation of the host government as well as the procurement of equipment and furniture be considered and factored in the planning and formulation of the project. Similarly, a review process for project proposals has to be instituted to ensure that major weaknesses in the projects are addressed. Also, operational and financial closures of projects are encouraged to ensure efficient management control of the projects and related funds.

B.3.5 Human Resource Management

216. We highlighted the need to continue the ongoing review and revision of the overall staffing pattern of the RLC in order to sustain its workforce stability, and strictly observe the existing regulations, policies and procedures on the hiring/re-hiring of non-staff personnel particularly on the provisions of transparent and competitive selection and quality assessment reports.

217. RNE needs to enhance the selection process to be aligned with FAO guidelines such as the advertisement of post/assignment, and to maintain a roster of consultants, short-listing of candidates and preparation of a note for the file explaining the reasons of selection, and institute self-certification by recruiting units that procedures are properly observed. Requiring the project supervisor to complete the quality assessment report (QAR) allows for an evaluation of Non-Staff Human Resource (NSHR) as a vital reference when taking a decision to recruit them again.

218. There is a need for FLBRA to review its overall human resources composition and staffing pattern to avoid allowing NSHR to perform core functions, ensure that there will be no duplication of tasks, and address gaps for smooth, efficient operations. We also recommended that FLBRA study the possibility of including the submission of a duly validated accomplishment report of the NSHR in the terms of reference (TOR).

219. In FAPHI, we suggested the submission of all expected outputs from the NSHR and to strengthen the collaboration with government counterparts for their availability to the NSHR data gathering activities and other related concerns. We also encouraged submission of accomplished copies of Basic Security in the Field (BSITF) and Advanced Security in the Field (ASITF) certificates to ensure NSHR's ability to cope with security issues at their duty and/or field stations.

220. In FNSDN, we noted the absence of comparative selection of Personal Services Agreement (PSA)/Consultants. The adoption of the existing relevant FAO policies on selection process could promote transparency and competitiveness in the hiring of qualified applicants. On the other hand, complete quality assessment (ADM 104) should be done at least once every 12 months to ensure proper monitoring of the NSHRs' performance and determine whether outputs in the TORs were achieved and/or satisfactorily completed.

B.3.6 Asset and Inventory Management

221. We noted internal control deficiencies in RLC such as the non-performance of a physical verification of non-expendable equipment, lack of indication of the original cost of surplus non-expendable equipment to be donated, asset data not updated and absence of a barcoding/tagging system.

222. In RNE, we noted the opportunity to maximize the use of the *i*Asset module of GRMS for assigning/approval assets to a new custodian and utilizing FAO Property Loan Forms in transferring assets. RNE should also ensure that any write-off of assets is approved and the implementation of a barcode/tagging system could enhance the efficient and effective management of its assets.

223. In FLBRA, we noted system improvement opportunities for ensuring that asset records are correct by the uploading of custodial information in the Asset Register, utilization of the prescribed FAO Property Loan Form, recording of physically-inspected items in the Asset Register, implementation of a barcode/tagging system and timely reflection of asset retirements in GRMS. It was also noted that acknowledgement dates for transfer of project assets to beneficiaries preceded the approval dates, acknowledgement by beneficiaries were not obtained, items with identical serial numbers but with different status in the Asset Register and Country Office Information Network (COIN), and inclusion of non-expendable equipment in the Inventory Quantity Report.

224. In FAPHI, we observed weaknesses as reflected in the error on account classification of procured items, incomplete asset information in the inventory report, delays and incomplete verification of assets due to incomplete conduct of the actual count and non-performance of spot checking of non-expendable assets and non-submission of the required semester reports to monitor actual condition, use and availability of project vehicles. Hence, we encouraged FAPHI to strengthen existing controls on asset management to ensure its existence and proper accountability and use of assets.

225. In FNSDN, we observed weaknesses as reflected in the incomplete physical verification of assets and inventory stock take, assets issued to personnel not duly designated as asset custodian, and inventory items with zero net book value which may be eligible for disposal. At the same time, we recognize Management efforts to reconcile the inventory reports that will ensure the existence of the assets as well as identification of assets that are already eligible for disposal.

B.3.7 Procurement and Letters of Agreement

226. We noted that RLC had an incomplete procurement plan and was not utilizing the purchase requisition function of the GRMS. It was also noted that there were flaws in solicitation procedures and awards to Service Providers, incomplete data in the purchase orders and delays in deliveries.

227. In RNE, we suggested for the consolidation of the procurement requirements in the implementation of all programmes/projects of the region into an Annual Procurement Plan for efficient management and carrying out of its procurement activities. We also encouraged ensuring the independence of the members of Local Procurement Committee (LPC) and preserving the integrity of the procurement process.

