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# FINANCE COMMITTEE

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**2021 Annual Report of the Inspector General -  
Summaries of audit reports issued in 2021**

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### **AUD0121 - Audit of the Fisheries Division**

1. The Office of the Inspector General (OIG) conducted an audit of the Fisheries Division between June and August 2020. The audit covered the period from 2018 to 2019 but reflected also some subsequent developments which occurred in 2020.
2. The original objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes in the Fisheries and Aquaculture Department; however, the Department was abolished as a result of the organizational restructuring that took place in FAO in mid-2020. Consequently, OIG narrowed the audit scope to the areas where there was continuity between the work and responsibilities of the old department and that of the new Fisheries Division. OIG excluded from its review those governance areas for which corporate arrangements were still being defined at the time of the audit, in particular programming and work planning activities. At the time of the audit, the Fisheries Division was finalizing its new structure, including the redistribution of functions managed by the units that had been disbanded.
3. The Fisheries and Aquaculture Division (NFI) is responsible for the development of policies, strategies and guidelines, data collection, analysis and reporting as well as the provision of technical services to FAO Members concerning fisheries management, economics and policy; information and statistics; products and industry; conservation and sustainability; operations and technology; and emergency and rehabilitation activities in the field of fisheries and aquaculture.

#### **Main observations and conclusions**

4. The audit concluded that, in general: internal controls were working as intended, projects were adequately managed, and the Division adhered to established policies and procedures. OIG therefore rated NFI's governance, risk management and control processes as **Satisfactory**.
5. Notwithstanding the above, the audit also identified a number of areas where further improvement was desirable:
  - risk management activities required strengthening;
  - the Division lacked a communication plan with clear targets and indicators;
  - procurement plans were incomplete;
  - open purchase orders and Letters of Agreement were not closely monitored;
  - monitoring of project expenditure needed to be enhanced;
  - completion of mandatory training was not being monitored;
  - the Field Programme Management Information System was not updated on a regular basis with relevant documentation; and
  - a gender stocktaking exercise had not been conducted since 2013.

#### **Agreed actions**

6. The report includes eight Agreed Actions aimed at addressing these issues. The Division has committed to fully implement all actions by December 2021.

### **AUD0221 - Audit of the FAO Representation in Cambodia**

7. OIG conducted an audit of the FAO Representation in Cambodia in February and March 2020. While the audit covered the period from January to December 2019, this report also reflects subsequent developments as of February 2021.

### Main observations and conclusions

8. Overall, OIG assessed the Representation as **Some Improvement Needed** in its implementation of the system of internal controls.

#### Governance:

- The Representation had enhanced its governance structure and operational capacity following the recruitment of a Chief Technical Adviser in April 2020. For the 2019 Internal Control Questionnaire, OIG assessed that of the 43 internal control points, 8 were only partially implemented (including 2 that the Representation had reported as fully implemented) and 1 had not been implemented. However, overall, OIG assessed that the Representation's office capacity and internal control system were adequate.
- The Representation had improved the completion rates for FAO's six mandatory training courses on key subjects relating to fraud prevention and the conduct expected of an FAO employee. However, it had not established a reporting channel to receive and handle allegations of sexual exploitation and abuse by FAO employees in a confidential manner.
- The Representation submitted a risk log and fraud prevention plan in 2019 with well-defined risk statements, relevant controls, mitigating measures and targeted implementation dates for each risk as required.
- The Representation successfully advocated FAO's mandate, taking on key roles in the United Nations Country Team and national technical working groups. The key stakeholders whom OIG interviewed appreciated FAO's technical strengths and commended on the Representation's contribution and commitment to joint programming.

#### Operations:

- The Representation maintained proper recruitment records, determined local personnel pay rates based on an established scale, and conducted performance appraisals of personnel as required.
- The Representation had a well-documented procurement process in compliance with the established procedures. However, the annual procurement plan was incomplete and not used effectively for procurement planning.
- Except in two cases, the Representation had duly recorded payee banking details in the Global Resource Management System (GRMS). However, there was excessive use of cheques for payments of over USD 1 million, including payroll payments. In addition, there were delays in the settlement of travel and operational advances beyond 90 days.
- No exceptions were noted in the physical observation of sampled assets and the review of supporting documentation for sampled retired assets. However, the asset register was inaccurate and incomplete due to errors in assigning asset custodians and gaps in information on the location of assets.
- The Representation complied with the minimum security risk management measures and all personnel had completed the mandatory security training. However, the Representation did not use the FAO emergency notification system and manually maintained a telephone tree for emergency security notification purposes.

#### Programme:

- The Representation only signed the 2019–2023 Country Programming Framework (CPF) in June 2020 and therefore the status of CPF achievements was not reflected in the 2019 Annual Report. Although the Representation had not completed the resource mobilization matrix, it was likely to achieve its CPF resource requirements considering the four projects with a total budget of USD 38.4 million that were in the final consultation phase as of December 2020.
- With two large gender-sensitive projects, the Representation had allocated the required 30 percent of its total budget to gender-related projects and 80 percent of personnel had

completed the mandatory training on gender. However, 6 of the 19 ongoing projects did not have gender markers assigned.

