



Follow-up audit of Letters of Agreement



AUD0924

30 August 2024

This document is comprised exclusively of the executive summary of the audit report.

Permanent Representatives accredited to FAO and institutional resource partners of FAO may be granted access to the full report upon written request to the Inspector General, in accordance with paragraphs 59-61 of the [Charter of the Office of the Inspector General](#).

EXECUTIVE SUMMARY

WHAT WAS AUDITED?

In accordance with its biennial audit workplan, the Office of the Inspector General (OIG) carried out a follow-up audit of the use of Letters of Agreement (LoA) at FAO. LoAs are cost-reimbursable service contracts used for contracting services that are not available on the commercial market. LoAs may only be signed with non-profit entities such as governmental, inter-governmental, non-governmental or other not-for-profit entities registered as legal entities. The management of LoAs falls under the responsibility of the Logistics Services Division (CSL) and is governed by Manual Section (MS) 507.

OIG regularly conducts audits on the use and management of LoAs, with the previous audit report issued in 2017. The current audit covered the period from January 2021 to October 2023.

The objectives of the audit were to:

- assess if the risks identified in the previous audit are still relevant and/or identify new risks or risks that have increased significantly since the previous audit;
- for risks already identified in the previous audit:
 - review the mitigating actions that have been implemented, assess their effectiveness to address the underlying risks and, if warranted, identify any additional mitigating actions; and
 - review ongoing initiatives and their progress and identify challenges that prevent business owners from achieving full implementation;
- for new/emerging risks, if any, identify potential mitigating actions.

WHY IT MATTERS?

Between 2020 and 2023, LoAs accounted for approximately 32 percent of FAO's total procurement, amounting to more than USD 750 million. Apart from the high financial exposure, LoAs represent a significant fiduciary and operational risk to FAO.

WHAT WERE THE KEY OBSERVATIONS?

As a result of dedicated efforts by CSL, many of the risks identified and reported in OIG's 2017 audit of LoA management have been at least partially mitigated.

Notwithstanding the above, there are still risks in the use and management of LoAs that must be addressed.

The critical risk that requires management attention as a matter of priority relates to the broad scope of application of LoAs, which are used both as a procurement tool and as a partnership tool. The fundamental differences in the principles and risks that apply to procurement and partnership actions are at the origin of many of the operational issues in the use of LoAs. While there has been some progress and some purely partnership actions are now governed by different policies (in particular the Operational Partners Implementation Modality) the scope of MS 507 is still excessively broadly interpreted and the instrument is used to fill gaps where other policies are more restrictive or in the absence of a better instrument.

In addition:

- the number of responsibilities assigned to the Responsible Officer, the individual assigned with responsibility to prepare and manage an LoA, is excessively high (moderate risk);

- conflict of interest in the selection and management of LoAs has not been sufficiently addressed (high risk);
- the number of LoAs contracted via direct selection, i.e. without a competitive process, remains high (high risk);
- the quality assurance process is sometimes only performed on a superficial basis (moderate risk);
- monitoring is not undertaken with the required scrutiny (moderate risk); and
- there are gaps in record keeping practices for LoAs (high risk).

One of the key constraints for CSL to better monitor and improve LoAs management is insufficient resources, which have not grown commensurately to the growth in the use of LoAs and the corresponding demand for CSL services. This key organizational risk is raised for management's attention to keep on their radar without the need for a formal Management Action Plan at this point.

CONCLUSION

Identified weaknesses in the existing structures, policies and procedures negatively impact the effective mitigation of key risks. The audit identified four high risks and three moderate risks.

Two of the risks (namely as regards conflicts of interest and record keeping) were already being addressed through management action plans developed in the context of other internal audit engagements. CSL has developed a suitable action plan to address the remaining five issues raised, and OIG will follow up on its timely implementation.

The key issue to be addressed as a matter of priority is the scope of application of FAO Manual Section 507 governing the use of LoAs.



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