228. We highlighted in FLBRA the need for a procurement plan not only to address the issue and correct the gap relative to the procurement but more so to obtain the best value for money and to better forecast the extent of fund utilization. On the issue of granting Pos on exceptional basis, we encouraged updating the list of vendors and to explore the option of seeking assistance of proper authorities to provide FLBRA capable suppliers. We also suggested using the Purchase Requisition (PR) function in the system in raising requisitions to integrate procurement processes in the GRMS. In contracting using Letter of Agreements (LoAs), we suggested preparing a more detailed reporting requirements that could be used as linkages to payment schedules and consider reviewing its process flow on the preparation, implementation and monitoring of LoAs to improve checks and balances and enhance its validity and reliability.

229.   There is a need in FAPHI to enhance controls in the assignment of requester and buyer functions in GRMS to facilitate checks and balances in the request and process review. In like manner, providing clear specifications of goods could prevent erroneous deliveries and delays in their acceptance. Finally, we noted the need to strengthen the monitoring and follow-up process to ensure that service providers are guided throughout the period of LoA implementation.

230.   We also noted the need for FNSDN to improve its procurement planning by assigning a Procurement Liaison for every unit tasked to identify and consolidate the procurement needs of the respective offices/projects and to provide each liaison the prescribed procurement plan template and orient them on the accomplishment thereof, to facilitate timely submission of procurement schedules for consolidation by the procurement office.

B.3.8 Travel

231.   We emphasized in RLC the need to promote the GRMS Quarterly Travel Plan (QTP) Module and enhance the monitoring of grant of travel advances, processing of travel expense claims (TECs), and immediate deduction from salaries or honoraria of those without submitted TECs within the period prescribed by the existing FAO rules and regulations.

232.   In RNE, there is a need to improve compliance with the guidelines on the grant of advances on travels by avoiding advances to those with unsettled advances, perform automatic salary deductions, adhering to the submission requirements of TEC to settle travel advances. We also observed an opportunity for system improvement by embedding the QTP functionalities in the system and by enhancing system's reporting generation and sharing.

233.   In FLBRA, there is a need to improve on the submission of TECs by ensuring its submission within one month following the journey or at interim dates for those travels exceeding one month for better financial reporting and to prevent the loss of valuable man-hours in monitoring and follow-up.

234.   In FAPHI, there is a need to implement prompt submission of a TEC or Mission Travel Claim (MTC) to settle outstanding travel advances and refrain from granting additional travel advances without liquidating the past due travel advances. We also encouraged necessary oversight to ensure that spending for local duty travels are within the imposed limits.

235.   We recommended in FNSDN the utilization of ADM 8 as the Travel Authorization Form and submission of Back-to-Office Reports (BTORs) together with the fully filled up MTC to ensure that all necessary information relating to travels are completely provided.

B.3.9 Cash Management

236.   In RLC, there is a need for strict compliance with the established rules and regulations on petty cash management such as: disbursement vouchers should be prepared for payments exceeding USD 25; supporting documents should be stamped as paid upon payment, all the required documents should be presented before payment, regular cash counts should be conducted, and rotation of Petty Cash Custodian or reassignment of custodianship to other qualified personnel should be considered.

237.   RNE has to address the noted internal control deficiencies on petty cash fund and the risk of devaluation of local currency deposits. We recommended RNE to evaluate the roles and responsibilities of personnel, consider rotational assignment, keeping original invoices to support disbursements and consider the monthly program of expenditures to avoid excessive cash balances in local currency deposits. We recognize the action of RNE by monitoring its reimbursement for tax refund and making constant follow-up with the Egyptian Government.

238.   In FLBRA, there is a need to improve the management of petty cash particularly on the limit of payments, the balance to be maintained, on the use of petty cash vouchers and the registry to be maintained. Petty cash vouchers and invoices should be stamped paid and dated to avoid double payment. We also encouraged discontinuing the issuance of cheques for FLBRA-imprest for the purposes of claims for airfares, daily subsistence allowance and the like.

239.   In FAPHI, there is a need to strengthen the monitoring and recovery system of granted Operational Cash Advances (OCAs), to utilize the functionality of Accounts Payable (AP) module in GRMS, and to implement the policies and procedures in the operation and reporting of petty cash. We also encouraged the segregation of incompatible functions in cash transactions and to prepare a monthly cash program to minimize the risk of devaluation of the Peso Imprest Account.