- The Representation had complied with the established process for project formulation for two sampled projects. However, projects under the Technical Cooperation Programme did not contain grievance mechanisms for beneficiaries to lodge complaints of possible violations of FAO's environmental or social standards.
- The two largest projects in the portfolio, with total budgets of over USD 25 million, had significant and recurring delays in project implementation. The completion of one project was delayed by over two years; while in another new project, the Representation had implemented less than 50 percent of the targeted delivery in the first year.
- The Representation had a monitoring plan for its project portfolio supported by two national monitoring officers. In general, the Representation also complied with the project reporting requirements, albeit with some delays for one project.

#### Agreed actions

9. The report contains ten actions that the Representation has agreed to undertake. The Representation has committed to fully implement all actions by February 2022.

#### AUD0321 - Audit of the FAO Office in Suriname

10. OIG conducted an audit of the FAO Office in Suriname from May to July 2020. While the audit covered the period from January 2019 to March 2020, this report also reflects some subsequent developments as of February 2021.

11. The Office in Suriname is a multiple accreditation office with the FAO Representative (FAOR) residing in the Trinidad and Tobago Representation. Suriname's largest project of USD 15 million was managed locally by a Chief Technical Adviser, while other projects were managed from the Trinidad and Tobago Representation.

#### Main observations and conclusions

12. Overall, OIG assessed the Office as **Major Improvement Needed** in its implementation of the system of internal controls, mainly due to gaps in project implementation leading to significant delays.

#### Governance:

- Reporting lines in the Office were clear, and the supervisory span was adequate. Regarding the 2019 Internal Control Questionnaire, OIG assessed that of the 43 internal control points, 25 were partially implemented (including 5 that the Office had reported as fully implemented) and 1 had not been implemented.
- The Office had not established a reporting channel to receive and handle allegations of sexual exploitation and sexual abuse by FAO employees in a confidential manner. In addition, as of February 2021, between 33 and 53 percent of personnel had not completed the six mandatory training courses on key subjects relating to fraud prevention and the conduct expected of an FAO employee.
- The Office did not submit an annual risk log and Fraud Prevention Plan for 2019. Although it had submitted a Fraud Prevention Plan in 2020, the risk statements were not well formulated in most cases. OIG was particularly concerned that the Office had not fully managed the risk related to the lack of a Host Country Agreement to protect the Organization's privileges and immunities.
- OIG interviews showed that key stakeholders viewed FAO as a valuable partner. The Office had a communications action plan to increase project visibility and to seek local community and stakeholders' buy-in of project activities.

### Operations:

- The Office did not determine pay rates based on an established salary scale and paid some local personnel salaries in local currency and others in USD without proper approval. In September 2020, the Office obtained approval from the Human Resources Division to pay all personnel in USD for six months but the established salary scale for the local personnel was not implemented.
- The Office had developed annual procurement plans for 2019 (USD 3.4 million) and 2020 (USD 5.2 million) for goods but actual procurement was only 2 percent and 13 percent of the planned requirements, respectively.
- In 24 bank transfers totalling USD 145 000, vendor banking information was not registered in the corporate system. However, corrective action was subsequently taken by the Office.
- The Office took corrective action to rectify the discrepancies and errors in its assets register identified during the audit.
- The Office participated in all Security Management Team meetings during the audit period but had not implemented the Security Risk Management Measures.

### Programme:

- The 2016–2019 CPF, extended to 2020, included results indicators linked to the United Nations Development Assistance Framework and the regional initiatives but not to the targeted Sustainable Development Goals. The Office made errors in estimating funds at CPF inception. On resource mobilization, the Office significantly exceeded its total CPF requirement of USD 3.4 million when it succeeded in securing a project with a budget of USD 15 million in 2017.
- The Office had integrated gender in the CPF results matrix but did not have any projects that promoted gender equality. It had not conducted a gender stocktaking exercise and did not have an action plan for gender mainstreaming activities. Only 60 percent of personnel had completed the mandatory training on gender as of February 2021.
- Controls over project formulation were generally adequate, although some improvements were needed for compliance with Environment and Social Management Guidelines.
- There were significant delays in project implementation. For the largest project with a budget of USD 15 million, the Office reported total delivery of only USD 3.9 million. This amount included purchase requisitions of USD 1.8 million that had been outstanding since August 2020. The remaining USD 2.1 million comprised mainly personnel costs amounting to USD 1.4 million. Considering the expected project end date of November 2021, OIG was concerned that it would be very difficult for the Office to complete the project. This exposed the Office to both operational and reputational risks.
- For the three sampled projects, the Office had complied with reporting requirements in Project Documents and had submitted progress reports to donors in a timely manner.

### Agreed actions

13. The report contains 10 actions that the Office has agreed to undertake. The Office has committed to fully implement all actions by December 2021.

### **AUD0421 - Audit of FAO Sanctions Procedures**

14. OIG conducted an audit of FAO Sanctions Procedures between July and September 2020. The audit covered the activities of the FAO Sanctions Committee since its establishment in 2014, with a special focus on the organizational arrangements in place from January 2018 to December 2019 (previous and subsequent periods were included as relevant).

15. The objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes to ensure transparent, effective, equitable and timely sanctions procedures.

16. Sanctions procedures are governed by the 2014 FAO Sanctions Procedures and the 2014 Implementing Guidelines for FAO Sanctions Procedures. As they have not been adjusted to reflect the recent headquarters restructuring, they include references to units and positions that no longer exist. This report has kept some references to these units and roles for consistency with the Procedures and Guidelines.