240.   In FNSDN, we observed the need to reduce the amount of cash advances to the Outposted Petty Cash (OPC) as well as to determine a limit for individual OPC payment transactions in order to provide appropriate controls in the management of the fund. On the other hand, we suggested to adopt a more effective method of estimating local currency requirement using the Payments planning facility under the Accounts Payable module in GRMS and strengthen the controls over collections by using pre-numbered temporary receipts, summarizing collections and preparing deposit slips and a set of instruction documents in a day's operation to prevent possible risks of non-remittance of all collections.

B.3.10 Expenditure Control

241.   We noted the need for RNE to strengthen the monitoring and review in the charging of expenditure accounts to attain proper classification that best represents the nature of the transactions.

242.   In FAPHI, we observed the need to coordinate with the Philippine Government for reimbursement of taxes paid on purchases from suppliers and eventually secure tax exemption certificates. We also highlighted the need to accurately reflect the expense and payable accounts in the financial statements.

243.   Finally, we advised FNSDN to review all payments made in 2015 and identify the travel claims and HR related claims that are legal obligations as of 2014 to ensure that recorded and reported expenditures are correct and accurate.

B.3.11 Summary Statements on Audit of Regional and Representation Offices

244.   We noted RLC's and RNE's commitment to accountability and transparency and their acceptance of the needs for improvement, these regional offices are already underway

towards a much improved operations with the adoption of the necessary improvement opportunities advocated in this audit.

245.   Likewise, the country representation offices visited (FLBRA, FAPHI, and FNSDN) through close collaboration with the Regional Offices concerned and their stakeholders, and with consideration of the herein recommended improvement measures, have the capacity to contribute to the attainment of FAO's global objective in their country of operations.

246.   We appreciate the immediate response of the respective Management of these Regional and Representation Offices and the positive action on the recommended measures which they have communicated to us in reply to our Management Letter.   We look forward to their improved and efficient operations, with due regard to regulations and established policies.

C. DISCLOSURES BY MANAGEMENT

C.1 Write off of losses of Cash and Receivables

247.   In 2014, total write-offs amounted to USD 49,153. Of this amount, USD 46,894 was approved by the Director-General pursuant to Financial Regulation 10.4 and USD 2,259 was authorized by the Assistant Director-General for Corporate Services pursuant to Manual Section 202.92.

248.   We noted that the write-offs were reviewed by the OIG and were supported with proper documentation.

C.2 Ex-gratia payments

249.   Management reported that there were no ex-gratia payments made by the Organization in financial year 2015.

C.3 Cases of Fraud and Presumptive Fraud

250.   Pursuant to paragraph 6 c) (i) of the Additional Terms of Reference Governing External Audit (Annex 1 to the Financial Regulations), Management reported cases of fraud and presumptive fraud.

251.   In their letter dated 19 May 2015, they reported that four cases that were reported as pending in their letter in June 2014 were now closed. For 2014, they reported six cases, action on five of which were complete and one is pending. We have noted that appropriate disciplinary measures like dismissal were imposed on perpetuators of fraud or recovery of defrauded amounts was undertaken.

252.   For 2014, two pending medical fraud cases reported in Biennium 2012-2013 were finally resolved.   Both cases involved the submission by a staff member of false documentation in support for reimbursement of medical expenses. The disciplinary measure

of dismissal on the two staff members was imposed. We noted that there were no medical fraud cases included in management-reported cases in 2014.

253.   In other fraud cases, two pending cases reported in Biennium 2012-2013 were now resolved. One case involved a money vendor in the context of FAO's cash for work programme in Somalia. The money vendor defrauded the Organization by requesting and receiving more payment than those to which it was entitled because of its non-compliance with required payment modalities. A settlement agreement was reached with the money vendor to reduce payments under the relevant contract by USD 320,000. Another case involved a conflict of interest and procurement fraud committed by former staff members in Mozambique. It was found by OIG that part of the work contracted to implementing partners (IPs) did not take place, including training and the construction of a seed processing plant for an amount of approximately USD 90,000. The OIG recommended that the IP and the former staff member be declared ineligible for future work for FAO. FAO also referred the matter to local authorities for consideration of further actions against the individuals and IPs concerned.

254.   For 2014, there were six cases reported, five were resolved and one is pending. Other fraud or presumptive fraud committed involved: a) misappropriation of the Organization's assets when entrusted with the disbursement of Daily Subsistence Allowance (DSA) to participants in different workshops; b) misappropriation of Organization's assets when purchasing cleaning products and making payment for cleaning services; c) using official position to assist a family member's company in successfully bidding for services to be provided to the Organization; d) fraudulent and collusive practice which resulted in the disappearance of fertilizers and fraudulent documentation were provided to show that distribution took place; e) IPs for cash for work programme fraudulently represented that each had followed the payment mechanism set out in the respective agreements in FAO Somalia; and f) IP working with FAO to distribute agricultural inputs (seeds and cowpeas) in central/southern Somalia had submitted fraudulent documentation demonstrating that the distribution had taken place even though the IP failed to make the distribution. The latter case is pending as partial recovery is being made from outstanding payments to the IP. We noted that most of the new cases were committed by IPs in breach of their contractual obligations with the Organization.