17. OIG's Investigations Unit receives all allegations of fraud and corruption by a third party involved in FAO programmes and operations, conducts investigations and refers cases to the Sanctions Committee if there is sufficient evidence confirming allegations that a third party has committed a sanctionable action.

18. The Sanctions Committee determines whether a third party has engaged in a sanctionable action(s), following assessment of relevant documentation brought before it for each case. The Sanctions Committee may then recommend appropriate sanction(s) or other corrective and rehabilitative measure(s) formerly to the Assistant Director-General of the Corporate Services, Human Resources and Finance Department (ADG-CS) and, as of August 2020, to the Director of Logistics Services Division (Director, CSL) for his/her consideration. Since 2015, 28 cases have been brought to the Sanctions Committee, with ten cases during 2018 and 2019.

19. In addition, to protect the best interests of the Organization, the Sanctions Committee is responsible for accepting or rejecting requests for a vendor's temporary suspension submitted by OIG at any stage of an investigation or sanctions proceeding.

20. No previous assurance work has been carried out of FAO's Sanctions Procedures. A lessons learned report based on a critical mass of cases since 2015 was presented to the Oversight Advisory Committee by the ADG-CS in February 2019. The status of implementation of recommendations made in the lessons learned report was followed up on during this audit.

#### Main observations and conclusions

21. Overall, OIG assessed that the policies and processes in place to ensure transparent, effective, equitable and timely sanctions **Need Major Improvement**. The audit identified a number of issues for management attention to improve FAO's Sanctions Procedures, their implementation and the effectiveness of applied sanctions. Specifically:

- Ownership of the Procedures was not clear or well understood by some stakeholders. This lack of clarity was further affected by FAO's recent organizational restructuring. OIG is pleased to note that during the audit reporting stage management assigned ownership of the Procedures to the Director, CSL.
- Some aspects of the Sanctions Procedures were not clearly defined and the Guidelines did not provide further clarification in terms of specific steps or criteria, including: the impact of temporary suspensions on FAO's engagement with vendors; the trigger for extension of temporary suspensions; the definition and impact of aggravating and mitigating factors on the determination of sanctions; the definition of timelines for completion of some key steps in the process; and the rules for remote meetings. Clarification of the Sanctions Procedures would assist decision-making and mitigate the possibility of decisions being contested by vendors.
- The Sanctions Committee faced several challenges that affected the consistency and effectiveness of its work, including: unfilled vacancies for the positions of Chairperson, Vice-Chairperson and ADG-CS for most of 2018 and part of 2019; and several unfilled Sanctions Committee roster positions. This led to difficulties in attaining a quorum to convene meetings; delayed proceedings; and instances where the assistant to the Secretary performed

the tasks of the Chairperson (in breach of the Procedures) in order to avoid extended delays in proceedings.

- The time taken to reach conclusions on cases varied greatly from four months to more than three years, leading to extended suspension of vendors, which denied vendors their right to a fair and timely decision and the Organization the opportunity to work with the affected vendors.
- The function of the Sanctions Committee Secretary, although officially assigned to a staff member, was performed by a consultant hired on short-term contracts who worked with little support and supervision by the appointed Secretary. This affected the continuity of the Sanctions Committee's work, specifically the scheduling of meetings and timely preparation of requisite materials for deliberations. In addition, Secretariat tasks, such as keeping case records and drafting records of deliberations, were not diligently performed. OIG was not provided with complete documents for selected cases, including most of the Sanctions Committee meeting minutes, for the period under review.
- Sanctions Committee members were not always able to afford cases adequate consideration due to late submission of voluminous case documents relating to multiple cases. Decisions made via email also deprived cases of sufficient consideration. These issues were caused by difficulties in convening meetings, which in some cases led to consideration of multiple cases in each meeting and last minute scheduling of meetings.
- No personal responsibility for the perpetration of sanctionable actions was assigned to owners of vendor entities, their employees, agents or representatives because sanctions were not applicable to implicated individuals. As such, these individuals were still eligible to do business with FAO, thus undermining the effectiveness of FAO sanctions.

#### Agreed actions

22. The report includes six actions that management has agreed to undertake. Management has committed to fully implement all actions by June 2022.

#### **AUD0521 - Audit of the FAO Representation in Congo**

23. OIG conducted an audit of the FAO Representation in Congo in August and September 2020. While the audit covered the period from January 2019 to June 2020, this report also reflects subsequent developments as of March 2021.

#### Main observations and conclusions

24. Overall, OIG assessed the Representation as **Unsatisfactory** in its implementation of the system of internal controls.

#### Governance:

- The Representation did not have a proper governance structure for its operations. The organizational chart did not reflect the reality of staffing in the office, roles and responsibilities were unclear and there was a lack of segregation of duties. The control environment was weak and the level of awareness of internal control among personnel was low. For the 2019 Internal Control Questionnaire, OIG assessed that of the 43 internal control points, 27 were only partially implemented (including 8 that the Representation had reported as fully implemented).
- The Representation had not established a confidential reporting channel to receive and handle allegations of sexual exploitation and sexual abuse by FAO employees in a confidential manner. In addition, the completion rates for the six mandatory training courses on ethical awareness were low, ranging from 18 to 36 percent.