255.   **FAO Management is encouraged to ensure that lessons from fraud cases, in terms of strengthening internal control measures, are continuously applied.**

256.   We recognize however, the updated policy of the Organization in addressing fraud and corrupt practices with the issuance of Administrative Circular 2015/08 on 12 March 2015, entitled "Policy against Fraud and Other Corrupt Practices". Under the new policy, the Organization has harmonized its definitions of fraud and other corrupt practices. We encourage Management to communicate this policy to all staff members.

D. ACKNOWLEDGEMENT

257. We wish to express our appreciation for the cooperation and assistance extended to our auditors by the Director-General, Deputy Directors-General, Assistant Directors-General, Regional Representatives, HQ Directors, the Director of Finance, Country Representatives and their staff during our audit.

List of Acronyms

Acronym	Description
ADG	Assistant Director-General
AP	Accounts Payable
ASITF	Advanced Security in the Field
BH	Budget Holder
BSITF	Basic Security in the Field
BTORs	Back-to-Office Reports
CN	Concept Note
COIN	Country Office Information Network
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPF	Country Programming Framework
CPMB	Corporate Programmes Monitoring Board
CS	Corporate Services
CSD	Commission for Sustainable Development
CSF	Finance Division
CSPL	Learning, Performance and Development Branch
CWP	Country Work Plan
DDO	Deputy Director-General Operations
DG	Director-General
DGB	Director-General's Bulletin
DSA	Daily Subsistence Allowance
EOD	Entry of Duty/Expected Start Date
EPA	Ex-Post Assessment
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
FAO	Food and Agriculture Organization of the United Nations
FAORLC	FAO Regional Office for Latin America and the Caribbean
FAORNE	FAO Regional Office for Near East and North Africa
FAORs	FAO Representatives
FNSDN	FAO Representation Office in Sudan
FAPHI	FAO Representation Office in Philippines
FIFO	First-In, First-Out
FLBRA	FAO Representation Office in Brazil
FPMIS	Field Programme Management Information System
FSNARD	Food Security, Nutrition, Agriculture and Rural Development
GEF	Global Environment Facility
GRMS	Global Resource Management System
GS	General Service
HQ	Headquarters
HR	Human Resource
IASC	Inter-Agency Standing Committee
ICSC	International Civil Service Commission

IFIs	International Financing Institutions
IPs	Implementing Partners
IPSAS	International Public Sector Accounting Standards
JIU	Joint Inspection Unit
KPI	Key Performance Indicator
L3	Level 3
LoAs	Letter of Agreements
LPC	Local Procurement Committee
LTO	Lead Technical Office
LTU	Lead Technical Unit
M&E	Monitoring and Evaluation
MfR	Managing for Results
MTC	Mission Travel Claim
MTP	Medium Term Plan
MTR	Mid-term Review Synthesis Report
NSHR	Non-Staff Human Resource
NTE	Not-to-Exceed
OCA	Operational Cash Advance
OED	Office of Evaluation
OHR	Office of Human Resources
OIG	Office of the Inspector General
OPC	Outposted Petty Cash
OSP	Office of Strategy, Planning and Resources Management
PEMS	Performance Evaluation and Management System
PIR	Performance Implementation Report
PP&E	Property, Plant and Equipment
PR	Purchase Requisition
PSA	Personal Services Agreement
PIRES	Programme Planning, Implementation Reporting and Evaluation Support System
PTF	Project Task Force
PWB	Programme Work Budget
QAR	Quality Assessment Report
QTP	Quarterly Travel Plan
RBM	Results-Based Management
RM	Resource Mobilization
SFERA	Special Fund for Emergency and Rehabilitation Activities
SIC	Statement of Internal Control
SMART	Specific, Measurable, Attainable, Realistic, Timely
SO	Strategic Objective
SOP	Standard Operating Procedure
SPP	Short Project Proposal
TC	Technical Cooperation Department
TCE	Emergency and Rehabilitation Division

TCI	Investment Centre Division
TCP	Technical Cooperation Programme
TCS	South and Resources Mobilization Division
TECs	Travel Expense Claims
TF	Trust Fund
TOR	Terms of Reference
TR	Terminal Report
TS	Terminal Statements
UNCS	United Nations Common System
UNDAF	United Nations Development Action Framework
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
WFP	World Food Programme