- The Representation had submitted the annual risk log and fraud prevention plan, but it had assessed all fraud risks as low despite the systemic gaps and weaknesses in internal controls as identified by this audit. The Representation reported five mitigating measures as fully implemented, although the audit results showed otherwise.
- The Representation was proactive in advocating FAO's mandate. It had a communications action plan to increase project visibility and to seek local community and stakeholders' buy-in of project activities. Key stakeholders whom OIG interviewed considered FAO a valuable partner, particularly for its technical expertise in developing projects to reduce rural poverty.

#### Operations:

- The recruitment of local personnel was not transparent; personnel records were incomplete and inaccurate; and local personnel pay rates were not duly justified. Local Non-Staff Human Resources (NSHR) terms of reference were incomplete and did not reflect their actual duties. Consequently, for example, personnel involved in procurement were not easily identifiable and were not asked to submit annual financial disclosure statements.
- Procurement was performed by non-procurement personnel. There were serious gaps in the segregation of duties. The Information Technology Assistant, who was the primary buyer, was also designated as the Chairperson of the Local Procurement Committee. In the absence of proper record keeping, the procurement process was not transparent. There were instances of purchase orders created before the Local Procurement Committee meeting and, in some cases, purchase orders were prepared after receipt of invoices. The Representation also did not assess or apply liquidated damages in cases of late deliveries.
- In over 70 percent of local currency bank transfers during the audit period, the Representation did not register the vendors' banking information in the GRMS. From the list of 45 661 active vendors, there were 500 duplicates, and only 95 vendors had banking information in GRMS. The Representation also approved multiple operational advances; allowed the settlement of advances beyond 90 days; and processed settlements without verification of supporting documents.
- The Representation did not conduct an annual physical verification exercise of assets, and the asset register was unreliable. The level of active assets was excessively high considering the number of personnel. In addition, of the 241 vehicles at the Representation, only 43 were insured.
- The Representation participated in Security Management Team meetings but did not fully comply with the Security Risk Management Measures.

#### Programme:

- The Representation's CPF had results indicators that linked to the targeted Sustainable Development Goals and the United Nations Development Assistance Framework, and it was likely to achieve its CPF requirement of USD 12.1 million. However, it overstated the available funds at CPF inception.
- The Representation had not completed a Country Gender Assessment or a gender stocktaking exercise. It either did not assign gender markers for its projects or, in most cases, assigned the wrong gender marker.
- At project formulation, the Representation did not consider and therefore did not establish grievance mechanisms for receiving and handling complaints of potential violation of FAO's environmental and social standards for all its projects.
- On project implementation, there were recurring delays in eight of the nine operationally active projects during the audit period. The Representation selected all service providers without competition and did not adequately manage their performance. There were poor budgetary controls over project expenditure resulting in project overruns.
- The Representation had a monitoring team but did not have a plan for proper coverage of monitoring activities for the project portfolio. Project reports contained conflicting data and were not duly supported with evidence of project achievements.



### Agreed actions

25. The report contains 14 actions that the Representation has agreed to undertake. OIG considers 11 of them as high priority, as the level of risk exposure to the Organization is likely to increase given the Representation's expected expansion with two projects in the final consultation phase, totalling USD 30.2 million. The Representation has committed to fully implement all actions by December 2022.

### **AUD0621 - Audit of Staff Learning and Training**

26. OIG conducted an audit of staff learning and training as part of its workplan for the 2020-2021 biennium. The fieldwork of the audit was carried out between November 2020 and March 2021. The objective of the audit was to assess the effectiveness and efficiency of staff learning and training activities in achieving the corporate goal of building, maintaining, and strengthening the capacity of staff to contribute to achieving FAO's mission.

### Main observations and conclusions

27. OIG concluded that the governance arrangements and procedures established for the planning, monitoring, implementation and evaluation of staff learning and training activities **Need Some Improvement** to better respond to the competency, capacity and performance management requirements and to improve the effectiveness and efficiency of the use of the organizational resources allocated to staff learning.

28. Senior Management has established basic governance arrangements for staff learning and training, including: (i) separate guidelines, procedures, instructions and templates for planning, budgeting, implementing and monitoring of the different activities; and (ii) well-defined and allocated roles, responsibilities, authority and accountability for the key actors involved in the processing of staff learning and training activities.

### Learning framework:

29. From a holistic perspective, the corporate policies and rules of staff learning and training are dispersed in several sources. There is no all-embracing source that defines for the respective actors and stakeholders FAO's strategic focus and vision of what staff learning and training aim to achieve.

30. Furthermore, the arrangements established by Senior Management have two fundamental lacunae that reduce the effectiveness and efficiency of the staff learning and training activities at both corporate and divisional levels: (i) the lack of structured guidelines for planning, monitoring and evaluation of learning and training activities at the unit level other than formal training, such as on-the-job training, the use of professional and technical fora, and temporary 'stretch' assignments; and (ii) the absence of identification and assessment of long-range needs for better alignment of staff learning and training with the long-term strategies of the Organization.

31. Hence, there is a need to establish a learning framework that consolidates the corporate policies, rules, guidelines and procedures for the different staff learning and training activities allowed by the Organization, and that complements the Human Resources Division's staffing and mobility framework.

### Operational procedures:

32. Overall, the procedures and control mechanisms established by Senior Management to govern and regulate the staff learning and training activities were found to be complied with and applied by the respective actors. These procedures and controls provide reasonable assurance that the resources allocated for the staff learning and training activities are used in conformity with the relevant policies and rules and contribute to achieving the intended objectives.

33. However, the audit observed the following weaknesses that require Senior Management's attention to strengthen the planning, implementation, monitoring and evaluation of staff learning and training activities:

- 1) incomplete planning of training activities at the unit level, and unstructured planning, monitoring and assessment of other learning activities;
- 2) lack of clarity of the underlying principles and the applicability of the upper limit for external training cost that has led to not undertaking training activities identified as required at the unit level;
- 3) excessive controls over and manual processing of the external training requests that reduce the assurance of optimal use of the organizational resources;
- 4) incomplete use of budget allocations; and
- 5) lack of evaluation of learning and training impact.

#### Agreed actions

34. The Human Resources Division has agreed to undertake, in coordination with other stakeholders as necessary, the following five actions contained in this report to address the issues identified:

- establishing a comprehensive learning framework;
- assessing the current approach to determining the unit training budget allocations;
- assessing the rationality of the upper limit of external training cost;
- assessing the current procedures for review and approval of external training requests; and
- revising the procedures for the processing of individual external training requests to reduce the role of the Learning and Performance Branch of the Human Resources Division to assured value-added review and approval.

#### **AUD0721 - Audit of Decentralized Offices' Governance Structure and Capacity**

35. OIG conducted an audit of Decentralized Offices' (DO) governance structure and capacity from October 2020 to June 2021. The audit focused on the structure of DOs, staffing capacity and allocation of resources. It covered the period from 1 January 2020 to 31 March 2021 and included previous and subsequent periods as relevant for documentation analysis.

#### Main observations and conclusions

36. Overall, OIG assessed that the processes to enable effective DO governance structures and capacities **Need Major Improvement** as described below.

#### Governance structure:

- The FAO Governing Bodies have supported the decentralization of the Organization and provided general guidance on the conditions for establishing DOs in several of their decisions over the years. FAO opened its first Regional Office in 1946, and its first Country Office (CO) in 1976. By December 2020, FAO had 167 DOs<sup>1</sup> in 154 countries. However, the Organization did not have a clear policy on decentralization or a sound process for determining the DOs' governance structure and capacity.
- In 2012, the Organization developed some criteria to determine the minimum capacity requirements for different Country Offices, but these became obsolete over time and were not flexible enough to meet COs' evolving needs. The Organization has conducted several reviews to improve the structure of DOs, but the recommendations arising from these reviews were not fully implemented. As of June 2021, a CO transformation review was under way.

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<sup>1</sup> Decentralized Offices refers to FAO offices outside its headquarters. There are different types of DOs, such as Regional Offices, Subregional Offices, Country Offices and Liaison Offices.

- OIG audits of COs have observed weaknesses in governance structures which have contributed to some systemic internal control gaps. In addition, 55 percent of respondents to an OIG survey conducted as part of this audit indicated that their offices' governance structure did not support effective and efficient management of operations, and supervisory spans were thinly stretched.
- The policy governing delegation of authority to DOs, as defined by the relevant FAO Manual Sections, was outdated and hampered the effective functioning of the accountability framework. The Organization delegated authority to DOs without periodically assessing their capacity and arrangements for segregation of duties. Guidance and tools were inadequate to monitor the proper implementation of delegated authority. As of June 2021, management had initiated some corrective actions in this regard.

#### Staffing capacity:

- While acknowledging resource constraints, the allocation of staffing positions among COs was inconsistent. Staffing positions were allocated to COs without due regard to their size and the complexity of their operations.
- The criteria to determine the grading of FAOR and Subregional Coordinator positions were inadequate. Although in 2017, the Corporate Policy Programme Board made recommendations on the grading of Heads of DOs and readjustments of CO staffing capacities, the recommendations were not fully implemented. In some cases, FAO Representatives were promoted because of good performance, while in other cases, the positions were downgraded when a new FAOR or Subregional Coordinator was appointed. These decisions were not supported by job classification assessments. This led to different grades of FAORs ranging from P-4 to D-2, which were not necessarily aligned to the size and complexity of the CO. Although management had promoted all P-4 FAORs to P-5 level (as of March 2021), the misalignment between the grading of FAORs and the size and complexity of COs remained.
- Gaps in succession planning for FAOR positions had an adverse impact on operational effectiveness and delivery. As of March 2021, in ten COs, senior officials of other United Nations agencies were serving as FAOR ad-interim (including one for over a year and four for over six months), which was not a sustainable practice, particularly in COs with large and complex operations. As these individuals were not FAO employees, they could not be held accountable for their decisions. However, as of June 2021, selection decisions for all ten vacant FAOR posts had been made, and the selected candidates were in the process of being onboarded.
- Programme delivery in DOs relied mainly on the use of NSHR, approximately 86 percent of the FAO workforce in March 2021. However, while DOs considered NSHR to be more cost-effective and flexible than staffing positions, the rules governing NSHR did not meet operational demands. For example, the requirement for a mandatory break-in-service every 11 months and restrictions on supervisory roles that could be performed by NSHR led to significant challenges for DOs. This resulted in increased administrative burdens and inefficient workaround solutions.
- DO staffing structures lacked programmatic focus. Despite resource constraints, Regular Programme (RP) staffing positions were not always used to ensure continuity in key programmatic functions and some RP staffing positions were allocated to non-critical administrative functions.
- Sixty percent of respondents to the OIG survey indicated that the process, duration, decisions and the use of unspent funds from the vacant budgeted posts related to recruitment freezes of approved RP-funded positions were not clearly communicated.

#### Resource allocation:

- Allocation of RP funds from headquarters to COs was mostly made through Regional Offices. Since 2012, the proportion of RP budget allocations to the five regions remained about the

same for each biennium without taking into consideration the changing needs of COs in the respective regions.

- Staffing costs represented over 90 percent of total RP allocations to COs and were managed as a pool of resources at the regional level. This process was not transparent because staffing budgets were reported in Regional Office financial statements, while staffing expenditure was recorded at the country level.
- With the increase in the number of DOs over the years, RP resources have been stretched too thinly, reducing COs' capacity to perform advocacy and resource mobilization-related activities. Further, COs faced difficulties in supporting field programme delivery because they did not receive indirect support costs and received only a portion of direct support costs with delays that hampered the efficient delivery of operations.
- COs could not readily benefit from budget fungibility rules that allow the use of unspent funds from vacant staffing positions on other operational needs as they were kept and controlled by Regional Offices.
- Guidance on the criteria for staffing allocations to COs was inadequate. In addition, the Organization used six corporate systems for budget management that were not well integrated, which led to difficulties in reconciling data for budget monitoring purposes.
- The Organization estimated annual cost savings of USD 8.5 million from its participation in the United Nations Efficiency Agenda. However, details on the targeted cost savings and baselines were incomplete at the time of this audit. Moreover, in the absence of terms of reference for the project owner, the project team at headquarters and in Regional Offices, there was no assurance that reliable and timely information would be readily available for decision-making, such as for resource allocation to DOs.

#### Agreed actions

37. The report contains 12 actions that FAO management has accepted and committed to fully implement by December 2024. While OIG acknowledges that implementation of structural changes to DOs is challenging, time-consuming and subject to differing views from various stakeholders and interested parties, there is a need for consistency in addressing the longstanding issues highlighted in this report, which OIG believes should start with the development of a clear policy on decentralization. Deviations from, and obstacles to, such a policy should be documented, and their risk impact assessed and escalated.

#### **AUD0821 - Audit of the FAO Representation in the Philippines**

38. OIG conducted an audit field mission to the FAO Representation in the Philippines in September 2019. Given the 17-month vacancy of the FAOR position, OIG conducted an additional desk review between May and July 2021 to ensure its assessment was comprehensive and up-to-date. While the audit covered the period from January 2018 to March 2021, this report also reflects subsequent developments as of July 2021.

#### Main observations and conclusions

39. Overall, OIG assessed the Representation as **Major Improvement Needed** in its implementation of the system of internal controls as described below.

#### Governance:

- The Representation had a strong field presence – 90 percent of its personnel were based in field offices. However, the Representation relied on a few NSHR to supervise a high number of personnel at different locations.
- Over 94 percent of personnel had completed the six mandatory training courses related to ethical awareness and fraud prevention. The Representation had established guidelines and

separate reporting channels to receive allegations of Sexual Exploitation and Abuse, and project-related complaints. However, during the audit period, the Representation did not report two fraud-related complaints to OIG.

- The Representation completed the Risk Log and Fraud Prevention Plan for 2020. However, it needed to improve the formulation of risk statements and implementation of risk mitigating measures. For the 2020 Internal Control Questionnaire, OIG assessed that of the 44 control points, 28 were only partially implemented (including 10 that the Representation had reported as fully implemented) and one had not been implemented.
- The Representation had a structured approach to advocating FAO's mandate and key donors recognized FAO's technical expertise and particularly appreciated FAO's network in areas with ongoing conflicts.

#### Operations:

- The Representation systematically used the United Nations Development Programme's national salary scale to determine the salaries of local NSHR and duly planned their contract extensions or rehiring. However, in some sampled cases, personnel files were incomplete, including records on recruitment. Further, the Representation rehired NSHR using different contract modalities although there was no change in their functions. It also issued National Project Personnel contracts to personnel funded by Regular Programme contrary to the established rules.
- The Representation was generally compliant with procurement procedures. However, procurement planning needed improvement: the tendering process was restricted to a pre-identified group of suppliers in some cases without proper justification, and liquidated damages were not applied in most cases of late deliveries.
- The Representation had increased the use of Electronic Fund Transfers over the past three years but payment information for bank transfers in the corporate system was either incomplete or inaccurate. There were also 8 outstanding advances due from former employees, a high number (559) of advances settled only after 90 days, and 152 travel authorizations approved after departure.
- Inventory and asset management were well controlled. The Representation took corrective actions to update and complete its asset records and disposed of assets in accordance with established procedures.
- In nine of ten sampled cases of local travel authorizations to areas with substantial security risks at security level four, the Representation's personnel concerned had not stayed at the approved hotel accommodation cleared by the United Nations Department of Safety and Security. The Representation had also not tested and used the FAO Emergency Notification System as required but used the Telephone Tree System instead.

#### Programme:

- The Representation duly reported its CPF and resource mobilization achievements in its Annual Report. By June 2021, it had exceeded the CPF resource requirements by USD 3.6 million.
- The Representation adequately incorporated gender dimensions in its CPF. However, in six of seven sampled projects, there were errors in the assignment of gender markers.
- In all sampled projects, the Representation duly completed operational clearance forms and project formulation documents. However, in one sampled project it had selected beneficiaries prior to the finalization of the Project Document which included the approved selection criteria for beneficiaries. In two sampled projects, there were no supporting documents on the eligibility of the selected beneficiaries.
- In two sampled projects, supporting documentation on input distribution and attendance records of training workshops organized was incomplete. In another project, planned input distribution was stalled due to delays in procurement. In three sampled Letters of Agreement, the Representation delayed payments to the service providers, which adversely impacted the

implementation of planned activities. The Representation also incurred losses of USD 22 500 when it cancelled a Letter of Agreement without any deliverables.

- The Representation updated its monitoring and evaluation guide taking into account travel restrictions during the COVID-19 pandemic but it did not have a monitoring and evaluation plan for all ongoing projects. There were discrepancies in the reporting of financial information in progress reports, on which some corrective actions have since been initiated. The Representation allocated the costs of shared resources among projects but the basis of this cost allocation was unclear and not duly supported. In two projects, the progress reports were incomplete; for example, the status of implementation of all performance indicators was missing.

#### Agreed actions

40. The report contains 12 actions that the Representation has agreed to undertake. The Representation has committed to fully implement all actions by 31 December 2022.

#### AUD 0921 - Audit of Accounts Payable

41. OIG conducted an audit of the management of Accounts Payable (AP) in FAO between December 2020 and July 2021. The audit covered governance aspects of the AP function and the operational management of AP by the Shared Services Centre (CSLC) in Budapest from January 2019 to December 2020. The management of AP processes by Decentralized Offices is regularly reviewed as part of DO audits. Therefore, the DOs were not in the scope of this audit but OIG has incorporated its findings from DO audits in this report as warranted.

42. Specifically, the objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes to ensure that:

- FAO pays the correct, legitimate vendor;
- the payment is processed for the goods or services received;
- the correct amount is disbursed;
- the payment is processed on time;
- the risk of fraud is reduced; and
- the expenditure is correctly accounted for in the corporate system.

43. The main policy that governs FAO's financial administration is Manual Section 202 'Financial Regulations and Financial Rules'. The policy contains provisions on invoices, payments and payee management.

#### Main observations and conclusions

44. OIG is of the opinion that the governance arrangements, procedures established and controls applied for the management of AP in FAO **Need Some Improvement** to improve the effectiveness and efficiency of the function and reduce the risk of fraud.

45. At the governance level, the audit concluded that centralizing the AP function in CSLC would bring significant benefits in terms of procedural efficiency and effectiveness and in reducing fraud risks. An eventual centralization would need to be a joint project by CSLC and the Finance Division (CSF), and undertaken in a phased approach. The audit also identified opportunities for improving the segregation of duties and management of risks in the AP function.

46. At the operational level, the audit concluded that the established procedures and controls were adequately applied by CSLC. However, OIG did identify some discrepancies in the existing policies as regards the definition of criteria for the use of unmatched invoices as well as opportunities for streamlining the processing and monitoring of invoices.

### Agreed actions

47. The report contains nine actions that management has agreed to undertake. Management has committed to fully implement all actions by 31 December 2022. The priority action is that CSLC and CSF jointly develop a proposal to centralize the AP function.

### AUD1021 - Audit of Recurring and Systemic Issues in Country Office Operations

48. OIG conducted an audit of recurring and systemic issues in Country Office operations from January to July 2021. The audit covered the period from 1 January to 31 December 2020. This report also reflects subsequent developments as of September 2021.

### Main observations and conclusions

49. Overall, OIG assessed that the implementation of the system of internal controls governing operations at Country Offices **Need Major Improvement**. OIG defines “operations” as entailing the following five focus areas: human resource management, procurement, financial management, inventory and asset management, and security management. The key audit observations and results are outlined below.

#### Human resource management:

- Many COs either did not conduct any workforce planning or had an ineffective workforce plan that did not take into account current and future project requirements. This had increased administrative workload linked to the high number of contracts issued, resulting in gaps in the recruitment processes and poor record keeping. There was no explicit requirement in the human resource (HR) rules for conducting workforce planning. FAO also lacked guidance and tools in this regard.
- In the 2014 FAO Council document CL149/INF/6, the former Director-General of FAO agreed that NSHR should not be used for core activities of a continuous nature. However, over 2 000 NSHR have served in FAO for more than three consecutive years. In some cases, NSHR performed key functions because they were considered a cost-effective and flexible solution to meet operational requirements.
- HR rules on competitive recruitment were less stringent for local NSHR than for staff members. Vetting processes of project personnel selected to meet operational demands were inadequate as the positions were deemed to be of short-term nature. However, project personnel contracts were often repeatedly renewed.
- On average, the duration for the recruitment and onboarding process of international Chief Technical Advisers in COs with staff and consultancy contracts was 342 and 318 days, respectively, which had delayed project implementation. This was mainly due to a cumbersome hiring process that included up to 12 reviews by seven different parties at COs, Regional Offices, the Shared Service Centre, and the Human Resources Division at headquarters.
- CO audits showed that local NSHR contracts were often renewed without performance appraisals. When completed, these were difficult to identify, because performance appraisals for local NSHR were completed outside the corporate system (unlike those for international NSHR).
- The HR guidelines provided some criteria to be considered in determining local NSHR pay rates, including their alignment with the local United Nations salary scale. However, in the absence of monitoring mechanisms, pay rates for local NSHR were not duly justified in 13 out of 18 country offices audited in 2019-2020. In some of these cases, the NSHR were granted multiple salary increases within one year.

- Unlike procurement and finance rules, the existing HR rules did not specify the need for segregation of duties. This meant that hiring managers alone could identify, select and decide on local NSHR pay rates.
- There were no HR rules governing the use of Government Provided Staff (GPS). As of December 2020, 316 GPS were employed at COs, some of whom performed key functions. While there was an Administrative Circular on GPS, it only specified the maximum monthly remuneration. Although the NSHR Services at CSLC provided OIG with a document on recruitment procedures, this document had not been officially published and was not part of the FAO Administrative Manual.

#### Procurement:

- Procurement plans were not used for effective procurement planning in COs. Developing a procurement plan was perceived as an administrative task and while a corporate template was available, COs usually found it too complex. Also, neither the Procurement Service nor the regional offices had reviewed the effectiveness of COs' procurement planning.
- To obtain the best value for money, procurement activities should be conducted in a competitive manner. In 2020, 31 percent (USD 101 million) of all purchase orders (USD 327 million) in COs were awarded through direct selection. (The actual number could be higher, as OIG noted some instances where the award basis was inaccurately recorded.) The direct selection was also not always well justified.
- Personnel lacked familiarity with established rules on the application of liquidated damages. COs did not systematically record actual receipt dates in the system due to system limitations. This made it difficult to track cases where suppliers failed to deliver on time and liquidated damages should have been applied. Also, due to concerns about deteriorating relationships with suppliers, COs sometimes chose to accept late deliveries.
- FAO Administrative Manual Section 502 outlined the importance of segregation of duties in the procure-to-pay cycle and the Procurement Service had also developed a segregation of duties matrix to highlight conflicting procurement responsibilities within COs. However, in the absence of effective monitoring, as well as tools and reports to highlight individuals with conflicting responsibilities in the procure-to-pay cycle, the lack of segregation of duties was not adequately addressed in many COs.
- There were systemic control weaknesses in the maintenance of vendor master files. In 98 percent of cases, vendor records were incomplete. For some vendors duplicate records existed. There was also an excessive number of "active" vendors compared to those with transactions in recent years. This occurred because there was no monitoring of the number of individuals who could create individual vendors in the GRMS; COs did not know how to deactivate vendors; and, due to incorrect practices, records of international personnel were systematically replicated as vendors in 120 COs.
- Unlike Manual Section 502, the procurement of services under Manual Section 507 on Letters of Agreement allowed the responsible officer to solely perform the sourcing, contracting and managing functions of Letters of Agreement, without the involvement of the procurement team. These provisions were not compatible with the principles of segregation of duties.

#### Financial management:

- Monitoring controls were inadequate to ensure COs made payments based on complete and accurate banking records in GRMS, and that they had used an appropriate payment modality. Neither CSLC nor CSF monitored payroll payments made by cheque and in cash to ensure they were justified.
- Monitoring at country, regional and corporate levels was inadequate to address recurring control weaknesses relating to advances. This was mainly due to the lack of tools and reports to facilitate monitoring, granting of advances to NSHR, and the absence of detailed review on a sample basis to detect potential instances of misuse or incorrect recording of advances.



Inventory and asset management:

- The Organization lacked a corporate policy and system to adequately manage inventory from receipt to distribution to final beneficiaries. A Global Inventory Management Solution is intended to address these weaknesses and is expected to be rolled out in 2022. Until its effective implementation, inventory management was left at the discretion of COs, which exposed the Organization to a high risk of losses and fraud. OIG has raised concerns about this issue in its Annual Reports to the Finance Committee since 2017.
- The lack of asset disposals and criteria for delisting items for tracking purposes had led to an increasing number of assets subject to annual physical verification. Due to limited staff resources, COs had not properly conducted physical verification exercises to detect loss, theft and misuse of assets.

Security management:

- Weaknesses at COs were mainly related to non-compliance with the security requirements established by the United Nations Department of Safety and Security; the unclear role of the security focal point; and the fact that the security emergency notification system was not being used. These issues are being addressed separately in the ongoing OIG audits on field security.

Agreed actions

50. The report contains 16 actions that the Organization has agreed to undertake. The relevant divisions and offices have committed to fully implement all actions by December 2022.

**AUD1121 - Audit of FAO Field Security - Part 1: Governance Aspects (audit rating: Needs Some Improvement)**

51. The report was not disclosed in order to protect the safety and security of FAO staff, assets and premises.

**AUD1221 - Audit of FAO Field Security - Part 2: Compliance with Security Policies (audit rating: Needs Major Improvement)**

52. The report was not disclosed in order to protect the safety and security of FAO staff, assets and premises.

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## ACRONYMS

ADG-CS	Assistant Director-General of the Corporate Services, Human Resources and Finance Department
AP	Accounts Payable
CPF	Country Programming Framework
CO	Country Office
CSL	Logistics Services Division
CSLC	Shared Services Centre
DO	Decentralized Office
FAOR	FAO Representative
GRMS	Global Resource Management System
GPS	Government Provided Staff
NFI	Fisheries and Aquaculture Division
NSHR	Non-Staff Human Resource
OIG	Office of the Inspector General
RP	Regular Programme